Introduction to corruption and anti-corruption Lecture for Development Engineering students at EPFL

Claudia Baez Camargo I 5 March 2024

Introduction to corruption

https://www.youtube.com/watch?v=FYorzIkCWYo

Defining corruption

Most commonly used definition: "**Abuse of entrusted power for private gain**" (Transparency International)

	OF		FOR	
Betrayal	Public	Office/duty	Private	Gain
Diversion	Common	Good/trust	Personal	Profit
Ab(mis)use	Communal	Funds/ Resources	Individual	Benefit
Manipulation	Administrative	Influence	Unauthorised	Advantage
Exploitation	Institutional	Power	Group	Interests/ Goals
Bending	Formal	Rules	Informal	Network

Source: Ledevena, Baru and Köker (2017: 3)

Corruption is an umbrella term

o **The definition "Abuse of entrusted power for private gain" is very broad (which has pros and cons)**

Makes intuitive sense

Devil is in the detail (operationalisation)

It encompasses a large number of actions that can look very difficult

Difficult to capture with simple measurements (TI – CPI)

Almost useless for practical applications

Politicised and instrumentalised

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Who, when and how: a basic typology of corruption

Corruption type	Area typically affected	Who are the actors involved	Manifestation	Examples
Petty	• Public services – Point of service provision	• Low–mid-level public officials • Users of public services – Citizens – SMEs	• Bribery • Favouritism • Gift giving • Extortion • Sextortion	• Bribing a traffic official to avoid fine • Doctor treating friends first in a crowded health facility • Giving a gift to obtain a service one is not entitled to • Demanding/offering a sexual favour in exchange for access to a service
Grand	• Public procurements • Public finance management	• High-level politicians • High-level public servants • High-level business people	• Fraud • Embezzlement • Kickbacks • Bribery	• Rigging systems to award high-value contracts to own or accomplices' firms • Executing payments from public coffers for inexistent or substandard goods or services
Political	• Public policies • Elections • Rules of procedure • Rule of law	• High-level political figures • Powerful non-state actors	• Patronage • Election rigging • State capture	• Vote buying • Use of state resources to demobilise political opposition • Bribery by organised crime to ensure impunity • Illicit campaign funding to influence policy

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Source: SDC Anti-Corruption Operational Guidance (2022)

Corruption is, just like poverty, a multidimensional creature

- The key point is that there are many different types of corruption, which vary according to the sector in which they occur (public or private; political or administrative), the actors involved (for instance, state officials, politicians, entrepreneurs and so forth), the impact they have (localised or extensive) and the degree to which they are formalised (embedded and systemic or occasional and sporadic).
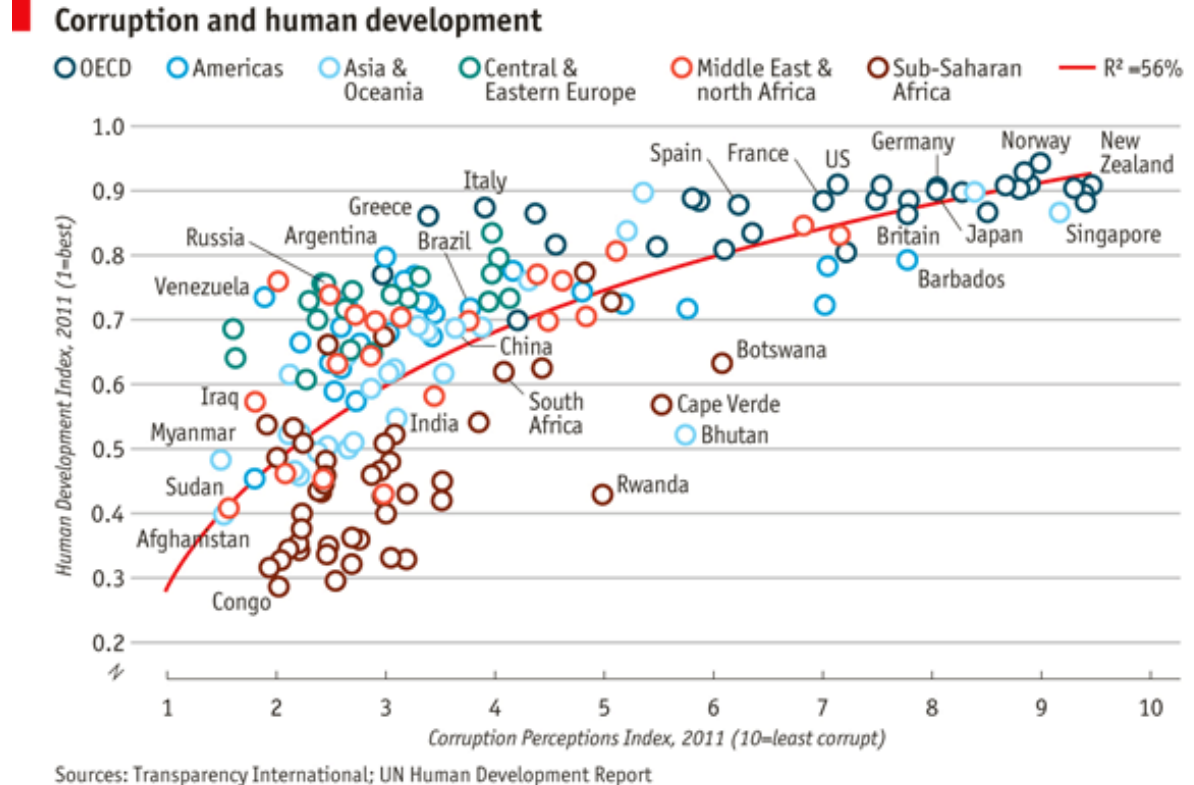
Linking corruption, poverty and development. Many open questions…

- Is there only one route to development?

- Are Western solutions always appropriate?

- Anti corruption for what?

- Is it an end in and of itself? Shouldn't we also be looking at corruption only in terms of its impact on development outcomes?

- Is there anything as harmless corruption or even corruption serving developmental goals?

- Context matters, what is corruption in some places may have a different meaning in others for the people who experience it. In this sense, whose perspective takes precedence?

The link between corruption and development

In many quantitative studies of corruption a strong correlation between perceived corruption and GDP has been found.

If there is, as the data and mainstream donor and academic consensus suggest, a negative correlation between corruption and development, what is the possible causal chain?

Corruption and human development

Legend: OECD · Americas · Asia & Oceania · Central & Eastern Europe · Middle East & north Africa · Sub-Saharan Africa · R² =56%

Sources: Transparency International; UN Human Development Report

Causality, one way…

- Corruption -> (intervening variable) -> Development

- Corruption increases the costs of doing business.

- Corruption reduces inflows of foreign direct investment.

- Corruption causes misallocations of public expenditures.

- World Bank makes the causal chain as follows: Political context -> Corruption -> poor service delivery -> poor development outcomes.

Or, the other way…

- OR….

- Development level -> (Intervening variable) -> Corruption

- Scarce resources limit the capacity of state to adequately implement policy and monitor performance.
- Scarce resources generate an environment where competition for access to those resources transcends legal boundaries.

One thing is clear....

- Corruption tends to have a strongly regressive impact on poverty

    - Access to public services (bribery in health facilities)
    - (S)extortion in higher education
    - Transport (Mexico City public transportation)
    - Construction sector (Turkey earthquake)
    - Waste management (N. Macedonia public hospitals)

    - And also has negative impacts on the environment, on democratic legitimacy etc. etc.

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Many impacts of corruption on development

Grand corruption

Rigged contracts for

- Large infrastructure projects (Latin America Odebrecht)
- Energy investments (Tanzania Richmond scandal)
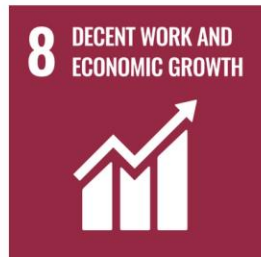- Emergency food supplies (Malawi Maizegate)

Political corruption

Undue influence affecting

- Environment (Tren Maya)
- Political rights and civil liberties (rule by law)
- Impunity (state capture)

Petty corruption

Bribery

- Prevents access to health services
- Impedes MSMEs from developing
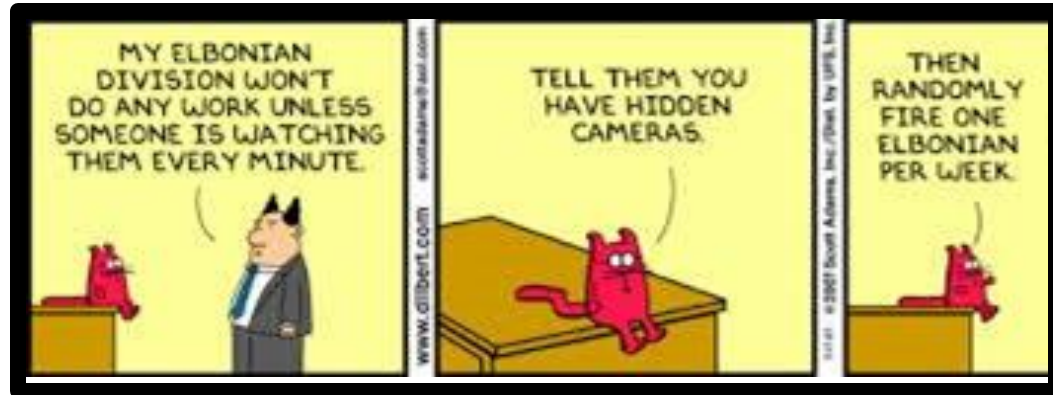- Deprives vulnerable groups from their political voice (vote buying)

Corruption is a crosscutting challenge to achieving the SDGs

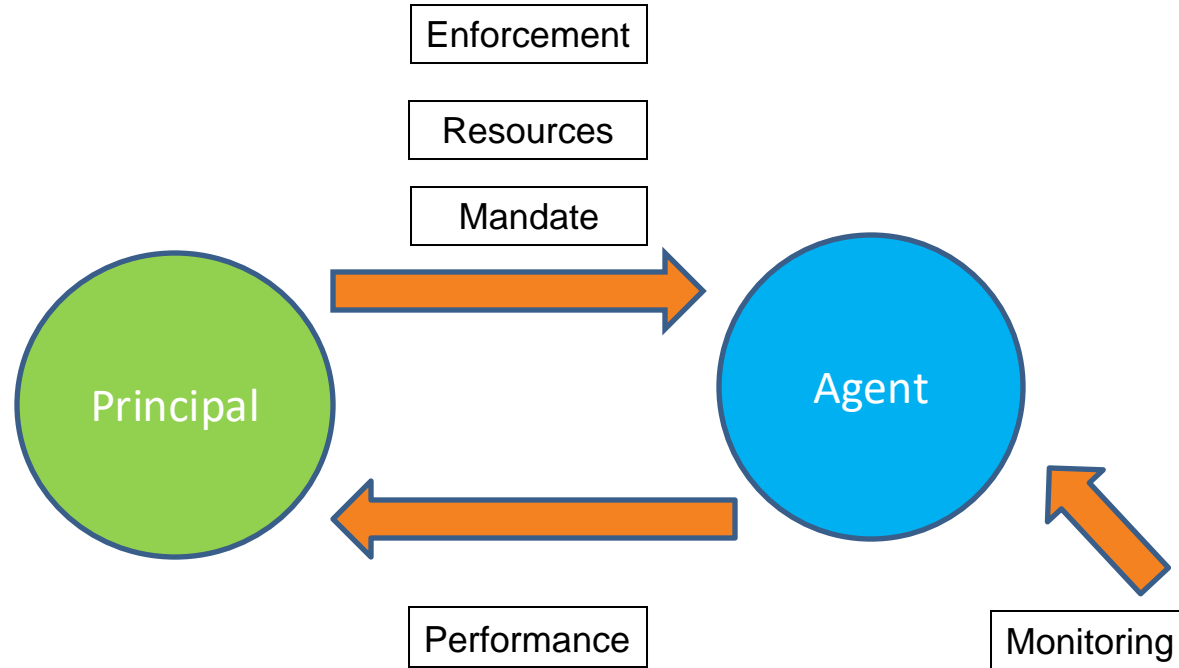# Assumptions about causes of corrupt behaviors

- The kinds of explanations and solutions that we come up with to understand corruption depend on the manner in which the underpinning "social problem" that generates corruption is specified. There are several modes in which the underlying causes of corrupt behaviour are formulated.

- Principal- agent relationships
- Collective action problems
- Behavioural factors conducive to corruption
- Functionality of corruption

Principal-agent model

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Principal Agent Model (Accountability relation)

Source: Baez Camargo, 2011 based on World Bank (2004)

Corruption as a collective action problem

Corruption as a collective action problem

Corruption is fuelled because everyone perceives that everyone else is "doing it"

Absence of a "principled" principal

Free rider problem: no incentives to comply

Social acceptability/tolerability of corruption

Behavioural drivers: Corruption due to enculturation, biases and social pressures

Corrupt behaviors and social interactions (collective practices/norms) are normalized, routinized and embedded in social structure/mental models

Corruption as a social norm, corruption engrained in mental models

Social norms and mental models strongly shape behaviours

- A social norm is a commonly (even tacitly) accepted pattern of social behavior

- Examples of social norms that may relate to corruption:

- Reciprocity

- Solidarity (obligation to the group)

- Conflict aversion

- Mental models are shared ideas of how the world works

Examples of mental models are:

- Stereotypes

- Vernacular/common knowledge

- Ideologies

Informal governance: open secrets, knowing smiles and the implementation gap

- "Russia is a country of unread laws and unwritten rules" or, as they say, "the imperfection of our laws is compensated for by their non-observance" Russian popular saying.
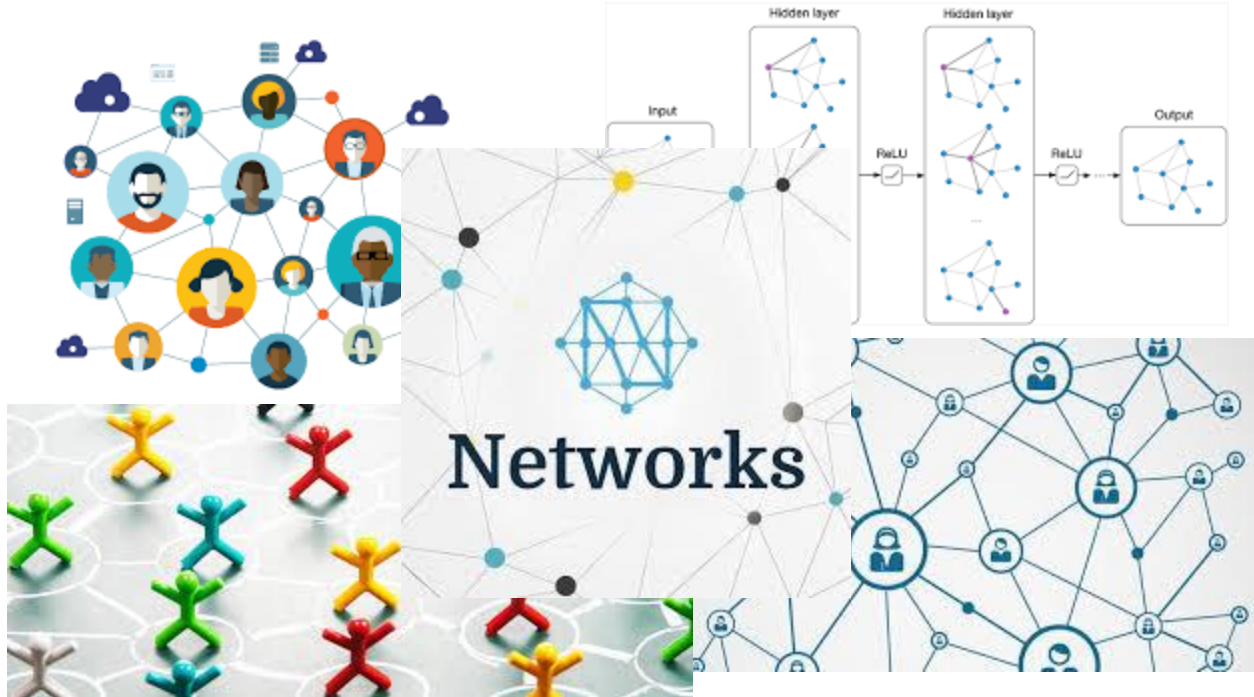
Corruption as problem-solving

• Functionality of corruption (pragmatism!) in contexts where structural/institutional, economic, political, social problems are pervasive

• Corruption can be useful to:

- Win elections

- Make business profitable

- Allow business to survive
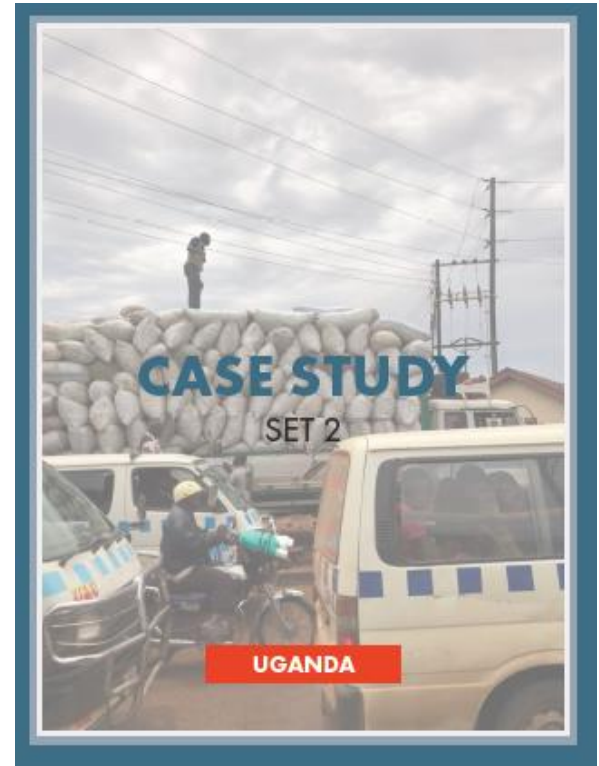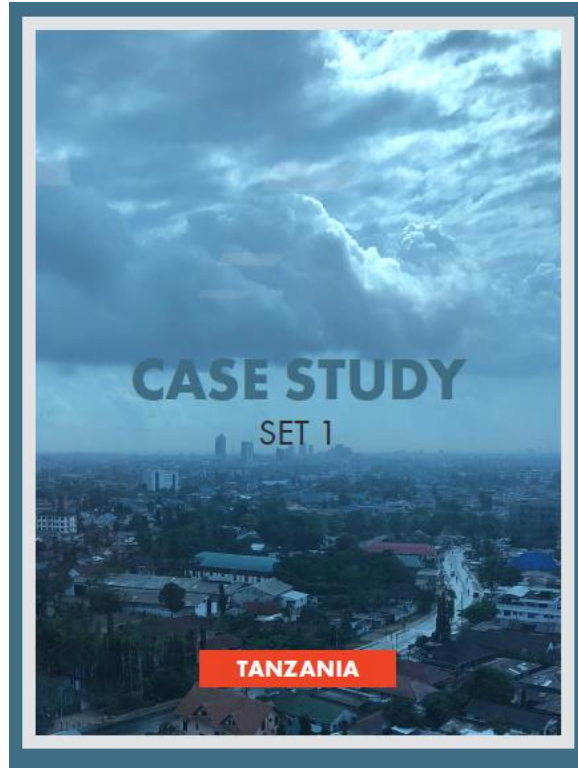
- Expedite access to services

- Avoid sanctions

Corruption is a networked phenomenon

Ten case studies of informal networks

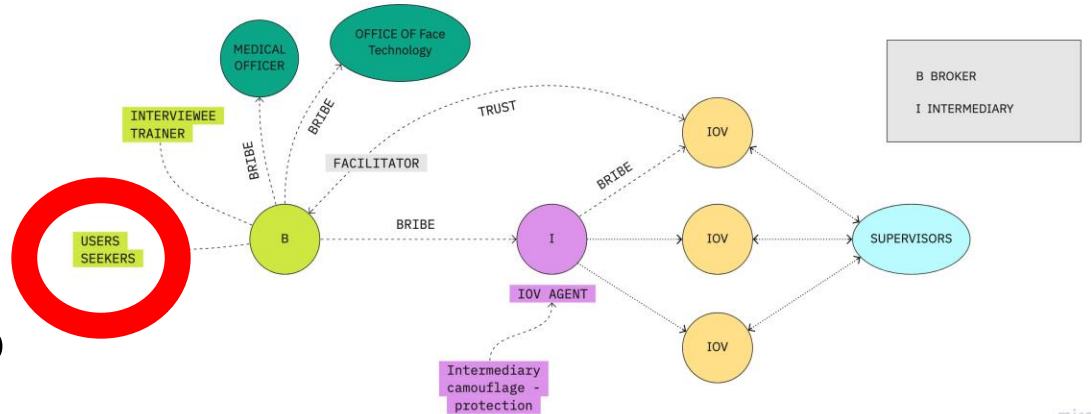https://baselgovernance.org/publications/informal-networks-investment-east-africa

https://baselgovernance.org/publications/case-studies-tanzania-gi-ace-research-informal-networks-and-corruption

CASE STUDY
SET 1

TANZANIA

CASE STUDY
SET 2

UGANDA

https://baselgovernance.org/publications/case-studies-uganda-gi-ace-research-informal-networks-and-corruption

1. **Ease access to public services**

(drivers licenses, land registration, business permits, connection to the electrical grid)
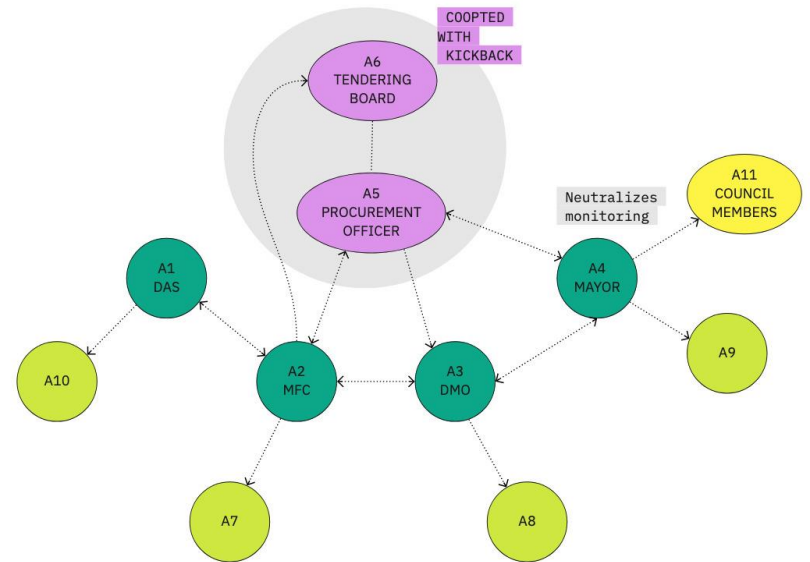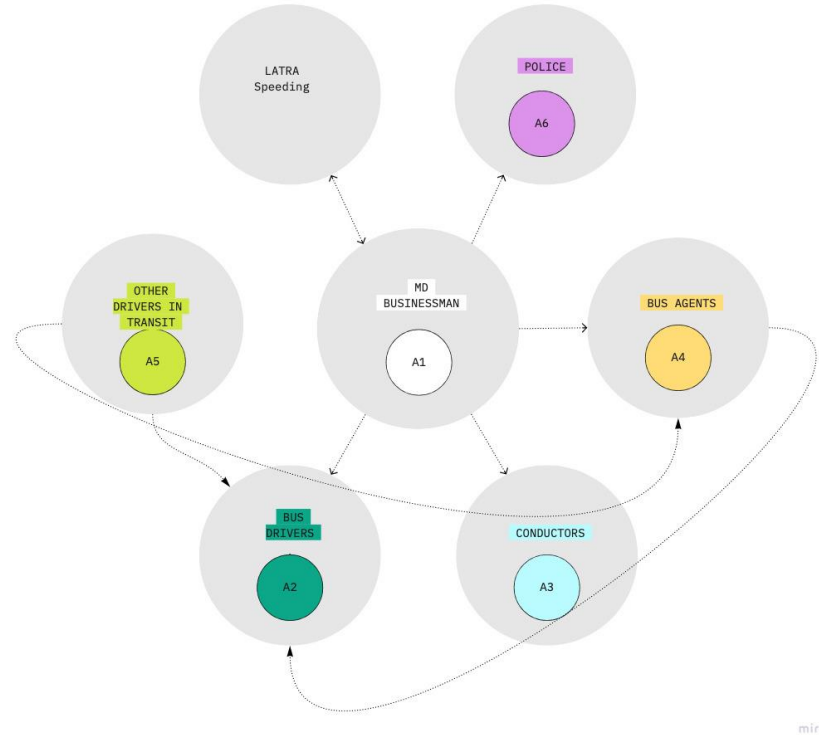
2. Obtain business opportunities with the public sector

(aimed at derailing procurement processes and committing other types of fraud)

Goals of the Networks

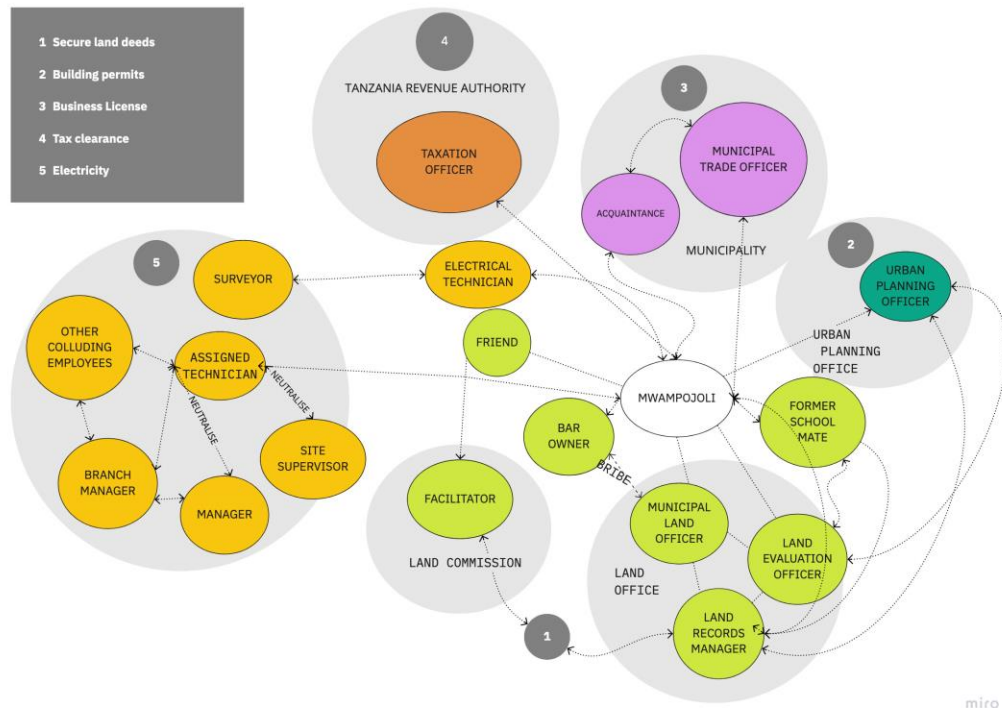- 3. **Allow business to run smoothly**

  (bribery networks)

Accessing public services is difficult
- Red tape
- Spaces for discretionary action

Obtaining business opportunities with the public sector is impossible unless one has contacts
- Formal prequalification is not enough
- "non-cooperative" firms get informally blacklisted

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Anti-Corruption Evidence
Research Programme

Corruption: what can we do about it?

A few words about the Basel Institute on Governance

We are an independent not-for-profit competence centre working worldwide with the public and private sectors to counter corruption and other financial crimes and improve governance quality.
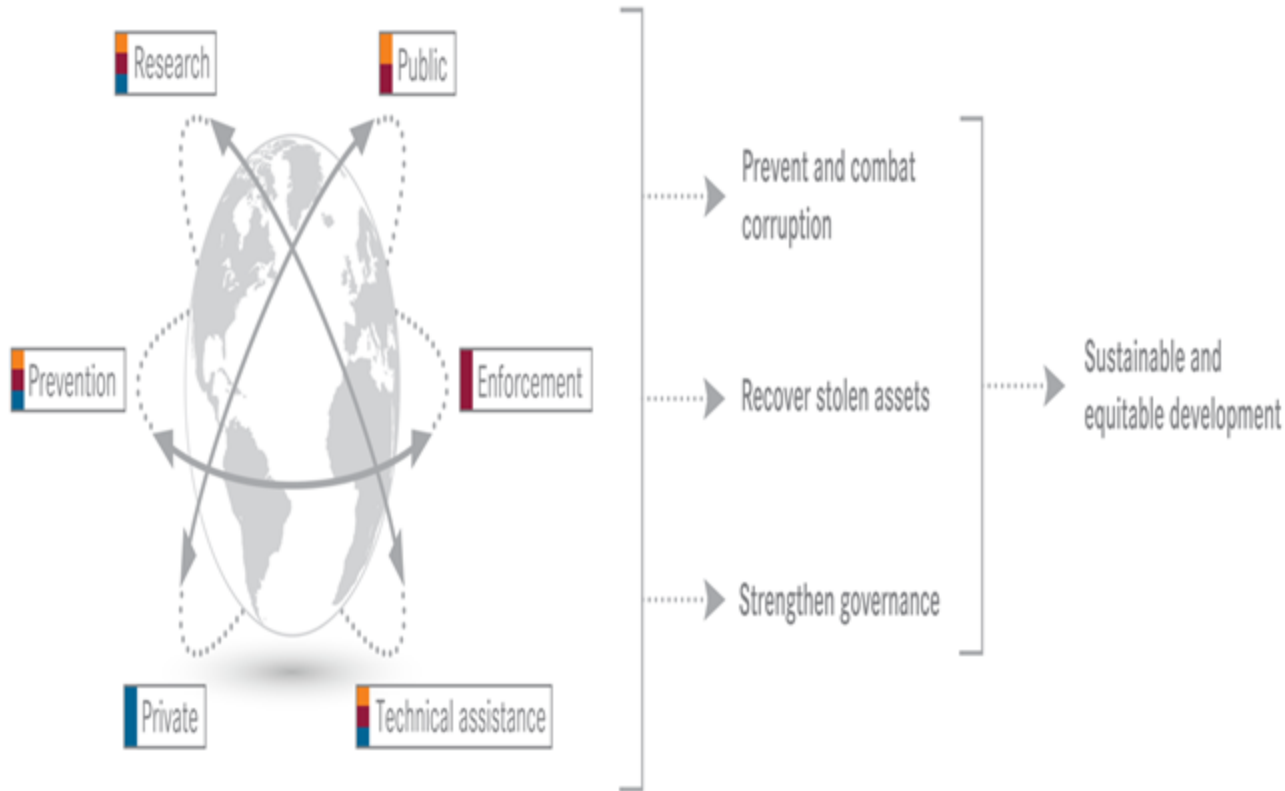
Who we are

- **Independent** non-profit Swiss foundation

- **100+** staff **25** nationalities

- Established **2003**

- Fighting **corruption**, strengthening **governance**

- HQ in **Basel** Field teams in **7 countries**

- UNI BASEL — Associated Institute of the **University of Basel**

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How we work and what we do…

International Centre for Asset Recovery (ICAR)

Collective Action

Public Governance

Compliance and Corporate Governance

Public Finance Management (PFM) – Peru

Green Corruption

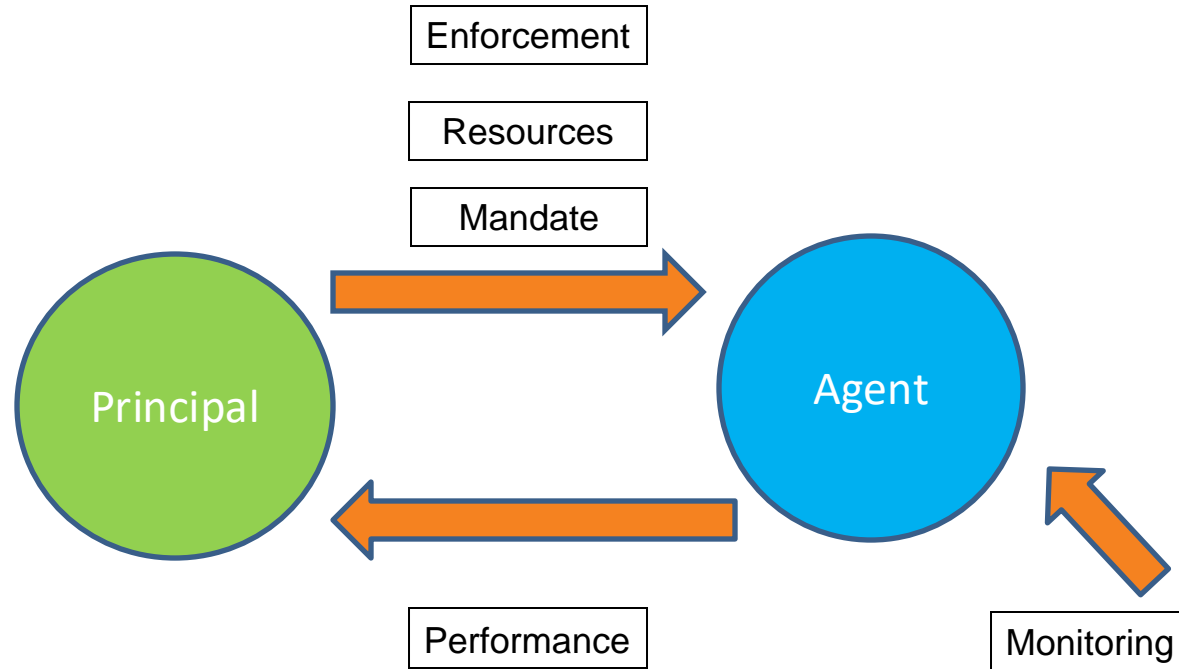# Anti-corruption interventions based on principal-agent model

Direct approaches: focus on shortcomings in law enforcement capabilities

- Detection
- Investigations
- Prosecutions
- Judiciary

Indirect methods: prevent corruption by addressing incentives.

- Awareness raising on legal rights and entitlements
- Capacity building on integrity and compliance
- Resources / financial incentives and non-monetary motivations
- Monitoring mechanisms
- Tougher sanctions

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Principal Agent Model (Accountability relation)

Enforcement

Resources

Mandate

Principal

Agent

Performance

Monitoring

Source: Baez Camargo, 2011 based on World Bank (2004)

Frequently adopted anti-corruption measures

Four categories

- Reducing discretionary power of officials
  - Improving monitoring, audits
  - e-government tools
- Stricter enforcement of anti-corruption laws
  - Capacity building of law enforcement officers
  - Enhanced detection: Asset disclosure requirements, red flags systems
- Civil service reform
  - Human resources management
  - Rationalisation of public sector
- Increasing government accountability
  - Access to information
  - Online government portals
  - Increasing demand for accountability: media, civil society, citizens

Source: Adapted from Susan Rose-Ackerman (1999), Corruption and Government: Causes, Consequences and Reform, Cambridge University Press

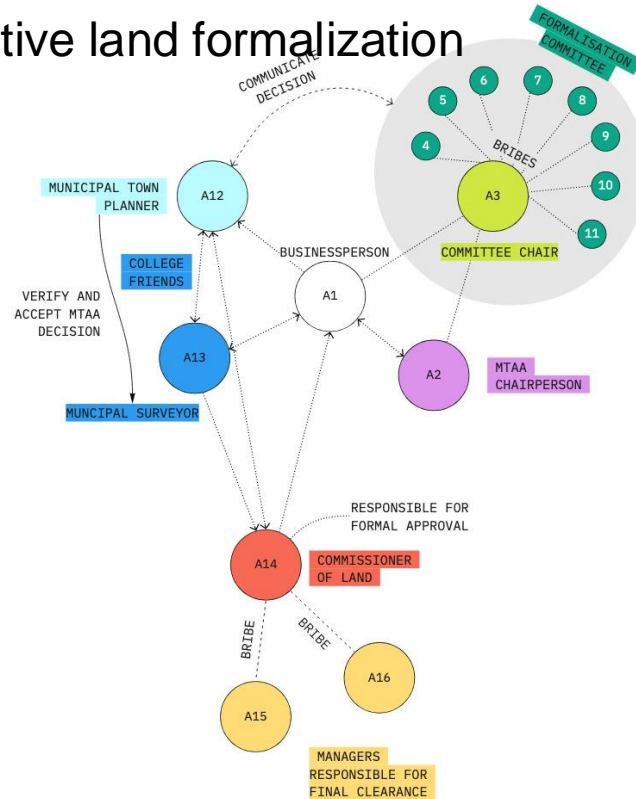BASEL INSTITUTE ON
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The problem with formal controls

Paradoxically, where informality prevails more controls breed more corruption.

More controls mean more people need to be coopted and bribed

More controls add another layer of complexity over the red tape.

Collusive network to win a competitive land formalization process

Anti-corruption: what is the problem?

- The implementation gap and going against the grain

Anti-corruption and integrity promotion: challenges

- Move away from commonplace framings of AC

- Changing behaviours vis-à-vis an abstract standard is difficult

- People may engage in corruption because they find it normal and even important

- Awareness raising does not work and can backfire

Where to start?

- The actual challenges people are confronted with. For example:
  - Red tape
  - Obstacles to doing business for SME's
  - Low quality and accessibility of public services

- What incentivises people, what they respond to such as social norms and identities
  - Social norms of solidarity with the group. Expectations that public official must extract rents for the benefit of the group.
  - Social norms of reciprocity. People use corrupt exchanges (bribes, kickbacks, "gifts") in order to create relationships that are transactional and extend into the future.
  - What gives status and respectability?

Building institutions bottom up to close the gap

- Facilitating spaces where multi-stakeholder repeated interactions can take place.

- Building trust by encouraging cooperation over shared goals and agreed upon commitments.

- Continued interactions give predictability and help lengthen the time horizons (move away from zero sum, short-term decision making)

- It is about building accountability systems that are problem-solving

Behaviour Change Intervention examples

- Intervening where «hot states» happen
- The message AND the messenger matter
- Emphasise positive roles and shared identities and narratives
- Change the choice architecture (actionable nudges)
- Make the desired behaviour easier
- Make use of pledges (make undesirable behaviour costlier)
- Bring the informal unwritten norms out into the open

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Intervention materials

Results: Large and statistically significant reductions in survey-based measures

Primary outcome
Gift-giving propensity score
Reported gift-giving during visit and intention to give gift in future

Went down
23% → 13%

- Would consider giving a gift in future: 43% → 25%
- Said they gave a gift during their visit: 2.8% → 0.7%

Secondary outcome 1
Enabling norms score
8 items measuring perceptions of social norms that enable gift-giving

Went down
46% → 40%

- Believes most other users give gifts to say thank you: 31% → 28%
- Believes users who give gifts get better service in future: 50% → 43%

Secondary outcome 2
Enabling attitudes score
3 items measuring personal attitudes that enable gift-giving

Went down
56% → 44%

- Reports that giving a gift to say thanks is the right thing to do: 77% → 65%
- Believes a doctor is socially obliged to accept a gift: 60% → 47%

Anti-Corruption Awareness Raising and Education

- Messages highlighting that corruption is wrong are mostly ineffective

- The same goes for messages about high levels of corruption

- This means that messages that aim to raise awareness about the evils of corruption are not providing new or useful information.

- People might be more open to updating their beliefs when their environment changes

- Prompting people to seek additional information rather than simply being told or informed about relevant issues (raising awareness) seems important.
  - challenging conventional wisdoms might be an important approach

Working Paper 45
Strategic anti-corruption communications: Guidance for behaviour change interventions

Claudia Baez Camargo, Johanna Schönberg | June 2023

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Digitalisation: the next frontier

- Detection of red flags. Use of AI and ML

- Decreasing human contact and space for discretion

- Making desired behaviours easier (e.g. compliance and formalisation)

- Introducing nudges and defaults strategically

- Use of blockchain to avoid tampering and fraud (e.g. Rwandan land registry)

- Invest in ensuring good quality databases and interoperability of systems

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