

Chapter 5: Designing Effective Anticorruption Strategies

The previous chapter presented a comprehensive set of instruments for combating corruption. The challenge remains to draw lessons from the typology of corruption for prioritizing, sequencing, and combining reforms to design the most effective strategy for the particular contours of the problem in different countries. By unbundling corruption, the goal is to develop more effective targeting of anticorruption measures to strike at the main sources of the *persistence* of corruption. Differentiating the causes and consequences of corruption across countries should help to set priorities, to identify and evaluate opportunities for entry into serious anticorruption work, and to develop more realistic expectations regarding the necessary time horizon of reforms in different contexts. At the same time, designing an effective anticorruption strategy will always depend upon a detailed understanding of the particular nature of the political, economic, and social landscape in each country which goes well beyond the simple typology presented in this report. This landscape will strongly condition the extent to which different types of instruments will work effectively.

Referring back to the typology presented in Figure 1.5, lessons are identified for each category of the matrix and illustrated by a box on a particular country which is illustrative of the dynamics suggested by the typology. A key argument embedded in the typology is that an anticorruption strategy should be designed not only in response to the *level* of either state capture or administrative corruption alone in a given country, but to the *interaction* of these forms of corruption as well. Strategies to reduce administrative corruption, for example, need to take into account the extent of state capture, since the latter may seriously blunt the effectiveness of conventional anticorruption tools. An effective strategy for fighting corruption should recognize how the interaction of different forms of corruption enables or limits the state's capacity to implement necessary reforms.

The typology presents a static picture of the pattern of corruption across transition countries at a single point in time, but it must be recognized that the pattern of corruption is much more dynamic. Indeed, in designing an effective anticorruption strategy, it might be more useful to know in which direction a country is moving within the typology rather than its position at any given time. The typology does not set out a simple linear path of development. Rather, countries can zigzag, progressing on one dimension of corruption, falling behind on the other, or moving ahead on both fronts simultaneously. Steps backward are just as likely as steps forward. Even in the most advanced countries, the unfinished agenda of structural reform threatens to exacerbate the problem of state capture. Political regime changes could also cause an abrupt turn for the better (or for the worse) in particular patterns of corruption. As a result, describing the potential pathways within the typology as a whole is as important as describing the country characteristics within each individual category of the matrix.

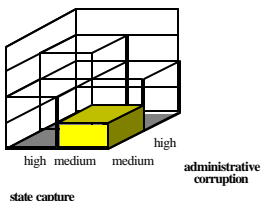
The typology is presented as an *heuristic device* designed to enhance our analysis of the different patterns of corruption and draw lessons for framing effective anticorruption strategies. It intentionally strives to sharpen boundaries that, in reality, are often far more ambiguous and complex. As a result, those designing anticorruption strategies will need to examine the relevance of different categories of the typology for each country based on more information

than can be provided in these simple cross-country measures. In this sense, the typology is intended as a framework for *self-assessment* of corruption within each country rather than as a device for providing a fixed reform blueprint for each country in the region. At the country level, a much further unbundling of the actual practices of and relationships behind administrative corruption and state capture will be required in order to develop and operationalize an effective anticorruption strategy.

Medium State Capture/Medium Administrative Corruption

Medium / Medium

Medium State Capture / Medium Administrative Corruption



Key Focus: Capitalizing on favorable conditions for strengthening political accountability and transparency through further institutional reforms

<p>Challenges</p> <ul style="list-style-type: none"> • Risk of complacency and backstepping • Close ties between economic interests and political institutions • Cronyism and conflict of interest in public sector appointments 	<p>Priorities</p> <ul style="list-style-type: none"> • Promote further reforms in civil service, public finance, procurement, and judiciary • Introduce greater transparency into political financing • Develop strong partnerships with civil society
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Though the countries within this group exhibit lower levels of state capture and administrative corruption relative to other transition economies, these problems are by no means resolved in any of these countries. As civil society and the independent media tend to be more developed in this group, there may be greater exposure and hence greater public recognition of these problems than in other countries that have higher levels of corruption. The political consequences of corruption are not necessarily correlated with the level of corruption. Where political competition is robust and the electorate increasingly sophisticated, complacency in the face of state capture and administrative corruption has the potential to generate even greater political instability than it does in less advanced, but more corrupt systems. High-level corruption scandals, mostly linked to evidence of state capture, have been more likely to bring down governments in this group of countries than in any of the other groups in the typology.

The corruption challenges faced by these countries are still substantial, both in terms of state capture and administrative corruption. More robust political competition has not eliminated the serious gaps in such areas as financial disclosure and transparency of the political process.

More direct forms of capture by private payments to public officials have often been replaced by more discreet, though no less illicit, forms of political party financing. Legislation regulating this area is poorly developed and weakly enforced in all of these countries (as in many of the advanced countries of the world). They remain saddled with bureaucracies that retain considerable discretionary powers to intervene in the market economy. Corruption in public service delivery continues to be a particularly serious problem.

What distinguishes these countries is not the modesty of the corruption challenges they face, but the level of development of many of the key institutions and tools necessary to confront these challenges. These include civil society institutions that are beginning to grow in strength, a vigorous independent media, an evolving system of institutional restraints within the state, functioning (if not well-developed) institutions of public administration, and some foundation for the rule of law. Such institutions are necessary to build and empower the domestic constituencies that generate sustained demand for combating corruption. They can provide the critical tools of public monitoring and accountability that are essential for placing constraints on politicians and bureaucrats. They also underpin a degree of state capacity that enables politicians to assert greater control within public bureaucracies, if they choose to do so. These institutions are the essential pressure points and tools to reduce both administrative corruption and state capture.

In many of these countries—Poland, in particular—successful economic reforms have spurred a vibrant sector of small and medium-sized enterprises (SMEs) and foreign direct investment that can weaken the concentration of economic interests promoting state capture.¹ Indeed, competition and market entry can be the most effective means of reducing the economic rents that underlie state capture.

Yet, even with many of the key constituencies, institutions, and tools to combat corruption, most countries in this group continue to lack one or more of the following essential ingredients for an effective anticorruption strategy: political will; collective action; and relevant technical knowledge and practical experience.

The lack of political will or inability to create an anticorruption coalition, especially at the highest levels of the political system, have proven to be among the most serious risks to an effective anticorruption strategy. Political leaders unwilling to kickstart anticorruption efforts by starting to tackle corruption at the very top breed further complacency at all levels of the state. Weak collective action from civil society often underscores the complacency of political leaders to move forward on the remaining economic and political reforms.

While insufficient means and incentives for collective action from civil society are problems in almost all countries,² the challenges are compounded in Eastern Europe by widespread cynicism among the population and a profound lack of trust in the state, even among the most advanced countries of the region.³ Whether these traits are a legacy of the communist system or a byproduct of the turbulence and uncertainty of transition, they weaken the pressure that civil society can place on politicians and bureaucrats to address administrative corruption and state capture and attenuate the mechanisms of monitoring and accountability that are crucial constraints on both problems.

Finally, even well intentioned efforts in these countries to launch an anticorruption program can quickly run aground due to insufficient practical experience and technical expertise to combat corruption. The lessons of historical experience—both positive and negative—have still not been widely disseminated across the region.

Reducing state capture requires a strategy that goes beyond the classic technocratic approach. While relatively robust economic and political competition place some constraints on state capture in these countries, there are still vast areas open to abuse, in particular political party financing and conflicts of interest. Clear guidelines on financing political parties and mechanisms to enhance transparency are absolutely essential to channel a key conduit for informal political influence into more open and competitive forms of political lobbying. The introduction—and effective implementation—of clear and comprehensive conflict of interest legislation could also have a powerful impact. Both areas require stronger verification and audit powers and further judicial and prosecutorial training and reform, worthy areas of institutional development in their own right. Strengthening enforcement mechanisms is also a feasible strategy in countries with a stronger framework for the rule of law.

These political leadership and judicial and prosecutorial reforms are needed to back up what might be called the “traditional approach” to combating administrative corruption. This approach revolves around the introduction of best-practice technocratic reforms and knowledge transfers through international partnerships in the critical areas of public administration and public finance. Elements of such an approach do have the highest chances of success in this group of countries. Priority should be given to civil service reform, where enhancing training and compensation levels could decrease incentives for corruption among bureaucrats. Implementing advanced systems of transparent fiscal management and public procurement administration could also have a potentially high pay-off for reducing administrative corruption. These reforms should be well targeted, backed by relevant practical experience, and launched with strong local support and participation, where feasible. External actors can serve as partners by helping to provide focus to anticorruption strategies, enhancing collective action among domestic actors, and providing technical assistance based on international experience, where appropriate.

EU accession can play a major role in pushing these countries toward greater progress. An active accession agenda can prevent political complacency and generate political will, even as the reform agenda begins to lose some of its urgency. Technical assistance can also provide the know-how and partnership to move forward in the most difficult areas of governance. Nevertheless, experience has already shown that the prospects of EU accession are no uniform guarantee for all potential candidates of continued progress in structural or anticorruption reforms.

Despite their many advantages, failure to act decisively to control state capture in these countries could run the risk of slipping backwards within the framework of the typology. Indeed, the most likely path of regression in countries with reasonably stronger traditions of public administration is towards higher levels of state capture. As these economies grow, the capacity of powerful economic interests to influence fast-developing legal, legislative, and regulatory frameworks could outpace the constraints imposed by competing interest groups and civil society. The risk increases in those countries where a major agenda of structural reforms remains to be completed. The case of the Czech Republic, where a once widely praised mass

privatization program was partly undermined by the ability of powerful banks and investment funds to prevent post-privatization reforms, has been a prominent example of such risks. Further measures to strengthen political transparency and accountability and to enhance economic competition are necessary to check the power of emerging commercial, financial, and industrial groups.

Box 5.1: Poland

Poland has many of the ingredients for a successful anti-corruption strategy—cross-party leadership, vibrant media, and strong sources of pressure from able NGOs and academic institutes that supply analysis and advocacy. With a few prime exceptions—such as adequate laws on political party financing and rules to constrain lobbying—many of the laws needed already exist. Further ingredients needed are commitment to transparent implementation, together with sustained reform of parliamentary, judicial, and prosecutorial agencies and the public administration. As yet, strategic direction and focus, which the newly formed High Level Group may be able to bring, are somewhat lacking.

The Minister of Justice launched a Clean Hands campaign in 1994, but effective implementation did not materialize. More recently, Parliament has set up ethics and disciplinary committees and the Parliamentary Committee on Internal Affairs has published a report on corruption focusing primarily on enforcement issues. The Supreme Audit Chamber has supplied sustained leadership with a plethora of highly critical reports but with little follow-up from parliament, government, or prosecutors. Several regional governors are attempting anticorruption campaigns, with mixed success. A small number of key politicians keep anticorruption issues in the public eye, bolstered by a continuing flood of newspaper articles and television programs.

Reforms such as the recent Law on Economic Activity are intended to reduce the opportunities for corruption at the interface between public and private sectors. The new Civil Service Law is designed to combat the politicization of appointments and build a career civil service of integrity. If these laws can be successfully implemented, they will go far to lift the burden of corruption from the private sector and strengthen state institutions against corruption. A law on political party financing now on the drawing board promises to make inroads into state capture, as would effective implementation of the existing law on conflict of interest and financial disclosure.

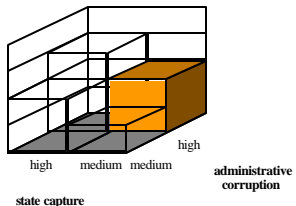
Despite Poland's strong commitment to state-building and the market economy, close links between economic interests and political institutions continue. A particularly damaging feature is cronyism and conflict of interest in appointments to regulatory authorities, boards of privatization commissions, state-owned enterprises, and extra-budgetary funds. Public service appointments are also highly politicized, exposing some appointees to a corruption levy as well as inflicting loss of expertise and institutional memory in the poorly paid administration. High-level corruption is also manifest in interference in customs and in the award of tax exemptions, concessions and licenses, and malpractice in public procurement. Administrative corruption at the subnational government level remains problematic, particularly in transactions involving land and assets and in procurement. The health services are marred by procurement abuse, corruption at the interface between hospitals, doctors, and the pharmaceutical industry, and extraction of informal payments. The deep distrust of the state that characterized the Soviet period continues to weaken the credibility of anticorruption efforts.

Based on Sutch, Wojciechowicz, and Dybula (2000).

Medium State Capture/High Administrative Corruption

Medium / High

Medium State Capture / High Administrative Corruption



Key Focus : Enhancing state capacity to improve the provision of basic public goods.

<p>Challenges</p> <ul style="list-style-type: none"> • Highly underdeveloped public administration • Lack of control and accountability within the state • Nascent civil society 	<p>Priorities</p> <ul style="list-style-type: none"> • Build the capacity of public administration • Develop instruments for financial management • Encourage civil society development
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The key feature of most of the countries falling into this category is the weak capacity of existing state institutions, both in terms of the provision of basic public services and regulatory functions and the existing mechanisms of accountability and control within the state apparatus. In extreme cases, civil unrest or war has threatened the state, such as in Albania and Armenia. Administrative corruption thrives in such an environment and often reaches the highest levels of the political system. At the same time, corruption at the household level can be particularly problematic, affecting the delivery of most public services.

In such countries, anticorruption efforts should be synonymous with fundamental state-building. This entails, first and foremost, developing the capacity of the state to deliver basic public goods, such as public order and stability, health care and social protection, and simple systems of public revenue management. Enhancing the capacity of basic institutions of public administration and the civil service is necessary, but this should be combined with liberalizing measures to reduce bureaucratic discretion in the economy.

State capture by firms as measured by the BEEPS survey does not appear to have reached the highest levels in comparison with other transition countries. However, this may be due not to any greater degree of constraints on state actors (as in the group of countries discussed above), but to a less concentrated economic structure (such as a predominantly agricultural economy) or to the overall lack of state capacity to intervene in the economy. There are also other forms of state capture, such as by public officials themselves or by specialized state sectors (e.g., the military) that may be relevant in individual cases, but are not measured in the BEEPS survey.

In Kazakhstan, for instance, corruption appears to be relatively higher in a small number of high-revenue sectors, though not a general issue confronting all firms across the board. As the state capture index in the survey measures the proportion of firms affected by state capture, the score is relatively lower than in other transition economies. Moreover in Kazakhstan, regional and local officials are directly negotiating with firms. These actions do not involve sale of laws, are characterized by greater predictability and certainty (which also lowers the frequency and amounts of bribes that firms have to pay), and entail minimal high-level micromanagement of day-to-day administration. As a result, firms are less likely to try to buy laws, decrees, and regulations at the highest levels of the political system, accounting for the relatively lower level of measured state capture.

Civil society in these countries may be particularly weak; clans or other informal ties can lead to social fragmentation in some cases. Consequently, there are unlikely to be strong social constituencies to demand and sustain an anticorruption program. The knowledge gaps on the causes and consequences of corruption, as well as on strategies to combat the problem, can be wide. Public education and awareness are particularly critical elements of any anticorruption strategy in these countries, as the constituencies for reform within civil society are unlikely to have the capacity to sustain the demand side for anticorruption activities.

Political will to combat corruption is most likely to be driven by external pressures, especially international donors. Donors tend to play an important role in these countries, assisting in the process of state-building. Creating safeguards to ensure and monitor effective delivery of donor assistance is likely to be a priority in some countries and could be an important entry point toward a program of further institutional reforms. (See Box 5.2 on Albania and Box 5.3 on post-conflict environments.) Yet such a program should have clearly defined and limited goals, as the task of state-building will have a long time horizon.

Perhaps one of the most serious problems in this group of countries is the looming threat of higher levels of state capture. Indeed, the risk of moving toward the “high-high” category in the typology would appear to be greater than the likelihood of progress toward the “medium-medium” category described above. As the private economy develops and gathers strength, there will be strong incentives for these actors to engage in state capture. Paradoxically, stability could carry greater risks of state capture by private firms, as the influence of other important constituencies, such as the military, begins to subside.

If economic reforms move forward in these countries, it will become critical to incorporate measures to ensure competition and weaken potential vested interests in order to prevent state capture from developing into a serious challenge.

Box 5.2: Albania

Albania was one of the most isolated countries in the world and certainly within Europe during the communist period. It also remains the poorest country in Europe. Located in close proximity to Italy and Greece, expectations were high after the country opened up in the early 1990s, and with substantial external assistance, a quick transformation into an open economic system took place. However, public institutions and oversight mechanisms could not keep pace. Civil society, including the private sector community and the press, was extremely underdeveloped and authority remained highly concentrated. Simultaneously, progress in putting in place institutional restraints in the political system and ensuring judicial independence has been moving ahead, but very gradually.

The close proximity to Europe generated donor support but created problems as well. Weak state structures allowed criminal activity to flourish, using Albania as a transit platform to reach Europe. The collapse of the pyramid schemes in 1997—after they had enriched many high-level political figures—wiped out the life savings of the poorest Albanians, led to major civil disturbances, and cemented the public's distrust toward public institutions. A vicious cycle has emerged in which corruption acts as both a cause and a consequence of a chronically weak state and weak public institutions.

Following the 1997 disturbances, a newly elected government launched an anticorruption initiative with donor support. Surveys of public officials, enterprises, and households and a comprehensive government anticorruption action program were developed and presented in a public workshop in mid-1998. The surveys were instrumental in raising the profile of corruption and shaping the terms of debate. Perhaps for the first time, the domestic media—which provided extensive coverage—turned to discussing institutionalized corruption rather than scandals involving individual public figures.

The government's program was broad and comprehensive, including more than 150 specific measures in the areas of economic policy, rule of law, public administration, procurement, audit, and public awareness. Implementation of many of these reforms has been driven by donors, partly because donors wanted to assure themselves that their assistance would be effectively utilized. However, this combination of reliance on foreign assistance and weak state structures has expanded the role of donors; domestic ownership and sustainability of the reforms needs careful nurturing.

Implementation of the program to date has been mixed at best, due to a variety of factors. The political leadership itself was not free from charges of corruption. The public sector was one of the only sources of patronage for the newly elected Socialist Party coalition creating political constraints on reform. There was no unbiased forum of "last resort" since enforcement agencies and the judiciary were incapable of functioning properly and were themselves burdened by allegations of corruption. Moreover, ownership of the program has diminished over time. The Prime Minister changed three times in a two-year period. Most recently, a revised Anti-Corruption Action Plan has been announced, updating the measures and improving implementation-monitoring mechanisms. However, given the experience with the first effort, skepticism has begun to set in.

On the positive side, public administration reform finally began to move forward in mid-1998, due to a combination of domestic interests and international donor pressures and assistance. Civil service reform is moving ahead and an outreach program is under way to explain the new process to public officials, local governments, and others. NGO-organized roundtables have helped to broaden the circle of those commenting on the draft law.

Other reform measures have focused on improving financial management. Computerization of the treasury, improvement of accounting procedures, improvement of budget preparation, and internal audit reform are ongoing. One of the most important areas currently being addressed is customs, the main revenue source and considered to be one of the most corrupt entities. A new customs code and implementing regulations were adopted. Customs and tax revenues are up significantly. Reforms in the judiciary and enforcement agencies, institutional in nature, are only slowly showing results.

High State Capture/Medium Administrative Corruption

High / Medium

High State Capture / Medium Administrative Corruption

Key Focus: Enhancing political accountability and promoting new entry to take maximum advantage of a stronger legacy of state capacity

<p>Challenges</p> <ul style="list-style-type: none"> • High concentration of power by vested interests • Weak structures for monitoring and accountability • Powerful groups block further reforms to preserve their advantages 	<p>Priorities</p> <ul style="list-style-type: none"> • Broaden formal channels of access to the state • Deconcentrate economic power through competition and entry • Enhance oversight through participatory structures
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Countries with high levels of state capture alongside medium levels of administrative corruption generally benefit from a historical legacy of the rule of law and well-developed public administrations associated with previous, pre-communist regimes. However, their problems with state capture are rooted in either high concentrations of economic power in key industrial sectors (such as gas and oil transit and agribusiness in Latvia) or weakly accountable political regimes built around populist or nationalist politicians with close ties to powerful enterprises (such as the first governments after independence in Croatia and the Slovak Republic). State capture can be seen as repressing the advantages that these countries have in terms of the capacity of the state and the strength of public administration. Reducing state capture could thus unblock a powerful potential for further reforms.

In these countries, the major obstacles to further progress on structural reform lie less in the weak capacity of state institutions than in the power of vested economic interests and the private interests of powerful politicians. Though basic political institutions and civil society are much more developed in this group compared with the previous one, mechanisms of accountability tend to be attenuated in these regimes. Political access for competing interest groups is often blocked. Institutional restraints within the state are generally weak. Political contestability is less robust than in countries of the medium-medium group. Consequently, conflicts of interest abound in some countries as political leaders can equate their private well-

being with the country's well-being. Favored firms develop close ties to politicians and their parties, often blurring the boundaries between the party and the firm.

The major challenge in these countries is to break the political stranglehold on further progress in reform. Combating state capture should become the key focus of any anticorruption strategy. Though technocratic reforms might be useful as entry points into anticorruption work, a credible reform program should be designed to broaden formal channels of political access and to increase the accountability of political leaders to a wider range of constituencies. Encouraging the development of institutional mechanisms of political oversight and promoting transparency in party financing could also have a positive impact. Efforts to promote collective action among anticorruption constituencies and competing interest groups (such as SMEs, trade associations, and professional societies) should play an important role in an anticorruption strategy. In sequencing an anticorruption strategy, the early promotion of political reforms and partnerships with civil society has the potential to achieve a considerable impact.

At the same time, where powerful monopolies are the prime force behind state capture, emphasis should be placed on deconcentration, competitive restructuring, and reducing barriers to entry. In countries such as Latvia and the Slovak Republic, the generally fast pace of liberalization throughout the economy slowed considerably as it reached the door of some key sectors in the economy, creating rents to particular firms through anticompetitive barriers maintained through state capture. Continued progress in privatization coupled with particular attention to corporate governance standards and regulatory reform are essential for deconcentrating economic power and breaking existing networks with the state.

Box 5.3: Post-conflict Environments

Although the Cold War ended peacefully for most countries of the former Soviet bloc, some countries and regions—Tajikistan, the Caucasus, the Balkans—found themselves embroiled in civil wars and territorial conflicts as the political map of the region was redrawn. While the recommendations embodied in this report are generally applicable to all transition countries, with relevant emphases adjusted to reflect the typology of corruption in each country, the political and social dynamics in post-conflict countries pose particular challenges for reducing administrative corruption and state capture.

The real wars that erupted when the Cold War was in demise were mostly centered around ethnic or regional divisiveness, or extreme nationalism, a fact that bears directly on both our understanding of corruption and the development of strategies for post-conflict countries. First, corruption served—and in some cases continues to serve—as a vehicle diverting state assets to promote conflict and maintain power structures. Second, the strong rhetoric of nationalist regimes exploited the fears of the population and rendered corruption to be a distant concern, at best. In some cases, the hard-line approach of nationalist regimes effectively silenced government critics and civil discourse, both of which play important roles in reducing corruption.

Post-conflict countries face unusually harsh public finance challenges. Domestic revenue collection systems are highly fragile and nontransparent and inefficient expenditure practices provide fertile ground for the diversion of public resources for private use: (i) tax collection mechanisms are notoriously weak in post-conflict countries—often tax instruments need to be created, or the *ad hoc* wartime tax regimes reformed; (ii) borders have often changed (or changed hands) with conflict and remain porous in aftermath, with weak border controls; (iii) budget management is weak (or even nonexistent in “new” states) and may indeed be captured by the dominant nationalist powers; (iv) treasuries, audits, and public disclosure of financial information are often nonexistent in post-conflict settings, either because the pre-conflict structures have been destroyed, or because they never existed.

Rebuilding the physical infrastructure of war-torn economies, particularly in the Balkans, has largely relied on huge inflows of aid. The size of the investment projects and the large sums of money involved require particular emphasis on internal controls and sound financial management to ensure that *de facto* fungible resources are put to proper use and not siphoned off through corruption and waste. The Stability Pact Anti-Corruption Initiative for South East Europe⁴ calls for priority measures including:

- Taking effective measures on the basis of existing relevant *international treaties and agreements*;
- Promoting *good governance*, through legal, structural, and management reforms for better transparency and accountability of public administrations, through development of institutional capacities and through establishment of high standards of public service ethics for public officials;
- Strengthening *legislation* and promoting the *rule of law*;
- Promoting *transparency and integrity in business operations*;
- Empowering *civil society and independent media* to galvanize community action and generate political commitment.

More broadly, the regional development strategy⁵ prepared for the Stability Pact emphasizes the key role that development of sound institutions and governance must play in order to effectively implement regional initiatives and policies. Three key sets of institutional reforms—improvements in budget formulation and execution, improvements in public administration and civil service, and reform of legal and judicial systems—are highlighted as necessary for improving service delivery and policymaking. The strategy further outlines how robust measures of governance improvements can be used to provide governments with incentives to reform.

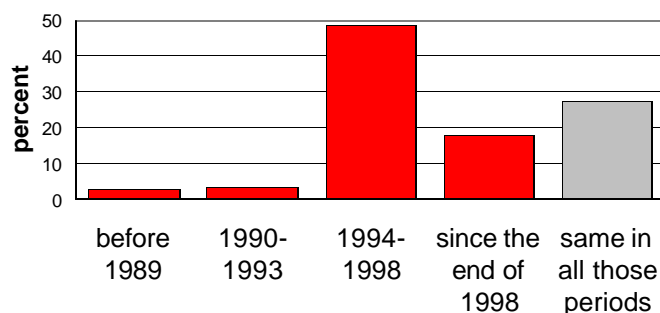
While the anticorruption challenge for post-conflict societies is immense, so are the stakes. In the Balkans alone, there are some 1.7 million refugees and displaced persons, and production remains at levels 25 percent below pretransition levels. Efforts to rebuild such economies will be undermined if corruption is not kept firmly in check.

It is in this group of countries that an internal change of political regime can open up the greatest opportunities for implementing a comprehensive anticorruption strategy. The legitimate transfer of power from a once firmly entrenched ruler or dominant political party holds out the possibility of breaking or otherwise reorienting the ties between established political leaders and powerful economic interests. Regime change is often accompanied by a resurgence of political competition, a strengthening of political parties, and a rejuvenation of civil society that can increase accountability pressures on the new political leadership. This creates a valuable political window of opportunity to promote an anticorruption strategy that strikes at the root causes of the problem (for further discussion of windows of opportunity, see Box 5.4)

Box 5.4: Windows of Opportunity in Croatia and the Slovak Republic

Both Croatia and the Slovak Republic entered the transition as parts of larger states that were among the more advanced in Central and Eastern Europe. The first post-independence governments in both countries were centered on the theme of nationalism and a much higher degree of concentration of political power that may have contributed to the relatively higher levels of state capture than that found in their neighbors, Slovenia and the Czech Republic. While the challenge of unraveling the systems that developed is a daunting one, recent changes of government present valuable windows of opportunity in both countries. In the Slovak Republic, the coalition that was elected in late 1998 has placed anticorruption and institutional reform high on the policy agenda, developing a comprehensive anticorruption program, passing a sweeping public administration reform, and proposing freer access to state information. A recent survey suggests that, while bringing corruption under control will take time, there is some indication that perceived levels of corruption have fallen. In Croatia, the change of power has been much more recent. The erstwhile leader's death in late 1999 and his party's defeat to moderates in the January 2000 elections have generated an atmosphere of openness that was unknown in the earlier regime. It remains to be seen whether the new government in Croatia will take advantage of the current window of opportunity to advance a proactive anticorruption agenda.

**When was Corruption Worst in Slovakia?
Opinions of Enterprises**



Source: World Bank

In the absence of a political breakthrough, continuing efforts to strengthen ties with civil society, build allies with interested anticorruption partners within the state, enhance transparency within the political system, and foster economic competition all have a potentially high pay-off by strengthening internal pressures for reform. Such measures lay a strong foundation for a credible comprehensive anticorruption strategy if the opportunity arises.

By tackling the problem of state capture, these countries have high potential to shift toward the medium-medium cell in our corruption typology, joining the other countries of Central Europe that have enjoyed similar advantages in terms of a legacy of stronger state capacity and high levels of development. Again, EU accession can play an important role in increasing the pressure to unblock the key political obstacles to further reform. Partnerships and

knowledge transfers, especially to promote collective action in civil society and strengthen competing economic interests, are also essential.

However, failure to constrain and reduce state capture could lead to further regression and the erosion of existing state capacity and the control functions that have kept administrative corruption in check. The prolonged use of corrupt incentives to influence policymakers and administrators leads to diminishing confidence in public servants and state institutions. Such a low level of trust in the conduct of public officials generates further incentives to secure access by using officially proscribed means, which further weakens the accountability and legitimacy of the political system. As formal means of access decline, informal networks are strengthened to gain access to privilege. Growing informality also weakens revenue collection, limiting the resources available to build a professional civil service. As police and other enforcement agencies become clients of powerful individuals and economic interests, alternative means of recourse are sought, resulting in the use of informal and often violent means to enforce contracts and settle disputes. Consequently, state capture can eventually erode state capacity, despite favorable legacies from the past, and generate increased levels of administrative corruption as a result.

Box 5.5: Latvia

State capture is significant in Latvia, where the economy is highly concentrated, political parties are closely aligned with economic interests, and the country's position on east-west trade and energy transit routes exposes it to strong corruption pressures. Parliament's adoption in 1995 of a conflict of interest law signaled the significance of these issues. But this parliamentary initiative languished until 1997 when the Prime Minister convened the first anticorruption workshop. The effort deepened with the establishment later that year of a high-level Corruption Prevention Council (CPC) chaired by the Minister of Justice, and in early 1998 the cabinet approved a *balanced strategy* focusing on prevention, enforcement, and education. At this stage some understanding at high levels had been achieved but there was little readiness to tackle vested interests, bureaucratic inertia remained strong, and the strategy had little or no public credibility.

The Minister of State Revenue led the first stages of implementation of the new strategy, focusing on the actions needed to give teeth to the conflict of interest law and commissioning an assessment of vulnerability to corruption in Customs and the tax administration. The Minister of Finance is following up with a project designed to strengthen transparency and efficiency in management and operations. Recent taxpayer surveys indicate that taxpayer satisfaction is starting to improve—the first demonstrable results.

In a further crucial step the cabinet expanded the program outside the confines of government, releasing the strategy for public discussion at a conference in June 1998 that was broadcast throughout the country and attended by representatives of NGOs, universities, and the business community. The CPC broadened its membership to include participants from civil society and commissioned diagnostic surveys of households, businesses, and public officials.

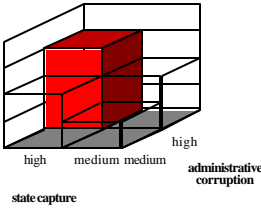
The government is now launching a broad governance program ranging from elimination of bias in the allocation of cases to judges to infrastructure regulation to reform of pay and incentives in the public administration. The powers of the road police have been redefined. A draft law to bring financial discipline and accountability to the proliferation of public agencies is on its way through Parliament and measures to cut abuse of licensing and inspections are in the pipeline.

Despite undoubted progress under the Latvian program, the public is not satisfied by the limited improvements that it can perceive so far in public services. Public discussion focuses on the need to clean up political party financing and to implement the conflict of interest law in a more convincing way. Efforts to reduce state capture will need to complement administrative reforms if the strategy is to become fully credible and sustainable.

High State Capture/High Administrative Corruption

High / High

High State Capture / High Administrative Corruption



Key Focus: Breaking the hold of vested interests on the process of policy and institutional reform

Challenges

- Highly concentrated economic interests that can block reforms
- Limited implementation capacity of government
- Poorly organized anticorruption constituencies
- Restricted channels of access for countervailing interests

Priorities

- Deconcentrate economic interests through restructuring, competition and enhanced entry
- Build accountability and oversight mechanisms
- Promote collective action among countervailing interests
- Stand-alone technocratic reforms will have limited impact

Where state institutions with weak administrative capacity co-exist with a high concentration of vested interests and a state highly susceptible to capture, the problem of corruption is particularly challenging. Powerful private interests have the capacity to block institutional reforms that would limit their capacity to extract rents from the state and eliminate market distortions that work to their advantage. The government lacks sufficient mechanisms of control and accountability throughout the state bureaucracy to implement institutional and policy reforms. Underdeveloped civil societies and intermediary associations do not yet exert sufficient pressure on politicians to counterbalance the weight of concentrated vested interests. The credibility of government on corruption issues is likely to be very low. In short, the interaction of state capture and administrative corruption makes this the most difficult environment to design an effective anticorruption program.

As the status quo benefits powerful interests, the political economy of anticorruption initiatives in these countries is particularly complex and difficult. Capture has distorted the formal and informal rules of the game to encode the advantages of particular groups into the very framework of the new institutional environment. The persistence of corruption in these countries has been supported by institutionalized incentives, networks, and relationships.

Stand-alone efforts to tackle administrative corruption through technocratic reforms in public administration and public finance are likely to have limited impact. Indeed, experience to date suggests that anticorruption strategies limited to technical reforms with fairly standard instruments have failed to produce the desired results. For example in Georgia, efforts to create enclaves of technocratic reforms in the civil service, the Ministry of Finance, and in the area of external audit have proven unsuccessful. The institutional context is as yet too weak in these countries to deliver the minimum necessary underpinnings for such reforms. Given the low level of organization of civil society and constricted formal channels of interest intermediation for countervailing social groups, such efforts are unlikely to prove sustainable over time (for an example, see Box 5.6 on Azerbaijan).

Box 5.6: Azerbaijan

Resource-rich Azerbaijan has a highly concentrated system of political power with limited institutional restraints on the executive. While the president has extensive powers, other institutions such as Parliament and civil society are relatively weak. The judiciary is not perceived to be sufficiently independent. The press and political opposition are subject to extensive controls. There is still very little separation between economic and state interests, especially in the strategically important energy sector.

In late 1998 the government began to put anticorruption on the agenda. This was seemingly due to external pressures: multilaterals and bilaterals have been increasingly withdrawing support, businesses are moving out, and levels of FDI have been less than expected. The issue has been raised in high-profile conferences and roundtables. Newspapers have started, for instance, to report on corruption (including high-level corruption). Opposition parties have become more outspoken.

In a resource-rich country like Azerbaijan, it has become obvious that a credible anticorruption strategy will first of all have to address the close ties between economic and political interests, especially in the energy sector, which afford opportunities for illicit private gains from the control of the profits and revenues. This implies the need for greater transparency in the transactions of the state oil company (SOCAR), budgetary control and transparency of revenue flows into and out of the government oil fund, and the restructuring of SOCAR itself. Several international institutions have pressed for these measures as preconditions for further support. They serve as a means to assess the credibility of the government's commitment to fighting corruption.

The government has stated its desire to embark on reform of public administration, financial management, the judiciary, and the legal system. The approach so far, however, has been piecemeal. There has been resistance to implementing stringent measures. Decreasing the powers of the Cabinet of Ministers, eliminating illicit influence in judicial and civil service appointments, reducing prosecutorial powers, and subjecting executive actions to external controls—these suggested reforms have been lightning rods for opposition from powerful and entrenched beneficiaries of the existing system.

In such environments, pursuing reforms that target state capture should also be the key priority. This requires measures on two fronts: increasing the costs to politicians of state capture and decreasing the gains to captor firms deriving from state capture. On the costs to politicians, the weakness of civil society and low level of institutional restraints within the state suggest that efforts should begin with building credible constituencies in and outside the government to bring

the very issue of corruption to the forefront. Without such constituencies, serious institutional reforms to enhance accountability and to strengthen civil society oversight are unlikely to have a sustainable impact. Moreover, given the low level of the state's capacity, the implementation of reforms to increase government accountability is likely to be inconsistent at best. A ray of hope in Georgia has been the work done by the agency for declaration of incomes and assets of the highest public officials, often amid adverse and financially difficult circumstances. This agency has made publicly available the declarations of more than 1,000 high public officials.

In light of the political constraints, a potentially greater impact could come from decreasing the gains from state capture to the captors. This would entail a focus on deconcentrating vested economic interests through competitive restructuring of monopolies, reducing barriers to entry, and increasing transparency in corporate governance. However, these reforms are likely to encounter substantial political resistance from those who gain from such distortions. Breaking the political stranglehold of concentrated economic interests on the reform process requires efforts to foster collective action among potential countervailing interests, such as "second-tier" companies and small- and medium-sized enterprises, to obtain political access. This could entail the development of business and trade associations and formal lobby groups to increase the range of interests with access to government, to foster competition in an effort to reduce the concentration of existing rents, and to strengthen formal and transparent channels of influence. The recent formation of the 2015 Club in Russia, which unites businesses that are committed to working together to promote higher standards of corporate behavior, is a promising development. With a greater number and diversity of economic actors competing through more open conduits of political access for a limited pool of rents, the gains from capturing the state for individual firms could be substantially reduced. In terms of sequencing reforms, these measures should be given the highest priority, especially in light of the poor initial prospects for the reform of political institutions.

In developing an anticorruption strategy in these countries, it is critical to search for a feasible entry point to break the obstacles that prevent further reforms. When the challenges are substantial and the institutions needed to deal with them are weak or compromised, finding an operational strategy that can achieve some demonstrable changes in a reasonable time frame is particularly difficult. Anticorruption programs should be designed around achievable "litmus tests" to gauge the government's commitment to reform and to recognize the limitations in such environments. Efforts to build up demonstration effects through intensive work with carefully selected organizations, sectors, or regional authorities might provide a method of entry into broader anticorruption work.

Whatever the approach, expectations should be limited and the time horizon of reform must be considered quite long. Though occasional windows of opportunity for reform might arise, it is crucial to recognize that the extent of state capture, the concentration of economic interests, and the institutional weaknesses of the state will serve as powerful constraints on the effectiveness and sustainability of reforms introduced through such windows. Unlike the countries in the high-medium category of the typology described above, windows of opportunity should not be used to introduce comprehensive anticorruption programs, since the inevitably poor implementation at later stages will undermine the already limited credibility of anticorruption efforts. Instead, opportunities should be seized wherever possible to push for the

deconcentration of economic power, enhanced citizen voice, and political accountability to begin to weaken the underlying causes of state capture in these countries.

Box 5.7: Russia

Russia began the transition with a president and prime minister oriented towards reform, but without the institutional safeguards deriving from a strong Parliament, judiciary, civil society, and system of public administration. The gradual liberalization and de facto decentralization of property rights to incumbent managers during the era of *perestroika* and the considerable rent-seeking opportunities in the early stages of transition led to the creation of highly concentrated economic interests, especially in the natural resource and financial sectors. Partly as a result of their influence, the privatization process tended to exacerbate the concentration of power leading to the emergence of large financial-industrial groups who, in turn, have successfully lobbied the state for special privileges and opposed further reforms to create a more competitive environment. Such powerful vested interests present formidable obstacles to policy and institutional reforms that are crucial to reducing state capture, such as introducing greater entry and competition in the natural resource sector and greater transparency in government.

The challenge for Russia's new government is to find ways to break the stranglehold of these concentrated vested interests over the functioning of the state. An important first step is to reduce the power of energy producers over the state and to deal decisively with the problem of non-payments in the sector. Other important steps include introducing transparency in decisionmaking within the government and strengthening the capacity of civil society to monitor the government's behavior.

Civil society appears to be emerging as a potential force to fight corruption. The National Anticorruption Committee—an NGO chaired until recently by former Prime Minister Sergei Stepashin with formidable membership from political parties to the right, center, and left—was formed in October 1999. The Committee has begun monitoring corruption in Russia, and appears to be playing a decisive role in formulating the strategy of the Duma's Anticorruption Commission.

A number of subnational governments are undertaking systemic reforms to limit opportunities for corruption. An example of such a municipality is Obninsk, a city of 110,000. Obninsk has tried to create a transparent local government through citizen participation. With some help from external grants, Obninsk has developed a miniconstitution that declares the community's right to voice opinion. One novel example of transparency by the local government in Obninsk relates to the budget process. While developing the budget, the city administration puts the draft on an internet website. By doing so, the administration encourages comments and input from the community. Additionally, the government puts up on the internet the budget for the previous year. On a pilot basis, public goods are being procured over the internet. Not only can local administrators easily access this information, but the community is encouraged to come to city hall and use one of the general computer terminals to check up on such information as well.

Implementing an Anticorruption Strategy

Though the typology of corruption presented above provides a framework for tailoring individual anticorruption strategies to the particular pattern of corruption in different contexts, there are a number of cross-cutting principles that can be essential in operationalizing an effective strategy. They provide an operational framework for gaining a foothold to begin anticorruption work, building credibility behind an anticorruption strategy, and enhancing the sustainability of that strategy over time.

Common strategic challenges

The first challenge that all transition countries face in launching an anticorruption strategy is **credible leadership**. A serious anticorruption program cannot be imposed from the outside, but requires committed leadership from within, ideally from the highest levels of the state. Yet it is precisely the credibility of the state that is undermined by pervasive corruption, creating a potential vicious circle in which entry points for an anticorruption strategy are hard to find. Where presidents or prime ministers are unwilling to take up the challenge, leadership in strategic areas can come from a determined minister with the clout and resources to launch reforms in his or her area of responsibility or from a regional executive committed to change in a particular locality.

The second challenge is finding an appropriate **entry point** for anticorruption work. Given the magnitude of the tasks faced in most of these countries, it is critical to begin at a point where the goals are feasible and tangible results can be realized within a time frame that builds support for further reforms. Small gains can provide essential levers to sway public and official opinion. Entry points should be chosen to tackle high profile problems that respond to public opinion or business dissatisfaction.

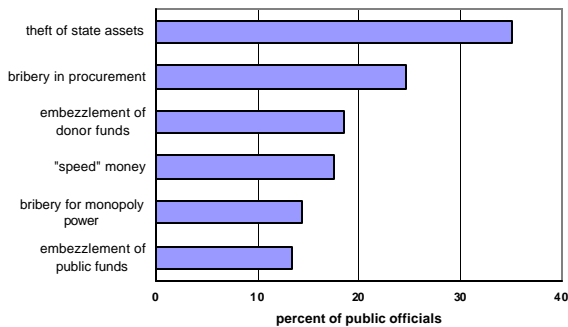
The third challenge is to develop a detailed **diagnosis** of the nature and extent of corruption in the particular country. Experience has already shown that domestic surveys of households, firms, and public officials can be a powerful tool in any anticorruption strategy (for a more detailed description of previous experience see Box 5.8). The purpose of such an exercise is to gain essential information about the nature of the corruption beyond the general categories analyzed in this report and to identify possible entry points (see below) into effective anticorruption work. The process of implementing surveys, running workshops, and developing a dialogue within civil society on the nature of the problem can play a major role in galvanizing support for an anticorruption strategy and building constituencies at various levels of the system.

Assessment of the political culture⁶ is the fourth challenge, in order to evaluate incentives and disincentives for change that will condition the feasibility of particular instruments of reform and the way they can realistically be sequenced in a particular country. Political culture relates to the way authority is exercised, and the extent to which *power* is narrowly concentrated or, alternatively, is disseminated across different institutions. It is also manifest in the way *accountability* mechanisms operate, whether through clientelism, such that the official feels accountable to a political patron or senior family member, or according to explicit rules. A further important component of political culture relates to the degree of *trust* that people feel in their institutions and in each other. Trust is also an important determinant of social capital and the capacity of communities to coordinate their efforts and act as effective participants in an anticorruption strategy.

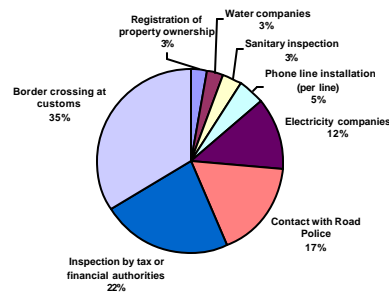
Box 5.8: Diagnosing the Problem

One of the most vexing problems in developing an anticorruption strategy is figuring out where to begin. In many countries, gaining political momentum, generating public support and pressure for reforms, and identifying priorities have been furthered by the use of “anticorruption diagnostics.” The diagnostics—at times supported by foreign and multilateral aid and at other times homegrown initiatives—include detailed surveys and public opinion polls, focus group discussions, and sectoral assessments. Diagnostics can provide a wealth of information, such as identifying the forms of corruption that officials feel are most prevalent (e.g., in the chart on Albania,⁷ below) and the overall composition of unofficial payments made by enterprises (e.g., Georgia). Even in countries with relatively lower levels of administrative corruption, diagnostics show, for example, the impact that unofficial payments have on the poor and the link to small-scale business activities (e.g., Latvia), and the importance of meritocratic personnel policies (e.g., the Slovak Republic).

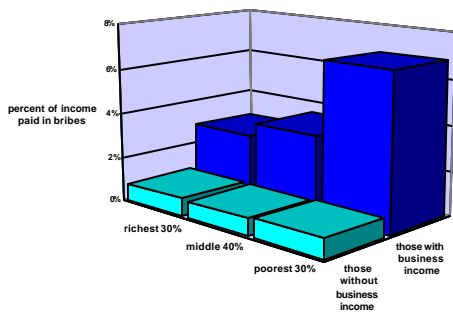
Common Forms of Corruption in Albania



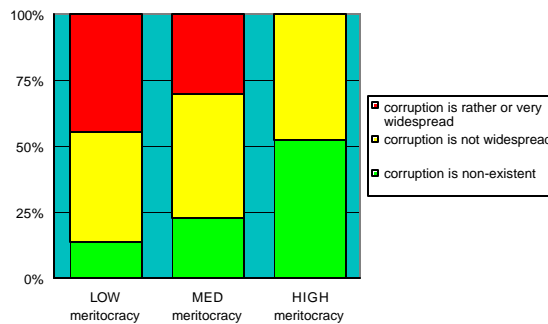
Enterprise Unofficial Payments in Georgia



Impact on Households in Latvia



Corruption and Meritocracy in Slovakia



The use of diagnostics builds on the philosophy of transparency and accountability that is the key foundation for developing a sustainable anticorruption strategy. Yet, the information provided must be supplemented by other forms of expert analysis and review in order to gain a comprehensive picture of corruption in a given country.

Source: World Bank.

The final challenge is maximizing **leverage** beyond the entry point. This depends on framing reforms to appeal to the incentives influencing important actors. Efforts should be made to design “win-win” anticorruption strategies that promote the interests and reputations of major politicians and businesspeople while delivering positive externalities such as enhancing economic growth, strengthening governance, or reducing poverty and inequality.

Sequencing

There is no simple formula for the proper sequencing of anticorruption reforms. Sequencing should be developed in response to the particular constraints identified in each country. Nevertheless, proper sequencing should be designed to enhance the credibility of leadership and to ensure early tangible results to strengthen the constituency for reform along the way.

In some countries, the credibility of an anticorruption strategy may rest on the capacity of the political leadership to make an initial, highly visible, and substantive change at a high level. This acts as an indicator of commitment at the top as well as a signal for those at lower levels that their behavior must change. In other countries, efforts to tackle state capture head-on at an early stage might be impossible or even dangerous for those involved. The only possible entry points, and the only potential early wins, may be in a particular sector, such as education, which is unlikely to invoke the wrath of powerful economic interests. Yet even in these cases, measures to tackle state capture and strengthen accountability cannot be postponed too long or their absence could ultimately undermine the credibility of both the strategy and its leadership.

Throughout the region, the first impulse in anticorruption work is often to crack down on offenders without trying to tackle the more fundamental causes of corruption. Although effective enforcement must be part of any credible strategy, enforcement alone is unlikely to constitute a successful strategy. In many countries, judicial and law enforcement institutions remain part of the problem, not the source of the solution. Prosecutions can be shelved. Judicial decisions can be bought or indefinitely delayed. Police may be working for private security forces rather than the public interest. In such cases, the enforcement approach could become an instrument for repression or political victimization. Sequencing should be designed to begin to tackle the incentives and institutions that favor corruption and to educate and raise awareness of the social costs of corruption. The ultimate goal is to shift towards increased reliance on shared norms and values, instead of inadequate enforcement measures.

Sustainability

The sustainability of an anticorruption strategy depends in any context on three key dimensions. First, it requires a **critical mass of mutually reinforcing reforms** that ultimately builds into a comprehensive program. Isolated islands of integrity can provide an entry point and a valuable demonstration effect but may only survive a short time before being swamped by corruption at other levels. In order to be mutually reinforcing, the strategy must also be balanced. This suggests a mix of corruption prevention and enforcement measures combined with substantial public involvement and education to strengthen the constituencies for reform.

Second, sustainability requires the eventual development of a **broad coalition** in support of the strategy. Though gaining entry to anticorruption work might require an initially narrow

approach, any strategy that relies only on high-level leadership will be vulnerable to the many uncertainties of the political process. The strategic commitment to gain entry must be broadened to incorporate key state institutions and organizations within civil society. Small- and medium-sized enterprises, professional societies, trade associations, and labor unions can all serve as important partners in an anticorruption strategy. The development of a broad coalition will reduce the vulnerability of anticorruption strategies to leadership changes and ensure that politicians ignore the corruption issues at their peril.

Where **civil society** remains severely repressed or is emerging only slowly, a combination of fear and/or lack of familiarity with civic involvement may inhibit popular participation in an anticorruption strategy. The strategy will need to include a component that can accelerate its emergence by canvassing client groups, promoting collective action, giving voice to the poor, and setting up monitoring of government services at both national and sub-national levels. External donors can play a role in funding and supporting mechanisms of voice but should ensure that they do not dominate or pre-empt the development of authentic and autonomous participation, sustainably based in the community.

Finally, sustainability requires the **resources and expertise** to see often complicated reforms through to completion over the long haul as well as deliver the credible early results noted above. This implies a mix of short-term measures and adequately funded medium-term programs that can dig deeper into the underlying causes of corruption and build institutions that can resist it. Well-intentioned reforms that are not realistically backed with sufficient resources and expertise will backfire. Governments must assign budget resources as well as competent administrators to these programs. Civil society can only do so much on its own. Business associations and NGOs can help identify priorities and can monitor results, but they cannot deploy the political will and resources of the state that ultimately are needed to reform the state and create the framework for transparent and competitive markets.

¹ Though it should also be acknowledged that foreign investors can also promote state capture in certain environments especially where the other institutions of accountability and transparency are still poorly developed. For a further discussion of this issues, see chapter 3.

² See Mancur Olson's classic study, *The Logic of Collective Action*. (1965).

³ Surveys in the region repeatedly demonstrate this popular cynicism and lack of trust. See the many studies of Richard Rose and Christian Haeffner.

⁴ "Stability Pact Anti-Corruption Initiative for South Eastern Europe—Compact," adopted at Working Table III, Sarajevo, February 15-16, 2000. Full text available at <http://www.stabilitypact.org>.

⁵ See World Bank (2000).

⁶ This section draws on Philp (2000a and 2000b), Elster, Offe, and Preuss (1998), Holmes and Roszkowski (eds, 1997)), and World Bank Report, *Making Transition Work for Everyone* (2000).

⁷ The results presented in this box are from diagnostic surveys undertaken by the World Bank together with ACER (Albania), GORBI (Georgia), Latvia Facts (Latvia), and Focus and Transparency International Slovakia (the Slovak Republic). USAID cofinanced the surveys in Albania, Georgia, and the Slovak Republic. Results are provided in Kaufmann and others (1998), Anderson and others (1999), Anderson (1998), and Anderson (2000).