

Thus, introducing reliable information, analysis, and policy formulation on the supply side and encouraging and ensuring the participation of citizens from the demand side to help calibrate and correct the results of the supply-side work led to a much-improved system for delivering public goods and services.

CHAPTER 5

IMPLEMENTING REFORM

ORGANIZE THE FIGHT AGAINST CORRUPTION

After using the various assessment techniques in Chapter 4, let us suppose we now have a good understanding of the types and levels of corruption we are confronting. We would then work through the framework of Chapter 3 (Boxes 4 and 5) with our staff to brainstorm the possible costs and benefits of different actions. We would begin to locate areas where the costs of corruption seem high and the costs of the remedial actions seem relatively low—and that is where we would be tempted to begin.

But before we do, we must analyze both the problems and the alternatives from the perspective of implementation. We need to work through the political, bureaucratic, and personal aspects of an anti-corruption effort. One of the political dimensions is how to use the battle against corruption as the lever for transforming city government, and not turn it into the generator of more red tape and delays.

For good and bad reasons, issues of who's in charge loom large in government. Preventing corruption and deterring it require the combined excellence of many government agencies. Of course every part of the city government has its own responsibilities of

management, incentives, and control. But several functions have anti-corruption roles that cut across the others. Many of these are not inside the city government but outside (as in many countries is the case of the police) or, so to speak, above the city government at the prefectural, county, provincial, and national levels. Consider what functions would have to work well to prevent corruption. There would be accounting and auditing functions, some of which in most Latin American countries fall under the "*Contraloría*." To this, one would add police (often local, sometimes national under the Ministry of the Interior), prosecutors, courts at various levels, and the government ministry in charge of administration. One would also include the city council and perhaps the state or federal legislature. Revenue-raising functions are important, as are the bodies that carry out public works. Regulatory functions come in many varieties. The list could go on, and the lines are not clear across these areas. What is evident, however, is that investigating, prosecuting, and obtaining convictions will not succeed unless a number of government agencies work together. Neither will many preventive measures. Let us call this the problem of coordination.

Experience suggests that there is a second need in campaigns against corruption: a focal point. Someone, or some official body, has to be in charge of a campaign against corruption—has to have the political authority, be in the public eye, and possess the personal accountability. But at the same time, because no single agency can do everything in the fight against corruption and therefore a coordinated effort is required, the official body has to be above all a facilitator of joint action, a mobilizer of the resources of many agencies of government. It cannot be a boss, in other words.

A key political question concerning the implementation of an anti-corruption strategy is what sort of coordinating authority

this should be. Several answers are possible, and there is no one right answer for all settings. Hong Kong's Independent Commission against Corruption, which we examined in Chapter 2, is one prototype. It is a kind of *super agency* against corruption. It combines investigation (like a police force), prevention (like a management consulting agency), and popular participation (like a community relations office). Its powers are huge. So is its budget and ability to hire excellent staff—not only investigators and enforcers, but also accountants, economists, management experts, systems analysts, lawyers, and others.

There are examples of municipal units with wide-ranging powers, although not as grand as the ICAC's. Box 13 outlines an interesting example from New York.

A second idea is an interagency *coordinating body*. Cities are not countries, of course, and municipal leaders will not be able to control many of the agencies that matter. Still, it may be possible to prompt the important agencies together to improve the coordination of their work.¹

In 1992 Robert Klitgaard spent some time in Venezuela with the many agencies involved in the fight against corruption at the national level: the police, the Contraloría, the prosecutors, the Supreme Court (which administers all the courts), and finally the cabinet. The various agencies guarded their autonomy and did not want to meet in joint workshops—each wanted its own. Each agency's staff told in its workshop the most extraordinary stories about how its own good efforts had been thwarted by the incompetence and, yes, the corruption of the other agencies. They noted how cases would disappear in the cracks along their theoretical path from gathering information to investigation to prosecution to judicial decision. The blame was differently apportioned by these agencies, but two results were universally

In 1989, New York City's newly created School Construction Authority was faced with rampant corruption in the multibillion-dollar school construction program (bid-rigging, price fixing, illegal cartels, racketeering, bribery, extortion, and fraud) in the city's construction industry. Its response was to form an Inspector-General Office (OIG). Through institutional reform of the business practices of the authority, the OIG has "fried some big fish," including employees of the Board of Education and the authority itself; banned over 180 firms from competing for school construction contracts; saved millions of dollars for the authority; and even prompted internal reforms in the supplier side of the industry.

Its key organizing principles include:

1. Responsibility for combating corruption does not lie with law enforcement authorities alone. Managers and procuring officials must become proactive and must integrate their work with law enforcement agencies. Nonjudicial administrative sanctions short of criminal charges are effective.
2. Many disciplines must collaborate if corruption is to be deterred in the first instance, detected and prosecuted when deterrence fails, and punished in a criminal trial to ensure credibility. These disciplines include lawyers, investigators, accountants, analysts, engineers, and experts in management theory and public administration.
3. The organization (in this case, the OIG) must be external to the School Construction Authority to preserve independence and autonomy. Communications with the authority would occur informally through day-to-day collaboration and formally through a senior position within the authority. Importantly, vesting one organization with the authority to combat corruption avoids the trap to which so many anti-corruption efforts fall prey: imposing additional rules and regulations as well as multiple layers of

oversight that in turn "contribute to organizational paralysis and dysfunctional conflict, thereby ironically increasing incentives [and opportunities] for corrupt payments. . . ."

Deterrence (including financial recoveries) and opportunity blocking were the primary methodological ideas underpinning the OIG's efforts.

1. Deterrence

Criminal prosecutions, using undercover agents, search warrants, wiretaps, and covert surveillance, with severe fines and incarceration as predictable results.

Civil prosecutions, with severe financial penalties (forfeiture, treble damages, injunctive relief).

Administrative sanctions, primarily banning firms from competing for school construction contracts, hitting the firms that have a culture of corruption where it hurts the most—in the pocketbook. (Happily and predictably, other public agencies often follow these sanctions and debar the same companies.)

2. Opportunity blocking

Debarments, advisories, and certifications. Debarments block a firm from bidding on construction contracts. Advisories warn project managers about improprieties suspected in a particular vendor. Certifications required of the principals of some firms set the stage for rescinding contracts and recovering full monetary restitution if subsequent events show contract award was based on fraudulent inducement.

Independent auditing firm or private-sector Inspector-General. Funded by firms in cases in which adequate evidence exists for criminal prosecution but the public good mandates contracts not be suspended or the company banned, these independent bodies, selected by the OIG, monitor a vendor's performance.

Other initiatives. These include: vulnerability assessments to identify weaknesses in the authority's business practices and contracting procedures; a Fair and Ethical Business Practice provision for

contracts; and privatized labor law enforcement, paid for by offending vendors, to monitor violations of prevailing wage laws.

The primary tool that has led to the OIG's success is an elaborate bidder **prequalification process**. Each vendor that wants to bid on school construction contracts must complete a comprehensive (forty-page) questionnaire that looks at traditional measures such as financial assets and wherewithal and experience as well as at the key people associated with and running the company. Prequalification has given the OIG access to information not traditionally available except through difficult and time-consuming law enforcement procedures.

cited: widespread corruption, and terrific demoralization within each agency.

Before and after the workshops, Klitgaard met with the heads of these agencies—the ministers and chief justice and Contralor General—and he also met with the Venezuelan cabinet. They agreed with the diagnosis of their senior civil servants. They also agreed to set up two interagency coordinating bodies. One was at the ministerial level; another was at the director-general or top civil servant level. Among the missions of the second coordinating body was to track important cases through the system. Both committees also worked on systematic issues: preventive measures, for example, and the closer coordination of their anti-corruption efforts.²

Within a year, these coordinating bodies logged dramatic successes. Individual agencies learned through their cooperation how to improve not only coordination but their individual operations. Discussing their work together forced each agency to confront the others' perceptions of its work. Seeing ourselves through others' eyes can be a shock, but it can also be what finally motivates us to improve. Soon, many more anti-corruption cases were moving through the system. One of them was a very big fish indeed: President Carlos Andres Pérez, who was impeached.

In 1995 Colombia introduced a version of a coordination model, which had some interesting features in theory. There was one coordinating body in government and a second that involved something like the Hong Kong idea of a citizen oversight board. In the latter, seven citizens of distinction were to serve as a kind of interlocutor between the public and the governmental coordinating body. They were to relay complaints and diagnostic studies from the private sector and civil society to the governmental coordinating body, and they were then supposed to follow up to see what happened to those complaints. They also were

supposed to oversee the government's anti-corruption activities, from the level of high strategy to that of particular actions. The hoped-for result would be much greater efficiency, transparency, and credibility in the fight against corruption.

As it happened, the coordinating body never lived up to expectations. President Ernesto Samper was himself subjected to charges of corruption, and in the turmoil the coordinating body proved virtually moribund. When President Andrés Pastrana took office in 1998, he promised to fight corruption. But the coordinating body still did almost nothing.

In the summer of 1999, the Colombian government announced a "presidential program of fighting against corruption."³ Based in the office of the vice president, the program hopes to coordinate the activities of a number of Colombian government agencies and to obtain the cooperation of business groups and civic organizations. The program itself includes units for the formation of ethical values, for the strengthening of citizen participation in social control, for efficiency and transparency, and for investigation and sanction. No citizen oversight board is mentioned.

The first problem, then, is to organize a government's fight against corruption. The principles seemingly conflict: coordination and a focal point. Someone has to be in charge of the anti-corruption drive, but the drive will only succeed if the efforts of many agencies can be coordinated.

The next question is how to get started. Where should the effort begin?

PICK LOW-HANGING FRUIT

In addressing this question, let us suppose that municipal leaders have followed the steps of Chapters 3 and 4. They have applied

the formula $C = M + D - A$ and used the framework for policy analysis (Box 4) to stimulate reflection on the kinds of anti-corruption measures that might be employed for various kinds of corruption. They have assessed their organizations and estimated the extent and impact of different sorts of corruption. They have recognized that not all kinds of corruption are equally harmful or equally easy to prevent. They have combined economic analysis with political assessment. They have asked, "What kinds of corruption hurt the most, and whom? What ways of fighting corruption are most effective, and what are the direct and indirect costs?"

Such analyses should focus on the externalities and incentives generated by corrupt activities of various kinds, not the amounts of money that change hands. As they used to say of government officials in Mexico, "They waste a million to steal a thousand." Of particular importance is corruption that undercuts financial and banking systems or systems of justice. The indirect negative effects of corruption can be huge here. The same is true for corrupt activities that lead to policy distortions. The importance of basic services makes them candidates for special examination, particularly as they are affected by systems of procurement, eligibility for benefits, and distribution.

After all the analysis, there is a simple rule for where to begin: "Pick low-hanging fruit." That is, select a type of corruption where visible progress might be made soon, without too great a cost. This advice runs counter to some reformers' instincts to do everything at once, or to tackle the kind of corruption with the most serious costs (which may also be the most difficult and protracted battle and therefore not the place to begin).

Sometimes the rule will be slightly different. For reasons of politics or simply to generate support, we may wish first to attack the kinds of corruption that are most obvious to citizens or most

hated by them, or that seem to them the most urgent. For political reasons, it is good to begin an anti-corruption campaign where citizens perceive it to be most evident and most annoying, or where the political leadership has given a field particular salience, or where it is believed that corruption is undercutting economic reform.

Mayor MacLean-Abaroa describes an example of "low-hanging fruit" in La Paz in 1985.

ALIGN WITH FAVORABLE FORCES

It is important for city leaders to search for allies and for ways to align the anti-corruption efforts with broader forces in the society. Three examples illustrate the point.

First, suppose the national government is pushing market reforms and privatization. It will then be useful to emphasize these elements of one's anti-corruption strategy in order to get national-level support and financing. Or if the federal government is currently stressing a battle against organized crime, the municipal government might give special attention to areas of municipal corruption where organized crime is suspected of playing a major role.

Second, the private sector and civil society may already have ready allies for an anti-corruption effort. Perhaps there is a chapter of Transparency International, whose support and expertise can be requested. Perhaps the local organization of accountants or lawyers or business executives has made corruption an issue. Perhaps civic leaders, nongovernment organizations, student groups, or labor unions have recently complained of fraud or extortion or kickbacks and can instantly be brought into the campaign. We may choose where to begin depending in part on what kinds of corruption these allies have placed high on their agendas and where they can be most helpful in reducing corruption.

Third, international organizations may play an important role in municipal works or in the move to decentralized government. Many of them have placed the fight against corruption high among their priorities, and it may be that special sources of support are available if municipal leaders seek them out. For example, a foreign aid agency may be interested in financial management. Our city may volunteer to be a test case of reform. Aid agencies also may have specific expertise that can be mobilized, such as procurement, taxation, or systematic client surveys.

RUPTURE THE CULTURE OF IMPUNITY

Another aspect of implementation involves breaking out of a culture of impunity, where citizens become jaded and defeatist. Here is an example from a newspaper column in Guatemala:

When in a society the shameless triumph; when the abuser is admired; when principles end and only opportunism prevails; when the insolent rule and the people

tolerate it; when everything becomes corrupt but the majority is silent... [The laments go on for the entire piece, which then concludes:] When so many "whens" unite, perhaps it is time to hide oneself; time to suspend the battle; time to stop being a Quixote; it is time to review our activities, reevaluate those around us, and return to ourselves.⁴

When corruption has become systematic, we must attack the pernicious perception that *impunity* exists. Without doing so, our efforts to fight corruption and improve governance may not be taken seriously. The public has grown cynical about corruption. Citizens and bureaucrats have heard all the words before. They've even seen a few minor prosecutions. But a culture of corruption may remain, especially the feeling of high-level impunity.

Fry Big Fish

To break through this culture of corruption, experience indicates that *frying big fish* is essential. Big, corrupt actors must be named and punished so that a cynical citizenry believes that an anti-corruption drive is more than words. It is also important that a campaign against corruption is not confused with a political campaign, or a campaign against the opposition. Importantly, therefore, one of the first big fish should preferably come from the political party in power.

Here are some examples. In the case of Hong Kong, credibility for the new Independent Commission against Corruption came when the ex-police chief of Hong Kong was extradited from retirement in England and punished in Hong Kong. The ICAC also nailed the ex-number two and scores of other high-ranking police officials. To a skeptical public and a hardened civil service,

frying these big fish sent a credible signal: "The rules of the game really have changed." As a former ICAC commissioner wrote:

An important point we had to bear in mind (and still have to) is the status of people we prosecute. The public tends to measure effectiveness by status! Will they all be small, unimportant people, or will there be amongst them a proportionate number of high-status people? Nothing will kill public confidence quicker than the belief that the anti-corruption effort is directed only at those below a certain level in society.⁵

Italy's unprecedented success in attacking corruption has attracted worldwide attention. A crucial step was frying a top Mafia official, many top business executives, and several major politicians from the ruling party. This told citizens that if they came forward and denounced crime and corruption, they could make a difference.

In the case of La Paz, Mayor MacLean-Abaroa quickly moved against the corrupt cashier.

In city hall in 1985, the cashier was a mixture of Robin Hood and the godfather. He would loan money to employees and perhaps help them with illicit supplements to their meager pay. I was told that he even "advanced" funds to the mayor, when for example an urgent trip came up and the usual processes for obtaining money were thought too slow. As I mentioned earlier, the cashier himself lived like a king. He was thought to be an untouchable because of his services in the municipality and his excellent connections in the treasury of the nation.

I realized that it was necessary to give a very visible signal that the old order was over and that the new democratically elected authority was not willing to go along with corruption. The most conspicuous representative of the old order of corruption was the infamous cashier, whom we summarily dismissed to the astonishment and the not-very-timid opposition of many functionaries who assured me that the city couldn't work without the almost "magical" powers of this cashier.

The cashier's dismissal was the first of many other measures that followed, aimed at combating corruption.

Even though "frying big fish" is an indispensable step in breaking the culture of impunity, the emphasis on past offenders can be overdone. An analogy with health policy is germane. Individual cases of grave illness must be treated. But in the long run, prevention deserves priority. Therefore, after frying a few big fish, city officials must turn to prevention and the reform of institutions.

Make a Splash

An anti-corruption effort can garner credibility and publicity in many other ways. The mayor may call a "summit meeting" on preventing corruption. With careful advanced preparation, he may then announce a systematic program including revenue collection, public works, benefits, licenses and permits, and the police. He may invite the public to denounce corrupt acts and offer a variety of ways to do so. Then in the weeks and months to follow, again with careful prior preparation, he may announce the arrest of "big fish."

Here are other examples to illustrate making a splash to garner credibility. Each is based on a real, national-level example, here extrapolated to the municipal level:

1. The mayor organizes a high-level workshop for top municipal officials and leaders of the private sector and civil society to address corruption and what to do about it. From this event ideas will emerge, including a six-month action plan. *This workshop might be followed by other seminars in various key departments, public works, and the police.*
2. The mayor announces that all public officials will sign a standard of conduct that precludes the acceptance of bribes. At the same time, he says that no one will be allowed to bid on a public contract who has not signed a similar standard of conduct concerning the offering of bribes. The private sector will be enlisted to form an independent monitoring capability to investigate complaints. Organizations such as Transparency International should be approached for their support.
3. The mayor announces an experimental program within the city's revenue bureaus, whereby officials will be paid a proportion of additional tax revenues generated within the next two years. The bonus will amount to about 25–50 percent of existing pay and will only kick into play if revenues exceed a certain target increase (perhaps 25 percent). At the same time, officials will develop a performance evaluation system, where revenue targets are conditioned by region and activity and where non-revenue indicators of excellence and lack of abuse are included.
4. The mayor announces the creation of a Corruption Prevention Unit. With the help of international consultants, this office will review all bureaucratic procedures with an eye to reducing opportunities for

Box 14: SOME NEW LAWS THAT WOULD HELP REDUCE CORRUPTION

Better laws can make a difference. Here are four examples, which go beyond the purview of a municipality's authority but would abet local campaigns to reduce corruption.

1. Financing political parties and campaigns

In many countries campaign financing involves coerced payments, and sometimes straight graft. When such behavior becomes systematic, even an "honest" political party may feel compelled by the corruption of its competitors to shake down businesses with implicit promises or threats. Parties may use their members in municipalities to siphon off public funds for their political war chests. In some countries, parties and local politicians set up local "foundations" and nongovernment organizations into which public funds for "local development" can be channeled, without the usual government auditing procedures.

Pressures for these sorts of corruption can be reduced through strict limits on campaign activities and party finances, both externally audited, coupled with public funding for campaigns and mandatory balanced-time allocations on television and radio. All foundations receiving public funds should be subject to audit.

2. Illicit enrichment

In some countries government officials can be prosecuted not only for direct evidence of having received a bribe—evidence which is always difficult to obtain—but also for possessing wealth beyond what can be explained as the result of lawful activities. Some countries have even reversed the burden of proof: A government official may be required to demonstrate that his wealth, and perhaps that of his immediate family, was acquired legally. In some countries there is no need to prove the individual is guilty of a crime.^a

Note: a. A useful precedent internationally is the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (The United Nations, E/CONE.82/15 and Corr. 1 and 2. See especially Article 5, Section 7.) The principle of forfeiture of assets applies, with the onus of proof on the accused. Because of possible abuses with regard to accusations of corruption, this reversal of the onus of proof probably should be restricted to the evidence and be made rebuttable.

Illicit enrichment laws carry risks. The power to demand proof can be misused. Excellent potential candidates for public office may be deterred by the possibility of having to open up their finances and the finances of their families to public scrutiny. In very corrupt situations such a law may simply drive corrupt officials to hide their wealth in secure places beyond the country's borders. Nonetheless, in Hong Kong the leverage obtained by a change in the law concerning illicit enrichment helped turn around the battle against corruption, as part of a wider-ranging package that included prevention and public participation.

3. Disclosure

Sanctions by administrative authorities may not merely reinforce the threat of criminal prosecution but may constitute an even more credible threat. For example, if bribery reporting is made mandatory to regulatory and tax authorities, the prospects change. Compared with police, these agencies usually have access to better information and have more expertise. It is relatively easier for them to impose sanctions. Such agencies may also play on a divergence of interests within corporate structures (for example, auditors and board members who may be reform-minded or merely self-protective).

4. Structuring anti-corruption efforts

Some municipalities and departments have set up anti-corruption units; such units at the national level can abet a city's own efforts. On a less grand (and less expensive) scale, anti-corruption statutes may simultaneously (1) create an anti-corruption coordinator from among existing units, and (2) enable and require various kinds of coordinating mechanisms and oversight functions, to ensure that the different aspects of the effort are articulated and that the public has the ability to monitor what the anti-corruption effort entails.

There are many other examples of better laws that can help control corruption, such as when a flat tax or a simplified licensing law reduces the scope for illicit activities.

corruption and abuse: what the Hong Kong Independent Commission against Corruption calls "vulnerability assessment." The first agencies to be reviewed will be ones where the public perceives that corruption is systematic—for example, permit and licensing agencies, tax bureaus, procurement units, and so forth.

5. The mayor seeks ways to involve the public in the fight for good government, in the ways mentioned above.

6. The mayor designates teams of honest, senior civil servants and young, excellent university graduates to investigate reported instances of corruption and also to evaluate random samples of important cases of tax payments and exceptions, public procurement, and so forth.

7. The providers of city services are challenged to develop measures of success against which performance may be pegged and then to design an experiment linking increased compensation to such performance. The incentives would be paid on a group basis and again would be in the area of 25–50 percent of salaries for excellent performance. The sustainability of the experiment would depend on the prospect of user charges.

8. The mayor announces publicly that the city will conduct some number of procurement "sting" operations during the next year. Even if only a few such operations are carried out, as part of a package of initiatives this step could deter potential bribe-takers.

CHANGE SYSTEMS

Corruption is inherently precarious. "To engage in corruption," Philip Heymann notes, "a government official and a private party have to identify each other as potential corrupt partners, and find

a way to reach an agreement, and then deliver what each has promised without being detected. Each of these steps can be extremely difficult, for in each there are vulnerabilities to detection.”⁶

Corruption requires

1. *finding corrupt partners*
2. *making payments*
3. *delivering what is corruptly purchased*
all done inconspicuously

When corruption has become systematic, it means that opportunities have been identified and relationships established, that mechanisms for payment exist, and that deliveries are routinely made. These routines are difficult to establish. Collusion also requires formidable preconditions, as an analysis of auctions notes:

*How do members know what objects to bid on at the main auction? How high should they bid? If an item is won by a member of the coalition, do they own it? Do they need to transfer moneys to members of the coalition? If an item won by a member belongs to the coalition, how is ultimate ownership determined? How is the realized collusive gain shared among ring members? What incentives are there for cheating on the collusive agreement? How can the coalition dissuade and/or monitor members to deter cheating?*⁷

One anti-corruption tactic is to analyze these corrupt routines and disrupt them. Corruption prefers a stable, secretive environment. By creating enough discontinuity, uncertainty, and distrust, we hope to reduce corruption.

What does such disruption require? To some the automatic answer is “new laws.” In fact, systematic corruption often coexists

with highly developed legal codes. Sometimes more rules and regulations not only strangle efficiency but actually create opportunities for corruption. New laws and rules are most welcome when they change incentives, reduce monopoly power, clarify or reduce discretion, and enhance information and accountability. Some examples of welcome new laws appear in Box 14, but in general we believe that new laws are not the automatic answer.

A more promising approach is to prevent corruption by changing the underlying conditions of competition, discretion, accountability, and incentives. This means the careful consideration of, for example:

1. Privatizing works or contracting them out, and focusing scarce municipal resources on inspection and monitoring of agreed-upon, measurable results.
2. Adopting “second-best” rules and regulations which, though not optimal in some theoretical world, serve to delineate discretion and make the rules of the game easy to understand. Disseminating the rules of the game to citizens can be a key step (see Box 15).
3. New sources of information about results, including peer reviews, citizens’ evaluations, objective indicators, and the careful evaluation of samples of performance. The culture of nonperformance leads to low, unvarying wages, which breed corruption and inefficiency.
4. Innovative uses of computers to track possible beneficiary fraud, bid-rigging, underpayment of property taxes, and suspicious cost overruns or delays in public works.
5. Use of self-policing mechanisms by the private sector, as described earlier.
6. Radical experiments with incentives, also described earlier.

Box 15: A CITIZENS' MANUAL HELPS PREVENT CORRUPTION

La Paz's municipal government was riddled with routine corruption in part because municipal rules and regulations were both extremely complex and not transparent to the public. Trying to figure out how to get a certain permit, for example, was virtually impossible. Routine purchases under \$2,000 required twenty-six steps within the municipality. Municipal employees could use both the delays and the obscurity to request speed money or in some cases to extort citizens by pretending that the regulations were something they were not.

Municipal employees were asked to describe exactly what every procedure entailed. They resisted mightily, and the effort to document all the municipality's methods took over a year. Then two responses made a dramatic difference. First, the procedures were simplified. The twenty-six steps were cut to six. What had been supposed oversight and review of each and every case (necessarily cursory or nonexistent) became the careful review of a random sample of cases.

Second, the city published a citizens' manual describing all the procedures. For many citizens it was their first chance to get straightforward, objective information on municipal procedures and regulations.

La Paz used private banks instead of city cashiers for the payment of taxes and fees. It made radical cuts in the numbers of public employees in exchange for huge salary increases for those who remained. In a radical effort to cut collusion in the estimates of property taxes, a simple model was developed based on real estate market prices. Citizens were then asked to "auto-evaluate" their own property's value, with the veiled threat that houses might be purchased by the state if the value declared was too low. Citizens were provided with guidelines depending on the characteristics of their house and its location. Citizens cooperated: La Paz's property tax revenues soared even as corrupt arrangements were virtually eliminated.

Another example is the Bolivian national government's use of private agencies to evaluate bidders for public contracts. In fact, this process also fell afoul of charges of corruption. But the argument is that international firms with a reputation to uphold probably have a greater incentive to police potentially corrupt principal-agent relationships than do underdeveloped government agencies.

WORK WITH BUREAUCRACY NOT AGAINST IT

For systematic change to occur, municipal bureaucracies must be enlisted, mobilized, and monitored.

Begin with Something Positive

Experience teaches that it is unwise for municipal leaders to begin by seeming to attack their own officials and agencies, even if these are known to be vitiated. In the words of Justice Efraim Plana, who successfully overcame systematic corruption in his wide-ranging reforms of the Philippines' Bureau of Internal Revenue: "Yo

cannot go into an organization like the white knight, saying that everyone is evil and I'm going to wring their necks." He took positive steps to help his employees first—not incidentally developing new measures of performance.

To the extent they wouldn't put their heart into their work, or would pocket some of the money that should go to the government, then you don't get efficiency. So, we needed a system to reward efficiency. . . . So, I installed a new system for evaluating performance. I got the people involved in designing the system, those who did the actual tax assessment and collection and some supervising examiners.

Before, there was a personal evaluation by the supervisor, especially by the person who actually decided on the promotion. Now, instead of this, I introduced a system based on the amount of assessments an examiner had made, how many of his assessments were upheld, the amounts actually collected—all depending on the extent and type of the examiner's jurisdiction.⁸

Emphasize Information and Incentives

Crucial ingredients for galvanizing bureaucracies are new infusions of information about performance and new incentives linked to that information. Too many managers focus on administrative reform in terms of (a) reorganization or (b) adding competencies. Our contention is that when systematic corruption exists, neither step is likely to make much difference—unless what might be called the informational environment is radically altered and incentives (positive and negative) are transformed. In our judgment, as mentioned earlier, the best way to achieve these ends is with an

experimental approach, one that involves the employees affected and that uses feedback from the city's clients and citizens.

Building better governments simply by trying to strengthen Western-style bureaucracies has failed in many developing countries. The *context* in many developing countries is not conducive to successful government institutions. For example:

1. Information and evaluation are scarce and expensive, which inhibits internal and external controls.
2. Information-processing skills are weak at both the individual and institutional levels, due for example to low levels of education and few computers, as well as to relatively few specialists such as accountants, auditors, statisticians, and so forth.
3. Incentives are weak, in the sense that good performance goes relatively unrewarded and bad performance relatively unpunished. Box 16 provides some practical advice for reforming incentive systems.
4. Political monopolies dominate, sometimes coupled with violence and intimidation.
5. Countervailing institutions are weak, in part because of information and incentives problems but also because of hostile actions by the state.
6. Consequently, good economic reasons explain the failure of government institutions to perform. One need not cite cultural or political factors, and one need not immediately turn there for solutions.

Correspondingly, the principles of reforming corrupt bureaucracies will include:

1. Enhance information and evaluation. Put it in the hands of clients, legislators, and those with official oversight (regulators, auditors, judges, and so on).

2. Improve incentives. Link incentives to information about the attainment of agreed-upon objectives.
3. Promote competition and countervailing forces—including civil society, the media, the legislature and the courts, and political parties—and procedures that allow these different interests and voices to make a difference in policy and management.

This approach contrasts with approaches based on *more*: more training, more resources, more buildings, more coordination, more central planning, and more technical assistance. The argument is that without systematic reforms, *more* won't solve the problem of inefficient, corrupt public administration in contexts like those found in many developing countries. In these senses, the fight against corruption can become the vanguard of a revolution in city governance.

Box 16: SOME PRACTICAL ADVICE FOR INCENTIVE REFORMS

The first question is: Where do we get the money to increase pay? Mayor Maclean-Abaroa undertook radical cuts in personnel; many mayors will not have a crisis to defend such a step. Experiments that begin with the revenue-raising and cost-saving parts of the municipality can pay for themselves, and even generate revenues that can be used to fund a second round of incentive experiments elsewhere in city government. User charges can be shared with employees. Foreign aid money can sometimes be used for "topping up" the salaries of key personnel.

Incentive reforms require the participation of employees themselves in the specification of each agency's objectives, the definition of performance measures, and the structure of incentives.

Quantitative and qualitative outcome measures can be used. So can peer ratings, as long as ratings are forced to be "on a curve" (that is, not everyone can be rated "excellent").

Team incentives are often more feasible and desirable than individual incentives.

In designing performance measures, it is helpful to define "key tasks"—in other words, to analyze the organization's "production function" better.

Include information from clients.

Empower clients. Seek analogies to market power or joint management. In pursuing such reforms, continually think "information and incentives."

Experiment with user charges and analogies to them such as in-kind contributions, part of the revenues from which can be used to augment employees' salaries and benefits.

Remember the principle of the sample: Incentives can be based on samples of performance. Especially in an experiment, there is no need for the comprehensive measurement of each and every outcome of each and every action.

Avoid incentive master plans for all agencies and all time. Learn by doing. Make sure affected parties take part in the evaluation of the incentive experiments.

Begin with the easiest cases. In particular, try reforms in areas where performance is relatively easy to measure objectively and where the revenues raised or costs saved can make the experiment self-financing. Incentives include money but also other rewards: promotions, training, travel, special assignments, transfers, awards, favorable recognition, and simple praise. Even information about how well one is doing turns out to function as an incentive.

Cultivate political support, particularly from unions and foreign donors. The idea of an experiment reduces their worries and involves them in design and evaluation. *

Challenge technical assistance (TA) by foreigners. For example, use TA funds to finance experiments where local experts and even government officials carry out the required "studies" based on the participatory diagnosis of what is already known about problems and possible solutions.

Privatize creatively. This can mean experimenting with hybrids of public and private sectors working together to provide services.

CONCLUSIONS AND EXTENDED REMARKS

In this final chapter we review the main themes of the book and provide an overview of the steps municipal leaders might consider to reduce corruption. We then return to the case of La Paz, updating it to 1996. Corruption, severely pruned in the mid-1980s, has grown back. What does this suggest about the sustainability of anti-corruption initiatives?

AN EXAMINATION OF CORRUPTION

Corruption is the misuse of office for unofficial ends. The catalog of corrupt acts includes bribery, extortion, influence peddling, nepotism, fraud, speed money, embezzlement, and more. Although we tend to think of corruption as a sin of government, of course it also exists in the private sector. Indeed, the private sector is involved in most government corruption. We are all in this together, and together we must find a way out.

Different varieties of corruption are not equally harmful. Corruption that undercuts the rules of the game—for example, the justice system or property rights or banking and credit—devastates economic and political development. Corruption that lets polluters foul rivers or hospitals extort patients can be environmentally and