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The Problem of Corruption: A Tale of Two Countries

*Kimberly Ann Elliott**

Corruption has long been with us, but it is only recently that corruption has become an important topic of international concern and policy debate. It is still primarily a problem for the countries in which it occurs, as the citizens of corrupt countries are the ones who have to live with stagnant economies, inadequate physical and social infrastructure, and poorly functioning political systems. However, pervasive corruption that undermines economic development and political stability can also be a threat to international peace and prosperity, as well as facilitating drug-trafficking, money laundering, and other international criminal activity. Less virulent forms of corruption distort international trade and investment flows. Furthermore, international corporations contribute to the problem of corruption when they use bribes or other inducements while doing business abroad.

This perspective provides an introduction to the problem of corruption, focusing on two questions:

- What causes corruption?
- Where is corruption most serious?

The perspective concludes with a brief discussion of two countries — Kenya and Uganda — that seem to be going in opposite directions politically and economically, as well as in their attitudes toward corruption.

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I. WHAT CONDITIONS ALLOW CORRUPTION TO FLOURISH?

Robert Klitgaard has summarized the key ingredients of corruption in the following simplified formula:

Corruption = Monopoly + Discretion - Accountability[1]

In other words, opportunities to engage in corruption increase with the degree of control government officials and politicians have over goods, services, or other assets valued by the private sector and with the degree of discretion the officials and politicians have in allocating those things. These assets can be import licenses, government procurement contracts, subsidized commodities, or tax assessments. Opportunities for corruption decrease when policy-making is transparent (so that the reasons behind particular decisions are clear) and officials can be held accountable for their actions.

All else being equal, countries with relatively open, market-oriented economies would be expected to suffer from relatively less corruption than countries with more closed, more heavily regulated economies. The effect of political systems on corruption is more complex. Strong authoritarian leaders opposed to corruption would have the means at their disposal to control corruption, regardless of the degree of monopoly in the system, because they could impose accountability, violently if necessary. On the other hand, authoritarian leaders more disposed to a life of luxury can drain a country dry, as former President Mobutu Sese Seko did in Zaire. Whether authoritarian regimes end up with more or less corruption depends entirely on the whims of their leaders.

Democratic regimes are not immune to corruption, but they do have strengths that allow them to contain if not eliminate it. Policy-making processes tend to be more transparent in democratic systems, making it more difficult to hide malfeasance. In democracies, politicians are also ultimately accountable to voters who can vote them out of office if they are caught sacrificing the public interest in favor of their own. For these reasons, blatant forms of corruption, such as bribery, tend to be relatively rarer in democracies where "corruption" is likely to take on more subtle forms of influence peddling.[2]

Cross-country analysis of evidence on corruption levels, the role of the state in the economy, and the openness of the political system appear to

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[1] ROBERT KLITGAARD, CONTROLLING CORRUPTION 75 (1988); *see also* Susan Rose-Ackerman, *The Political Economy of Corruption*, *in* CORRUPTION AND THE GLOBAL ECONOMY at 31 (Kimberly Ann Elliott ed., 1997) [hereinafter CORRUPTION AND THE GLOBAL ECONOMY].

[2] For a discussion of the political sources, consequences, and types of corruption, see Michael Johnston, *Public Officials, Private Interests, and Sustainable Democracy: When Politics and Corruption Meet*, *in* CORRUPTION AND THE GLOBAL ECONOMY, *supra* note 1, at 61.

support these hypotheses.[3] Statistical correlation coefficients, which measure the degree to which two data series move together, suggest that higher levels of corruption are positively, if weakly, correlated with the share of non-agricultural GDP accounted for by state-owned enterprises and negatively correlated with the share of international trade in the economy (exports plus imports of goods and services divided by GDP).[4] Statistically, there is a much stronger, negative correlation between higher levels of corruption and a qualitative measure of economic "freedom" developed by Freedom House (a non-profit organization that tracks economic and political freedom around the world). This subjective index purports to measure the freedom to hold property, earn a living, operate a business, invest one's earnings, and trade internationally.[5]

Freedom House also scores governments on the extent to which they permit and protect political rights and civil liberties.[6] This index captures some elements of transparency (media freedom) and accountability (the degree to which citizens are allowed to express their opinions through protest and the ballot box). As expected, there is a strong negative correlation between corruption and the Freedom House index of political openness, though the relationship is not quite as strong as that between corruption and economic openness.[7]

II. WHERE DOES CORRUPTION FLOURISH?

Moving beyond general relationships, it is useful to examine more closely the evidence on relative levels of corruption, and particularly where corruption seems to generate the most problems. One helpful piece of evidence on this is the Transparency International (TI) index of corruption. TI is a Berlin-based non-governmental organization established in 1993 to combat corruption around the world. For the past three years, TI has released a "survey of surveys" compiled by Professor Johann Graff Lambsdorff, which ranks countries according to how corrupt they are perceived to be by businesspeople.[8] Table 1 lists the most and least corrupt of

[3] These statistical relationships and the sources for the data used are discussed in more detail in Kimberly Ann Elliott, *Corruption as an International Policy Problem: Overview and Recommendations, in* CORRUPTION AND THE GLOBAL ECONOMY, *supra* note 1, at 175.

[4] The simplest measure of the role of the state in an economy, the share of central government expenditure in GDP, turns out to have the opposite of the expected relationship with corruption: countries with a relatively high proportion of government spending are typically less corrupt than otherwise. This suggests that the ways in which governments intervene in economies are more important than simply their size.

[5] *See* FREEDOM HOUSE, WORLD SURVEY OF ECONOMIC FREEDOM 1995-96 (1996).

[6] *See* FREEDOM HOUSE, FREEDOM IN THE WORLD: THE ANNUAL SURVEY OF POLITICAL RIGHTS AND CIVIL LIBERTIES, 1995-96 (1996) (data was extracted from this source and used in calculations by the author).

[7] *Id.*

[8] Transparency International, *1996 Corruption Ranking* (visited Apr. 2, 1998) <http://www.gwdg.de/ ~uwvw/ier.htmo>.

the fifty-four countries included in TI's 1996 survey, which scores countries from 0 for the worst to 10 for the best.[9]

The table shows that the Nordic countries, New Zealand, Canada, and several other European countries are perceived as the least corrupt countries in the survey. Singapore is the only non-OECD country on the "least corrupt" list. The United States and Japan follow closely after Germany, with France and Belgium further behind. At 34th place, Italy is the lowest ranked European Union member. The countries perceived as most corrupt in the TI sample are developing countries and economies in transition, such as Russia and China. Thus, the corruption rankings suggest that relatively more developed and richer countries are perceived to be less corrupt than poorer, less developed ones. Figure 1 shows the results for all fifty-four countries in the TI sample.

There are a number of reasons that developing countries might be more vulnerable to corruption and that corruption, in turn, might help to keep them poor. Low public-sector wages are frequently cited as a source of corruption in less-developed countries.[10] Poverty is also often accompanied by illiteracy, which may make it easier for relatively more literate bureaucrats to exploit their constituents. In addition to inadequate pay and illiteracy, other factors identified in a cross-country study of seven developing countries in East Asia were:

- inadequate management controls and lack of adequate technology for monitoring,
- poor recruitment and selection procedures (including nepotism),
- poor working conditions and facilities,
- lack of public information, and
- generally inadequate capacity to meet the demand for government services.[11]

Social attitudes toward government institutions also have an important impact on corruption. Colin Leys has argued that "new [post-colonial] states" were particularly vulnerable to corruption because "[t]he idea of the national interest is weak . . . [and] the 'state' and its organs were identified with alien rule and were proper objects of plunder."[12] Corruption is also

[9]The 1996 index is discussed here because the 1997 index dropped Kenya and Uganda due to a lack of data.

[10]*See* Nadeem Ul Haque & Ratna Sahay, *Do Government Wage Cuts Close Budget Deficits? The Costs of Corruption*, IMF STAFF PAPERS, Dec. 1996, at 761.

[11]Rance P.L. Lee, *Bureaucratic Corruption in Asia: The Problem of Incongruence Between Legal Norms and Folk Norms*, *in* BUREAUCRATIC CORRUPTION IN ASIA: CAUSES, CONSEQUENCES AND CONTROL 69, 101-03 (Ledivina V. Cariño ed., 1986); Ma. Concepcion P. Alfiler, *The Process of Bureaucratic Corruption in Asia: Emerging Patterns*, *in* BUREAUCRATIC CORRUPTION IN ASIA: CAUSES, CONSEQUENCES AND CONTROLS, *supra*, 15, 66.

[12]Colin Leys, *What is the Problem about Corruption?*, 3 J. MOD. AFR. STUD. 215, 224 (1965).

easier to conceal where the rules are unclear, the commitment to the rules is weak, or the institutions responsible for enforcement themselves are weak (the police and judiciary, in particular). It may be that these factors put in motion a vicious circle whereby initial — supposedly transitional — conditions facilitate corruption, which further undermines the state's legitimacy, undermines capacity and foments yet more corruption. This cycle could help explain why many "new" states suffer from pervasive corruption thirty years or more after independence.

III. A TALE OF TWO COUNTRIES

In sum, corruption arises primarily from restricted competition on the one hand, and weak political, social, and administrative institutions on the other. Corruption at high levels of government increases the cost of government, distorts the allocation of government spending, and can lower the quality of infrastructure. Even relatively petty or routine corruption can deprive the government of revenues, distort economic decision-making, foster or reinforce distrust of government, and impose negative externalities on society, such as dirty air, dirty water, or unsafe buildings. At its most severe, when it is pervasive and uncontrolled, corruption thwarts economic development and undermines political legitimacy.

These effects, and the difficulties in reversing them, are illustrated in two countries in eastern Africa that are moving in opposite directions. Both Kenya and Uganda appear in Table 1 as among the most corrupt, with Kenya ranked as the third most corrupt of the fifty-four countries analyzed by TI in 1996. According to historical data, however (appended by TI to its 1996 rankings), Uganda would have been the third most corrupt of these fifty-four countries in the early 1980s while Kenya would not even have appeared as among the most corrupt based on the definition used in Table 1.[13]

Since 1986, when he came to power in Uganda, President Yoweri Museveni has adopted wide-ranging economic reforms, including vigorous anti-corruption policies and somewhat less far-reaching political reforms.[14] In addition to adopting macroeconomic and other structural adjustment policies to bring down inflation and increase growth, the Ugandan government has also tried to bring greater transparency and accountability to the government by reactivating the Office of the Auditor General and by establishing an Office of Inspectorate General of Government to investigate corruption.[15] The Museveni government has also encouraged the strengthening

[13] Countries are listed as most or least corrupt in Table 1 if they are more than one standard deviation above or below the mean of the sample.

[14] For example, political parties are still banned and intimidation of the opposition and critical media still occurs.

[15] Augustine Ruzindana, *The Importance of Leadership in Fighting Corruption in Uganda*, *in* CORRUPTION AND THE GLOBAL ECONOMY, *supra* note 1, at 133, 139.

of civil society by promoting the formation of grassroots groups representing different elements of society and allowing greater freedom of the press (though tacit limits remain on the freedom to criticize the government).[16]

Kenya's President Daniel arap Moi, on the other hand, has been more resistant to political reforms and has done little to combat rampant corruption. In the early 1990s, for example, a fraudulent export incentive scheme, for a company trading gold and diamonds that Kenya does not even produce, cost the government $400 million in public funds.[17] A senior government minister is suspected in the matter, but has not been investigated and there has been no attempt to date to recover the funds.[18] Earlier corruption in Kenya's energy sector led to a "donor allergy" toward that sector after what one source called "a slap in the face to the donor community" during construction of the Turkwel Gorge dam.[19] The contract was awarded without competitive tender and, according to a report by the European Community, "the project ended up costing many times its original, already-inflated price as a result of kickbacks paid to government officials."[20] As of late 1995, the *Financial Times* reported that international donors had not funded any power projects in Kenya for the previous five years, which had resulted in inadequate capacity and frequent power failures.[21]

While vigorous anti-corruption efforts in Uganda have not solved all its problems by any means, and while corruption is not the only problem plaguing Kenya today, these differing attitudes toward corruption have contributed to noticeably different economic trends in recent years and differential treatment of the two countries by investors and by the international financial community. Though still a desperately poor country, Uganda's economy grew by an average 6.6% annually between 1990 and 1995, one of the highest rates in sub-Saharan Africa.[22] Uganda is beginning to attract private investment and the rate of growth in its total domestic investment in recent years has been well above the average for low-income countries. Kenya, on the other hand, has stagnated in recent years, with per capita income barely growing at all. Income in Kenya is also far more skewed toward the already wealthy than income in Uganda.[23] There is little domestic investment in Kenya and private capital flows are leaving the country.[24]

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[16] For an extensive discussion of these reforms, see Ruzindana, *supra* note 15, at 133-46.

[17] Michael Holman & Michela Wrong, *Moi weighs tough corruption probe*, FIN. TIMES, July 28, 1997, at 4.

[18] *Id.*

[19] Michela Wrong, *Defiant Kenya is running out of steam*, FIN. TIMES, Oct. 25, 1995, at 9.

[20] *Id.*

[21] *Id.*

[22] *See* Table 2 *supra.*

[23] *See* Table 2 *supra.*

[24] *See* Table 2 *supra.*

To make matters worse, in August 1997, the International Monetary Fund (IMF) for the first time in its history explicitly conditioned continued lending on anti-corruption reforms and suspended lending to Kenya when President Moi refused to take action.[25] By contrast, in April, the IMF and World Bank rewarded Uganda's reform efforts by approving it as the first country eligible to benefit from the Highly Indebted Poor Countries (HIPC) initiative, which will provide it with significant debt relief in coming years.[26]

At a conference in Washington, D.C., in 1996, then Inspector General of Government of Uganda, Augustine Ruzindana, discussed the importance of leadership in combating corruption.[27] But a change in attitude, however important, is not enough. Sustaining reductions in corruption in most cases requires fundamental economic, political, and social change, as described by Ruzindana.[28] The most important anti-corruption steps are being taken by those countries around the world pursuing democratization and opening up their economies to competition.[29] In order to consolidate these gains, however, these countries need to adopt a variety of institutional reforms, including judicial and civil service reforms and changes in the way government does business. For example, governments should conduct auctions rather than relying on bureaucratic discretion to allocate import licenses and other items in restricted supply. Just as important as strong leadership from the top in combating corruption is the development and strengthening of the institutions of civil society, including the media, non-governmental organizations, and other grassroots groups.

While these political, economic, and institutional reforms are the foundation for a sustainable anti-corruption strategy, the international community also has a role to play, as described in other articles included in this issue. First, other industrialized countries should shoulder their share of responsibility for the problem and quickly implement the convention to criminalize foreign bribery agreed to on November 21, 1997 in the Organization of Economic Cooperation and Development (OECD).[30] By vigorously enforcing this convention, the home countries of multinational

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[25] *See, e.g.*, Michela Wrong, *Test Case for Tough Stance*, FIN. TIMES, Sept. 19, 1997, at 27.

[26] HIPC is a joint initiative of the World Bank and IMF and is intended to reduce to sustainable levels the debt of highly indebted poor countries who have a track record of servicing their debt and implementing sound economic policies. *See* Anthony R. Boote & Kamau Thugge, DEBT RELIEF FOR LOW-INCOME COUNTRIES: THE HIPC INITIATIVE, IMF PAMPHLET SERIES No. 51, at 15-16 (1997) (describing the Ugandan reforms).

[27] Ruzindana, *supra* note 15, at 133.

[28] *Id.*

[29] *See supra* Part I.

[30] The United States criminalized transnational bribery in the Foreign Corrupt Practices Act in 1977. *See* David A. Gantz, *Globalizing Sanctions Against Foreign Bribery: The Emergence of a New International Legal Consensus*, 18 NW. J. INT'L L. & BUS. 282 (19978).

corporations will ensure that multinational corporations (MNCs) do not contribute to the corruption problem by using bribes while conducting business abroad. Second, the OECD, the World Trade Organization (WTO) and other international organizations should take additional steps to guard against corruption in international business transactions. For example, the members of the WTO should accelerate their discussions of the United States' proposal to negotiate an agreement on transparency and due process in government procurement.

Most importantly, multilateral, regional, and national development agencies can provide training, technical assistance, and financial support to encourage market-oriented policies, build capacity, and reform institutions in countries like Uganda that are willing to undertake these difficult reforms. Withdrawal of funding and support by international organizations and states may be necessary in some cases, such as in Kenya, but such actions are really an admission of the international community's failure to combat corruption and hopefully such drastic measures will not often be required.

Table 1. A Partial Profile of Corruption around the World

1996 Transparency International Rankings[(a)]

"Least corrupt" (in descending order)		*"Most corrupt" (in descending order)*		*Others[(b)] (from less to more corrupt)*			
1	New Zealand	54	Nigeria	14	Israel	27	South Korea
2	Denmark	53	Pakistan	15	United States	28	Greece
3	Sweden	52	Kenya	16	Austria	29	Taiwan
4	Finland	51	Bangladesh	17	Japan	30	Jordan
5	Canada	50	China	18	Hong Kong	31	Hungary
6	Norway	49	Cameroon	19	France	32	Spain
7	Singapore	48	Venezuela	20	Belgium	33	Turkey
8	Switzerland	47	Russia/USSR	21	Chile	34	Italy
9	Netherlands	46	India	22	Portugal	35	Argentina
10	Australia	45	Indonesia	23	South Africa	36	Bolivia
11	Ireland	44	Philippines	24	Poland	37	Thailand
12	United Kingdom	43	Uganda	25	Czech Republic	38	Mexico
		42	Columbia			39	Ecuador
13	Germany			26	Malaysia	40	Brazil
						41	Egypt

a. As Transparency International makes clear, these rankings cannot be construed as saying that Nigeria is the most corrupt country in the world. The rankings are subjective assessments of businessmen and others; they do not include all forms of corruption and they include only 54 countries. The most and least corrupt are those countries that are more than one standard deviation (2.6) from the mean (5.35) of the sample.

b. The list of other countries is divided at the mean of the sample (5.35 on a 0 to 10 scale)

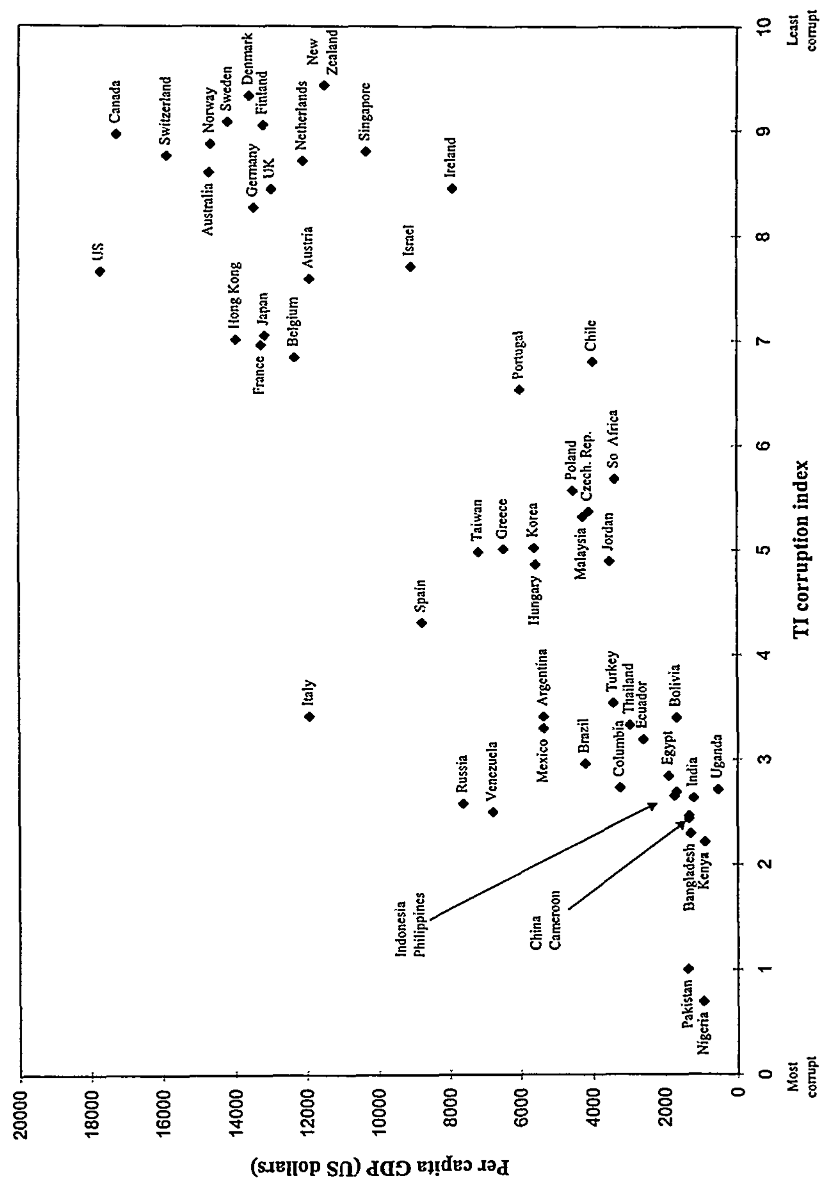
Source: TRANSPARENCY INTERNATIONAL, *The TI Corruption Perception Index 1996, in* THE FIGHT AGAINST CORRUPTION: IS THE TIDE NOW TURNING: TI ANNUAL REPORT (1997), *also available at* <http://www.gwdg.de/~uvw/rank-96.html>.

Table 2: Comparative Indicators for Kenya and Uganda

	Kenya	Uganda
Average annual GNP growth (percent):		
1980-1990	4.2	3.1
1990-1995	1.4	6.6
GNP per capita, 1995:		
World Bank method	$280	$240
Purchasing power parity method	$1,380	$1,470
Average Annual growth (percent):	0.1	2.7
Distribution of income:		
Share of income of lowest 20%	3.4	6.8
Share of income of highest 20%	62.1	48.1
Average annual change in gross domestic investment (percent):		
1980-1990	0.8	9.6
1990-1995	0.0	7.9
Aggregate net resource flows (percent of GNP):		
1980	8.8	8.9
1995	5.6	10.1
Net private capital flows (million dollars):		
1980	301	44
1995	-42	112

Source: THE WORLD BANK, WORLD DEVELOPMENT REPORT 1997 214-34 (Tables 1, 3, 5, 11) (1997).

Figure 1 Corruption and Income Levels



Source. Transparency International, Corruption Perception Index 1996, World Bank, World Development Indicators