Evidence to the International Development Committee on Tackling Corruption Overseas.

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Should DFID have a zero tolerance policy towards corruption in the countries where it is working or is a more nuanced approach needed to tackle corruption over the long-term?

DFID’s anti-corruption approach must combine both elements. A zero tolerance policy towards corruption is necessary to signal that corruption is unacceptable to the UK government and indeed to people the world over. However, to achieve low levels of corruption throughout the developing countries DFID is working in will take time and concerted effort. The immediate zero tolerance strategy should be towards the misappropriation of UK taxpayer funds. Without that, development budgets cannot be protected. No other stance is politically feasible for DFID.

At the same time, zero tolerance cannot mean that DFID should withdraw from a country as soon as any corruption is detected in any part of the administration of that country. This would prevent DFID from working in most developing countries, and in particular the most vulnerable countries where UK aid is most needed. It is necessary to create a greater public awareness in the UK about the broad range of phenomena that the term ‘corruption’ describes and the entrenched nature of some of these processes in developing countries. This is essential to ensure that effective and politically relevant judgements can be made about the types of engagements that are feasible in countries where DFID is engaged, and when engagement in particular sectors or even countries should be terminated. Zero tolerance towards these entrenched societal forms of corruption must be a longer term goal that is achieved using ‘nuanced’ and targeted anti-corruption interventions that are described below.

Corruption is part of a number of related governance failures that can collectively constrain development. Corruption defined by DFID as ‘the abuse of entrusted power for private gain’ describes a wide variety of processes, but most involve a violation of the ‘formal’ (legally sanctioned) rules of public conduct. These violations of rules can sometimes be driven by the collective behaviour of large numbers of people, and at other times they may describe the individual opportunism of particular individuals. A systemic anti-corruption strategy is only likely to be effective when the first problem has largely disappeared because society has become predominantly rule-following. When that happens, any remaining corruption is largely due to individual opportunism. This is generally the situation in more advanced countries.

In contrast, in less developed countries, the problem is also a much lower level of social compliance with formal-legal rules. Here, many individuals and organizations

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regularly violate formal-legal rules at all levels of society. This behaviour is often described as a greater degree of ‘informality’. Informality refers to behaviour that is not defined or allowed by regulations and law, and not enforced by ‘formal’ legally-recognized organizations like courts and the police (or at least not by these organizations acting in rule-following ways). In these contexts, violations of rules by public officials are part of a much broader problem of violations of rules across society. This does not make the corruption of entrusted officials any more ‘acceptable’ in these contexts, but anti-corruption is inevitably going to be more difficult if many if not most public and private organizations and political parties are violating rules. When informality is widespread, violations of formal rules by the more powerful can affect all layers of society, even including the poor when they transact with those who are even poorer. In many countries, a majority may be involved in rule-violating behaviour. They may not see their own behaviour as contributing to a collective environment of corruption, but clearly the enforcement of rule-following behaviour on public officials is much more difficult in these contexts. The international community often does not fully appreciate that the ‘powerful’ in a developing country who are violating rules are not just a handful of people at the top of society but can include a vast range of individuals and organizations covering the top half to two-thirds or more of that society.

Informality in these contexts can also begin to claim cultural justifications. However, to my mind culture is not an important determinant of these types of informality. Rather, informality typically reflects the fact that a large number of relatively powerful organizations do not want the enforcement of formal rules. Culture gets invoked because these interests often find it useful to justify violations of formal rules by referring to culture. The international community need to be mindful that the use of cultural explanations detracts from the real problem of entrenched political interests in developing countries.

Most people in advanced countries adhere to formal (legal) rules and support their enforcement by legitimate organizations that themselves follow legal rules. Compliance with formal rules increases with the level of development for two main reasons. First, growing tax revenues allow investments in the capabilities of enforcement agencies and higher salaries for public officials in general. This is necessary but not sufficient for rule-following behaviour across society. Secondly, broad-based development also creates diversified and productive societies. When societies have a very large number of productive organizations, they can only interact with each other using contracts and markets. The enforcement of contracts and property rights, and therefore of rule-following behaviour, become necessary for the prosperity of powerful organizations in advanced countries. Powerful organizations in these countries support the enforcement of rule-following behaviour. This, together with higher enforcement capabilities, ensures that the rule of law is enforced and corruption and other types of rule-violations are limited.

In contrast, in many developing countries, the most powerful organizations and social networks are often not very productive and they are therefore not particularly interested in the enforcement of a rule of law or of contracts. They do not stand to gain much by enforcing contracts because they would not be sufficiently productive even if there was a better enforcement of a rule of law. Widespread non-compliance with legal norms happens when the incomes of powerful organizations depend more
on informal and personalized arrangements amongst themselves than on the
enforcement of rule-following contracts. When the most powerful organizations in a
society do not support the enforcement of formal rules, enforcement from above is not
likely to be effective. In such societies, broad-based anti-corruption strategies that
attempt to improve the enforcement of the rule of law or to change the costs and
benefits of individual violators, generally deliver poor results. Given the collective
interest of powerful social actors, individual violators are either very difficult to
isolate and punish, or even if they can be, the overall effect on collective behaviour is
limited.

These features of developing countries can help to explain the evidence of corruption
and anti-corruption in developing countries. This evidence shows a strong relationship
between levels of development and levels of corruption. Poorer countries generally
have much higher levels of corruption. Poorer countries also score lower on other
indicators of governance like the enforcement of a rule of law and the stability of
property rights (Khan 2006a, 2006b). This evidence is consistent with the proposition
that societies with weak rule-following behaviour are also likely to have high levels of
corruption. At the same time, corruption may also impede improvements in the rule of
law and the protection of property rights. For instance, corrupt politicians, judges or
enforcement agencies are unlikely to support improvements in the rule of law.
Developing countries are thus likely to be locked into traps of poor governance and
high corruption that reinforce each other.

This interpretation of the evidence can also explain why anti-corruption strategies that
have focused on society-level behavioural changes (for instance through rule of law of
reforms) or on changing the behaviour of individual bureaucrats and politicians
(through changes in incentives and punishments) have both achieved very limited
results (Johnsøn, et al. 2012). Anti-corruption policy is unlikely to change society-
wide behaviour if this behaviour is driven by structural features of the society (as
explained above), such as the limited spread of productive sectors and organizations.
Nor can anti-corruption policy change the behaviour of individual politicians and
bureaucrats if they are not really acting as individuals but are acting as members of
informal organizations and well-structured networks. Some anti-corruption policies
have indeed yielded results, for instance policies supporting technical capabilities in
public financial management. But many of the more ambitious measures like support
for rule of law reforms through reforms of the judiciary, anti-corruption commissions,
civil service reforms, reforms of procurement processes, and so on, have delivered
limited results. These findings are consistent with our interpretation of the drivers of
corruption at the societal level in developing countries.

Effective anti-corruption strategies must therefore be nuanced. A zero-tolerance
stance towards corruption affecting aid programmes is necessary but this has to be
combined with well-designed anti-corruption programmes that recognize that aspects
of the corruption problem require a longer-term commitment to anti-corruption.
Systemic corruption is unlikely to disappear before broad social constituencies have
emerged with the interest and the capacity to support rule-following behaviour across
society. To accelerate the emergence of these constituencies and organizations, an
effective anti-corruption strategy should target the types of corruption that constrain
economic and social development in critical sectors and that are also feasible to
attack. Such a strategy can directly reduce some types of corruption, and by
overcoming critical constraints on broad-based development, this type of anti-corruption strategy can also help to accelerate a sustainable reduction of corruption. As societies become diversified and more centres of power emerge committed to the enforcement of contracts and rules, the standard broad-based anti-corruption strategies supporting the enforcement of a rule of law and attacking individual corruption become increasingly more effective in generating sustainable reductions in corruption.

Targeted anti-corruption strategies in critical sectors constitute a different and complementary approach that is distinct from anti-corruption strategies targeting all types of corruption at the same time. The latter become more feasible as countries become more developed, with more diversified economic and political structures. The targeted strategy involves identifying and focusing on critical areas of corruption where the corruption has significant constraining effects on development. The anti-corruption strategy can involve changing contracting procedures in particular areas where corruption is constraining critical development activities, supporting collective action by interests adversely affected by particular types of corruption so that the corruption can be more effectively reduced, changing the policy and institutional structures in specific areas so that policy cannot be easily captured or distorted by corruption and so on. In contrast to broad-based and untargeted anti-corruption strategies that are often not feasible in developing countries, targeted strategies are more feasible because they attack specific instances of corruption in targeted ways that are appropriate for specific sectors and activities. Policy-driven research is essential to identify these possibilities and design effective targeted anti-corruption interventions (DFID 2015).

General anti-corruption strategies that target all types of corruption are more usually supported by aid donors, like support for rule of law reforms, bureaucratic reforms, support for anti-corruption agencies, and so on. Nevertheless, the evidence suggests that general anti-corruption strategies that attempt to reduce corruption across the board do not deliver good results in these contexts. DFID supports both targeted and general anti-corruption strategies, but the importance of the former in terms of both feasibility and impact in the social and economic contexts of the typical developing country needs to be more widely recognized. This type of targeted and sector-specific anti-corruption has to be supported by proper evidence-based research and tied in with other DFID programmes in these sectors and activities to maximize the developmental effect.

How can DFID manage the risks associated with corruption and reconcile them with its value-for-money agenda?

There are two quite different types of risks associated with corruption. The first is the direct risk that corruption poses to DFID funds. DFID has to take measures to ensure that corruption does not result in the diversion of UK taxpayer’s money from targeted objectives. Aid outcomes are routinely evaluated and if the evaluation reveals that outcomes were poor as a result of the misappropriation of funds, strict measures need to be taken to ensure procedures are changed to prevent this happening again. I believe DFID already does this, but procedures can always be improved.

This type of programme-related corruption risk has to be distinguished from a second type of risk associated with corruption. This is the indirect risk that emerges when DFID operates in contexts with background corruption, as is invariably the case in
developing countries. The societal corruption can indirectly affect the performance of the sectors and programmes DFID is supporting. This raises a more complex problem because the relevant corruption may be systemic and the resolution may require supporting longer-term social changes while operating in a context where corruption exists. To justify operating in these contexts, DFID must have a transparent decision-making procedure for reaching judgements about engaging or otherwise in particular corrupt environments. These decisions and evaluations should be based on the best available empirical evidence and analysis. The question is whether spending UK development funds in targeted sectors and activities (combined with targeted anti-corruption activities as described earlier) is likely to achieve improvements in development outcomes that are commensurate with the value-for-money judgements made by UK politicians. If development spending combined with anti-corruption activities (both targeted and general rule of law variants) result in improved development outcomes that support longer term development, the assessment may satisfy DFID’s VfM agenda.

Corruption and poor governance can be a key cause of instability in fragile states. Is the UK Government appropriately prioritising and managing anti-corruption strategies in these settings? What are the challenges in practice and what could it be doing better?

The relationship between corruption, poor governance and fragility is complex. As discussed earlier, corruption and poor governance can feed on each other. In developing countries, corruption and poor governance may have deeper causes in the limited spread of productive capabilities and in social power structures that result in widespread informality and rule-violations at many levels. The flows of informal resources in these countries can reach broad constituencies, and political competition and conflicts are often partly over these hidden resource flows.

The theory of ‘Limited Access Orders’ (North, et al. 2013) which looks at how these processes can reduce violence and of ‘Political Settlements’ (Khan 2010, 2012) which looks at how the configuration of powerful organizations in a society determine resource allocations both point out that while political corruption can have very damaging effects in many contexts, anti-corruption activities that threaten established patterns of resource capture can sometimes also contribute to further fragility. This is because powerful groups will resist changes in their flows of income and corruption in these contexts involve distributions of resources through complex channels to large groups. The challenge in practice is that while in most cases the support for anti-corruption and improvements in governance can contribute to political stability, some anti-corruption strategies that disrupt hidden resource flows to broader constituencies can exacerbate violence in fragile states.

Stability depends on the types of political organizations and informal distributive networks that are in operation, and how existing beneficiaries deal with new mobilizations and demands. Stable political arrangements can suddenly collapse and reasonably well-working informal arrangements can break down. We now have a much better understanding of these processes but we are far from having the analytical and empirical basis for predicting when and which types of informal political allocations are likely to break down. However, we do know enough to be able to say that political stability in poor countries is unlikely to be achieved through formal budgetary allocations alone. The achievement of stability also requires the
continuous negotiation of new arrangements to ensure that powerful groups are indeed accommodated before violence breaks out.

DFID is increasingly aware of the importance of understanding political settlements and of taking steps to ensure that policies do not exacerbate resource conflicts and take societies in the direction of greater violence. This is particularly important in the case of fragile and post-conflict societies. The effective response is likely to be to work towards the resolution of distributive conflicts between powerful groups by focusing on how resource allocation could be linked to the achievement of greater stability. We need to have more robust evidence-based analytical frameworks that can help development practitioners operate in these contexts.

References


