Anti-corruption in adverse contexts: strategies to improve implementation

Key messages

- In many countries we observe a weak rule of law, which goes hand in hand with high levels of corruption. This can slow down development and result in persistent poverty.

- Where a rule of law (generalised rule-following behaviour where even the powerful follow rules) is not supported in a society, conventional anti-corruption strategies that rely on detection and punishment are likely to be easily evaded in practice.

- For an anti-corruption strategy to work in these contexts, it must be feasible to implement, which means some powerful organizations must want to implement the strategy in their own interest, and for us to be interested in the strategy, it must also have an impact on development outcomes.

- ACE has developed an alternative, bottom-up and sector-specific approach that aims to engage powerful organisations to support anti-corruption strategies with development impact for their own benefit.

What is ACE?

The Anti-Corruption Evidence (ACE) research consortium takes an innovative approach to anti-corruption policy and practice. Working with a multi-country coalition of 12 partners over five years, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

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This briefing summarises the theoretical research framework of the Anti-Corruption Evidence (ACE) research consortium based on our recently published Working Paper Anti-corruption in adverse contexts: strategies for improving implementation (Khan et al., 2019). Through our research projects we identify anti-corruption strategies that are feasibly implementable and that will achieve better development outcomes.

**Introduction**

Countries with high levels of corruption are likely to have a weak rule of law and low levels of productive capabilities. The correlation between corruption and weak adherence to a rule of law requires strategic rethinking of anti-corruption strategies. Most anti-corruption strategies implicitly assume there is a rule of law (or that it can be quickly established) so that once violations of rules are detected and appropriate accountability systems are set up, we can expect the problem will be effectively dealt with. This is unfortunately a wrong assumption in most developing and emerging countries.

The limited development of productive and organizational capabilities implies a distribution of power in society where the powerful can collude to capture resources, and therefore they do not collectively need or support the enforcement of a rule of law. Strategies of rule-enforcement that are based on detection and punishment are not likely to be effective in these contexts. Nevertheless, poor countries need to achieve effective anti-corruption that will work in critical areas if they are to sustain their development.

In more advanced countries, the distribution of power supports the enforcement of a rule of law because the powerful are relatively numerous and cannot always collude. As countries become more advanced, they acquire a more diverse set of productive organisations in different sectors and activities. As these organisations become more productive, they also become more powerful. Within a growing and more diverse economy these organisations require the enforcement of formal rules and generalised rule enforcement rather than the enforcement of specific rules that benefit specific organisations. More economically developed societies therefore have a greater number and diversity of organisations that both have the incentive to want generalised rule enforcement and have the power to do something about it. This is an essential condition for the operation of a rule of law, which means that even the powerful are generally subject to rules.

Second, political parties in advanced countries have to raise revenues from a great diversity of business interests and sectors and this sets a limit to the special privileges that can be granted to particular interests. This ensures that political parties have to be rule-following in their own interest. Improvements in transparency and accountability systems can be expected to lead to better enforcement and therefore to a reduction in corruption in these contexts.

In contrast, in developing and emerging economies, the powerful do not demand a rule of law, and the political leadership faces little effective compulsion to behave in rule-following ways. It makes political sense in these contexts to provide special privileges to the few interests that are powerful. Political parties can raise significant revenues in informal and rule-violating ways, and, when in power, a politically feasible way of rewarding their supporters is to allow them to violate more rules. In these contexts, it is unrealistic to expect political leaders to exercise ‘political will’ to enforce rules when their hold on power and their economic interests depends on doing otherwise. As a result, standard anti-corruption strategies based on transparency and accountability produce much weaker results in less advanced countries (Rock and Bonnett, 2004; Johnsøn, et al., 2012; DFID, 2015).

In such contexts we suggest a radically different anti-corruption strategy. This is to sequentially attack specific instances of corruption where the anti-corruption strategy is feasible because it has the support of enough powerful interests involved in that activity to make its enforcement plausible. In addition, to be of policy interest to us, the proposed anti-corruption strategy should have a strong positive impact on development.
Limitations of conventional anti-corruption approaches

The limitations of standard anti-corruption strategies are now widely recognised, and the underlying reasons that have been identified are entirely consistent with our analysis of political settlements (Johnsøn et al., 2012; DFID 2015). Standard anti-corruption strategies can be described as ‘top down’ because they rely on enforcement by external agencies like courts and anti-corruption agencies. In societies where rule violations by powerful economic and political organizations are widespread and where many activities involve informal arrangements, policies that attempt to improve the enforcement of formal rules or change the behaviour of individuals with formal incentives or punishments are very likely to have limited effects or to fail entirely.

Impact and feasibility of anti-corruption strategies

The starting point for feasible anti-corruption efforts is to understand the rent-seeking processes through which different interests distort the achievement of development outcomes. We need to understand these processes in some detail because what may appear to be a simple corruption problem is usually a complex one with different types of violations happening simultaneously. We also need to assess the relative organisational power of the different interests involved in the activity to understand the potential support for and resistance to specific policy changes, and therefore the feasibility of constructing a solution that is likely to be largely self-enforcing (Khan, 2010, 2018).

Our alternative (bottom-up) approach to anti-corruption

Our approach is to investigate if it is possible to reconfigure incentives in such a way that at least some powerful players will support the enforcement of rules in their own interest, to achieve improvements for themselves, while also achieving developmental outcomes. If we can find such opportunities, then enforcement is more likely because there is endogenous support for enforcement within the group involved in the activity. This combination of conditions is more demanding, which is why the identification of feasible anti-corruption with significant developmental impacts in developing countries required more effort and research. However, we argue that such instances can be identified using our approach.

Rents

Rents are incremental income flows associated with particular policies or institutions. They can have complex effects on social outcomes ((Stiglitz, 1989, 1996). While some rents are essential for markets to work well and for improved development outcomes (e.g. efficiency wages and health-sector subsidies), other rents can destroy value and block development (e.g. monopoly rents or predatory extractions). Because policies can create rents, rent-seeking activities will attempt to influence policies and how they are implemented. Corruption is the illegal or illegitimate subset of rent seeking, where resources are illegally or illegitimately offered to influence policy formulation and the allocation and uses of rents within the policy. Feasible anti-corruption seeks to change these rent-seeking incentives so that the creation or allocation of rents enhances welfare instead of reducing it.

Assessing the relative power of different interests in a sector (both formal and informal) is essential for our strategy of trying to change rent-seeking behaviour. While we may not be able to attack all damaging variants of corruption immediately, it may be possible to target specific types of corruption if the anti-corruption strategy is aligned with the interests of some powerful groups already or potentially engaged in rent-seeking activities. If research can find such opportunities, policy can induce and support the activity of key participants in a sector to reduce damaging types of corruption and enhance developmental outcomes in their own interest.

Both the incremental, bottom-up sector-specific strategies that we develop and the conventional, top-down or systemic approaches to anti-corruption are likely to be required at different stages of development. The top-down anti-corruption strategies based on the enforcement of a rule of law and transparency and accountability are likely to gain policy relevance at higher levels of development when productive capabilities become broadly dispersed in society and there is significant effective support for a rule of law from powerful organizations. In these contexts, powerful organisations will refuse to deal with peers who do not follow rules, and enforcement agencies attempting to identify and punish rule violators will be able to operate with a high chance of success. But at lower and intermediate levels of development, our bottom-up strategies that look for endogenous enforcement opportunities are likely to be much more important.

**Types of corruption and anti-corruption priorities**

The bottom-up approach requires targeting specific types of corruption that are both feasible to address because some powerful organizations can benefit by acting in more productive ways, and where the result will have a significant development impact. Our rents analysis allows us to distinguish between the following different types of corruption that are relevant for our approach (Khan, 2006):

Some corruption is **driven by market restrictions** and emerges when there are unnecessary or damaging market distortions, for example unnecessary red tape, barriers to entry or regulations that block productive business activities. These restrictions are evaded by businesses and individuals by engaging in corruption.

The anti-corruption strategy for this type of corruption must be to combine the anti-corruption with a simultaneous removal of market distortions, otherwise society can be made worse off by an anti-corruption strategy which blocks feasible ways of bypassing these restrictions, but keeps the restrictions in place. It is possible to find support from powerful organizations for this type of anti-corruption, which is why, for instance, Doing Business reforms have made significant progress in many developing countries.

In contrast, in **policy-distorting corruption**, the underlying state policies and associated rents are potentially socially useful – for example rents created by policies supporting health, education, environmental protection or technology upgrading policies – but corruption can prevent these policies from achieving development goals by misallocating these policy resources. This is potentially a high-impact type of corruption in many developing countries. When corruption distorts the implementation of developmental policies by misallocating policy rents, the consequences can be very serious. The anti-corruption strategy here is to **retain** the policy goal while redesigning policy in ways that make anti-corruption feasible. Much of our sectoral work is on these types of corruption where an understanding of the policy rents and how they are distorted in particular contexts is critical for developing feasible and high-impact anti-corruption.

**Political corruption** describes rent creation and allocation via informal patron–client networks through which powerful groups maintain their power, particularly in political settlements where informal resource flows are a critical part of political allocations.

The reduction of political corruption is a longer-term challenge and relates to our theory of change on the importance of creating a more diversified and productive society. Our strategy identifies political corruption as a difficult type of corruption to address. By confusing different types of corruption and focusing efforts on problems that are not immediately solvable, many opportunities for feasible anti-corruption are lost.
Predatory corruption is the most damaging variant of political corruption where coercion and violence are used by powerful groups to extract rents. This type of corruption becomes dominant when states start unravelling, but some element of predatory corruption exists in all societies. Fortunately, it is not the dominant form of corruption in most countries. When predatory corruption becomes the dominant form of corruption, the society has become a warlord society and is close to or already engaged in high levels of violence. The strategy of developing sectoral economic activities by targeting the corruption that distorts developmental policies still remains the most viable intervention here, but the results will take even longer to emerge and the predatory corruption is difficult to directly address through anti-corruption strategies.

Figure 1 shows the feasibility and impact of anti-corruption strategies that target each of these types of corruption. The type of anti-corruption that has the most promising combination of feasibility and impact is the one that targets policy-distorting corruption. It is often feasible to find solutions to these types of corruption by redesigning policies and the development impact is likely to be high. However, sometimes, our strategies may involve addressing several overlapping types of corruption with mixed characteristics. For instance, policy-distorting corruption in a sector may overlap with some market restriction-driven corruption, and both may have to be simultaneously addressed. In other cases, anti-corruption strategies targeting specific policy-distorting corruption may have to be abandoned if the policy-distortions are driven by politically powerful groups engaged in political corruption or predatory corruption. The feasibility of the proposed anti-corruption is therefore critical to assess if we are to reduce the chances of failure.

Four anti-corruption strategies

We identify four types of anti-corruption strategy that can address different types of policy-distorting corruption, each creating insider support for rule-following behaviour that can have a positive developmental outcome. The four approaches are indicative rather than comprehensive – a variety of strategies are emerging under each, and therefore we refer to each as an anti-corruption strategy ‘cluster’. Real-world cases may be classified under multiple strategies if they match the features of more than one pure type.

Figure 1: Identifying feasible and high-impact anti-corruption strategies
ACE strategy 1: Aligning incentives

We often find that powerful interests in a sector are engaged in fraud, corruption and damaging capture of policy rents because the incentives are wrong and it is not possible for them to make money in productive ways. If the evidence shows that many of the powerful engaged in these activities have the capacity to be productive, and some of them are already productive, policy changes could induce a critical number to follow particular policy rules and engage in productive activity. That could also make external enforcement of those rules feasible, supporting anti-corruption of particular types.

ACE strategy 2: Designing for differences

Sometimes violations of policy rules and the capture of policy rents happens because the policy has failed to recognise differences across individuals or organisations engaged in a sector or activity. Policies may inadvertently or deliberately disadvantage productive organizations and encourage the entry of unproductive ones. If the productive organizations are potentially powerful, and if some policymakers have an interest in improving development outcomes, policy can be redesigned to support the operation of productive firms. Anti-corruption measures are likely to be effective if feasible policy changes allow potentially compliant individuals or organisations to actually comply and support the enforcement of these policies.

ACE strategy 3: Building coalitions

Sometimes anti-corruption efforts depend on constructing effective coalitions to assist with the enforcement of rules. Collective action is only likely to have an impact if the organisations applying pressure for enforcement are at least as powerful, or more powerful, than the violating organisations and preferably also have some way of directly imposing costs on violators, for instance by not transacting with them or boycotting them in other ways. These conditions are hard to come by but given how often collective action is invoked in anti-corruption activities, it is useful to assess the likelihood that particular types of collective action may have sustainable effects.

ACE strategy 4: Resolving rights

A further cluster of corruption problems can emerge because there are overlapping or contested rights of different parties, and the only resolution available to them is to engage in corruption to resolve disputes. Anti-corruption efforts in these policy areas will only have insider support if policy finds ways of identifying, addressing and resolving the underlying conflicts. These problems are particularly important in the case of corruption around the management of land rights. Effective and legitimate conflict-resolution processes have to be devised that can find compromise solutions which offer parties an alternative, cheaper and more predictable conflict-resolution mechanism compared to competing to bribe land administration officials, judges and others, for example.

Conclusion

Together, the four clusters of anti-corruption strategies described above form a research agenda for essential work on policy-relevant anti-corruption. The approach can be used for examining corruption issues affecting both the public and private sectors and for identifying relevant interdependencies between policies that seek to address corruption.

The aim in both our private-sector and public-policy research has been to engage in projects in different priority areas to generate evidence on the impact and feasibility of different types of anti-corruption strategies. The anti-corruption strategy that is the focus of each ACE project is located in one or more of the strategy clusters discussed above, while each study also focuses on a particular policy priority area in one or more of our study countries, initially Nigeria, Tanzania and Bangladesh. The impact and feasibility evidence generated by ACE projects is building up an evidence base on the difficulty and desirability of anti-corruption strategies in each cluster, with further differentiation across priority areas, sectors and countries. Over the longer term, this evidence will help us to design better anti-corruption strategies in the particular sectors and countries being studied, as well as deepening our understanding of effective policy design for anti-corruption policies in a wider range of economic and political contexts.
References


About the Anti-Corruption Evidence (ACE) Research Consortium:

ACE takes an innovative approach to anti-corruption policy and practice. Funded by UK aid, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real, and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

ACE is a partnership of highly experienced research and policy institutes based in Bangladesh, Nigeria, Tanzania, the United Kingdom and the USA. The lead institution is SOAS University of London. Other consortium partners are:

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
- Health Policy Research Group (HPRG), University of Nigeria Nsukka (UNN)
- Ifakara Health Institute (IHI)
- London School of Hygiene and Tropical Medicine (LSHTM)
- Palladium
- REPOA
- Transparency International Bangladesh (TIB)
- University of Birmingham

ACE also has a well established network of leading research collaborators and policy/uptake experts.

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