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## Democracy's shortcomings in anti-corruption

Tina Søreide

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## Abstract

Citizens of countries with a corrupt political leadership are trapped in a situation, typically characterized by increasing income differences, human rights violations, dysfunctional democracy, limited press freedom, weak access to basic services, such as health and utilities, and it is difficult for them to move to another country to get a better life. Despite Arab Spring experiences, confronting a government with monopoly on power within its jurisdiction often fall short, and citizens' success in their efforts to replace an illegitimate government relies on some form of international support. This paper reviews some of the reasons why we see shortcomings in this support. The international anti-corruption initiatives far too often fail to reach the political elite. New laws that could have made it difficult to hide stolen money abroad are not enforced. Pro-democracy initiatives are important, yet not efficient enough for getting rid of corrupt politicians. International pressure for legal reform does not bring change unless the laws are enforced. 'Other governments' often fail the citizens in these countries. Instead, they keep a good dialogue with the incumbent in order to improve their chances to get access to resources, secure profitable contracts for 'their' firms, or because of military strategies. Narrow interests and competition between countries distort the process towards a world free from political corruption.

## About the author

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# Introduction

Corruption at the highest level of state is one of the main reasons why governments fail to promote development that benefits society at large. The resulting failures show up in the quality of government services and in the variation across countries in human rights and development indices, as well as in indicators of sector performance – such as in health, education, and utility services. Weak government service quality tends to correlate with cross-country indices that measure the extent of corruption. An increasing number of country analyses tell us that failures at the sector level can often be traced back to weaknesses at the political level. This implies that reformers have to do more to confront corruption at the highest levels of the states if they really want to promote global development.<sup>1</sup>

Governments monopolize power and law enforcement within a geographical area, and this fact makes citizens particularly vulnerable to misuses of power. Citizens of some countries with corrupt regimes are caught in a poverty trap; while in others, corruption explains why they have to pay for services that should have been free, and why they have to live with intrusive and arbitrary regulations.<sup>2</sup> Corruption at the political level includes manipulation of legal and institutional framework conditions to attain exclusive benefits to individuals or groups at the cost of social benefits.<sup>3</sup> Since laws and regulations can be altered in the decision-makers' favour, the corruption will not always be covered by legal definitions.

One of the most common recommendations against high level corruption is the promotion of democracy as a way of introducing checks and balances that can curb misuses of power. However, democracy is a culture as well as a set of political institutions, and the introduction or strengthening of democratic structures is not necessarily enough to fight political corruption. One reason why democracy is insufficient is that it is not easy for voters actually to control their politicians. Others problems arise from the characteristics of the development community – consisting of governments, development banks, and donor agencies, as well as the many organizations they support; all of which play a critical role in promoting democracy. They have often been found hesitant in addressing political corruption, even if this is one of the most serious obstacles to development. Could it be that foreign governments with multiple goals prevent some developing countries from reaching the stage where democracy controls political corruption? And if the international community focuses only on promoting development, what is it willing to do to promote anti-corruption at the political level in countries where this is a significant challenge?

This chapter discusses why anti-corruption has to address political issues more directly, why it is difficult to 'get democracy to deliver on anti-corruption,' and why the international community finds it difficult to exert effective anti-corruption pressure.<sup>4</sup>

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<sup>1</sup> Based on data from 1960 to 2000, Feng (2003) provides a comprehensive analysis of how politics matter for economic development. See also Flachaire et al. (2011). For discussion and empirical analysis of the relationship between corruption and democracy, see: Treisman (2000, 2007), Brunetti and Weder (2003), Rock (2009) and Kolstad and Wiig (2011). The length of democracy seems to matter more for development than the mere presence of basic democratic institutions.

<sup>2</sup> This is explained in more detail by Rose-Ackerman (1996; 1999)

<sup>3</sup> Definition used by Al Kasim et al. (2008).

<sup>4</sup> This chapter includes arguments that have been discussed at great length by many authors. A complete overview of the literature is not possible in this short chapter, and I apologize for the arbitrary selection of references.

## Dealing with corruption

There is limited empirical evidence on what works in fighting corruption. In fact, most anti-corruption policy initiatives are designed without sufficient thought about how to evaluate their impact. In their defence, those responsible might claim that society is already so complex that one cannot reasonably expect to see a clear causal link between a particular initiative and reduced corruption and between reductions in corruption and better service delivery. For this reason, many anti-corruption initiatives are started without clear methods for measuring the results.<sup>5</sup>

In the literature on crime, however, one of the most thoroughly documented results is that control and sanctions work on the margin to limit the number and severity of offenses. The propensity to be involved in illegal or anti-social activity decreases as the risk of detection increases.<sup>6</sup> Hence, we should expect that giving decision-makers incentives (either carrots or sticks) to behave honestly will have a perceivable anti-corruption effect. These incentives could include political accountability mechanisms. A variety of control mechanisms can be found in the multitude of anti-corruption initiatives and movements targeted at 'lower level corruption'. When it comes to the highest level of state, however, the element of control remains weak – and the lessons from the literature on crime seem to have had little impact on donor-financed anti-corruption policy proposals. Consider the following five initiatives.

### Governance Indicators

Indicators presented by the World Bank Institute since 1996 and Transparency International's Corruption Perceptions Index have made a huge difference in terms of raising awareness. All over the world the rankings are discussed in the press and compared to the rankings of other countries. Even if the indices are based on perceptions rather than facts, they make weak governance more visible, and they give opponents a focal point in their arguments for change. The Democracy Index and the Open Budget Index are more fact-based estimates of corruption and address important anti-corruption measures targeted at the political level.<sup>7</sup> However, the element of "control" offered by all these indices is very different from the control referred to in the literature on crime, and initiatives have no direct impact on the risk of being apprehended. The incentives to be corrupt may remain unchanged.

### International conventions for improved legal enforcement

The initiatives with the most plausible impact on the level of corruption involve investigation, collaboration across borders on investigation, strengthening the courts, and tougher sanctions. The UN Convention against Corruption (UNCAC) offers an important instrument for improving and standardizing legal definitions of corruption, thereby facilitating prosecution of corruption as well as cross-border collaboration on investigation. The degree to which it makes a difference depends on how well its many articles are implemented and enforced. The UN convention includes articles that could have hindered decision-makers to hide the returns of their corruption abroad. In practice, however, this is made difficult by the presence of secrecy jurisdictions and a general lack of will to investigate illicit

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<sup>5</sup> For a recent evaluation of donor-financed anti-corruption initiatives, see Mungiu-Pippidi (2011). See Rose-Ackerman and Truex (2012) for a more general review of empirical research on corruption. Olken (2010) briefly reviews the scope for quantitative studies on anti-corruption and Raffler (2011) discusses options for assessing anti-corruption policies through randomized control trials.

<sup>6</sup> Fore reviews, see Eide et al. (2006), Albertson and Fox (2012) and Harel and Hylton (2012).

<sup>7</sup> For Open Budget Survey, see <http://internationalbudget.org/what-we-do/open-budget-survey/> and for the Democracy Index, visit the website of The Economist Intelligence Unit at [www.eiu.com/](http://www.eiu.com/).



capital flows from other countries.<sup>8</sup> Nation states have collaborated to boycott and freeze the funds of dictators in, for example, Zimbabwe, DRC, Haiti, Nigeria, and more recently, Tunisia and Libya; yet, as these examples indicate, this happens only when corruption has taken on extreme dimensions.

So far, the changes in the legal system following from the UN Convention do not seem to be enough to change the intrinsic motivation of decision-makers at the political level. It does not include mechanisms to initiate international investigations, and it is still up to powerful players within a given jurisdiction to accept national investigation. The gains from corrupt deals can still be hidden and laundered internationally. Hence, the convention has not made it much easier to target the corruption of government officials, regardless of their rank, or reach corruption that occurs entirely within the private sector.<sup>9</sup> In an empirical assessment of the UN anti-corruption convention, Buscaglia (2011) finds that its impact depends too much on political will.

## Ethical codes of conduct

Firms have implemented codes of conduct since the late 1990s, including international standards for self-regulation, such as the UN-initiated Global Compact and ISO 26000.<sup>10</sup> Even if corruption was already prohibited by most legal standards before the 1990s, their proponents assumed that a set of ethical guidelines would make it easier for firms to avoid being entangled in corruption. In theory, these initiatives could have made it more difficult for corrupt governments to find firms that were willing to accept corruption. However, unless the standards coincide with an increased risk that a company's top leaders will be caught if engaging in corruption, anti-corruption measures cannot be expected to change incentives, especially when it comes to the most important contracts – the ones that are most likely to attract corrupt politicians.<sup>11</sup>

## Legal initiatives against cross-border bribery

Another set of legal instruments, aimed at making it easier to target those involved, are the laws and conventions that make it possible to sanction at home the bribery that has taken place abroad, such as the OECD Anti-Bribery Convention and the US Foreign Corrupt Practices Act (FCPA). At present, when no international body has enforcement authority, the United States Department of Justice and its Securities and Exchange Commission (SEC) are the most aggressive national enforcers of corruption that crosses borders. Governments in most other countries are more lax in their efforts to investigate corruption, and traditionally, the enforcement has been weaker in Europe than in the USA. For a recent update, see Transparency International (2012).<sup>12</sup>

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<sup>8</sup> See Fontana (2011) for challenges in a case of UK investigations into a Nigerian case of bribery and money laundering. See Shaxson (2011) for the historical background of today's tax havens and how powerful players in large and more powerful economies have contributed to shape their current structures and services.

<sup>9</sup> See this volume's chapter by Kevin E. Davis for more discussions about the limits to what we can achieve through international investigations.

<sup>10</sup> For Global Compact, see <http://www.unglobalcompact.org/>. For ISO 26000, see [http://www.iso.org/iso/social\\_responsibility](http://www.iso.org/iso/social_responsibility).

<sup>11</sup> Self-regulation schemes are sometimes referred to as *window dressing* or *moral licensing*. The schemes may provide the top management of a company an opportunity to escape prosecution because they make it look like as if the managers did everything they could to avoid being involved in corruption, and thus, there is a risk of counter-intuitive anti-corruption effects.

<sup>12</sup> For an empirical analysis of cross-national patterns in FCPA enforcement, see McLean (2012). He finds US FCPA enforcement to happen independently of US commercial or military interests. Note also, the World Bank, now followed by other development banks, sanction firms and individuals found guilty in corruption by debarring them from operation on Bank-financed contracts. The impacts are similar to these legal initiatives. See this volume's chapter by Pascale Dubois for details.

While these initiatives increasingly have come to play an important role to address the bribing side of corruption, they do not reach corrupt decision-makers within governments. Besides, for firms, they have created an asymmetric risk of being sanctioned for bribery, an asymmetry that firms from countries with weak or no enforcement of such laws can exploit for commercial benefits. If so, the levels of corruption may remain unchanged, while the selection of firms in the given markets changes.<sup>13</sup> Hence, despite initiatives against cross-border bribery, corrupt politicians and high-ranking civil servants can continue misusing power, without much added risk of being sanctioned for their crime.

## Sector-specific transparency standards

Sector-specific standards include the Extractive Industries Transparency Initiative (EITI) in petroleum and mining, the Reducing Emissions from Deforestation and forest Degradation (REDD) in forestry, the Construction Transparency Initiative (CoST) in the construction sector and the Medicines Transparency Alliance (MeTA) in medicine.<sup>14</sup> Formally they are not anti-corruption initiatives, but they are often defended as anti-corruption initiatives, and they receive funding for such purposes. The initiatives seek to improve the governance of key domestic sectors, and international supervision and control. Although these initiatives promote transparency, they will rarely have a direct impact on the prosecution of individual decision-makers for corruption. Governments themselves have been involved in the design of these initiatives, and they must decide how vigorously to implement them. As a result, the initiatives seldom provide the evidence needed for building a court case against government representatives or for removing corrupt decision-makers from office. Moreover, their multi-stakeholder-based management at the local level is intended to promote collaboration and local ownership; however, the players involved may have very different interests in the control of corruption, and these differences may prevent the group from aggressive efforts to implement and oversee the implementation of the standards.<sup>15</sup>

The multitude of international initiatives, conferences, and policy debates occurring in this area may give the impression that “something is being done” to combat the corruption that hampers development in so many countries. However, close consideration of some of the most important international initiatives indicates that hardly any of them threatens corrupt decision-makers. The international development community - which spends huge amounts of money on anti-corruption – *expects* that these initiatives, intended to promote awareness, have *some* impact on the actual levels of corruption, but no one knows for sure. If none of the initiatives is able discernibly to influence the assessment of risks and benefits for those involved in corruption, why would one expect the sum of them to make any significant difference?

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<sup>13</sup> See Asiedu and Lien (2011) for an empirical analysis of FDI into resource-rich economies with high levels of corruption. Bjorvatn and Søreide (2012) provide a theoretical analysis of the implications of an asymmetric risk of being sanctioned for corruption when contract allocation is likely to be influenced by bribes.

<sup>14</sup> See the following websites for information on each initiative: EITI: <http://eiti.org/>; CoST, [www.constructiontransparency.org/](http://www.constructiontransparency.org/); REDD, [www.un-redd.org/](http://www.un-redd.org/); and MeTA, [www.medicinestransparency.org/](http://www.medicinestransparency.org/).

<sup>15</sup> It may well be useful to have players with different incentives gathered in a forum for dialogue, but they should not be expected (and funded by donors) to be responsible for the implementation of a sector standard (Truex and Søreide, 2011).

## Naïve confidence in new laws

In addition to international anti-corruption initiatives, there are many donor initiated and financed efforts to improve the state administration, and these may well have indirect effects on politicians' risk of engaging in corruption. The donor community seems to have strong confidence in the role of legal standards and initiatives to promote transparency. The most important initiatives aim to improve bureaucratic procedures, such as competitive procurement procedures, audits and independent regulation. However, new rules will not make much difference if not enforced and transparency will not bring changes unless the state reacts to what is being revealed. Nevertheless, donors continue to support such programs as if the impact were obvious.<sup>16</sup>

Table 1 below, which is borrowed from Søreide and Truex (2013), categorizes countries according to their capacities to enforce their own laws and regulations –on the vertical 'axis' – and the quality of their laws and regulations –on the horizontal 'axis'. The table identifies four stylized cases, and an international anti-corruption initiative will work very differently depending on where a country is located.

**Table 1: Quality of Laws and Regulations**

		<i>Low quality</i>	<i>High quality</i>
<b>Enforcement</b>	<i>Strong enforcement</i>	<p><b>Eager without needed regulations</b></p> <p>These countries are experiencing significant political change. Few countries stay in this situation over a long period. Politicians eager to reform a country with weak institutions may need support for the design of new laws and institutions. Many international initiatives for better sector performance seem to take this situation for granted.</p>	<p><b>Strong performers</b></p> <p>These countries will easily reach international benchmarks. Participation of well-performing countries in international initiatives will be valuable for motivation and fine-tuning. Corruption-related challenges exist, but they are well hidden.</p>
	<i>Weak enforcement</i>	<p><b>Worst case countries/the bad equilibrium problem</b></p> <p>Citizens are caught in a poverty-trap. The quality of laws is generally weak and the compliance with regulations is low. A legal framework for better sector governance is unlikely to be implemented and enforced in the short term.</p>	<p><b>Laws in place, weak implementation</b></p> <p>Many countries that have copied their laws on sector governance from OECD countries, where they work well, face severe difficulties with enforcement. Adding better rules may not bring much change. Collusion, corruption, and entrenched networks are significant challenges despite democracy and laws supposed to prevent such problems.</p>

Initiatives financed to improve laws and regulations will make a difference primarily in the *top-left* quadrant, where there is political willingness and a hunger to get the rules right. International certification processes on sector performance can motivate reform in countries within this category. Countries in the *bottom-right* quadrant may already have fairly good laws; however, there is weak enforcement—a situation common in many post-colonial states. Simply adding another set of modern

<sup>16</sup> Besides, there may be few facts to react upon if the demand for transparency leads to greater state control over what information is to be released (by the very same governments that have something to hide).

laws and regulations may not produce much change, and will not have an indirect impact on political corruption. The countries in the *top-right* quadrant are already performing well, often with laws that are well above the internationally recommended “best practice”. Their corruption-related problems are harder to reach, often occurring without any observable procedural violations. They are not perceived as threatening to the whole society. The challenges are worst in the *bottom-left* quadrant where countries are in a bad equilibrium.<sup>17</sup> Here, at all levels of society and government, the incentives for ‘grabbing’ are generally stronger than the incentives to contribute constructively to economic production and to the development of a well-functioning society. The international community has little to offer to these societies, and their citizens are trapped– they have no place to go. From an international perspective, this category of countries is the most difficult to help.<sup>18</sup>

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<sup>17</sup> Andvig and Moene (1990) explain how some countries are stuck in a bad equilibrium situation.

<sup>18</sup> Banerjee and Duflo (2011) point out that even in this category of countries, it is possible to improve things “at the margin” rather than sitting back and waiting for a revolution. Fighting political corruption should, nevertheless, be part of any effective strategy to promote development in the long run.

## Irresolute calls for political change

Given the repeated failures of attempts to improve governance through better laws and regulations, the international development community has been forced to consider political realities more carefully. However, among several development partners and many governments, there is still significant resistance to addressing politics – even in countries with well-documented political incentive problems.<sup>19</sup>

Sector-specific reform often attempts to improve public service delivery *despite* accountability problems in politics, which appear too overwhelming to deal with comprehensively. For example, procurement reform is the most frequently used strategy for dealing with corruption, collusion, and low-quality services in the construction sector; however, if politicians or their friends profit by manipulating the contracts, the distortions can easily continue regardless of procurement reform. As another example, consider the many new oil-producing countries in Africa, such as Ghana, Tanzania or Sudan. These states are about to establish the institutions needed to govern the emerging industry, often with donor funding that expressly seeks to avoid the resource curse and channel the benefits of resource development to the population at large. Experience and systematic research hold that it is essential to bolster the constitutional system of checks and balances and to secure democratic mechanisms when such windfall revenues are expected. Nevertheless, donor strategies tend to focus only on the oil sector.

Development banks and aid agencies seek to avoid the diplomatic difficulties that arise when confronting political incentive problems. Sector-specific initiatives, defended as a ‘second-best approach’ when background conditions are not optimal, have for too long served as an excuse for not addressing the more fundamental framework conditions associated with politics. Neither domestic reformers nor the international development community can continue in the long run to ignore the political distortions that risk undermining strategies for better sector performance. However, even if donors understand the role of politics, they have rarely attempted more targeted action against political corruption. Instead they produce a range of “political economy analyses” (which only serve to confirm suspicions of political corruption),<sup>20</sup> and they use blurred terms in development community reports – such as references to “political economy issues” or “issues of governance”. The use of a blurred terminology is understandable if corruption cannot be proven; but donors should recognize that more precise statements of concern can help address governance failures by giving support to civil society and journalists that need external players to help generate demands for change.

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<sup>19</sup> For most donors, anti-corruption and pro-democracy go hand in hand, but the World Bank is often seen as an exception given its principle of not interfering with politics (listed in its *Articles of Agreement*, available on: [www.worldbank.org](http://www.worldbank.org)). However, the World Bank promotes structures associated with democracy, such as institutional control mechanisms, freedom of the press, the development of a civil society, and various complaint mechanisms. But, as pointed out by Marquette (2001), the Bank’s efforts to separate economics and politics hinders the institution from efficiently using conditionality and dialogue to promote its main goals of economic development and poverty alleviation.

<sup>20</sup> Beuran et al. (2011) claims that political economy analyses are rarely actionable and point to the fact that many of the studies do not pass the “so what?-test” – they do not provide advice about how to bring about change. The authors underscore the importance of collaborating with domestic governments and sector experts when conducting this form of analysis, thus, reducing the sensitivity of the results.

## Democracy is not the same as accountability

External calls for democracy are an intuitive response when “political economy issues” appear to prevent development. However, domestic ownership and legitimacy are fundamental conditions for democracy to work, and ‘everybody knows’ that democratic reform in a developing country is no guarantor of success. External calls for democracy tend to come either as a ‘demand for good governance’ (DFGG) initiatives – which aim to strengthen civil society and bolster human rights associated with democracy (free speech, fair verdict, access to information, safety) – or in terms of strengthening formal structures for democracy (political parties, elections). Although these initiatives are likely to promote essential aspects of democracy, it is less clear whether they can contribute to the removal of powerful entrenched corrupt politicians.

Externally financed and promoted democracy initiatives generally aim at generating political accountability, which – after all – depends on political will. The term *accountability* is often associated with the propensity of politicians and government administrations to act in accordance with the expressed welfare interests of society and to respect legislative rules and institutions. Thus, accountability reflects the “dialogue” between decision-makers and the electorate, as well as the requirement that decision-makers are responsible to the electorate for their decisions. Accountability is nevertheless a value-based term which takes on an imprecise meaning if the underlying set of values is inadequately articulated. The values associated with accountability should reflect citizens’ opinions, developed from active communication among the different players in society and then shaped by party-political activities. If the incumbent regime does not encourage these processes or even actively discourages them, it will be difficult for the society to benefit from democratic structures.<sup>21</sup>

Even if external pressure leads a country to hold its first election, the formal creation of a democratic constitution may not address pervasive weak political accountability. The systems of checks and balances vary significantly among countries with similar democratic constitutions, and it can be difficult to assess the real decision-making processes behind a regime’s promises of democratic transition. Besides, in the excitement of a democratic transition, the new democratic structures are sometimes left in a vulnerable condition by domestic as well as international observers, despite the obvious risks. For instance, in Africa’s many young democracies – which copied most of their constitutions from former colonial powers and other prominent western states – the constitutions are often altered over time. For example, over the three last decades, 18 of the 21 countries in Africa that started out with a parliamentary constitution have changed their constitutions to presidential ones (Torvik and Robinson, 2008).<sup>22</sup> Such significant amendments can provide the executive with ultimate authority and turn parliaments into sub-ordinate institutions, unable to obstruct executive power.

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<sup>21</sup> See Besley (2006) for an economic analysis of political accountability, governance failure and voters’ propensity to punish the incumbents. Rose-Ackerman (1978) offers a relevant analysis of political and bureaucratic power, the importance of bargaining power between those who offer and those who receive bribes, and the importance of the risk of being penalized. Kunicova (2006) review how the design of democratic institutions seems to matter to the control of corruption.

<sup>22</sup> Out of these, a clear majority is dependent on revenues from the export of non-renewable resources. The control of these revenues allows the political elite to bolster their power – regardless of democratic structures. See also Hayo and Voigt (2012).

## Voters are not reliable

Another weakness with democracy, as an anti-corruption remedy, is that it will not address all forms of political corruption, even where the state appears to work very well.<sup>23</sup> One obvious reason is that incumbents may control the information that is made available to voters, and they may get re-elected by projecting a better image than they deserve. Even when the voters are well informed, they cannot be trusted to punish corrupt incumbents in the next election.<sup>24</sup> Voters judge politicians on a whole range of factors, other than raw performance. For instance, many voters judge politicians on the basis of party-affiliation alone, particularly if the ideological differences between political alternatives are wide. Others will vote for charismatic leaders, or they might vote for female leaders in order to improve the gender balance in politics. Some will reward incumbents for a specific political result without considering the economy as a whole, or they will vote for a candidate whose promises of a reform may never happen.<sup>25</sup>

Voters can be myopic in the sense of preferring short-term benefits without considering future consequences. On election-day, many may have simply forgotten about the failures of the incumbent regime. Besides, the internal party processes for selecting candidates are often much less democratic than the election itself. Even in apparently well-functioning democracies (such as those the top-right quadrant in the figure above), the selection processes within the parties can be steered formally or informally by a narrow clique of party leaders. If elites are more focused on widening their power base than in promoting welfare-enhancing policies, primary battles may open up opportunities for political corruption. The most reform-friendly or benevolent candidates may lose out to those who are loyal to – or who bribe or coerce – party elites.

In addition, after elections occur, voters may not be able to assess the performance of politicians in those sectors most exposed to political corruption. Sectors such as natural resource management, utility provision, defence, and construction entail complex financial arrangements and secret contracts. Such complexities may render voters unable to assess to what extent they have secured 'value for money'. Besides, voters may misperceive the performance of these sectors. For example, evidence from Latin America in the 1990s suggests that energy reforms resulted in a simultaneous decline in sector-specific infrastructure prices in some countries and an increase in the quality of and access to services. Despite substantial improvements in the performance of the energy sector, surveys on public perceptions showed discontent with the results of reforms (Straub and Martimort, 2005).<sup>26</sup> Unless there is some correlation between government performance and voter contentment, voters will not punish political corruption.

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<sup>23</sup> A recent study of 300 state administration institutions in 25 European countries conducted by Transparency International, the European National Integrity Study, revealed clear risks of political corruption, particularly when it comes to campaign finance, lobbying, and procurement. Integrity safeguards for legislators, access to information, and protection of whistleblowers need to be improved significantly in most of the countries.

See <http://www.transparency.org/enis/report>

<sup>24</sup> See textbooks in political economy, for example Drazen (2000) or Mueller (2003)

<sup>25</sup> See Mueller (2003), Besley (2006) and Katz (1997), among others.

<sup>26</sup> A possible explanation could be that voters may not manage to unpack the implications of separate elements of reforms if the outcome for the overall economy is perceived to be negative and/or if reforms have led to high unemployment rates, as discussed by Huber et al. (2009)



## Other governments are not reliable

In some situations developed countries may benefit from institutional weaknesses and democratic deficits in developing countries.<sup>27</sup> In some cases, the more corruption there is in a country, the more profitable the contracts might be for big international firms (for example because it makes collusion between competitors easier and because they can more easily influence contractual terms). The most generous governments in terms of offering aid may also want to promote the interests of their industries by ensuring access to natural resources or securing defence alliances. Although officially such governments may strongly promote democracy, their informal signals can be different if democratization – that increases the risk of regime change – puts their own commercial or political interests at risk.

Several developed country governments – or the industries they seek to promote – benefit substantially from the existence of tax havens (more correctly referred to as *secrecy jurisdictions*), and allow these jurisdictions to continue to operate even if they facilitate grand corruption and are particularly harmful to developing countries.<sup>28</sup> For incumbent leaders in developing countries, secrecy jurisdictions not only make it easier to bolster their power by facilitating political corruption but also increase the incentives for them to stay in power – thus securing benefits for their cronies and preventing the opposition from access to corrupt sources of rents. The very existence of secrecy jurisdictions depends on the support of those wealthy developed governments that actively promote democracy and development abroad. As Shaxson (2011) explains in more detail, nobody would place billions of dollars in small (supposedly autonomous) islands without guarantees from much bigger and more powerful states. If it were more difficult to hide funds, political corruption would be much more difficult to hide, incumbents would be less likely to cling to power, and more ready to acknowledge electoral results and step-down in a timely fashion. Thus developed states' acceptance and/or support of secrecy jurisdictions are another contradiction of their demands for global democracy.

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<sup>27</sup> For an indicator of the diplomatic efforts governments undertake to secure commercial benefits, see Transparency International's Bribe Payer Index presented at their website: [www.transparency.org/](http://www.transparency.org/)

<sup>28</sup> For every dollar offered in aid to a developing country, ten dollars disappear into a tax haven, according to Shaxson (2011). He describes in detail how many of the existing tax havens have been designed and are still operated by the UK government. See also Ndikumana and Boyce (2011).



## Policy options

Democracy should continue to be promoted globally for a number of obvious reasons; including its documented ability to deliver better leadership, economic development, and protection of human rights. However, as discussed in this chapter, relying on democratic mechanisms to root out political corruption is an inefficient method for promoting welfare and economic development for citizens in 'failed states'. Promoting democratization is not sufficient if the political will to support honesty in government is weak or non-existent.

It is admittedly difficult for the international community to interfere within national jurisdictions unless this interference is welcomed due to a convergence of interests between international actors and key domestic groups. However, targeted efforts to undermine political corruption and secure accountability should not be hampered by a principle of non-interference with domestic politics. Several approaches are likely to make an important difference.

There are general lessons to learn from the research on crime. Just as a higher probability of detection and punishment reduces crime; so too might detection and punishment be the most reliable strategy against political corruption. In addition to the agenda of democratization, international collaboration can help promote the investigation and sanctioning of corrupt politicians – even while they are in office and even before the corruption and human rights violations have reached extreme dimensions. Very often, the legal tools are available, including the UN Convention against corruption, but success depends on the willingness of international players to use them.

Political corruption can be targeted by supporting judicial independence, if such institutions exist.<sup>29</sup> Governments and representatives can be brought to court nationally or internationally if aid money disappears in political corruption. Instead of being lenient about how funds are being spent, development partners can demand strict audits on spending. Financial and technical support to national audit systems has contributed to develop stronger financial control in several African countries over the last decade, but many audit institutions are still very weak.<sup>30</sup>

Fair competition in markets reduces the generation of rents available for corrupt politicians. Among the institutions that may make a difference if strengthened are antitrust/competition authorities. As markets are getting larger also in developing countries, such institutions are now warranted in most countries. Procurement reform – which is often mistaken as an alternative to competition control – is not enough to ensure that market forces work for development. Large and efficient corporations – which are likely to benefit from fair competition – should voice their demands for independent regulatory bodies to serve as part of a more predictable regulatory framework. Complaint mechanisms should be in place for firms as well as individuals.<sup>31</sup> Firms (and particularly small and medium sized firms) may be willing to take legal action against a government (or a government-owned firm) when contracts are lost due to corruption, if they are supported financially and diplomatically by their home governments. Moreover, governments in all parts of the world have a duty to sanction 'their own firms' if found guilty of engaging in corruption abroad.

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<sup>29</sup> See Gloppen et al. (2004) for cases that highlight the difficulties for citizens to hold use national courts to hold politicians accountable.

<sup>30</sup> See Wang and Rakner (2005) for an assessment of challenges and approaches in three African countries.

<sup>31</sup> See this volume's chapter by Joost Pauwelyn for discussion about the extent to which trade and investment treaties offer opportunities for complaining on business-related corruption. Søreide (2009) explains why many firms explain why many firms are unlikely to file complaints on lost contracts because of corruption. Among the reasons are opportunities for higher profits in cartel collaboration with corrupt competitors.

In part, the notion of sovereignty should be loosened because development partners have the capacity to place heavy conditionality on integrity mechanisms (such as laws that grant access to information, freedom for civil society, and greater independence to courts). Human rights violations, which tend to be higher when political corruption is a problem, can be brought to international courts.<sup>32</sup> The UN convention against corruption can be applied more actively; particularly the (non-mandatory) article 20 which allows prosecution based on illicit enrichment,<sup>33</sup> and article 31 which allows seizure of funds placed abroad upon proof of crime.

Why there is resistance to fight political corruption in developing countries is difficult to understand unless we consider how democracy can place isolated commercial or political benefits for developed countries at risk. However, contributing to benevolent governance in developing countries is not only a moral obligation. It is also likely to expand markets for honest players in the private sector internationally and create better opportunities for political collaboration on international development challenges.

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<sup>32</sup> See this volume's chapter by Abiola Makinwa.

<sup>33</sup> The article reverses the burden of proof and the government officials or politicians involved have to prove that their income is and properties are legitimate.

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Citizens of countries with a corrupt political leadership are trapped in a situation, typically characterized by increasing income differences, human rights violations, dysfunctional democracy, limited press freedom, weak access to basic services, such as health and utilities, and it is difficult for them to move to another country to get a better life. Despite Arab Spring experiences, confronting a government with monopoly on power within its jurisdiction often fall short, and citizens' success in their efforts to replace an illegitimate government relies on some form of international support. This paper reviews some of the reasons why we see shortcomings in this support. The international anti-corruption initiatives far too often fail to reach the political elite. New laws that could have made it difficult to hide stolen money abroad are not enforced. Pro-democracy initiatives are important, yet not efficient enough for getting rid of corrupt politicians. International pressure for legal reform does not bring change unless the laws are enforced. 'Other governments' often fail the citizens in these countries. Instead, they keep a good dialogue with the incumbent in order to improve their chances to get access to resources, secure profitable contracts for 'their' firms, or because of military strategies. Narrow interests and competition between countries distort the process towards a world free from political corruption.