

## Tackling Corruption Head On

Latin Americans are well aware of how corruption undermines their governments and societies. In Transparency International's latest surveys of local and international perceptions of government corruption, most countries in the region ended up in the bottom half of the 163 countries covered: Brazil, Mexico, and Peru ranked 70, Argentina 93, Bolivia 105, and Ecuador and Venezuela 138.<sup>1</sup> Only Chile and Uruguay did better, at 20 and 28 respectively. Latin America has democratic governments and considerable transparency. Yet in terms of corruption, Latin American countries rank consistently below the world average (table 8-1) and just above the poorest nations in Africa and Asia in international comparisons.<sup>2</sup> Low growth, limited access to information, the high dependence

1. Costa Rica ranked 55; El Salvador, 57; Colombia, 59; Guatemala, Nicaragua, and Paraguay, 111; and Honduras, 121 (Transparency International 2006a).

2. In the 2006 Corruption Perceptions Index (CPI) nearly all Latin American countries score below the world mean; Chile, Uruguay, and Costa Rica are the exceptions. The average score for Latin America excluding the three best performers is the same as that of Africa and just slightly ahead of the scores for Eastern Europe and Central Asia (Transparency International 2006a). The bribe index in Mocan (2004) suggests that corruption in Argentina and Bolivia—measured as the share of citizens surveyed who indicated that they had been asked for a bribe—is among the highest in the world (29 and 26 percent respectively), behind only Indonesia (30 percent). Data in Kaufmann, Kraay, and Mastruzzi (2006) measuring the quality of governance—including one indicator for control of corruption—show Latin America with a low rating, especially when compared with developed countries and East Asia. See also the ethics and corruption subindex in the World Economic Forum's Global Competitiveness Index 2006–2007 (Lopez-Claros and others 2006).

**TABLE 8-1. Corruption Perceptions Index, 2006**

Range 0–10, with 0 = most corrupt.

<i>Region</i>	<i>Index score</i>	<i>Country</i>	<i>Index score</i>	<i>Country</i>	<i>Index score</i>
Africa	2.9	Ecuador	2.3	Mexico	3.3
Latin America <sup>a</sup>	2.9	Venezuela	2.3	Colombia	3.9
East Asia	5.7	Paraguay	2.6	Costa Rica	4.1
OECD <sup>b</sup>	7.4	Bolivia	2.7	Uruguay	6.4
		Argentina	2.9	Chile	7.3
Global average	4.1	Brazil	3.3		

Source: Transparency International (2006a)

a. Excluding Chile, Uruguay, and Costa Rica.

b. Excluding Mexico and Turkey.

of civil society organizations on public funding, and a public sector that is still large despite a decade of privatization probably all contribute.

Despite an increase in awareness and visibility and the many small anti-corruption legislative and program initiatives that have appeared, at least on paper, it is difficult to document any real improvement. Attitude surveys suggest that improvements occurred in Colombia and Mexico over 1995–2005 but that the situation deteriorated in Argentina and Venezuela.<sup>3</sup> And, of course, such surveys may simply reflect general discouragement in countries that are suffering economic setbacks and optimism in countries that are doing better.

### Corruption Poisons any Equity Strategy

One of the worst aspects of corruption in Latin America is its role in perpetuating inequality and undermining efforts to reduce poverty. How does that process work?

First, corruption undermines competition, and that hurts small businesses, consumers, and taxpayers. An obvious example is corruption in procuring government services.<sup>4</sup> If a few large firms with the right contacts

3. See Lambsdorff (2005) for analysis of the Corruption Perceptions Index and its component data and initial findings related to country trends in about sixty countries over 1995–2005.

4. Surveys of perceptions among Latin American business owners suggest that problems of capture and corruption in public procurement are more serious than administrative corruption (for example, the extent of bribery associated with access to public services, customs, and taxation) (Kaufmann 2003).

and the capacity to pay bribes get the inside track, the costs will be paid by others—in higher prices, wasted public money, poor-quality services, and lost opportunities for competitive, job-intensive small firms to expand. Less visible but also insidious are the effects on small businesses and consumers of delays at customs, excessive tax and health “inspections,” and so on—in part the result of an environment that encourages ill-paid public servants to hope for side payments. In Peru, Colombia, Ecuador, and Honduras, small businesses report requests for bribes to obtain services more often than larger firms; they also report larger bribe payments to secure public contracts. A survey in Mexico estimates that in 2005, families paid nearly US\$1.8 billion in bribes to obtain public services. For households earning the minimum wage or less, the cost of bribes represented almost 25 percent of income.<sup>5</sup>

Second, by undermining competition, corruption reduces the level of and the return to private investment, thereby reducing job creation and ultimately hurting the poor.<sup>6</sup>

Third, corruption undermines government. A weak and ineffective government hurts growth and cannot protect its most vulnerable citizens.<sup>7</sup> Public revenues are wasted on unproductive projects that line insiders’ pockets. The benefits of public investments in roads and hospitals are lost

5. Anderson, Kaufmann, and Reccatini (2004); *Transparencia Mexicana* (2006). Surveys in Ecuador show that smaller firms are more likely to pay bribes than larger firms (46 percent and 29 percent respectively); they also report higher bribe payments to secure public contracts (10 percent of the contract value on average). Both larger firms and microenterprises report slightly lower bribe payments. After the number of inspections is normalized by firm size, smaller firms also receive a much higher number of visits per employee and their managers spend much more time (per employee) than large firms in dealing with government regulations (World Bank 2005d). In Brazil, bribes to secure government contracts place a heavier burden on microenterprises and small firms—costing them between 13 and 15 percent of the contract value compared with 5 percent of the contract on average for large firms (World Bank 2005e). In Mexico, the average cost of bribes in 2005 amounted to about US\$16 per household claiming to have paid bribes, or 8 percent of household income (*Transparencia Mexicana* 2006). See also Kaufmann, Montoriol-Garriga, and Reccatini (2005) for evidence from Peru.

6. Mauro (1995, 1997) and Keefer and Knack (1995) show that corruption reduces total investment. Wei (2000) shows that corruption also reduces foreign direct investment.

7. See, for example, Kaufmann (2005); Kaufmann and Kraay (2002); Tanzi (1998a); Gupta, Davoodi, and Alonso-Terme (2002); Gupta, Davoodi, and Tiongson (2001); Anderson, Kaufmann, and Reccatini (2004).

to poor maintenance and corrupt procurement practices.<sup>8</sup> A discouraged civil service loses its sense of public service and responsibility.<sup>9</sup>

Fourth, corruption undermines confidence in government, with pernicious effects. One example: honest but alienated citizens feel justified in evading and minimizing their taxes; the resulting smaller tax base means lost opportunities to invest in education, health, and other public services on which the poor rely most.<sup>10</sup>

Analysis suggests that countries with less corruption spend more on education—presumably because more honest governments spend more on the poor. (It could also be that when governments spend more on education fewer opportunities exist for the more lucrative forms of corruption that more capital-intensive public spending provides.)<sup>11</sup>

## What Can Be Done?

Most countries in the region took a critical step in fighting corruption when they opened their economies to global competition. There is nothing like outside competition to reduce the space for unproductive rent seeking by private firms and nothing like eliminating tariffs and quotas to eliminate the bureaucratic discretion that invites bribery.<sup>12</sup>

Today's high awareness of corruption—and sensitivity to it—also represents an important change. Over the past decade and a half, much

8. Mauro (1998); Tanzi and Davoodi (1998a); Keefer and Knack (2007, forthcoming). Tanzi and Davoodi (1998a) shows that corruption is likely to increase public investment but to reduce its productivity (as corrupt officials tend to invest in projects based on the opportunity for corruption and kickbacks and not on the basis of their intrinsic economic value). The authors also find that, other things being equal, higher levels of corruption are associated with lower expenditure on operations and maintenance and lower quality of public infrastructure (statistically, the impact of corruption is strongest on the quality of roads and power outages). A summary of their findings can be found in Tanzi and Davoodi (1998b).

9. In Paraguay, public servants surveyed in 2005 cited the lack of a merit-based promotion system and the many obstacles they face in bringing forward corruption allegations as the main reasons for their overall low morale and lack of motivation (CISNI 2006).

10. Tanzi and Davoodi (2001) finds that a one point increase in corruption is associated with a 2.7 percent decline in tax revenues as a share of GDP (and specifically with a 0.63 percent of GDP decline in individual income taxes collected). See also Tanzi (1998b).

11. Mauro (1998) shows that government spending on education as a ratio of GDP is negatively and significantly correlated with corruption. Specifically, a decline in corruption of one standard deviation is associated with an increase in government spending on education by 0.6 percentage point of GDP. See also De la Croix and Delavallade (2007).

12. See Ades and Di Tella (1999, 1997) for further discussion on these points.

progress has been made. Civil society organizations in Mexico, Panama, and Colombia have introduced national-level public perception surveys and corruption studies that provide key information on the nature, magnitude, and location of corruption within countries.<sup>13</sup> Similar initiatives exist in Brazil, Chile, Costa Rica, Ecuador, Paraguay, and Peru.<sup>14</sup> In most places, voters are insisting on more accountable government; in addition, the media are relatively free to criticize government policy and are actively doing so.<sup>15</sup>

But in terms of crackdowns on and effective prevention of corruption, the region's record is much less positive. While most countries have passed anticorruption legislation, it is rarely enforced (but see box 8-1 for signs of effort). Most governments use legal instruments as “window dressing” to comply with international conventions against corruption or to dodge domestic corruption allegations.<sup>16</sup> Bolivia, for example, has passed laws aimed at curbing abuse of authority and influence peddling

13. In 2001, 2003, and 2005 *Transparencia Mexicana's* National Index of Corruption and Good Governance assessed corruption levels in thirty-eight key public services through client responses. In Panama, an impunity index issued in 2003 by the *Fundación para el Desarrollo de la Libertad Ciudadana* revealed that of 110 cases of corruption that appeared in the media between 1997 and 2002, only four resulted in convictions. The Integrity Index for National Public Institutions developed by *Transparencia por Colombia* ranks more than 100 public entities according to indicators of transparency, efficiency, control, and punishment. See *Transparencia Mexicana* (2006); *Transparencia por Colombia* (2005, 2006); *Fundación para el Desarrollo de la Libertad Ciudadana* (2003).

14. For a mapping of nearly 100 corruption measurement tools (including opinion surveys, public sector diagnostics, and private sector surveys) being developed in Latin America at the national and local levels, see *Transparency International* (2006b).

15. In Latin America, three countries (Costa Rica, Chile, and Uruguay) were rated “free” in the 2007 Freedom of the Press global survey, fourteen countries were rated “partly free,” and two (Cuba and Venezuela) were rated “not free.” Of the 195 countries surveyed, Venezuela has registered the largest decline in media independence since 2002. Argentina has recently slipped in the ranking due to the misuse of official advertising, while in Bolivia and Peru political turmoil and polarization between state-run and privately owned media has weakened freedom of the press. Setbacks in other countries are mostly related to the rising violence against journalists covering drug trafficking and organized crime, which in turn reflects the general intensification of violence in the region (Freedom House 2007). See also *Reporters Without Borders' Worldwide Press Freedom Index 2006* ([www.rsf.org](http://www.rsf.org)).

16. Governance indicators for 1996–2005 in Kaufmann, Kraay, and Mastruzzi (2006) show that Latin America has performed poorly on control of corruption over the last ten years. In two small opinion surveys in Argentina, respondents from the private sector, civil society, and government identified reducing corruption as the area where Argentina is doing the least well (World Bank 2006d). See also Parker and others (2004); *Acción Ciudadana* (2006); *Proética* (2006); and country reports in *Transparency International* (2007, 2006c) and *Global Integrity* (2007).

**BOX 8-1. Cracking Down on Corruption**

In Buenos Aires a newly elected city government carried out an effective corruption crackdown in public hospitals from September 1996 through December 1997 by using a mix of audit policies (sticks) and higher wages (carrots). The monitoring initiative required that the thirty-three Buenos Aires public hospitals report to the Health Secretariat the price, quantity, brand, supplier, and month of each purchase of a number of very basic supplies.<sup>1</sup> The information was summarized and sent regularly to all hospitals, highlighting those that paid the lowest and the highest prices. Evidence shows that prices fell by 15 percent following the introduction of the monitoring policy. After the initial nine months of the program, average prices paid by the procurement officers increased but were still 10 percent lower than the pre-crackdown levels.<sup>2</sup> Higher wages among procurement officers were associated with lower input prices in the last phase of the crackdown, when audit intensity could be expected to be moderate (that is, lower than in the initial phase of the crackdown, when audit probability was very high, but higher than in the pre-crackdown period).<sup>3</sup>

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1. Hospital supplies were acquired through a decentralized procurement processes. The information was to be copied directly from the invoices for each purchase in a format that enabled auditing by including the invoice number. The method used by the government was to start with very homogeneous products whose price differences could not be explained in terms of quality, so as to make price comparisons as powerful as possible.

2. This confirms previous informal accounts of corruption crackdowns that estimate that effects of such policies tend to decrease over time.

3. Higher wages had no effect on input prices when audit probability was very high.

at all levels of government. But in practice, cases of unlawful enrichment by government representatives—which have risen in recent years, especially at the municipal level—are difficult to prosecute because there is no law in Bolivia allowing authorities to probe assets and earnings of public officials. Several drafts have been introduced in the country’s congress, but all have been rejected.<sup>17</sup> In another example, Ecuador’s national electoral tribunal is obligated by law to provide information on campaign finance to citizens upon request. But in practice, when accounting reports are filed, the electoral court ignores the law and makes the information inaccessible. In 2002, a nongovernmental organization, Participación

17. Serrano (2006).

In 2002, Mexico approved the comprehensive Federal Law of Transparency and Access to Public Government Information, unique in Latin America in terms of its depth and scope. It requires government agencies to publish routinely and make accessible all information concerning their functions, including budgets, operations, staff, salaries, internal reports, contracts, and concessions. An uncomplicated request process was established to obtain information not already in the public domain, granting citizens the right to appeal an agency's decision to deny information and take the case to court if the appeal is denied. The law includes the first clause prohibiting government from withholding under any circumstance information regarding crimes against humanity or gross human rights violations. There is a special budget provision for implementation and oversight; another key component provides for educating both the public on how to use the law and government bureaucrats on how to comply with it. The law legitimizes and encourages the role of civil society in monitoring compliance.

In 2000 Chile enacted the Law on Tender Offers and Corporate Governance. In 2001 Brazil approved reforms to the Corporation Law, strengthening minority shareholder rights and enhancing disclosure standards; a separate reform provided greater functional and financial independence to the Securities Commission. In 2001 in Colombia the Superintendencia de Valores enacted a resolution requiring all issuers who intend to be recipients of pension fund investment to disclose their governance practices in some detail.

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Sources: Di Tella and Schargrodsy (2003); Sobel and others (2006); Banisar (2006); IFAI (2004); Villanueva (2003); Parker and others (2004); Capaul (2003); OECD (2003).

Ciudadana, requested copies of all campaign expenditure reports filed by presidential candidates and their parties that year. The electoral tribunal ruled that the information was to be deemed confidential until the tribunal finished revising it and issued its own report. Participación Ciudadana filed an appeal with the country's Constitutional Court, but lost.<sup>18</sup>

The watchdog agencies (for example, anticorruption institutions or commissions, ethics offices, ombudsmen) often set up by governments to ensure accountability in public institutions have the right form but little

18. Speck (2004); Dirani, Schied, and Voika (2004). In 2004, Ecuador's Congress approved a new access to information law, but so far there have been very few gains from it. Implementation of the law has been exceedingly slow, largely because of the lack of cooperation from public entities, federal agencies, and local governments (Banisar 2006).

substance. The agencies frequently lack the credibility, resources, power, and independence to enforce their anticorruption mandates; at worst, some may even extort rent.<sup>19</sup> Peru's Congressional Ethics Commission, created in 2003, failed to find fault with a single legislator in its first year, although dozens of complaints and corruption allegations were brought to its attention. A second, temporary, commission set up by the justice minister in 2004 to develop an anticorruption program collapsed less than a year later, after the minister resigned.<sup>20</sup>

One problem may be that “when corruption is widespread, individuals do not have incentives to fight it even if everybody would be better off without it.”<sup>21</sup> Countries end up stuck in a bad equilibrium in which pervasive corruption and low investment and growth are common.<sup>22</sup> In most of the

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19. Argentina, Costa Rica, Guatemala, Panama, Peru, and Venezuela are among the countries that have set up anticorruption agencies, offices, or commissions in recent years. Studies show that such watchdog agencies have achieved success only in countries where governance is generally good, such as Chile. Where institutional environments are weak and corrupt, strategies that rely heavily on anticorruption agencies have been largely ineffective (Huther and Shah 2000; Shaha and Schacter 2004). In many cases, anticorruption agencies are not empowered to enforce accountability directly; they can enforce it only indirectly by referring cases to judicial and legislative bodies, which in Latin America are mostly weak and corrupt themselves (Santiso 2006). (Svenssen 2005 also briefly discusses the problem with anticorruption agencies.) Moreover, focusing on internal control mechanisms falls far short of what is needed when corruption is not limited to administrative and bureaucratic circles (Kaufmann 2003).

20. Proética (2006); Castilla and Olivares (2006). Peru's Congressional Ethics Commission was restructured in 2004 to boost performance but managed to make only a single recommendation in 2004–05, calling for a 120-day suspension for a legislator who assaulted a government official. The length of the suspension was later reduced by Congress.

21. Mauro (2004, p. 16).

22. Mauro (2004) presents a model that embeds strategic complementarity—that is, if many people steal, then the probability of any one of them being caught will be low—into the Barro (1990) model of economic growth with government expenditure in the production function as an input. When other people are stealing from the government, an individual will base his or her decision not only on a lower marginal product of working in legal activities, but also on a higher marginal product of stealing, because the chances that he or she will be caught are lower. As a result, it will be profitable to allocate more time to rent seeking and less time to productive activities. The model obtains multiple equilibria—a “good one” characterized by absence of corruption and high rates of investment and growth and a “bad one” by pervasive corruption and low investment and growth. Slow growth and low investment in the bad equilibrium result from the waste of labor hours spent on the unproductive transfer of resources and from a low marginal product of capital, because a lower proportion of government expenditure reaches the production processes of which it is an input. The model emphasizes the role of individuals stealing from the government and may be interpreted as allowing for both petty corruption (paying a bribe to obtain a driver's license) and grand corruption (paying a bribe to build a highway with substandard materials).

region, corruption is still rooted in institutions such as the police, justice, and health services systems, which have the greatest contact with the public.<sup>23</sup>

Unfortunately, evidence on which anticorruption programs and measures work best is scarce. But a serious anticorruption agenda would include

- ◆ An independent judicial system. This is part of institution-building reforms. Many countries in the region still lag behind in meeting the standards of due process observed in developed countries, and courts and judges often are vulnerable to political interference and bribery.<sup>24</sup> Accountability mechanisms are rarely in place. The same problem plagues other regulatory agencies—bank supervisors, for example, need to be protected from intimidation. Institutional safeguards that are needed to ensure judicial accountability and independence include security of tenure and improving conditions of service for judges; rigorous and transparent appointment and disciplinary procedures; transparent mechanisms of case allocation and case management; clear rules on conflict of interest; transparent and open hearings; right of appeal and publication of judicial decisions; and public information about the courts.<sup>25</sup> In Chile, reforms led by the judiciary have resulted in greater transparency, streamlined administrative procedures, and better-trained judges and court staff.<sup>26</sup>

23. See, for example, Hunt (2006); Herrera and Roubaud (2004); Seligson (2006); and, on corruption in the health sector, Lewis (2006).

24. Judicial systems in Latin America, which are mostly inefficient and ineffective, often are also corrupt, contributing to impunity. Public officials are rarely prosecuted, let alone convicted on corruption charges. Political influence in the judicial process remains a major problem in most countries. In Guatemala, for example, judges in the Supreme Court have talked about receiving “instructions” on how to resolve certain cases if they wished to remain in their posts (ICJ 2005; Melgar Peña 2007). In Brazil, public officials can be investigated and tried only in the country’s superior courts, which are not designed or equipped to handle criminal cases. The result, according to a new study by the Association of Brazilian Magistrates (AMB 2007), is almost guaranteed impunity. Out of the 463 cases brought against public officials in the country’s superior courts between 1988 and 2007, only five resulted in convictions. In some countries, there is a lack of resources and professional training for judges and court staff. In Mexico, local courts lack decent budgets and the means to handle their workload, while federal courts have good resources and their staff enjoy high salaries (Carbonell 2007). Systems everywhere are overwhelmed, and citizens, especially the poor, often lack access. See Transparency International (2007); CEJA (2007); Popkin (2004); Gargarella (2002); and Buscaglia (2001) for further discussion on these issues.

25. See Transparency International (2007) and World Bank (2005c) for further discussion.

26. Harasic (2007). Costa Rica also has undertaken reforms of the judicial sector with positive results (Salazar and Ramos 2007). See Treisman (2000) and Ades and Di Tella (1997) for evidence on the positive effects of an independent judiciary in curbing corruption.

- ◆ Measures to lock in governments' obligation to disclose and "voluntarily" disseminate key information.<sup>27</sup> Guaranteeing full public access to government information—about contracts, prices, and regulatory decisions—helps curb corruption. Advances in information technology have made the dissemination of public information much easier. Brazil has recently implemented innovative e-procurement mechanisms (making procurement web-based), which reportedly has led to significant cost savings and an increase in transparency and accountability in government agencies.<sup>28</sup> Greater transparency also means full access to the kind of information that can help the public identify corrupt public officials.<sup>29</sup> In most countries the constitution recognizes the right of citizens to free access to public information, but that right is not respected in practice. Mexico has made progress with the Federal Law of Transparency and Access to Public Government Information (box 8-1).<sup>30</sup>

27. Transparency "refers to the key characteristics of an effective flow of information—namely access; timeliness; relevance; and quality of economic, social, and political information—accessible to all relevant stakeholders" (Kaufmann 2003, p. 20). See Bellver and Kaufmann (2005) for a transparency index ranking 194 countries. The authors find that transparency is associated with lower corruption, increased competitiveness, and better socioeconomic indicators. Furthermore, transparency reforms do not cost much, and much progress can be achieved on a very low budget (Kaufmann 2005).

28. Evenett and Hoekman (2005). The Panama Canal Authority uses an e-procurement website with online tenders, a bid calendar, and the names of successful bidders for contracts and those suspended or debarred from receiving contracts (IMF 2006c). Mexico has recently introduced an electronic procurement portal for managing the bidding process in an effort to increase transparency and reduce corruption. But the system has not yet been adopted by all agencies. (World Bank 2006c).

29. Concrete reforms in this direction include public disclosure of assets and incomes of political candidates, public officials, politicians, legislators, judges, and their dependents; and public disclosure of political campaign contributions by individuals and firms and of campaign expenditures (Kaufmann 2005). It remains problematic that in most of the region, electoral courts and other oversight bodies have a monopoly on campaign information as well as regulatory responsibility (Walecki 2004).

30. Apart from Mexico, only five countries in the region have federal laws to regulate provision of or to facilitate access to information held by public institutions. Colombia first adopted a law on access in 1885, but its current law, from 1985, is largely unused. Laws have also been adopted in Panama, Peru, Ecuador, and the Dominican Republic (Banisar 2006). In most countries (especially those without specific laws), public requests for access to information are managed hastily and hazardously. In Guatemala, a study by civil society organizations in the country showed that between October 2002 and June 2004, six of every ten requests for public information were denied—and eight of every ten were denied during election periods (Acción Ciudadana 2006; Urizar 2006). In Honduras, a local nongovernment organization, *Ética y Transparencia*, has made more than eighty official information requests of government agencies over the last ten years, almost all of which have been ignored (Global Integrity 2007). See also Transparency International (2003); Inter-American Dialogue (2003).

- ◆ Legitimizing the watchdog role of civil society, the press, and independent analysts. Independently funded watchdogs that are analytically strong and savvy with respect to advocacy are the key to ensuring accountability and transparency, especially in environments in which corruption is relatively high and governance is weak.<sup>31</sup> In countries like Argentina and Chile, civil society groups have become increasingly involved in promoting better disclosure and transparency in political finance. In Central America, leading nongovernment organizations have launched several noteworthy monitoring and accountability initiatives to curb corruption in the judiciary. In Mexico, such groups have taken advantage of the access to information law to independently audit government contracts and hold officials accountable for corruption and misuse of public funds.<sup>32</sup> In most of the region, however, civil society organizations still lack the financial and technical capabilities to play an effective role in monitoring and oversight. The business sector also has a role to play in fighting corruption and improving overall governance.<sup>33</sup>
- ◆ Investing in civil service reform and upgrading of public bureaucracies. In some settings and countries, wage increases and audit policies could be employed as complementary tools. A combination of wage increases and audit policies was effective in curbing corruption in public hospitals in Buenos Aires, Argentina, in 1996–97 (box 8-1). Ecuador’s tax administration office and the Canal Authority in Panama improved their performance by raising wages as part of a comprehensive package of organizational reforms.<sup>34</sup> Because incompetence and lack of training in public administration often open the door to

31. See discussion in Kaufmann (2003). On the association between greater freedom of the press and lower corruption, see Brunetti and Weder (2003).

32. Maldonado and others (2004); Transparency International (2004); Salazar and Gramont (2007); Popkin (2004); and Hofbauer (2006).

33. Research discussed in Kaufmann (2003) shows that the corporate responsibility and ethics strategies that powerful businesses (including foreign investors) choose to implement can further improve or undermine national governance within a country.

34. Drosdoff (2002); Parker and others (2004). Huther and Shah (2000) suggests that a system of performance measurement that ties wage increases to increases in public satisfaction with government services could encourage officials to trade income from corrupt sources for legitimate income—especially if the probability of paying penalties also increases (as a result, say, of greater judicial independence). However, Shah and Schacter (2004) suggests that in environments where governance is weak, wage-based strategies are not likely to have a significant impact on civil service corruption.

corruption, frequent training programs to enhance enforcement and improve overall job performance—including efforts that target public officials—also are warranted.

- ◆ Reducing the scope of public sector activities, including through more privatization.<sup>35</sup> Despite large-scale privatization in the 1990s (see chapter 11), the public sector in Latin America remains large and has a strong presence in the markets, including through full ownership of businesses or through shares or participation in key privatized businesses. That opens the way for greater corruption. In Brazil, congressional investigations and the press have uncovered wide misuse of public funds and corruption by high-level officials in public companies (including Petrobrás and Banco do Brasil) who were appointed by President Lula.<sup>36</sup>
- ◆ Evaluating the impact of anticorruption programs and policies. Few countries in the region have any form of evaluation to determine what impact, if any, their anticorruption efforts are having. Information and documents about actual effects, if they exist, have not been made public, so no lessons can be drawn from them.<sup>37</sup>

35. Privatization is controversial. But the evidence shows that privatization of water, electric, telecommunications, and other services has worked for the poor in Latin America. See Birdsall and Nellis (2003) and Nellis and Birdsall (2005) for examples. Also see chapter 11 in this volume.

36. See, for example, Procuradoria-Geral da República, Ministério Público Federal, “Denúncia no Inquérito n° 2245” ([www.pgr.mpf.gov.br/pgr/asscom/mensalao.pdf](http://www.pgr.mpf.gov.br/pgr/asscom/mensalao.pdf) [March 2006]); Elizabeth Lopes and Ricardo Brandt, “Petrobrás deu R\$ 8,7 mi a ONG ligada ao PT,” *O Estado de S. Paulo*, January 4, 2006, p. A07; and Diego Escosteguy, “Acusados por mensalão ainda controlam cargos mais cobiçados,” *O Estado de S. Paulo*, March 12, 2006. In Brazil, the size of activities by nonfinancial public enterprises remains large despite extensive privatization in the 1990s. After discounting the oil sector (Petrobrás), on the assumption that its operations are largely commercial in nature, the expenditures by the remaining nonfinancial state-owned enterprises reach around 9 percent of GDP (World Bank 2007a). Evidence in Tanzi (1998a) suggests that a large public sector and pervasive government intervention may be associated with greater corruption. Comparative static exercises in Mauro (2004) suggest that, other things being equal, countries are more likely to end up in a bad equilibrium with low growth and widespread corruption when they have low productivity and a large public sector. Goel and Nelson (1998) finds that the scope of government activities rather than the size of government affects the incidence of corruption. See also Gurgur and Shah (2005).

37. Huther and Shah (2000) discusses four key criteria for evaluating anticorruption programs: relevance, efficacy, efficiency, and sustainability. See also Shah and Schacter (2004).