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Overview of Literature on Corruption

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Abstract

Strategies for reducing corruption have been widely discussed in academic literature and other research. This paper briefly summarizes relevant and interesting literature on corruption that may be useful to WCO Members. The literature cited in this paper cover various corruption research themes, including an anti-corruption theoretical framework, legal framework, case studies, policy recommendations, and economic analysis. A more extensive bibliography that also includes anti-corruption international legal instruments is presented at the end of the paper. Interested readers can draw their own conclusions based on the analysis in the studies which can also serve as general background and avenues for further research.

Key words

Corruption, Integrity, Customs

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Introduction

Anti-corruption has been on the WCO's policy agenda for many years. Many of the strategies for reducing corruption have been widely discussed in academic literature and other research. This paper briefly summarises relevant and interesting literature on this topic that would be useful to WCO Members.

There are many definitions of corruption. The classic definition, which was particularly in vogue in the 1990s, is "*the misuse of public power for private gain.*" Jeremy Pope, the former head of Transparency International, has defined corruption as "*the misuse of entrusted power for private benefit*" (Pope 2000:2). For more discussion on these definitions, see Amundsen (2000), and Michael and Polner (2008).

There is evidence that *inefficiency* is one of the causes of corruption and academic literature supports this contention (see for example, Anderson and Gray 2007; Ferreira, Engelschalk, and Mayville 2007). Thus, this would imply that implementation of the standards contained in the core WCO instruments (in particular, the revised Kyoto Convention and the Harmonized System) are especially helpful for reducing corruption.

The WCO does not make any value judgments on the literature listed in this document and it is not meant to represent the position or opinions of the WCO or its Members.

It is worth noting that evaluating the quality of published literature is a difficult endeavor. Important considerations include but are not limited to, is the article peer-reviewed; does it use appropriate social science methodology; has it been supported by other peer-reviewed articles and other social scientists; are there well reasoned critical views to the thesis; and do the findings have external validity (can they be generalised from the unique setting to other populations and conditions).

The biggest obstacle to combating corruption relates to difficulties in measuring it empirically due to its clandestine nature. Many corruption measurement methodologies use perception, which is of questionable validity and reliability. Thus, developing and using tools to effectively and accurately measure corruption can assist policymakers to better evaluate current situations and develop policy options.

The literature cited in this document cover various corruption research themes, including an anti-corruption theoretical framework, legal framework, case studies, policy recommendations, and economic analysis. A more extensive bibliography that also includes anti-corruption international legal instruments is presented at the end of the paper. Interested readers can draw their own conclusions based on the analysis in the studies which can also serve as general background and avenues for further research.

Literature Summary

Anderson, H. James and Cheryl W. Gray (2007), “Policies and Corruption Outcomes” in *Anticorruption in Transition 3. Who is Succeeding...and Why?*, The World Bank, pp. 43-77.

The authors analyse corruption in several Eastern European countries in 2002-2005. The authors assert that during this period customs related bribery decreased in many countries due to systematic efforts to combat corruption that included the revision of legislation, implementing risk analysis, random audit, and stronger enforcement and sanctions mechanisms. Drawing from a project on trade and transport facilitation in Southeast Europe led by the US, the World Bank, the EU and eight participating governments, the authors also note a positive impact of international cooperation for streamlining procedures in these countries which they assert led to improve efficiency and lower corruption.

Baltaci, Mustafa and Serdar Yilmaz (2006), *Keeping an Eye on Subnational Governments: Internal Control and Audit at Local Levels*, The World Bank.

The authors give a detailed analysis of modern internal control and audit systems in governmental agencies. They assert that in the studied countries the reformers manage to build such systems on the national level, but neglected the local governmental level. To aid implementation of the system on the local level, they offer a conceptual framework for internal control and audit. In addition to guidelines on establishing the system, the publication also provides country examples which public administration practitioners may find useful when developing their own frameworks. Despite its orientation towards the local level, the publication can serve as a platform for the development of internal audit and internal control systems in any public administration.

Cantens, Thomas, Gaël Raballand and Samson Bilangna (2010), “Reforming Customs by measuring performance: a Cameroon case study,” *World Customs Journal* 4, No. 2, pp. 55-74.

Public-sector corruption is a problem without easy solutions. Much of the academic literature describes the problem and its impact on the organization, but fails to offer possible solutions, especially ones that are social scientifically sound in that they can be benchmarked and measured over time. In this paper, the authors present the formulation, implementation, and evaluation of the use of performance contracts between the Customs Director General and frontline officers conducted at the Cameroon Customs.

De Sousa, Luis (2006), “European Anti-Corruption Agencies: Protecting Community’s Financial Interests in a Knowledge-based, Innovative and Integrated Manner,” Final Report, OLAF, Lisbon.

This publication is a report on the development of European anti-corruption agencies. The report covers the process of agency establishment, its different institutional formats, mandate and scope of action. It analyses conditions of success and failure of such agencies. The report also discusses results achieved during the workshops on issues related to anti-corruption agency strategies and day-to-day management. Drawing from national experiences, this report provides an overview of the agencies and gives recommendations for their further development.

Ferreira, Carlos, Michael Engelschalk, and William Mayville (2007), "The Challenge of Combating Corruption in Customs Administrations," in J. Edgardo Campos and Sanjav Pradhan, *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*, The World Bank, pp. 367-386.

Deriving from the Klitgaard (1998) theoretical framework, the authors develop a corruption risk map related to combating illicit trade, weakness of the legal and regulatory system, inefficient HR system and lack of an appropriate accountability system. They support and further develop the argument of Tuan Minh Le (2007) on the correlation between corruption and size of the shadow market. Having identified the risks of corruption, the authors give an overview of strategies to reduce it. In their case study they come to the same conclusion as Fjeldstad (1998) that raising salary levels does not necessarily enhance ethical behaviour, though salary levels should at least correspond to a living wage. The authors advocate limiting opportunities for rent seeking behaviour by simplifying and streamlining the legal operational framework, computerising business processes, introducing a code of ethics with strong managerial support on both central and local levels, revising HR policy, modernising procedures, using risk-based controls, establishing an internal audit unit, performance-related bonuses, and an open and transparent relationship with the private sector.

Fjeldstad, Odd-Helge (2003), "Fighting Fiscal Corruption: Lessons from the Tanzania Revenue Authority," *Public Administration and Development* 23, pp. 165-175.

The author analyses the impact of Revenue Authority (RA) establishment on corruption. In his case study, he states that tax revenues collected by the new Revenue Authority grew significantly within the first three years after the organizational restructuring. Subsequently, however, tax revenues declined and corruption rose. One of Fjeldstad's conclusions is that salary is one of several factors affecting the behavior of revenue officers. He notes that in an environment where there is a demand for corrupt services and a low accountability, a wage increase might be regarded as an extra bonus on top of bribes. Thus while higher salaries might be a short-term solution it should be only one component of a reform programme in order to reduce incentives for corruption. He discusses HR policies, noting that they may lead to corruption in case of large layoffs when former tax officers are recruited by the private sector as sources of insider knowledge. He underlines the necessity of more comprehensive administrative reforms backed up by political will in order to achieve sustainable improvements.

Heineman, Ben W. and Fritz Heimann (2006), "The Long War Against Corruption," *Foreign Affairs*.

The article discusses corruption in developing countries. After describing corruption's effects on national economies, the authors discuss the demand and supply sides of corruption. They suggest different strategies to mitigate corruption including consideration of the cultural dimension of the problem. Understanding the cultural aspect, they argue, helps strengthen enforcement, prevention and state building. After giving an overview of the existing international legal treaties to fight corruption, the authors contend that ensuring compliance with these treaties is important and call for a more rigorous monitoring to determine whether governments live up to their commitments. At the same time, the transnational corporations, which are often a source of corruption and a target for extortion, should be fundamental in an anti-corruption strategy. In conclusion the authors underline that corruption inhibits development and economic growth and undermines assistance programmes.

Hors, Irene (2001), "Fighting Corruption in Customs Administration: What Can We Learn From Recent Experience?," Working Paper No.175, OECD Development Centre.

This paper researches the nature of corruption in customs, suggests practical steps to reduce it, and provides an analysis of programme failures and successes. The findings are based on three case studies of countries which have conducted reforms. The author's view on the drivers of corruption is similar to Klitgaard (1998): lack of efficient control, discretionary power and the possibility to work within a network. Thus a new strategy should target all three elements. She argues that depending on the type and level of corruption, a different set of measures is needed to achieve positive results and any anti-corruption strategy should fit the economic and political profile of the corruption problem.

Klemencic, Goran and Janez Stusek (2007), *Specialised Anti-Corruption Institutions, Review of Models*, OECD.

The OECD report is dedicated to different models of specialised anti-corruption agencies. Based on a number of criteria, the authors have identified three general models: multi-purpose agencies with law enforcement powers; law enforcement agencies, departments and units; and preventive, policy development and coordination institutions. The authors provide a comparative overview of these institutions and measure their performance using qualitative and quantitative indicators, as well as OECD and Group of States against Corruption (GRECO) country reports. They give a detailed description of the case studies chosen for every type of the institution and offer possible solutions for common problems.

Klitgaard, Robert (1998), *Controlling Corruption*, Berkeley: University of California Press.

This book uses the principal-agent-client framework to explain the phenomenon of corruption, where the principal (a policymaker) authorises his agent (a civil servant) to provide services to clients (service recipients). Within this framework Klitgaard defines three conditions under which corruption is more likely to occur: a monopoly of power by agents (e.g. customs officers) over clients (e.g. traders/taxpayers); discretionary decision power over provision of services from the side of the agents and low level of accountability of agents in front of principals. Within this framework Klitgaard identifies the costs and benefits as well as incentives and sanctions for corruption. Using case studies he answers more practical questions related to the policy decisions in order to combat corruption: he describes the policy instruments to deal with the expected gain of the corrupt act, the enforcement mechanisms and probability of being caught. The book's emphasis is on the "why, what and how" in anti-corruption policy.

Le, Tuan Minh (2007), "Combating Corruption in Revenue Administration: an Overview," in J. Edgardo Campos and Sanjav Pradhan, *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*, The World Bank, pp. 335-338.

In this article, the author argues that there is a correlation between countries with high levels of corruption and large shadow economies.¹ This can result in the depletion of the tax base and thus diminishing state revenue. The author suggests that corruption drives enterprises out of the formal sector in order to be more competitive compared to those that already use

¹ For the economic reasoning and econometric arguments supporting this equation see Schneider, Friedrich, and Dominik Enste (2000), "Shadow Economies around the World: Size, Causes, and Consequences." IMF Working Paper WP/00/26 *International Monetary Fund*, Washington, DC.

unfair business practices. Thus the development of the formal economy is undermined. Moreover, taken that in some countries customs is responsible for aspects of security, corruption may facilitate the transit of weapons, drugs and other prohibited items.

McLinden, Gerard (2005), "Integrity in Customs," in Luc de Wulf and Jose Sokol, *Customs Modernization Handbook*, The World Bank, pp. 67-89.

This article gives an overview of the theory of corruption and its operational peculiarities in customs. He re-interprets Klitgaard's framework on anti-corruption strategies and activities by tailoring it to customs. Based on the ten principles of the Arusha Declaration he presents best practices for the reform process. The author concludes by encouraging a whole-of-government approach to tackle corruption and suggests that any anti-corruption strategy should address both motive and opportunity.

Michael, Bryane and Mariya Polner (2008), "Fighting Corruption on the Transdnistrian Border: Lessons from Failed and New Successful Anti-Corruption Programmes," *Transition Studies Review* 15:3, Springer, pp. 524-541.

This paper is based on the practical experience of designing national anti-corruption strategies. It examines the problems of the legislation in place and action planning as well as refers to the issue of the best organizational model to combat corruption. In conclusion the authors argue that implementation of a risk management system and introduction of investigation and prosecution mechanisms can be effective in reducing corruption.

Sampford, Charles, Arthur Shacklock, Carmel Connors, and Fredrick Galtung (2006), *Measuring Corruption*, London: Ashgate.

As a contribution to research on measuring corruption as being critical to the design of successful anti-corruption policies, this book examines methods to measure corruption, including the Transparency International's Corruption Perception Index and Bribery Perception Index. The limits and functions of the corruption indices and other measurement tools are discussed. The book discusses the indices reliability, and whether regular surveys can measure changes in corrupt behavior. The authors also give an overview and evaluate the methodologies used in different countries.

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