



Development Institute

LESSON PLAN

Corruption and Governance

Prerequisite: CIPE Development Institute video presentation by Daniel Kaufmann

I. Message

Global anti-corruption efforts in recent years have achieved some notable results. The sources and consequences of corruption are now better understood, and the international community has been able to work toward addressing the problem of collective action. Despite these successes, however, private sector corruption remains widespread in many countries. Incentives are the driving force behind each company's actions, including bribery. That is why building a business case against corruption and tackling the issue of incentives is the most effective way of combating the problem. Another key element of reducing illicit business practices is greater transparency and disclosure, which requires not just corporate action, but a broader engagement from the media, civil society, and international organizations – all of which can increase the reputational cost of corruption. Without large-scale reforms that can create such an accountable business environments, the anti-corruption gains made so far may prove elusive.

II. Objectives

1. Discuss the negative effects of corruption and the need to engage the private sector in anti-corruption efforts.
2. Understand the importance of a single bottom line approach in formulating effective initiatives to combat corruption.
3. Explore transparency reforms as an alternative to excess regulations.
4. Evaluate the challenges posed to anti-corruption reforms by the state capture phenomenon.

III. Discussion questions

1. What are the main consequences of corruption?
2. What is the single bottom line and why is it important in making a business case against corruption?
3. Should anti-corruption measures in the private sector be mandatory or voluntary?
4. What are some measures necessary to achieve greater transparency?

5. Why is there so much resistance to systemic anti-corruption reforms?
6. How can resistance to anti-corruption reforms be overcome?

IV. Reading list

Required readings:

- Kaufmann, Daniel, “Back to Basics—10 Myths about Governance and Corruption,” *Finance and Development*, September 2005, Vol. 43, No.3, <http://www.imf.org/pubs/ft/fandd/2005/09/basics.htm>.
- Sullivan, John D., “Anti-Corruption Initiatives from a Business View Point,” Center for International Private Enterprise, 2000, <http://www.cipe.org/programs/roundtables/budaconf/pdf/Anti.pdf>.
- World Bank, “The Costs of Corruption,” 8 April 2004, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190187~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>.

Optional readings:

- Gurgur, Tugrul and Anwar Shah, “Localization and Corruption: Panacea or Pandora’s Box?” Policy Research Working Paper, World Bank (2005), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=648011#PaperDownload.
- Hellman Joel, Geraint Jones, and Daniel Kaufmann, “Are Foreign Investors and Multinationals Engaging in Corrupt Practices in Transition Economies?” *Transition* (May, June, July 2000), World Bank/ William Davidson Institute/ Stockholm Institute for Transition Economies, http://www.worldbank.org/wbi/governance/pdf/fdi_trans_0800.pdf.
- Johnston, Michael, “Building a Clean Machine: Anti-Corruption Coalitions and Sustainable Reform,” Policy Research Working Paper 3466, World Bank (2004). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=647610#PaperDownload.
- Staphenurst, Rick, “The Media’s Role in Curbing Corruption,” International Bank for Reconstruction and Development, 2000, <http://www.worldbank.org/wbi/governance/pdf/media.pdf>.

V. Lesson plan

The progress of global anti-corruption efforts

- Recognizing costs and consequences of corruption
 - Success in curbing corruption produces a development dividend
- Collective international action against corruption
 - Large number of initiatives undertaken by international organizations
 - Partnerships between public and private sectors
- Greater role of the private sector in fighting corruption
 - BUT bribery persists in both domestic and international firms

The single bottom line approach

- Proliferation of bottom lines to include more factors than just profit diluted the focus on incentives
- Effective anti-corruption initiatives must take incentives into consideration
 - Companies' actions are driven by accountability to shareholders
 - Corruption is ultimately detrimental to business even if it brings short-term benefits
 - Excess regulation creates greater demand for bribery

Transparency reforms

- Greater transparency increases reputations costs of corruption in governments, corporations, and multilateral organizations
 - The need for a right mix of voluntary and mandatory disclosure measures
 - The need for free, independent, and investigative journalism

Challenge of implementing effective initiatives

- Few systemic reforms that would accompany anti-corruption initiatives
 - Without broad transformations, small reforms produce little effect
- The need for independent, strong third-party monitoring

Overcoming resistance to reforms

- The problem of state capture and the vested interests
 - Private elites can block changes by colluding with government officials
 - State capture thwarts competition and weakens small- and medium-scale enterprises
- The challenge is to address the issue of state capture and overcome the vested interests through collective anti-corruption action of various stakeholders

VI. Sample test questions

- 1. What does “300 percent development dividend” refer to in the context of limiting corruption?**
 - a. In the recent decade, corruption in developing countries has decreased by about 300 percent.
 - b. A country that improves governance can expect to more or less triple its annual per capita income in the long run.
 - c. The World Bank rewards countries that improve governance with development aid increased up to 300 percent.

- 2. What is the single bottom line approach in countering corruption?**
 - a. Advocating better corporate social responsibility
 - b. Introducing additional anti-corruption regulation
 - c. Finding and reducing the incentives that lead to corruption
 - d. Improving the quality of investigative journalism

- 3. Excessive regulations are not an effective method in anti-corruption efforts because...**
 - a. They may create greater demand for corruption.
 - b. They very often are not properly enforced.
 - c. They assume the private sector is incapable of voluntary transparency-related measures.
 - d. All of the above.

- 4. What does the reputational cost of corruption refer to?**
 - a. The monetary value of bribes involved in illicit business practices
 - b. The drop in market value of stock belonging to a company involved in corruption
 - c. The loss of credibility and good name by a business exposed for its involvement in corruption

- 5. State capture occurs when...**
 - a. State institutions, laws, regulations, and policies are controlled by narrow private elites to the detriment of the society.
 - b. State institutions and policies are weak and cannot deliver basic services to the population.
 - c. The state centralizes the economy and captures private assets.