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ISSN: 1026-0412

First published by the Institute for Security Studies,
P O Box 1787, Brooklyn Square 0075
Pretoria, South Africa

Language editing: Euníce Reyneke
Design and layout: eR Communication & Consulting (012) 346-4609
Reproduction: PrePress Images (012) 346-2168
Printing: Cedilla (011) 683-1302

Corruption and development

Some perspectives

Chris Heymans and Barbara Lipietz

ISS MONOGRAPH
SERIES

No 40, SEPTEMBER 1999

The mission of the Institute for Security Studies is to enhance human security in Africa. This is achieved through applied research and the dissemination of information that can inform decisions on critical areas of individual, national, regional and international security. The Institute is committed to democracy, good governance and the promotion of common security.

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FOREWORD

Concerns about corruption have intensified globally in recent years. Calls for greater efficiency, transparency and integrity in public institutions are driven by a number of factors:

- the increasing realisation that the achievement of economic, political and social objectives in many countries is only possible by improving governance and preventing corruption;
- the observation that public sector corruption and maladministration act to reinforce the unequal distribution of opportunities and thus serve to undermine basic human rights; and
- the fact that corruption threatens economic growth, social development, the consolidation of democracy, and the national morale.

Recognising these threats, countries all over the world, including South Africa, are trying to create effective anti-corruption measures for both the public and the private sectors. Currently, a number of developments to address both perceived and actual corruption are under way in South Africa. In particular, the government has launched an anti-corruption initiative that has as its main objectives:

- to improve the investigation and prosecution of corruption;
- to rationalise the agencies combating corruption;
- to review legislation;

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- to improve management systems and discipline at all levels of government; and
- to protect whistle-blowers and witnesses.

The importance of independent, comparative, applied policy research to underpin these proposed policy initiatives cannot be underestimated. In the light of increasing attention being paid to the threat of corruption to good governance in South Africa and the reality of limited state capacity to undertake critical research in these areas, a dedicated programme at the Institute for Security Studies (ISS) to research and monitor these issues was established in October 1998. The Corruption and Governance Programme, currently funded by the European Union and the Open Society Foundation, has the following mission:

“to understand the nature, extent and impact of corruption and commercial crime in South Africa, and drawing on international “best practice”, to conduct research with the view to propose context-specific control measures to address corruption and commercial crime and to enhance good governance in both the public and private sector.”

This is the first in a series of monographs to be published by the Corruption and Governance Programme at the ISS. Dealing with the complex relationship between corruption and development, this important piece of research by Chris Heymans and Barbara Lipietz is a timely contribution to the ongoing anti-corruption debate in South Africa.

Following a brief introduction and a section that conceptualises both corruption and development, the core of the monograph examines the complex dynamics that characterise the impact of corruption on development. Corruption has the following negative impacts: it distorts public spending, undermines efficiency, discourages investment and growth, undermines the quality of governance and places participants at risk of castigation by the international community.

The authors consolidate recent legislative and policy steps that have been taken to control corruption. Concrete areas for reform are pointed out and the importance of political will to effect these reforms is convincingly stated. Since corruption undermines good governance and negatively impacts the capacity of the state and other actors to deliver services in an efficient and equitable way, ways in which to control corruption in order to promote the development objectives of the state are crucial. This volume makes a significant contribution to the achievement of this objective.

INTRODUCTION

South Africa is fast learning that corruption is one of the major impediments to effective development. The greater openness that democracy has brought since 1994, offers new opportunities to deal with the problem of corruption in the context of the country's new constitutional values. But it also brings into sharper focus the constraints posed by corruption, past and present, for development.

For years, the apartheid regime's authoritarian culture and practices obscured the levels of corruption: only isolated stories were occasionally reported of 'toilets in the veld', projects that never happened but were being paid for, and non-existent 'officials' on state payrolls. Getting rid of this legacy has been, in its own right, one of the major challenges facing South Africa's new democratic government since 1994. But this task has been made ever more daunting by new reports of corruption coming to the fore. While the government has publicly stated its determination to eradicate the problem, it has been struggling to shape a consistent and coherent approach, in conjuncture with business and civil society. There is a distinct need for a clear conceptualisation of the problem, an understanding of its implications and direction about how it can be addressed.

This monograph offers a perspective on the phenomenon of corruption and its impacts on development. It is considered conceptually, comparatively and through a South African lens.

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CONCEPTUAL ISSUES

mostly depends on ongoing structural changes in economic activity. Such changes could entail fundamental shifts in the primary driving forces in the economy, such as a shift from primary sectors like agriculture and mining to manufacturing and services. But even industrialised economies experience continual structural change: for example, from textiles and steel towards high-technology industries and the services sector.

- **Equity and redistribution:** Where income distribution is highly inequitable, growth in per capita income might not benefit a society at large. It is therefore fairly commonly accepted that greater equity is an important indicator of development.
- **Poverty reduction:** Poor people mostly lack assets and are often unable to acquire them. Development is therefore often taken to entail methods that enable poor people to acquire assets and access opportunities. Better financial services, health facilities, education and the provision of basic services such as electricity, water and sanitation are regarded as important contributory factors to such asset and opportunity creation.
- **Environmental safety:** Extreme poverty often goes along with environmental degradation in the form of deforestation, soil erosion and water pollution. Rapid economic growth and industrialisation can also have a destructive effect on the environment through air and water pollution, urban congestion and the degradation of the natural habitat. Development therefore requires that the tension between human activity and the natural environment is managed to ensure quality of life and sustainable access to natural resources.
- **Institutions:** Quality of life depends in many ways on people's modes of organisation and interaction. Institutions could directly enable individuals and groups of people to deal with development challenges. But even where institutions do not make such a direct impact, they are mostly the vehicles through which social cohesion is achieved, conflict managed and incentives for developmental behaviour provided. The development of institutions is often

THE ESSENCE OF ‘DEVELOPMENT’

Perspectives on the concept of ‘development’¹ have shifted markedly over the past four decades. In the 1950s and 1960s, development was essentially measured in terms of increases in gross national product (GNP), gross domestic product (GDP) and income per capita. The assumption was that economic growth ‘trickles down’ to improve personal wealth across the population, to create opportunities and employment, and to reduce poverty.

The 1970s saw a major revision of these theorems. Development became defined in terms of a better quality of life for the population at large. It was about creating opportunities and eliminating inequality, poverty and unemployment. While economic growth was seen as a factor conducive to the achievement of these objectives, analysts and development agencies contended that these outcomes required systematic and purposeful interventions. Moreover, quality of life became the focus of development literature. This meant, in the words of the World Bank’s 1991 World Development Report, “... *better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedom, and a richer cultural life.*” The notion that these outcomes required systematic strategies and management also highlighted the need for institutional change to support development.

Numerous debates and definitions continue to proliferate about the meaning of development. These debates will not be dealt with in any detail here. For the purposes of this discussion, it is useful to highlight a few dimensions of development that seem fairly commonly accepted by contemporary development theoreticians and practitioners:

- **Economic growth:** While not equating development, economic growth continues to be seen at least as a factor conducive to development. The sustainability of economic growth and its impact on social equity

Development is defined in terms of a better quality of life for the population at large

investigating 426 cases of cheque fraud, involving some R426 million.³

Self-enriching officials typically target taxes and fees. Ironically, while privatisation and utility reform often form useful parts of introducing more accountable governance, the asset transfers involved in such transactions, if not carefully monitored and managed, could also create opportunities for improper acquisition of payments and goods.

Furthermore, like other employers, government departments suffer from some employees who simply steal, from stationary and fuel to more damaging thefts like vast sums of money, vehicles and so on. In August 1998, the Citizen reported that goods and equipment worth some R1 billion were stolen from hospitals in South Africa.⁴

The nature of many development projects often opens up opportunities for officials and service deliverers who want to enrich themselves in such ways. Development projects are particularly susceptible because they often involve vast amounts in innovative schemes where tested monitoring mechanisms are not in place. Also, the generally lower educational levels of poor people, their limited recourse to often expensive legal assistance and the frailty of old people and children make them more vulnerable to exploitation by corrupt service deliverers.

- **Institutional corruption:** Both the political and bureaucratic components of government could become sources and targets of corruption. A common occurrence of such political and bureaucratic corruption is where conflicts of interest are not managed, so that potential beneficiaries of projects or resource allocations are directly able to control or influence decisions about those projects or allocations. The problems around the Motheo housing development in the South African province of Mpumalanga, for example, allegedly centred around the friendship between the developer and the national Minister of Housing.

Political outcomes could become manipulated where election rules are unfair or unfairly applied. In developing countries, where democratic regimes are often still in their infancy, much conflict and suspicion revolve around alleged election fraud. The increasing utilisation of international observers appears to be offering a way of dealing with this problem, as has been demonstrated in many countries, including South Africa, Mozambique and even Nigeria.

Institutional corruption is often – perhaps most commonly – associated with cases where processes of decision-making are misused by those who have the power to waive rules. The intensity of such corruption varies from *ad hoc* incidents to situations where corruption becomes intrinsic to the way power is exercised. This could range from major decisions of the state to very localised

time-consuming, but it is a crucial element in putting together any sustainable development process.

In summary, to improve people's quality of life, development requires economic growth and an equitable and environmentally friendly distribution of the benefits of that growth. This mostly entails institutional development and social change to drive and mediate the actions and shifts that form part of these processes.

CONCEPTUALISING CORRUPTION

Sites and forms of corruption

Corruption² is essentially the use of public power for private gain. The first obvious site for such corruption is the public sector. The state's monopoly on coercion, its control of public resources and its preferential access to certain sources of information require strict rules and procedures to ensure fair practice. In the absence of such rules, and even at times when these do exist, the government is open to a number of types of corruption:

- **Bribery** is arguably the most common form of corruption. It entails beneficiaries using extralegal means of payment to acquire government favours and resource allocations. This can involve contracts, tax exemptions, timeframes and technical standards for complying with procurement rules and licences, public information being monopolised, or getting the government to turn a blind eye to illegal activities. The most damaging form of corruption is not always that which occurs on a large scale: the cumulative effect of many small corrupt acts and transactions often leads to gross misappropriations.
- **Theft and fraud:** Some officials steal state assets under their jurisdiction or made accessible to them as a function of their positions in government. Acquiring publicly owned assets through illegal transactions and fraud constitutes the most extensive form of such corruption. For example, in November 1998, the Auditor-General's office in South Africa was

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- In the absence of clear rules and codes of ethics, discretionary power easily becomes abused.
- Low civil service salaries and poor working conditions, with few incentives and rewards for efficient and effective performance, are strong incentives for corruption.
- The less effective the government works in general, with slow budget procedures, lack of transparency, inadequate strategic vision and weak monitoring mechanisms, the more fertile the environment for corrupt practice.
- The overall culture of governance also plays an important role. If political leaders and top bureaucrats set an example of self-enrichment or ambiguity over public ethics, lower level officials and members of the public might follow suit. If informal rules come to supersede formal ones, even the most stringent legal principles and procedures lose their authority. Hence, bribery and corruption may become the norm, even in the face of formal rules intended to support clean governance. Because of government's major role in most developing economies, opportunities for corruption are often more numerous. Furthermore, these countries have often inherited large colonial bureaucracies, where the new leadership has not had much opportunity to indigenise the machinery of government. The moral epicentre that may make for good governance has often been absent as a result. In such environments, corruption has had fertile ground to take root.

In a developing context, these features of corruption become critical to the institutional and social dimensions of development. It is in the rules and practices of governance that the foundations of sustainable development are shaped or undermined. The very basis of development becomes compromised when these rules and practices are not effectively monitored and applied. Development suffers in particular where the rules of governance allow arbitrary resource allocations and the diversion of public resources in defiance of the public good and to the exclusive benefit of corrupt officials, politicians and their collaborators.⁷

project management decisions. Where corruption has become systemic, formal and informal rules that are at odds with each other become interchangeable and decisions increasingly arbitrary. At its worst, this would make bribery and favouritism routine in interactions between the public sector and private interests. This may develop such a strong momentum that no one even challenges the corruption.

From the above points it should be evident that the public sector is by no means the only site of corruption. If private companies or individuals pay bribes or commit fraud, they also engage in corruption. In fact, corruption most often lies at the intersection of the public and the private sectors. Corrupt private interests wield their influence through illegal means to take advantage of opportunities for corruption and rent-seeking. Individuals in public institutions succumb to these and other sources of corruption in the absence of credible restraints. Put differently, “*corruption equals monopoly plus discretion, minus accountability.*”⁵ Even where improper conduct, such as fraud and bribery, does not directly involve government, the public effects can be severe. For example, when financial systems become notorious for fraud, potential savers and investors might be discouraged to invest in a country, or crime syndicates may target such an environment.

It is in the rules and practices of governance that the foundations of sustainable development are shaped or undermined

Causes of corruption

The causes of corruption⁶ are varied and would have to be understood in specific contexts. The question whether a particular level or the nature of development might impact on corruption is discussed later. Meanwhile, a few general observations about the causes of corruption seem appropriate. Corruption is closely, but not solely linked to officials’ discretion over rents and the degree of accountability in executing such discretion. A number of conditions may influence the extent to which the execution of such discretion becomes vulnerable to corrupt practice:

CORRUPTION AND DEVELOPMENT

potential benefit to people so that they tend to engage in honest activity to sustain themselves. The specific rewards for entrepreneurship and productive investment rise in relation to rent-seeking investment when there is sustained growth. A prospering economy can also afford to pay its civil servants well, reducing their motivation for corruption.

In contrast, the despair caused by inequality and pervasive poverty may encourage people to break the rules of honesty and decency. People's access to or shortages of resources often develop a self-perpetuating momentum so that the well-endowed get even more and the poor get even less. Major development-related assets in this regard are land, educational opportunities and access to capital. The distribution of land affects income distribution in most developing societies because income from land constitutes a major share of households' income in such countries. Furthermore, land is often used in such contexts as collateral for borrowing and investing. Hence, the lack of land among those who are poor constrains their access to loans and other forms of financial assistance. The income earning potential and productivity of capital-poor people and institutions is also lower than that of those with capital assets. Educational inequality often translates into broader income inequalities. Firstly, people's earning power is affected by their relative levels of education. Secondly, higher education levels empower some groups to lobby government more effectively to prioritise their particular needs and requirements.⁹

While none of these factors intrinsically lead to corruption, shortages of resources raise the stakes of competition for those resources that are available and slant the balance of power towards those with access. Such intense competition may either encourage people with access to resources to use corrupt means to hold on to those privileges, or serve as an incentive for the deprived to use corrupt means to improve their own plight.

However, nothing is inevitable or automatic in this relationship and its policy implications should be approached with caution. Six points should be made in this regard:

- 10 • The **internal logic** of the 'more development means less corruption' argument is rather simplistic, ignoring the likelihood that many people will not necessarily

BACKGROUND

Developing countries face both real and perceived problems with corruption. They always feature prominently in the lower part of international corruption indices. According to the 1998 Transparency International Corruption Perception Index, for example, the African country perceived to be the least corrupt is Botswana, who rates 23rd out of the 85 countries listed. South Africa is rated 32nd. Significantly, four African countries are listed among the last thirteen on the list: Uganda, Kenya, Nigeria and Tanzania (see Appendix A).⁸

While this list does not necessarily reflect how corrupt countries actually are, the perceptions among international investors are naturally important. As will be pointed out below, many investors are cautious about being involved in corrupt environments because corruption increases the costs of transactions and makes them vulnerable to sanction elsewhere. As this reluctance to invest in some countries widens, a cycle of underdevelopment evolves where the links between corruption and a lack of development could become mutually reinforcing. Whether these links are real or perceived, they form an important part of the corruption issue in the global community and have had distinct effects on the plight of emerging economies and poor people across the world. This analysis therefore reflects on some of the possible linkages between development and corruption.

DOES DEVELOPMENT IMPACT ON CORRUPTION?

Developing societies and their people are not inherently more corrupt than developed ones. Yet, the argument is sometimes made that the lack of development opportunities automatically encourages corruption.

From this perspective, economic growth and development create social opportunities that are of

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bribes are numerous. One often hears of companies effectively setting up bribery funds to buy favours from the governments of developing countries. For example, the Saudi Ministry of Defence officially bans commissions on arms contracts, but bribes have been channelled via obscure companies in Liechtenstein, into Swiss accounts. Sometimes, middleman companies are designated as local subcontractors for 'support' and lavishly overpaid for their services. For example, middlemen pocketed US \$24 million on a \$1 billion deal for Bell Canada to modernise Morocco's telecommunications industry, despite the fact that the Canadian government and the World Bank were funding it on the condition that commissions were formally forbidden. A middleman Saudi company, Eastern Trading Services, simply served as the local subcontractor for 'support'.¹¹

Closer to home, alleged bribery in the awarding of contracts for the multinational Lesotho Highlands Water Project recently made headline news in South Africa and Lesotho. The chief executive of Transparency International South Africa, Dr Stiaan van der Merwe commented that "*[c]ross-border bribery of officials by international businesses is the most obvious form of corruption ... [and] ... international bribery and corruption will not disappear if we 'clean up' the public sector in the developing world.*" Instead, Van der Merwe points out, corruption mostly involves both public and private parties, across boundaries of the developing and industrialised worlds, conspiring to defraud the public, undermine fair trade, waste resources and frustrate development. In short, "*[t]hose who pay bribes are not, as mostly depicted, innocent parties, forced by ruthless officials to provide kickbacks and special favours in return for business.*" This has been acknowledged by the 1998 Organisation for Economic Co-operation and Development (OECD) convention against corruption that called on each of the 34 country signatories to enact legislation to "*criminalise foreign bribery.*" However, by June 1999, only fifteen of the 34 signatories had passed national legislation and deposited their instruments with the OECD. This indicates that the definitions of 'corruption' and 'corrupt parties' are unclear and that the monitoring of corruption across international boundaries – in recognition of its transnational character – still requires further concerted attention.¹²

- **Modernisation and growth are not panacea for ending corruption.** In fact, these processes have been accompanied by an increase in corruption in several transitional economies. One explanation for this phenomenon is that expansion and structural changes in the economy create more opportunities and possibly rewards for corrupt transactions. Moreover, transitional economies do not change overnight. They remain on a dual-track system for some time, marked in part by obligatory delivery at controlled prices, interspersed with market transactions and market prices. This creates several new opportunities for corruption. Within the state-controlled sector, the lack of competitive pricing places extensive power in the hands of officials. Without proper rules and procedures, and in the absence of

benefit from growth and development initiatives.

- **It generalises too much.** Many poor people do not engage in corruption in the first place. In fact, even if they wanted to, they might not have the resources to do so. And many advantaged citizens honour codes of decency: even if the competition for resources becomes more intense, they will not inevitably resort to unethical practices to hold on to what they have.
- **Corruption is a global phenomenon.** Both first and third world countries have experienced blatant corruption. Transparency International's ranking shows large variations in the perception of corruption among groups of countries at similar stages of development. In fact and contrary to conventional wisdom, pervasive political corruption can be an entrenched element of highly industrialised, democratic societies. It is not merely a by-product of underdevelopment or authoritarianism. Italy's *Mani Pulite* (clean hands) prosecutions against top politicians and business persons, which began in February 1992, led to the investigation of more than 4 000 people, the indictment of 1 063 and the conviction of 460, including a former prime minister (Bettino Craxi) who held office twice. Recently, a spell of disgrace engulfed significant numbers of German construction companies and many local officials, while Japan's Finance Ministry, long esteemed as a citadel of virtue, is still paralysed by scandals involving charges of payoffs and favours from big business.¹⁰
- **Corruption cuts across international borders.** Many cases of corruption reported in emerging economies involved corporations from the first world. Transnational corruption, for example, is particularly rife in the arms trade. A United States Commerce Department confidential annexe to a report on international bribery in July 1998, noted that half of the recorded corruption complaints involved arms sales. The ways of concealing foreign

Pervasive political corruption can be an entrenched element of highly industrialised, democratic societies and is not merely a by-product of underdevelopment or authoritarianism

Corruption jeopardises development in several ways.

- **It distorts public spending.** Distortions arise in three ways: from shaping the official priorities of government, by deflecting allocated resources away from their original purpose, and by undermining the tax base of government.

Priorities are distorted and public resources deflected in corrupt regimes, because allocations go where corrupt officials and politicians personally gain the most. The public interest is no longer the measure. Where corruption is rife, even the best possible project, no matter how supportive it may be of public goals of growth and development, can go astray because it does not serve the interests of public office bearers who want to enrich themselves. Tony Twine of Econometrics calculated the cost of such corruption, estimating that the R45 million that went astray at the Department of Justice in 1998, would have financed 1 500 low income houses at a value of R30 000 per unit, paid 2 000 teachers' and 5 000 constables' salaries, fed 1 600 prisoners and paid for 19,6 litres of fuel.¹⁶

In some of the world's most notorious cases, the Philippines lost some 20% of internal revenue through corruption in the 1970s, around 10% of Nigeria's GDP and 25% of Zaire's went lost due to corruption. In South Africa under apartheid, contracts in the departments of Development Aid and Education and Training were "... frequently awarded in nepotistic fashion", rather than on the basis of merit. More recently, R1,3 million from the low-income housing budget was used by members of the Provincial Executive in Mpumalanga to renovate their 'state houses'.¹⁷

Corrupt officials also deflect funds that have been earmarked specifically for developmental goals away from their original purpose. For example, by August 1999, the Heath Special Investigating Unit was considering 1 048 cases where state employees have allegedly been drawing a pension as well as a salary. This was estimated to involve more than R53 million. At an average pension of R500 per month, this means that 9 397 people could have received a pension every month. In the Northern Province, a recent review of 95 000 beneficiaries of welfare grants showed only 3 000 to be legitimate claimants.¹⁸

In some publicised cases from the apartheid days, significant payments were made for services never rendered. In 1994, it was found that officials received R1 million for work never done in the KwaNdebele bantustan. One official secured a contract for his own company to erect 164 classrooms while he was a member of the KwaNdebele Tender Board that awarded the contract. Moreover, many of these classrooms were never built or were located in venues other than those stipulated in the contract. Other homelands – or bantustans –

well-developed checks and balances, officials could easily abuse this power or extend favours on the basis of bribery. Often, privatisation and deregulation weaken these power bases and in that way help to reduce the scope for corruption. However, privatisation and deregulation are also not panacea for ending corruption. The process of the privatisation of state-owned enterprises in many countries has also given rise to opportunities for public officials to receive bribes from buyers of those enterprises and from contractors involved in service delivery.¹³

The general agreement is that corruption is bad for development

- **The trickle-down perspective oversimplifies the policy options.** At the very heart of the trickle-down perspective, is an assumption that one can wait for development to solve the problem of corruption. This is, as Dieter Frisch points out, as fallacious an argument as the now discredited one that development will decrease population growth.¹⁴ Combating corruption requires more systematic and purposeful interventions, rules and processes to secure good governance. Growth and development alone will not bring such rules: concerted institutional reform, cognisant of the multiple parties and the complex causes and manifestations of corruption, is needed to deal with this challenge.

HOW CORRUPTION AFFECTS DEVELOPMENT

The substantive part of this conceptual analysis revolves around the question of how corruption affects development.

The general agreement is that corruption is bad for development. The World Bank estimates the cost of corruption accordingly: if just 5% of the value of all direct foreign investment and imports go into countries with extensive corruption, the yearly take would total around US \$80 billion. Significantly, this only takes into account theft from commerce crossing borders, not the stealing of state assets or the fleecing of fellow citizens.¹⁵

policy in a number of ways. These practices harm the fiscus, curb redistribution through undermining progressive taxes and prevent public expenditure on and investment in development ventures.

The consequences for development are manifold. Talent is often misallocated and opportunities for labour-based construction are missed because corrupt bureaucrats tend to favour non-standard, complex and expensive capital-intensive projects that make it easier to skim significant sums. A large defence or infrastructure contract may thus be favoured over the construction of primary schools and health clinics. Inevitably, poor people become primary victims. They are denied services either because resources are moved elsewhere or because the cost of services become inflated through corrupt payoffs. In many cases, ill-structured projects, geared towards the wealth of corrupt officials and their co-conspirators, fail to meet appropriate technical standards, limit the number of jobs and opportunities created, or allocate them on the basis of unfair favours. In this manner, corruption distorts the initial aim of social and anti-poverty programmes, i.e. to allocate resources according to the needs of the recipients. In April 1999, for instance, the Heath Unit was reported to be investigating 67 000 cases where the low-income housing subsidy was abused. In March 1998, some 10% of the total number of 990 000 subsidy allocations were under investigation.²⁰

Clearly, where South Africa fails to apply appropriate standards and to counter environmental and health risks caused by neglect, the objectives of the country's reconstruction and development programme become compromised. Such practices run against the interests and needs of the very people that the programme targets in the first place.

- **Corruption undermines efficiency.** Time and money wasted through corrupt activities come at the expense of productive activities. This impacts both on public administration and private enterprises.

Public sector efficiency becomes compromised because corruption superimposes informal practices over the proper rules and procedures of government. This adds direct and indirect costs to the execution of programmes. For example, due to poor controls, KwaZulu-Natal was estimated to have lost some R4 million per day in 1997/98.²¹ The administrative complexity which such dual systems and poor controls bring, requires costly and time-consuming involvement by the relevant officials.

This also affects private sector parties:

- The Global Competitiveness Report of 1997²² shows that firms confronted by corrupt regimes have had to spend vast additional time to negotiate licences, permits, taxes and approvals. This is underscored by the results of a recent

offered similar stories: from Lebowa, Qwa Qwa and elsewhere came many accounts: from purchases of cleaning chemicals worth millions from companies that paid off officials, to toilets that were commissioned, but were either never built or erected far away from any housing development. Moreover, bribery formed a routine part of living in many areas. Often, people simply could not get by officials without paying bribes of some sort. Whether to obtain pension payouts, move up housing waiting lists or qualify for work permits, people often had to pay extra. In a recent exposure, it became apparent that some 800 applicants believed that they were evicted from houses in the greater Johannesburg area between 1976 and 1984, due to new tenants paying bribes to local government councillors and officials.¹⁹

Because the poor have so little resources, their prospects of influencing the allocation of public resources are limited by corrupt regimes. Poor people become primary victims. They are denied services either because resources are moved elsewhere or because corrupt payoffs make services unaffordable. In many cases, ill-structured projects, geared towards the wealth of corrupt officials and their co-conspirators, limit the number of jobs and opportunities that are created or cause these benefits of development to be allocated on the basis of favouritism. When bribery results in public officials turning a blind eye to key risks, such as the negative environmental consequences of developments, the poor are often the ones who suffer the most. Even in perfectly honest systems, public priorities are often shaped by the lobbying power of those with relatively more resources. However, where corruption occurs, distortions become more routine and the public good is generally regarded as being of secondary importance.

Tax evasion, weak tax administration and tax exemptions that favour the well-connected and wealthy limit the scope for effective development

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productive ones. This will automatically push growth downwards. Finally, corruption often goes alongside incentives for capital-intensive investments as opposed to labour-intensive ventures. This could have a more immediate impact on poverty alleviation.²⁵

Particularly damaging to the economy's long-term growth prospects is the fact that innovators are particularly at the mercy of corrupt public officials, because new producers need government-supplied goods like permits and licences more than established producers. In any case, corruption as a tax on profits may stifle the entry of new goods or technology that require an initial fixed cost investment, in general.²⁶ The World Development Report of 1997 points out that bribes are not only a disincentive to further investment because of the immediate costs, but also because they entangle businesses in "... a web of time-consuming and economically unproductive relations" while negotiating through growing government arbitrariness.²⁷

The problem with corrupt regimes is that they are intrinsically arbitrary. Hence, they introduce risks of uncertainty that many investors are simply not willing to take. This also automatically increases the transaction costs of investment. As a result, other key economic objectives, such as job creation and the development of vibrant small and medium enterprises, are likely to suffer.

- **Corruption intrinsically undermines the quality of governance.** It does so firstly, because it creates distrust, and the uncertainties associated with arbitrary governance feed such distrust. Furthermore, corruption fundamentally runs contrary to accountability. Corrupt politicians, officials and their cohorts do not want others to know. Information about resource allocations and the basis for decisions therefore becomes deliberately obscured. In the longer run, corruption undermines governance, public trust in the state's credibility and the ethics of government and society. Corruption negatively impacts on the rule of law. The more systemic, the more difficult it becomes to be identified, dealt with and penalised.

Frisch captures this impact on governance by arguing that "... corruption kills the development spirit. Nothing is as destructive to a society as the rush to quick and easy money which makes fools of those who can work honestly and constructively." He continues by calling for "... a market economy built around the rule of law and a strong state that does not allow a free ride for uncivilised capitalism aimed at immediate benefit at all cost."²⁸

South Africa offers an interesting case study of the link between corruption and governance because of the recent upsurge in reports of corruption. However, an interpretation that this, in fact, reflects more corruption than existed previously should be approached with caution. The fact is that the apartheid regime was

World Bank survey in 69 countries which shows that some 40% of firms working in those countries have engaged in some form of bribery.²³ One can imagine the cumulative effect on the national and the international economy.

- A 1996 enterprise survey showed that, within the Ukraine, firm owners who pay large sums in bribes have to spend almost one-third more time with officials than firm owners who pay less in bribes. Those high-bribing firms also need to spend 75 staff weeks per year of (non-owner) administration time in dealing with officials, as compared with a yearly average of 22 staff weeks for low-bribing firms;
- Data from the World Economic Forum's Global Competitiveness Report for 1996 (2 000 enterprises surveyed across 49 countries) shows that the incidence of corrupt practices is significantly higher in settings with higher regulatory and state-bureaucratic interference in business.²⁴
- **Corruption discourages investment and growth.** While some investors might well conduct their business through bribes, the overall implication of notoriously corrupt environments is that many potential investors avoid them. Incidences of corruption deter investment because higher bribes imply declining profitability on productive investments relative to rent-seeking investments, thus tending to crowd out the former. In general, when there is slow growth, the returns to entrepreneurship (particularly in the production of new goods) fall relative to those of rent seeking, and the ensuing increase in the pace of rent-seeking activities further slows down growth.

Furthermore, corruption intrinsically means that the economic rationale for projects gets distorted. It is therefore likely to shift investment from more productive projects and investments to less

“Corruption kills the development spirit – nothing is as destructive to a society as the rush to quick and easy money which makes fools of those who can work honestly and constructively”

embezzlement often take place within very particular patron-client networks. Disempowered through poverty, political exclusion or spatial isolation, those removed from the state and its parastatals expect their 'big men' (politicians from their ethnic group/village) to reorient state resources in their direction in the form of roads, hospitals, and schools, for example. That the big man in question develops a belly (i.e. enriches himself) in the process, is the expected other side of the coin – hence, the title of his book, The state in Africa: Politics of the belly.²⁹

In South Africa, 'belly politics' cannot describe the working of the state. Yet, one could perhaps argue that attitudes to corruption of late have been imbued with entitlement politics at times. There is a sense that, on some occasions, corruption or a degree of self-enrichment on the part of public officials or businessmen is not sufficiently sanctioned either by government or the broader public. On the other hand, instances of corruption in South Africa also stem from a lack of identification with the new democratic dispensation. It seems that elements of police corruption, or inefficiency at the very least, are the result of poor pay, difficult work conditions and a feeling of non-recognition by the state and the public at large. And of course, many of the new revelations still cover incidences from apartheid days.³⁰

That these accounts of corruption are coming to the fore, pays credit to the more open system in democratic post-apartheid South Africa. The perceived increase in corruption in South Africa has much to do with the fact that corruption is only now being reported in a systematic way. This, in turn, is due to democratic changes in the country, allowing the voices of specific civil society institutions and a vociferous and independent press to be heard. This focus has been reinforced by a general trend in the international community, discussed in the section below.

Thus, while it seems premature or even alarmist to see corruption as having become systemic in South Africa, it is incumbent on the country to bolster its democratic mechanisms in the interest of transparent and accountable governance. Not only would this facilitate the effective direction of resources towards development objectives, but it will also assist to keep the country on the agenda for development assistance and to make it attractive to foreign investors.

- **Increasingly, corruption places participants at risk of international castigation.** Issues of corruption have come to the fore on the international agenda in the last couple of years. No longer a taboo subject, corruption is being addressed both in terms of trade and in the realm of aid. Much of the drive for an international criminal law on bribery has stemmed from the United States. After the Lockheed aircraft scandal in Japan, the Northrop bribery scandal and the exposure of the suborning of foreign political parties by

riddled with corruption. Fundamentally, the whole system only catered for a minority of the population, with the public interest defined in relation to this group. In doing so, those in power wrote their own rules. As the apartheid state found itself increasingly under siege, its leaders justified secrecy and special practices in the name of survival. This paved the way for slush funds, unaccounted practices and resource allocations and other diversions from sound governance.

Yet, the new democratic system has not been spared allegations of corruption, so much so that some have raised the spectre of systemic corruption. This could compromise the country's entire process of reconstruction and development. If corruption is not dealt with effectively, some fear, a vicious cycle may develop where corruption becomes less easily detected, less likely to be punished and thus more likely. Over time, this pattern could permeate the institutions and general functioning of society.

The fear of systemic corruption is a real one. In the global perception, Africa is burdened by extraordinary high levels of corruption. Again, a simplistic perspective that ignores the involvement of first world companies and agencies in such corruption cannot apply. Nonetheless, corruption is seen to thrive in many of South Africa's neighbours. Although Southern African countries have agreed to a Southern African Development Community (SADC) protocol against corruption and illicit drug trafficking, the problem of negative perceptions has not yet been put to rest. It is therefore necessary to reflect briefly on corruption in an African context.

Despite the obvious damage this perception incurs on the economy and on the fate of the poorer communities, corruption in many parts of Africa is a two-way phenomenon. As Bayart argues, theft or the reallocation of public resources is not simply the doing of the élite (or 'big men'), acting for personal gain at the cost of the impoverished. Corruption and

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flagrant misuses of funds. The IMF cut off a US \$120 million loan to Cambodia when revenue from logging concessions mysteriously failed to appear. Operations were suspended in Nigeria, Sudan, Afghanistan and other countries on grounds that the aid was unlikely to reach the people it was intended for. The World Bank is also offering clean-up strategies to governments seeking help (e.g. Venezuela, for its judicial system, as well as Latvia). The United Nations has launched a Global Programme on Corruption. Many development agencies now support special governance and anti-corruption programmes in developing countries. For example, corruption-related issues in South Africa have featured prominently in support programmes of the European Union, the British Department for International Development (DFID), the US Agency for International Development (USAID) and the United Nations Development Programme (UNDP).

The last few years have also seen the emergence of several cross-country indices of corruption, such as those provided by Business International and Transparency International. There have been concerns that these indices underplay the role of first world corruption and that their assumptions are biased against emerging economies. However, they have developed a certain standing in international government and private sector circles and have helped bring the issue of corruption to the forefront. This, in turn, has had significant political effects. For example, Pakistan's rating of next-to-worst in the 1996 Transparency International ranking system raised a tumult that brought down Benazir Bhutto's government. Islamabad claims that Bhutto and her husband, Asif Ali Zardari, stole over US \$1 billion from state coffers. Swiss authorities have frozen seventeen bank accounts belonging to the couple and their partners, and a Swiss judge said in June 1999 that he intended to indict Bhutto and her husband on money-laundering charges.³¹

These are significant changes in attitude. It is no longer fully accepted for businesses to preach probity at home and act dishonestly abroad. Development institutions and other foreign donors are becoming increasingly reluctant to sponsor public projects or development organisations and initiatives where mismanagement of funds has occurred, especially endemically. South Africa and other developing countries are directly affected by these shifts. In the era of economic globalisation, marked by highly mobile international investors armed with mobile capital and technology, high transaction costs in a particular economy are likely to curb investment significantly. Judge Heath, of South Africa's anti-corruption investigative unit, observed in August 1999 that "... *evidence shows that countries with notoriously high levels of corruption risk marginalisation in a world of rapid economic integration. We cannot allow this to happen to our fragile democracy.*"³²

the CIA, the US Congress enacted the Foreign Corrupt Practices Act in 1977. This act criminalises commercial payoffs by American nationals to public servants abroad and is actively enforced, with companies being found guilty having to pay heavy fines. Ever since, US companies have complained that they have been forced to compete on an uneven playing field with their European competitors.

The OECD has recently followed suit. The OECD Council of Ministers recommended that bribery (of public servants and holders of public office) should be criminalised in an effective and co-ordinated manner. In December 1997, the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was signed.

This is being followed by a war on bribe payers in companies. Interpol now has a special working group on corruption. Ethics courses are becoming compulsory in the curricula of Western business schools. Companies are learning how damaging the backfire can be. Siemens' telecommunications wing, for instance, was banned from doing business in Singapore after a utilities official was allegedly bribed. The Royal Dutch/Shell Group is doing its clean-up internally: in 1997, it fired 23 workers who had been involved in bribery, and terminated contracts with 95 firms on ethical grounds. Employees are being assured that they will not be penalised for losing business by refusing to pay bribes.

International financial and development institutions have also woken up to the negative developmental impact of corruption. The World Bank, long criticised for financing economically dubious and environmentally risky projects in developing countries, has focused afresh on anti-corruption strategies and measures since the arrival of Mr James Wolfenson as its President in June 1995. Now the World Bank and the International Monetary Fund are conducting spot audits of all their work to catch

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DEVELOPMENT?

Arguments have been made that corruption may not be inconsistent with development and, at times, may even foster it.³³ The example of the economically successful Asian tigers, associated with an alleged high incidence of corruption, is often cited in this regard. The issue is worth probing, since it does highlight an obvious inconsistency in the link between corruption and development.

The argument is often twofold: that corruption helps to streamline burdensome bureaucratic regulations and ineffective legal systems, and/or that bribery can serve as 'speed money', enhancing efficiency by cutting the considerable time needed to process permits and paperwork. A refined version of this argument is that corruption will allow supply and demand to operate, as the lowest cost firm (with the highest bribe) will win.

The above arguments are all problematic. For one, it is difficult to isolate corruption as the determinant factor in cross-country comparisons. Instead, corruption may well have been offset by countervailing factors in the more successful economies, such as a credible rule of law and sound macro-economic management. Furthermore, corruption brings an inherent element of uncertainty in economic transactions: there is no guarantee that both sides will honour their side of the deal. Corruption tends to feed on itself. The discretionary powers of politicians and bureaucrats in corrupt societies provides them with discretion over the creation, proliferation and interpretation of regulations. This tends to fuel arbitrary rule, with dire implications for both democracy and investor confidence as public trust declines and economic marginalisation takes hold. Finally, corruption's own 'market efficiency' is at its best more costly than the alternative. To argue that corruption will allow supply and demand to operate, as the lowest cost firm – with the highest bribe – will win, is to ignore that the very practice of bribery introduces additional costs.

There is thus no coherent and firm case for corruption as a source of development. Its economic, financial and administrative costs, as well as its undermining impact on accountable democratic governance, are simply too considerable to make corruption a meaningful proposition in support of development whatsoever.

FREEING DEVELOPMENT FROM CORRUPTION

THE NEED FOR A MULTIFACETED STRATEGY

There is no single simple solution in dealing with the corruption problem in developing societies. The observations in the previous section highlight the need for a multifaceted strategy that addresses the problem of corruption from various angles. Freeing development from corruption is inevitably a complex and protracted activity because the causes of corruption are complex and rooted in the particular political and economic conditions of a specific society. There are useful international lessons to support such attempts, but caution should be taken not to generalise about solutions without carefully considering the local context.

On this basis, a combination of direct and indirect approaches needs to be adopted. On the one hand, broad reforms such as liberalisation and democratisation – if applied with sensitivity to specific contexts and regulated properly – could provide the platform for clean governance and management. However, the fight against corruption also demands specific reforms to create a culture of accountability, introduce public service reforms, raise civic awareness and put incentives for proper behaviour in place. Finally, anti-corruption policy needs to be driven by effective institutional vehicles to direct and carefully prioritise and sequence initiatives. Ultimately, a strategy to counter corruption must target government, civil society and private investors.

Some of the key areas for action are outlined in the

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it is important to note that market liberalisation, by its very nature, will reduce or eliminate the need for some of these activities. Liberalisation changes the rules of state decision-making, and often even entirely removes the need for many potentially arbitrary activities. As a competitive public culture evolves, the incentives for more openness will also increase. On the whole, liberalisation goes with less discretionary control.

Yet it is important to stress that successful reforms in this vein have mostly come about because liberalisation occurred in a context of clear and enforceable regulatory policies and mechanisms. In the absence of such measures, new malpractices could arise. The art will lie in keeping regulation sufficiently trim to ensure that it does not undermine market efficiencies, yet to support the private sector and consumers by having a strong – albeit possibly smaller – state in place. This could bring the confidence wanted by investors, protect the public and keep the state focused on its task of facilitating public service and development.

South Africa has made important strides in this regard, but government leaders acknowledge that policies need to become more concrete and mechanisms for their implementation more effective. The country's macro-economic Growth, Employment and Redistribution strategy (GEAR) revolves around liberalisation in the context of a decisive policy and regulatory framework. Apart from setting key targets, it is also based on doing away with many old economic restrictions. On this basis, economic policy has entailed a well-defined public investment strategy in recent years, rather than assuming that the state must lead economic development, a gradual loosening of foreign exchange and other controls and a focus on creating incentives for private sector investment. The country also has a privatisation policy and considerable policy work has been done to create an environment for public-private partnerships to allow for delivery in terms of core policy goals.

The need for regulatory frameworks to guide these new initiatives to meet public policy objectives is clearly acknowledged. But government has impressed investors with its hands-off approach: it does not regulate intensively. In general, its approach has been to set broad rules, where necessary create independent regulatory structures, and let private investors get on with the task of service provision.

The major concerns have been whether the policy frameworks provide practical parameters for development and whether capacity exists within the public sector effectively to ensure compliance with those policies. Falling short on either of the latter two aspects would make the delivery process vulnerable to general failure and also specifically to corruption. It is in policies that are too general and with public administrations that lack implementation and monitoring capacity, that the seeds of corruption get sown more easily.

sections below, with the South African situation closely borne in mind.

ECONOMIC REFORMS

On a broad level, answers to the problem of corruption often focus on the liberalisation of the economy.³⁴ Rolling back the state through privatisation and deregulation is a particularly attractive policy choice when corruption is seen as a consequence of excessive state intervention and the bureaucratic rents this creates. Yet, the answer is not that simple. In many instances (particularly transitional economies such as Russia), turning over a government agency's functions to the market has merely resulted in a shift from a public monopoly to a private monopoly. With this went a corresponding transfer of rent, but without much of an improvement in allocational efficiency. In fact, corruption can remain high even after liberalisation, because the new economic élite seek to maintain and defend rents in the face of competitors.

The answer is not so much a minimalist state and more market, but a transformed state. Such a state would act in limited spheres, with a strengthened regulatory capacity to 'clean up' the market sphere and allow it to flourish in a transparent and competitive fashion. Tackling corruption will involve taking direct and indirect routes.

Controlled economic liberalisation will help to address corruption through reforming the state in areas that require the kind of discretion on the part of state officials which could lend itself to abuse. This includes activities like the issuing of licences, permits, import quotas and customs documentation, as well as the awarding of public procurement contracts. Liberalised economies also leave less arbitrary powers with officials around price controls, company registrations, the supervision of competition, anti-trust and monopoly laws, and foreign exchange controls. Some of these regulations are examined under the institutional section below. However,

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(and enforced) penalties for malpractice and increased competitiveness in awarding contracts and in the economy as a whole. Such reforms are likely to consist of a number of key elements.

Democratic consolidation

The 1994 Constitution introduced one of the world's most elaborate democracies in South Africa. Based on a long list of human rights, it revolves around executive accountability to the legislature, an independent judiciary and decentralised governance within a unitary state. The Constitution also provides for special institutions, such as a Public Protector, Constitutional Court and Auditor-General. Jointly, these facets of the new constitutional order create conditions for accountable government in the best tradition of democracy. This is in tune with a more globally held view that tackling corruption is intractably linked to increased transparency and accountability founded on the transition to liberal democracy.

While South Africa can take some comfort from this, it should nonetheless heed the lesson of cases where democratisation has actually increased the sources and scale of corruption without strengthening countervailing political or institutional capacity. This is particularly true where authoritarian states previously exercised strict controls over corruption. By its very nature, democratisation ought to introduce greater openness and more accountability in government and thereby provide checks and balances against corruption. But as it loosens the reigns of authoritarian rule, it may destroy whatever constraints the old system used to control corruption without providing an alternative set of controls. It is therefore necessary, from the outset, to set the parameters for ethical governance quite clearly – and to enforce them – when democratic systems are introduced.

This is particularly true in the case of South Africa. Indeed, apartheid was marked by a culture of secrecy and patronage of which the rules flew in the face of honest and accountable government. The post-1994 government thus inherited very few countermechanisms to apply usefully in the fight against corruption. The need is therefore all the more urgent to develop new anti-corruption mechanisms under the emerging democratic order.

Corrupt practices inherited from the past also prove resilient and particularly astute in adapting to new democratic orders. In the case of the Philippines, where the previous authoritarian regime was pervasively corrupt, democratisation has had the effect not of reducing corruption, but of 'decentralising' it. Previously, corruption flourished among the central élite of the Marcos regime. When the country was democratised, the powerful local élite became the main agents of corruption, using their local power bases as the launching pads to engage national politicians and

Alongside these measures, the government has also been developing strategies for policy alleviation, social change and targeted investment in infrastructure. From the outset in 1994, the Reconstruction and Development Programme (RDP) encompassed government's development vision. However, the RDP has been a broad statement of intent in many ways, rather than a strategy. Against this background, departments have been developing sector policies and strategies, while different components of government have taken responsibility for co-ordination of these policies from time to time to achieve certain purposes. There is consensus among most senior officials that many of these policy frameworks are not specific enough. There are also concerns that monitoring criteria and mechanisms are too weak to keep the process focused on key objectives and to avoid abuses completely. For this reason, institutional change has taken a prominent place on the reform agenda.

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INSTITUTIONAL APPROACHES

Enhanced liberalisation to move economic activity outside the control of the public sector needs to be accompanied by an appropriate governance culture. This means improved accountability, public service reforms, civic awareness, incentives for proper behaviour, as well as marked institutional vehicles to drive anti-corruption efforts and a careful sequencing of actions in this regard. As the above section underlined, clear and enforceable rules need to be set for the private sector and civil society to contribute to the country's development. Government institutions need to be developed and/or cleaned up to fulfil this role efficiently and equitably.

Institutional strategies to counter corruption should both reduce opportunities for corrupt practices in the public and private realm and create incentives for ethical public administration. The driving force behind both incentives and countermeasures ought to be greater transparency, clear lines of authority and responsibility, clearly stated

institutions will do the right things – the fundamental basis for doing things right.

A properly functioning public administration also requires transparent budgeting and financial management processes with financially sound revenue and expenditure mechanisms. South Africa's Medium Term Expenditure Framework (MTEF) has been a significant intervention in this regard, compelling national and provincial departments to budget in terms of strategic goals over a three-year period. This provides clear objectives against which expenditures can be reported and revenues mobilised. It is similarly important to put clear lines of accountability in place, measured against appropriate norms and standards, for the management of public finance and other resources. South Africa's Public Finance Management Act provides such a reporting framework to be applied in different areas of government activity, including the complex domain of public-private partnerships for service delivery. These initiatives show that the country's major challenge is not so much to find appropriate frameworks in this regard, but rather to develop the capacity required to refine, implement and monitor those frameworks.

With the broad strategic direction already in place, a series of more specific institutional changes ought to add to a clean and effective public sector. A good starting point for such reform is the streamlining and targeting of fiscal flows. Government development and poverty reduction programmes often entail a variety of grants earmarked for different purposes and aimed at different target groups. Because of the different objectives and the affected sectors for which such grants may be intended, they often cannot be consolidated into one package. A range of grants and mechanisms is therefore often appropriate and necessary. However, in the interest of good governance, transparency and strategic focus, the basis for the grants and the administrative arrangements to manage them must be clearly structured and set out from the start.

South Africa has gone some way in this regard with the MTEF framework, as well as the establishment of a number of specific development and social grants, targeted at different sectors and target groups. However, as illustrated by the earlier examples of fraud around some of these grant flows, monitoring and targeting have not yet reached satisfactory levels.

The country's multilayered constitutional system further demands clarification, both of the purposes and target recipients of grants, as well as the administrative arrangements for grants and public sector projects. As various fiscal allocations flow between national, provincial and local government, the scope for corrupt practice obviously widens. Concerns regarding the particularly confusing provincial systems since 1994 have been aggravated by recent uncoverings of corruption allegations. For example, in 1998 it was reported that R2 billion was lost every year through fraudulent social service benefit payouts channelled through the provinces.

bureaucrats in self-enriching practices.

Fragile democratic systems, devoid of well-entrenched values of accountability, also provide incentives and opportunities for corrupt behaviour. Notable examples of such incentives include the high costs of mounting election campaigns, the power of economic élite groups in political parties, the politicisation of the state apparatus by elected officials, and the desire of the latter to compensate for political uncertainty by building up a capital stake through corruption. These phenomena are particularly strong in new democracies where a procedural transition has not been accompanied and underpinned by a spread of 'real' or substantive democracy. While democratic institutions do open up a long-term prospect of institutional remedies for corruption, these require a powerful political impetus to make them work effectively.³⁵

Democracy alone does not mean no corruption. The political leadership in a democracy purposefully needs to develop the means to combat corruption. A vibrant opposition, the free flow of public information and transparent procedures are all vital elements for showing demonstrable political will and developing such a culture of honest governance.

The fight against corruption also demands specific institutional reforms to create a culture of accountability. Some of these are detailed below.

Public sector reform

The importance of public sector reform for combating corruption has several dimensions. It starts at the most basic level with making government departments more effective. This requires sharpening their strategic focus, eliminating redundant ministries and agencies, and better equipping civil servants for their tasks. It is also necessary to ensure that government decisions and the monitoring of programmes are based on sound data and effective internal controls. On that basis, government

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relevant here, but it is important that the new grant mechanism has brought into play less diversity in procedures and conditions, as well as setting clear criteria against which expenditures should be accounted for.

On the whole, the South African government is realistic about its achievements in this regard. It acknowledges that grant flows must still be further streamlined and that reporting lines need to be further clarified. This is one of the most important aspects in developing an effective state: making sure that resource allocations reach their target markets in tune with public policy objectives, without the diversions that corruption is destined to bring.

Apart from such changes, the introduction of effective management systems, an improved civil service pay system with adequate salary incentives, and the broad improvement of conditions of service for the civil service, are all likely contributors to decreased corruption. In these areas, much controversy still abounds in South Africa. The government maintains that there have been some significant pay increases for civil servants in recent years and is convinced that productivity levels in the civil service is too low. It has therefore recently taken a firm stance against high salary increases for civil servants. The latter argue in turn that they are undercompensated for their contributions to public administration. This issue needs to be resolved to provide an institutional cushion against possible corruption by disenchanted officials. Further analysis is currently being undertaken to assess whether the public service is of the right size and efficient. The outcome of this process, and the possible reforms it may bring, will not guarantee a reduction in corruption, but it is a necessary element in building a public administration focused on executing its task honestly and in the public interest.³⁶

Meanwhile, the monitoring and enforcement of anti-corruption measures must be seen to occur and must be credible. In this regard, the fact that South Africa has made 7 427 arrests of civil servants allegedly guilty of corruption in 1996, and 4 082 arrests on the same basis in 1997, shows simultaneously that there is too much corruption and that something tangible is being done about it.³⁷ Sustaining this trend requires effective internal and external controls, protection for confidential whistleblowing and credible enforcement.

Tax reform

Much corruption occurs globally around taxation. Governments normally offer different tax exemptions related to public goals, either to attract investments to particular sectors or areas, or simply to exempt businesses and individuals fairly from paying tax on the costs they incurred to acquire an income in the first place. Whether such incentives and exemptions achieve the desired effect or not, they do

These provincial systems were the result of mergers and the 'redelimitation' of previous provincial administrations and bantustan governments created under apartheid. The consolidation of widely divergent institutions made it difficult to put new effective administrations in place. This was made even more complex by the fact that many of these old structures were steeped in the closed governance and patronage culture intrinsic to apartheid.

Through the MTEF, provinces are now being pulled into wider state planning. The government is also in the process of developing a multifaceted grant system. Currently, this consists of formula-based and constitutionally mandated 'equitable share' grants that allocate centrally mobilised funds between national, provincial and local governments, as well as conditional grants for infrastructure and service delivery in the municipal sphere. Fiscal planners are considering additional grants, such as a targeted equalisation grant, to support transformation and address major backlogs in areas of need.

The important point here, from a corruption combating point of view, is that clear definitions, objectives and procedures form the basis of a sound grant system. With regard to infrastructure, government has purposefully consolidated grant allocation to local governments since 1994. Prior to 1994, municipalities could access some 22 different grants, administered by different national departments and with widely divergent rules. After 1994, government developed at first a Municipal Infrastructure Investment Framework (MIIF) to set the strategic direction for infrastructure development in the municipal sphere. It then established a number of new grant mechanisms, until it established the Consolidated Municipal Infrastructure Investment Programme (CMIP) in 1997. This programme expects local councils to do systematic planning ahead of applying for grants. These are then allocated on the basis of clear criteria such as affordable levels of services, community participation, capacity development, systematic reporting and monitoring, and others. The details are not

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the SARS attempts to build the appropriate capacity to manage a more user-friendly tax system. The extent to which it achieves this target will be a critical factor in South Africa's fight against corruption. It will also have a direct bearing on the budgetary funds available to the state in its attempt to address the dire backlogs in infrastructure, service delivery and social development of large numbers of citizens.

Legal and procurement reforms

A state sufficiently strong and confident about its ability to work in partnership with the private sector and civil society towards achieving public development goals, will inevitably be armed with a firm legal framework. Such a legal framework does not necessarily have to be detailed or obtrusive. Far more importantly, it needs to set a broad, but very clear, regulatory framework for transparent and accountable conduct in the business of government. Below are a number of aspects of such a framework.

- **Financial regulation:** Corruption thrives on an unregulated financial sector. However, financial institutions need to be allowed to take market-related decisions through a sufficiently 'hands-off' regulatory framework. Striking the right balance is a delicate operation. South Africa's challenge here is perhaps somewhat unique in an African context, as the country has a sophisticated financial service sector and a well-established central bank. Many other developing countries lack these institutions, with deleterious effects on corruption levels. Indeed, managerially weak central banks have used their institutional power unwisely in relation to the underdeveloped financial sectors in certain countries. Where private banks are stronger, the central banks are often unable to regulate effectively. South Africa's financial sector is more delicately poised. Hence, the country's agenda revolves around market-determined interest rates, improved banking supervision without central control, reserve requirement compliance, and effective financing and payment systems. Jointly, these aspects should all reduce the opportunities for fraud-driven financial practices and they ought to limit the loopholes for money-laundering.

As an emerging economy, however, new challenges come to the fore all the time. For example, it has been widely perceived that conventional banks are not reaching lower income groups. Poor people often cannot obtain loans and the banking environment is simply not user-friendly from the perspective of a poorer and less educated person. This has created a space in the market for a new range of unregistered financial institutions and credit bureaux. These institutions have become notorious for excessive interest rates, disproportionately harsh credit control methods and, in some cases, downright fraud. The government and the South African Reserve Bank have been working on means to bring these institutions into the ambit of normal financial regulation. However, the dynamic

In South Africa, like in most countries, citizens see it as their right to seek ways of minimising their tax liability, provided that they do so within the confines of the law. The boundaries between legal tax minimisation and illegal and improper tax evasion, however, are often not very clear. Thus, highly complex systems, and ones administered by incompetent or corrupt officials, leave much scope for abuse. They could cost the state vast amounts in revenue, constricting its ability to pursue public objectives.

It is generally accepted that the best measure to counter corruption around taxation, is through the creation of simple, moderate and uniform tax rates and regimes with few complex exemptions. This makes for more practical determined enforcement. South Africa is currently engaged in an extensive tax reform process. This covers both a fundamental reassessment of the basis for taxation and the management of the tax system. Reassessment of the basis for taxation covers personal and corporate taxes, levies and special payments. It aims at streamlining the assessment of tax liability and revenue collection and thus ensuring a more effective tax net.

Institutionally, the formation of the South African Revenue Service (SARS) has been a significant step in the fight against taxation corruption. Created through enabling legislation, the SARS is an organ of state with a corporate identity outside government. Through sound management and strategic focus, it seeks to bring more people into the tax net and improve the level of payment among those who are in the net. This revolves around lowering the cost of compliance by simplifying procedures and tax returns, making people more aware of their civic duty to pay tax and strengthening and demonstrating its capacity to enforce payment. As a result, it has collected 6% (R4,6 billion) more in income tax than what the government has planned for in the last available tax year.³⁸

The process of reform and transformation continues as

The best measure to counter corruption around taxation, is through the creation of simple, moderate and uniform tax rates and regimes with few complex exemptions

municipal departments with autonomous utilities. While this will likely encourage efficient management and the more rapid expansion of essential services, it will be important to put clear and practical reporting requirements and procedures in local councils in place. In that manner, the public interest will remain the norm against which the activities of such utilities will be measured.

- **Procurement reform** is necessary to ensure that South Africa's development effort occurs apace, but within a proper framework of accountability. The 1998 Green Paper on Procurement Reform³⁹ identifies several problems with the current state procurement system, particularly that it is time-consuming and over-centralised. It also highlights the importance of an effective procurement system in combating corruption. The Green Paper has not been implemented, however, and even if it had been, the agenda for change would have to be complemented.

A few comments are relevant in this regard. There is a clear need for new legislation to describe the broad outlines of a national procurement policy. Using the Constitution as a basis, such outlines would have to make it clear that the procurement system will be competitive, fair and equitable. The national procurement legislation should set general parameters, describing when competitive bidding is required, and when non-competitive procurement may be utilised. The legislation should also prescribe minimum requirements for transparency and specify exceptions from the general requirement of transparency. Typical issues in this regard would be the public procedures of procurement bodies, the accessibility of procurement records, statements of reasons for procurement decisions and the confidentiality of tenderers' detailed financial proposals. While equity is the general purpose, South Africa's empowerment objectives require that procurement guidelines should allow for categories of preference in the allocation of contracts, and the protection or advancement of persons previously disadvantaged by unfair discrimination.

Procurement legislation also needs to be clear regarding the scope of its coverage, particularly regarding those 'organs of state' to which it applies. This is necessary in the light of utility reform and the multilayered constitutional framework. Legislation should clarify whether parastatals will be held to similar standards as those mandated for government departments, and whether allowance is made for variances between sectors and spheres of government.

To meet the demands of a new environment, South Africa's procurement legislation should cater for the more complex requirements of public-private partnerships. This is particularly necessary for partnerships where long-term contracts transfer the responsibility and risk of service delivery from the public sector to private operators for periods of as long as thirty years. This often introduces very complex contracts and value-for-money considerations that are

nature of the market and the dire financial needs of many households and aspirant entrepreneurs leave scope for ongoing innovation in the financial sector as both bona fide and dishonest financial entrepreneurs respond to the market demand for accessible finance. From a legal point of view, this poses a significant challenge for the government in its task to protect the public interest.

There is a clear need for new legislation to describe the broad outlines of a national procurement policy

- **Reporting by public entities:** It is imperative that public entities should be expected to report clearly on their achievements and failures in terms of agreed upon objectives. South Africa's Reporting of Public Entities Act and the new Public Financial Management Act set frameworks in this regard, but it is known that proper reporting in this fashion is still in its infancy. Public sector utility companies are created for various reasons: sectoral specialisation and focus, flexibility of management and freedom to mobilise resources from sources other than the fiscus. If unregulated, however, they easily become laws unto their own and thus likely sites of corruption. That legislation is being tightened to ensure their accountability is therefore a necessary step in making South Africa's development delivery efforts accountable. The scope of service backlogs puts constant pressure on government departments to deliver. Under this pressure, the temptation often exists to bypass public sector rules, especially where those rules are perceived to slow down delivery. Utilities could provide a legitimate means to ringfence capacity outside normal departmental procedures and thus speed up delivery. But the regulatory environment should be such that the reporting is rigorous and open and that illegitimate bypassing of proper and necessary procedures does not occur. The proper and accountable management of public resources should be as important a performance indicator as delivery.

This challenge now also faces local governments, as some of them – like the Greater Johannesburg Metropolitan Council – plan to replace some

country still rates poorly on Transparency International's corruption index, but it is also recognised by a growing number of investors and foreign governments and agencies as the site of important reforms.⁴⁰

South Africa, under the new dispensation, has gradually equipped itself with several anti-corruption bodies: the Health Special Investigating Unit; the Office of the Auditor-General; the Public Protector; the Investigating Directorate for Serious Economic Offences; the Independent Complaints Directorate; and the Financial Services Board. The National Directorate of Public Prosecutions also established a directorate for special investigations with 2 000 specialised staff members to focus, among others, on economic crimes and organised crime. While some of these bodies have demonstrated efficiency in their anti-corruption activities, most are constrained by the lack of funds and a shortage of staff. Some are restricted in their activities. The Independent Complaints Directorate, for example, cannot investigate cases of police incompetence and corruption if the police decides to take a case over for self-auditing. These are obviously inconsistencies and constraints that need to be addressed if such institutions are to have credibility and effectiveness. Some of these are already under scrutiny in government policy initiatives, such as creating closer links between the Independent Complaints Directorate and the police.

On the whole, while dedicated institutions bring focus to the fight against corruption, they alone cannot make the required difference. As indicated above, broader public sector reform is essential if anti-corruption measures are to take sustainable effect. Furthermore, reform of the judicial system is equally crucial. An independent and effective judicial system remains vital in providing checks and balances to promote the credibility of anti-corruption measures and to ensure the accountability of the state. There needs to be clear institutional arrangements to resolve disputes and clarify ambiguities that may exist in laws and regulations. Above all, there needs to be an effective, equitable and credible system of enforcement. Importantly, this must be backed by organisational efficiency. The judicial system could lose credibility if it is characterised by protracted delays and incompetence. It is essential that South Africa and other developing countries develop the capacity to deal swiftly, coherently and efficiently with issues of corruption.

POLITICAL WILL

Finally, a basic condition of a successful anti-corruption campaign is the political will to drive the process forward at all levels of government. A survey of 150 élite students from 63 developing countries attending a mid-career training programme at Harvard University in 1996, showed that anti-corruption bodies will only be credible if they go hand in hand with good example-setting, provided by honest leadership.⁴¹

38 Too many anti-corruption institutions have been used for political gain. And too

not generally covered in the current procurement legislation and system.

As the 1998 Green Paper suggests, procurement legislation and policy should also specifically provide measures to combat corruption and conflicts of interest. A few possible measures are worth mentioning in this regard. Firstly, legislation should forbid members or staff of a government department tender institution, or members of their immediate family to have an interest in any relevant government contract. Secondly, in line with the Green Paper on Procurement, state tenderers must observe a code of conduct. Such a code should include undertakings to compensate staff in accordance with applicable labour legislation, pay applicable taxes and other charges and comply with applicable health, safety and environmental legislation. Finally, clear and fair contractor debarment procedures must be introduced to exclude any tenderer who has committed a corrupt practice in a previous tender, or who has violated important South African laws.

A basic condition of a successful anti-corruption campaign is the political will to drive the process forward at all levels of government

Dedicated institutions

Experience in countries such as Hong Kong, Singapore, Botswana, Chile, Poland and Uganda suggest that institutions dedicated to the fight against corruption can and have played a role in combating corruption.

Anti-corruption bodies, like the Independent Commission Against Corruption in Hong Kong, and smaller institutional variations in Botswana, succeeded through significant resources and powers to reduce – albeit not eliminate – levels of corruption in a relatively short period of time. Uganda undertook broad reform of the civil service (with professionalisation of staff, new control systems, and modern incentive and performance assessment systems), strengthened the auditor-general's office, empowered a reputable inspector-general to investigate and prosecute corruption, and implemented an anti-corruption public information campaign. The

In general though, the government has been very articulate about its determination to get rid of corruption and has followed this through with some concrete institutional and legal measures. It now stands to be tested in its application and in how it demonstrates its resolve to act against perpetrators, whoever they are. Part of this agenda will need to be driven locally, but international conventions and the growing global campaign against corruption also offer useful means of support. South Africa would be wise to engage with these initiatives. Its relative status also places it well to spread the benefits of global co-operation and engage other developing countries, especially in Africa, in global initiatives. Through participation as credible partners, these countries will not only begin to clear their own environments, but will also add the necessary perspective and nuance to the international understanding of corruption. In particular, the fact that corruption cannot be isolated as a particularly third world problem, but should rather be seen as a crossnational phenomenon, would be addressed more forcefully. This could provide a sound platform for a more assertive, effective and multifaceted stance and strategy across international boundaries. In this regard, the fact that the SADC protocol on drug trafficking also covers corruption issues is a good start. It is also significant that South Africa plays host to the 1999 International Anti-Corruption Conference (scheduled for Durban in October 1999).

many anti-corruption campaigns across the globe have targeted political enemies or at best small fry, exempting the big fish. Short-lived campaigns and repeated amnesties to offenders (designed to wipe the slate clean) only increase local and foreign public cynicism.

South Africa has made important commitments in this regard. The creation of dedicated bodies in terms of the Constitution and enabling legislation mentioned earlier, represents an important commitment in its own right. Similarly, legislative reform such as the Public Finance Management Act, shows that the government is determined to become more open and accountable. There have also been political positions of significance. President Mbeki made the fight against corruption a major point in his first opening of parliament address and has repeated his intolerance towards corruption on a number of occasions (see, for example, Appendix B), as have many of his cabinet colleagues. In November 1998 and April 1999, anti-corruption summits adopted several resolutions and confirmed the government's determination to eradicate corruption and promote good governance through a decent public ethos, effective controls and co-operation with the private sector and civil society (see Appendix C).

There have been inconsistencies, of course, and a few unfortunate turbulences. For example, many critics feel that the president was simply too soft on the new premier of Mpumalanga when the latter publicly stated that politicians can lie as a matter of course. Even though the normal protests of misrepresentation were heard, clearer sanction could have raised the credibility of the government's stance. Many critics also felt that the government should have been far more assertive in dealing with the seemingly unfair award of the contract and extremely high fees for the Aids awareness play, Sarafina 2. In September 1999, Judge Heath, frustrated by the appointment of a senior Mpumalanga official who had previously been implicated in corruption investigations, called for firmer debarment rules to allow blacklisting of people found guilty of corruption.⁴²

The South African government has been very articulate about its determination to get rid of corruption and has followed this through with some concrete institutional and legal measures

CONCLUSION

This monograph showed that corruption curtails development through scaring off investors, causing international marginalisation, curtailing growth, heightening economic transaction costs, misallocating public resources, undermining public policies and weakening governance. It also argued that developing societies are not inevitably more corrupt. Corruption is, instead, a global phenomenon that cuts across national, sector, class and other boundaries, even though different interests might have different incentives for and means to engage in corrupt practice.

There is no universally applicable strategy to fight corruption. Strategies need to be contextual, taking local conditions into account. Both economic liberalisation and greater political and institutional transparency can liberate political resources and opportunities for combating corruption. They can liberate power monopolies in society and reduce the feasibility of corrupt behaviour through greater openness and competition. The extent to which these opportunities can be seized and exploited depends on the mobilisation of wider political constituencies in civil society, both at the national and global levels. Corruption will not simply disappear, regardless of more development, liberalisation or democratisation.

Each of these processes may create contexts conducive to the control of corruption, but targeted strategies and specific reforms – of the public sector, the legal system and political institutions – are crucial. South Africa, faced with a legacy of inherited corruption as well as new developments in this regard, has taken important steps in dealing with these challenges. But this will require a well-packaged strategy and strong political will on the part of the government, alongside civil society, private business and with the support of the international community.

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APPENDIX A
CORRUPTION PERCEPTIONS INDEX,
TRANSPARENCY INTERNATIONAL

Rank	Country	1998 CPI score	Standard deviation	Surveys used
1	Denmark	10.0	0.7	9
2	Finland	9.6	0.5	9
3	Sweden	9.5	0.5	9
4	New Zealand	9.4	0.7	8
5	Iceland	9.3	0.9	6
6	Canada	9.2	0.5	9
7	Singapore	9.1	1.0	10
8	Netherlands	9.0	0.7	9
	Norway	9.0	0.7	9
10	Switzerland	8.9	0.6	10
11	Australia	8.7	0.7	8
	Luxembourg	8.7	0.9	7
	United Kingdom	8.7	0.5	10
14	Ireland	8.2	1.4	10
15	Germany	7.9	0.4	10
16	Hong Kong	7.8	1.1	12
17	Austria	7.5	0.8	9
	United States	7.5	0.9	8
19	Israel	7.1	1.4	9
20	Chile	6.8	0.9	9
21	France	6.7	0.6	9
22	Portugal	6.5	1.0	10
23	Botswana	6.1	2.2	3
	Spain	6.1	1.3	10
25	Japan	5.8	1.6	11
26	Estonia	5.7	0.5	3
27	Costa Rica	5.6	1.6	5
28	Belgium	5.4	1.5	9
29	Malaysia	5.3	0.4	11
	Namibia	5.3	1.0	3
	Taiwan	5.3	0.7	11
32	South Africa	5.2	0.8	10

Rank	Country	1998 CPI score	Standard deviation	Surveys used
74	Vietnam	2.5	0.5	6
76	Russia	2.4	0.9	10
77	Ecuador	2.3	1.5	3
	Venezuela	2.3	0.8	9
79	Colombia	2.2	0.8	9
80	Indonesia	2.0	0.9	10
81	Nigeria	1.9	0.5	5
	Tanzania	1.9	1.1	4
83	Honduras	1.7	0.5	3
84	Paraguay	1.5	0.5	3
85	Cameroon	1.4	0.5	4

HOW TO READ THE CHART

The **rank** relates solely to the results drawn from a number of surveys and reflects only the perceptions of business people who participated in these surveys.

The column, **1998 CPI Score** relates to the perceptions of the degree of which corruption is seen by business people – a perfect 10.0 would be a totally corruption-free country.

Standard Deviation indicates the differences in the values of the sources for the 1998 index: the greater the variance, the greater the differences of perceptions of a country among sources.

The **number of surveys** used had to be at least 3 for a country to be included in the CPI.

Please refer to <http://www.transparency.de/documents/cpi/index.html>, as well as Transparency International's homepage for further information.

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Rank	Country	1998 CPI score	Standard deviation	Surveys used
33	Hungary	5.0	1.2	9
	Mauritius	5.0	0.8	3
	Tunisia	5.0	2.1	3
36	Greece	4.9	1.7	9
37	Czech Republic	4.8	0.8	9
38	Jordan	4.7	1.1	6
39	Italy	4.6	0.8	10
	Poland	4.6	1.6	8
41	Peru	4.5	0.8	6
42	Uruguay	4.3	0.9	3
43	South Korea	4.2	1.2	12
	Zimbabwe	4.2	2.2	6
45	Malawi	4.1	0.6	4
46	Brazil	4.0	0.4	9
47	Belarus	3.9	1.9	3
	Slovak Republic	3.9	1.6	5
49	Jamaica	3.8	0.4	3
50	Morocco	3.7	1.8	3
51	El Salvador	3.6	2.3	3
52	China	3.5	0.7	10
	Zambia	3.5	1.6	4
54	Turkey	3.4	1.0	10
55	Ghana	3.3	1.0	4
	Mexico	3.3	0.6	9
	Philippines	3.3	1.1	10
	Senegal	3.3	0.8	3
59	Ivory Coast	3.1	1.7	4
	Guatemala	3.1	2.5	3
61	Argentina	3.0	0.6	9
	Nicaragua	3.0	2.5	3
	Romania	3.0	1.5	3
	Thailand	3.0	0.7	11
	Yugoslavia	3.0	1.5	3
66	Bulgaria	2.9	0.6	3
	Egypt	2.9	0.6	3
	India	2.9	0.6	12
69	Bolivia	2.8	1.2	4
	Ukraine	2.8	1.6	6
71	Latvia	2.7	1.9	3
	Pakistan	2.7	1.4	3
73	Uganda	2.6	0.8	4
74	Kenya	2.5	0.6	4

APPENDIX B
STATEMENT OF THE DEPUTY PRESIDENT THABO
MBEKI AT THE ANTI-CORRUPTION SUMMIT
CONFERENCE: CAPE TOWN, 10 NOVEMBER 1998

and private interest. Our understanding of the interest or the common good has been shifted to the margins in our clamour for respect of human and, as a result, individual rights.

Has the time come for the cornerstone of our democracy, the public interest, to be revisited in debate and discussion in pursuance of our constitutional obligations?

For over 350 years this salient artefact of national life lay buried amidst the evolution of the apartheid ideology. Today it is possible of us to extricate the nobility of its challenge and proffer it as a basis for ridding society of the scourge of corruption.

Jean Jacques Rousseau, the French philosopher, defined the public interest as the sum of private interests balanced according to the common good, as the highest good for the greatest majority of citizens.

The public interest must likewise be for us the common interest shared by most members of our society. But in addition, that interest has to pass legitimately through the democratic process.

If it is the normative standard of goodness by which every political action or decision is to be judged, the public interest should also assume the ability of the State to overcome social differences and antagonisms in order to achieve a common goal for all.

Judged against this background, public servants are under a heavy obligation to weigh their discretionary powers against their effectiveness in meeting the moral imperative, that is, serving the public with integrity. Public servants must realise their deepest ambitions by introspectively returning to themselves responsibility in relation to broader societal concerns.

This will necessitate the re-examination of the soul of the public sector and the quest for a philosophy of service where human interdependence would replace selfish pursuits, where mutual trust would replace suspicion, and where greed would be

Honourable Ministers, Honourable Members of Parliament, Distinguished Participants and Guests, Ladies and Gentlemen:

Robert Klitgaard, a former professor at the University of Natal, uses a succinct illustration from the Guatemalan experience to capture the encircling climate of corruption and its pervasive influence:

“When in a society the shameless triumph, when the abuser is admired, when principles end and only opportunism prevails, when the insolent rule and the people tolerate it; when every thing becomes corrupt but the majority is quiet because their slice is waiting ... When so much ‘whens’ unite, perhaps it is time to hide oneself, time to suspend the battle; time to stop being a Quixote; it is time to review our activities, re-evaluate those around us, and return to ourselves.”

In the South African context generally and in the public sector in particular, few will deny that this time has now arrived. The threatening state of moral degradation in our society is reflected in the high levels of crime, disrespect for authority and the rule of law, and the erosion of key institutions such as the family.

The culture of entitlement, so prevalent in our community, has contributed to the ‘name it, claim it’ syndrome where individuals seek an elusive moral justification for engaging in criminal activity. The deepening crisis in public values is largely visible in the lack of professional conduct from so many wearing the badge of public honour in the civil service.

To meet the challenge of stemming the tide of corruption we need to march to the tune of a new song, the song of regeneration and rebirth, the song of our Renaissance, the song signalling the birth of the ‘new public servant’.

The definition of corruption in terms of Act 94 of 1992, which serves as the basis for prosecution, is mainly predicted on the notion of inducement and seems to ignore the inherent conflict of interest between public

The culture of entitlement has contributed to the ‘name it, claim it’ syndrome where individuals seek an elusive moral justification for engaging in criminal activity

- 7 Managers should give moral leadership by example.
- 8 Misconduct should always be subject to disciplinary sanctions.
- 9 Integrity training and ethics education should receive priority.
- 10 The public interest should, as a rule, be put first.

We offer the above provisional framework to the Conference as a point of departure for deliberations on bringing together the essential elements of an ethics management system to eliminate corruption and malpractice in the public sector.

The organisational culture of the public sector must change with a paradigm shift from external sanctions (when misconduct is belatedly addressed) to stronger internal control with anticipatory management systems to check deviant behaviour.

Both the spirit and the intent of the law must be adhered to and public trust must be constantly re-affirmed in the process of good governance. Sound administrative values of probity, trust, justice and fairness must be integrated in the daily work ethic and not kept separate as an issue for social concern only.

Recent years have seen corruption become the misdirected juggernaut of society. In our country, it has succeeded in infesting our shared value system with moral decay and winning the hearts and minds of many a public servant.

Not only those exercising public power but large sections of the citizenry as well have been engulfed by the corrupting tentacles of this wayward beast that is threatening to destroy the soul of our nation and the very basis of our democracy.

The question needs to be posed as to how much longer the sojourners on the road of transformation will be put to the ultimate test of ethical fitness and be found wanting.

The artisans for the new humanity in South Africa work tirelessly for the consummation of freedom but are continually hindered in their efforts in many instances by their own comrades who have fallen prey to Mammon.

The illusion of the sumptuous life made possible by profits from illicit practices has taken its toll on the very proponents of the new order, one that was meant to be built on the ruins of apartheid. Indeed, the ghosts of yesteryear have reappeared and their power of turning the fighter against the corrupter into the corrupted is evident for all to behold.

replaced by just sharing.

To recognise the ethical importance of the bridge that we must cross in the public sector, serious consideration needs to be given to a structural ethical adjustment, not only in our thinking but in the way we institutionalise conduct.

Virtue and good ethical behaviour in the public sector is not inherently resident in the minds of public officials. The lure of the lap of luxury at state expense must be perennially interrogated through codes of ethics.

While these codes may concentrate on financial disclosure, conflict of interest, or aspects of impropriety, they should be thoroughly informed by a set of implicit values and an ethical culture. This implies that a disciplinary approach to regulating behavior of public officials must be mediated by an overarching aspirational framework.

Perhaps a professional framework for discussion among managers at this Conference might look as follows in respect of commitment to an:

Ethics Management Framework for the Public Sector (EMFPS)

- 1 Ethics in the workplace should be reinforced urgently as a new cultural trait of the public service.
- 2 Political will and a shared commitment should inform the reinforcement process.
- 3 Transparency and accountability should be given their rightful place.
- 4 Rules of procedure should be clearly articulated.
- 5 The practice of whistleblowing should be institutionalised.
- 6 Steps to reward exemplary conduct should be taken.

*Recent years have
seen corruption
become the
misdirected
juggernaut of
society*

How often have we been treated to screaming headlines in the media of leaders in the corporate world being investigated for graft?

Not often, and not necessarily because the corporate executives have got their moral act together while government has lagged behind.

Is it perhaps because the media has defaulted in its role of exposing corruption when it comes to the private sector, to which it also belongs?

It is a laudable feature of our new democracy that no less than ten structured bodies exist to counteract corruption in line with their constitutional mandates.

Moreover, when possible theft of public funds is suspected or reported, it is promptly investigated by agencies such as the Health Commission and the Investigating Directorate for Serious Economic Offences (IDSEO).

Whilst the Minister of Justice was chastised by some for daring to welcome former cleric Alan Boesak back into the country to face fraud charges, it was ironically Minister Omar's own ministry, through IDSEO, that led the investigation into the allegations against Reverend Boesak.

Some might share the view that these bodies are not effective enough, whilst others might feel that they need to be replaced by a single anti-corruption agency.

Such a consolidated approach has proved successful in Hong Kong, Singapore and Botswana. It is one of a range of issues that should be addressed at this Public Sector Anti-Corruption Conference.

The Truth and Reconciliation Commission's report is now public and offers a litany of memory jerks regarding our recent past which was painfully characterised by racial bigotry and human rights abuses.

May it not be that after all is said and done, apartheid can be recorded not only as a crime against humanity and also as an ideology of moral corruption – an instrument of oppression used, among other things, to help its victims imbibe its very immoral mores and foundations, even unwittingly so.

Consider the matter of legitimacy. Years of resistance to the state apparatus constituted the fibre of struggle for more South Africans as the object of making the country ungovernable before 1994 became one of the strategic objectives of the struggle.

Transplanted overnight into a new democratic order, requiring a different moral ethos and outlook, the citizenry has laboured and lingered in redirecting their loyalties and hierarchy of responsibilities. The phenomenon of anomie and alienation

The sad truth has come to rest – apartheid’s grand design might have succeeded in being reborn amidst the ebb and flow of change itself.

Do no service for a present

For where morality has failed, the law now has to rush in to fill the void. How has this seemingly contradictory impulse between our taste of power and our appetite for democracy come about?

How is it that in the midst of the wholesale transformation of ordinary life in South Africa, the dark shadows of the past continue to cast a gloomy spell on our future? Are we a nation doomed to failure in matters moral and issues ethical?

Perhaps we should take heart that corruption is not entirely new in government. If sin is as old as humankind, so too is corruption as old as government itself.

In ancient China officials were given an extra allowance called Yang-lien (meaning nourish incorruptibility), while in India some 2 500 years ago, the Brahman Prime Minister of Chadragupta listed some forty ways of embezzling money from government.

Plato would warn – “*do no service for a present*”, while Aristotle would encourage that “*we become just by doing just acts.*”

The eternal legacy of corruption in government should not, however, detract from an equally axiomatic fact of life, that misuse of public funds for private profit usually involves two parties, the corrupter and the corrupted.

While a government official might as a rule be one of the implicated parties, the other party is usually your ‘person in the street’ or business associate.

This duality is often lost as the role of the private sector (business) and civil society in initiating acts of bribery to secure government contracts for example, is not fully recognised.

prosperity.

That we as South Africans in all spheres of life have been overtaken by material self-seeking should therefore come as no surprise, even if it is contrary to public interest, and is at public expense. In this regard it is incumbent for government unequivocally to affirm its seriousness and desire to stamp out corruption wherever it occurs. Perpetrators of corrupt practice in both the public and private sectors will be severely punished for contributing to this moral mayhem which has been allowed to creep into the fabric of our society.

Zero tolerance will be offered to the parasites of our land who have scorned the public interest and sought their own self enrichment at state expense, for it is against them and against the antinomian culture they seek to perpetrate that we must continually rebel. Such rebellion must of necessity take on a public face, for collusion of individuals in deviant behaviour contrary to the common good is usually cloaked in silence.

Government is firmly committed to come down harshly against all forms of corruption including bribery and abuse of public trust.

New measures are to be enacted in line with proposals serving before cabinet and these include, *inter alia*, the review of anti-corruption legislation and the drafting of new legislation, the development of more efficient monitoring and management systems to put the brakes on corrupt activities, strengthening the criminal justice system through the development of investigative and preventive strategies, a more comprehensive 'whistleblowing' system, development of a risk assessment 'early warning' system, and the initiation of a national campaign against corruption.

What we are meeting about today is to evolve the ways and means by which we can take our society, and the public sector in particular, out of the dark years in which the accumulated weight of illegitimate rule bred predatory social norms which taught all and sundry that the pursuit of personal benefit at all costs was an acceptable form of behaviour.

This Conference, as the Morals Summit on whose footsteps it follows, must add further impetus to the struggle we have to wage for the fundamental renewal of our country which is, itself, an important part of the African Renaissance.

The county looks forward to the outcome of your important deliberations.

I thank you.

must also be mentioned in the context of understanding the causative factors for the high levels of corruption in the public sector.

In anomie we see the erosion of authority structures and the collapse of the moral order, thus breeding social upheaval, while in alienation we experience powerlessness and futility in the midst of an impinging national framework of values and norms.

The collapse of the old order and ushering in of the new one necessitates a reorientation of a nation's worldview. Those who do not immediately benefit from the transition will see its futility for themselves and seek to question its legitimacy by resisting its fringe or 'soft' assumptions such as morals, norms and values. In this situation, patterns of behaviour would gradually take root, leading inevitably to a corrosion of a good national character and a moral identity crisis.

In such an environment public officials will find themselves quite vulnerable especially when they observe that perpetrators of the old order continue to enjoy the benefits of the new, long after the latter came into being.

In our country, we have found it necessary to increase government's share of public responsibility since 1994, coexisting with the private sector in a mixed economy. One of the results of this is that the larger the share of government's responsibility, the more the government must prepare itself to fight against bribery and corruption in its ranks.

Since any government is born of the society it seeks to govern, it will, to a good extent, be a mirror image of and a reflection of the prevalent levels of morality.

In the macro-context of world values where the private accumulation of material wealth has unleashed a total onslaught on every other determining value possible, mental conditioning remains captive to the triumph of the stronger glow of success measured as personal

Since any government is born of the society it seeks to govern, it will be a mirror image of and a reflection of the prevalent levels of morality

APPENDIX C

RESOLUTIONS OF THE NATIONAL ANTI-CORRUPTION SUMMIT, 14-15 APRIL 1999

shortcomings by either amending, or drafting new legislation where necessary.

- To develop, encourage and implement **whistleblowing mechanisms**, which include measures to protect persons from victimisation where they expose corrupt and unethical practices.
- To support the speedy enactment of the **Open Democracy Bill** to foster greater transparency and accountability in all sectors.
- To ensure effective investigation and prosecution of acts of corruption by establishing **special courts**.
- To establish **Sectoral Co-ordinating Structures** to effectively lead and manage the National Anti-Corruption Programme in their sector and to feed into the development of a National Co-ordinating Structure. In particular the Public Service Commission should be empowered to effectively lead, co-ordinate, manage and monitor the National Anti-Corruption campaign within the Public Service.
- To rapidly establish a cross-sectoral task team to look into the establishment of a **National Co-ordinating Structure** with the authority to effectively lead, co-ordinate, monitor and manage the National Anti-Corruption Programme. The Public Service Commission to take responsibility for establishing the cross-sectoral task team.

PREVENTING CORRUPTION

- To publicise and support the **blacklisting of businesses, organisations and individuals**, who are proven to be involved in corruption and unethical conduct.
 - To establish a **National Anti-Corruption Hotline** to facilitate the reporting of corrupt practices in all sectors.
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- To establish and promote **Sectoral and Other Hotlines** to strengthen the

We the delegates drawn from various sectors in South African society acknowledge that corruption:

- Adversely affects all sectors in society and impacts most directly on the poor.
- Is corroding the national culture and ethos of democracy and good governance at all levels and sectors of society.
- Depletes both government and civil society of scarce resources that are needed to ensure economic prosperity, equality and a better life for all.
- Is a blight on society caused by the worship of self, which gives the pursuit of personal affluence priority above the pursuit of economic justice for all.

We therefore commit ourselves to:

- **Stamp out corruption at every level in society;**
- **Develop a culture of zero tolerance of corruption;**
- **Visibly support and subscribe to the national integrity strategy in order to combat corruption in all sectors of civil society and government; and**
- **Educate all persons in South Africa to work together towards a higher moral purpose.**

We therefore resolve to implement the following resolution as the basis of a national strategy to fight corruption.

COMBATING CORRUPTION

- To endorse, support and implement all the sectoral initiatives developed in the National Anti-Corruption Summit.
- To critically **review and revise legislation** in place to combat corruption, and to address any

National Hotline.

- To take **disciplinary action** and other proactive measures against persons found to be behaving in corrupt and unethical ways.
- To **monitor and report** consistently and fairly on corruption in all areas of civil society, the private sector and government.
- To **promote and implement sound ethical, financial and related management practices** in all sectors.

BUILDING INTEGRITY AND RAISING AWARENESS

- To promote and pursue **social analysis and research and policy advocacy** to analyse the causes, effects and growth of corruption, as well as to evaluate and monitor the effectiveness of anti-corruption strategies.
- To negotiate, develop, support and enforce **Codes of Good Conduct and Disciplinary Codes** in each sector of civil society.
- To work together to **inspire** the youth, workers, employers and the whole of South African society with a higher moral purpose and ethos that will not tolerate corruption.
- To promote **training and education** in occupational ethics on all levels of South African society
- To support and work together with government in creating a sustained **media campaign** to highlight the causes of, and solutions to corruption, and to communicate the national integrity strategy.

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