

CORRUPTION AND GOVERNMENT

Lessons for Portugal
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PORTUGAL IN THE TRANSPARENCY INTERNATIONAL INDEX

- In Portugal corruption is a serious problem.
- TI ranks Portugal 29th of 180 countries in its Corruption Perceptions Index with a score of 63 out of 100.
- Portugal is behind many other countries in Europe,
- BUT Spain ranks 42,
- Brazil ranks 96,
- Angola ranks 167, almost at the bottom.
- Portugal can improve by reforming existing institutions.

CRIMINAL LAW REFORM

- Portuguese prosecutors and judges see corruption as a problem for the criminal law, which punishes and deters wrongdoers.
- That perspective leads to reform proposals that:
 - Tighten up the definition of the offense,
 - Streamline procedures to reduce delays,
 - Increase penalties,
 - Make certain payoffs per se illegal--without uncovering the quid pro quo.

GOVERNMENTAL REFORM: 2 TYPES

- Structural reforms to reduce the scope for profiting from public office and for illicit private sector benefits.
- Ask what is being bought and sold in corrupt deals and limit the potential corrupt gains.
- But the such reforms cannot eliminate all corrupt incentives.
- Thus, consider overall administrative reform,
 - in deterring outright corruption and
 - in limiting the influence of special interests in political life.

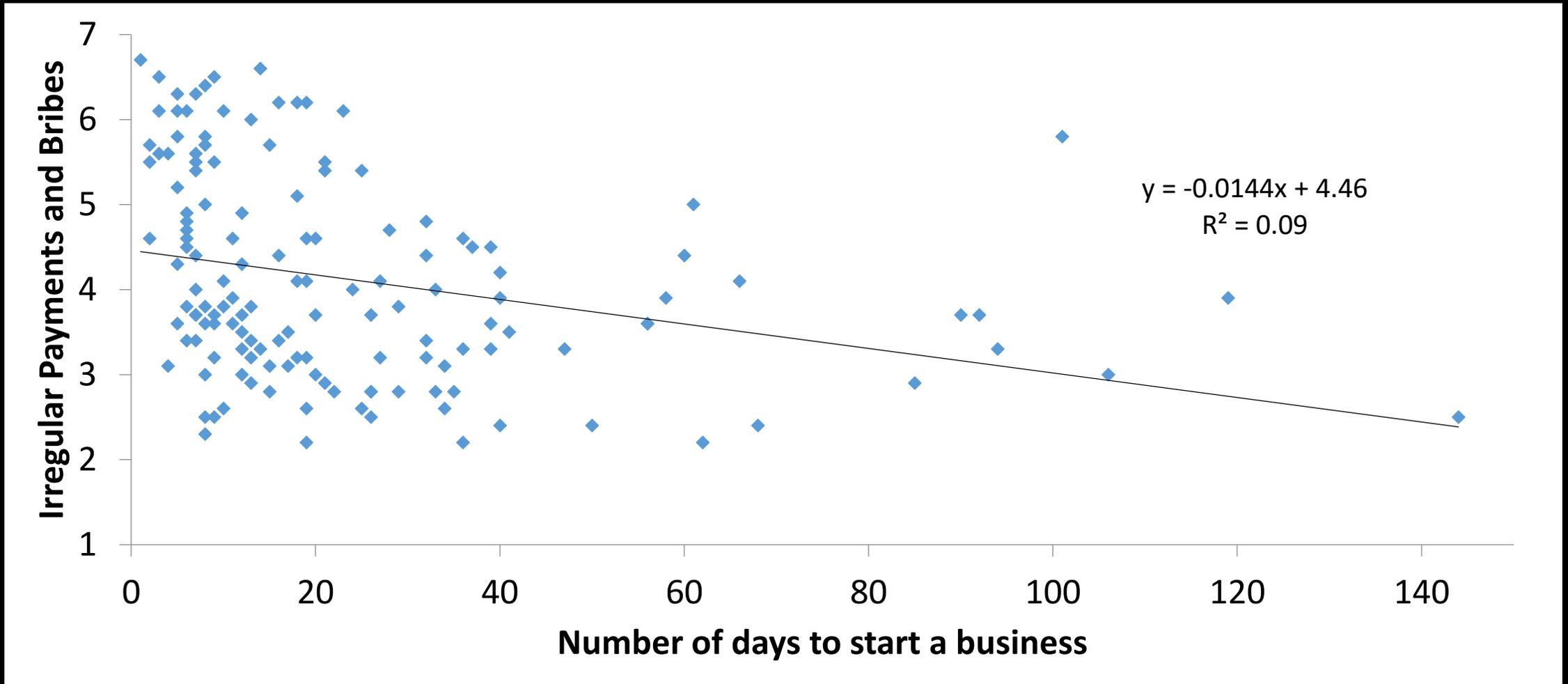
RECENT PORTUGUESE SCANDALS

1. Government infrastructure contracts;
2. Privatizations and concessions in telecoms, electricity, etc.;
3. Power purchase contracts in electricity and other utilities;
4. Permissions for property development;
5. Government subsidies to privatized firms;
6. Contracts in highly corrupt countries, e.g. Angola;
7. The provision of visas to corrupt individuals.
8. PLUS routine payoffs to do business, access services

BUREAUCRATIC CORRUPTION

- I. Payments that equate supply and demand
 - A. Fixed supply
 - B. Variable Quantity and Quality
 - C. Choosing Those Who Qualify
- II. Bribes to Incentivize Officials
 - Figure 2.1. Cross-country relationship between days to start a business and the frequency of bribery by firms

Figure 2.1. Cross-country relationship between days to start a business and the frequency of bribery by firms [7 is best]



Source: Elaborated with data from Klaus Schwab, ed. *The Global Competitiveness Report 2013-2014*, World Economic Forum, <http://www.weforum.org/reports/global-competitiveness-report-2013-2014>. Note: Suriname was excluded from the graph as an extreme outlier.

CORRUPTION IN PROCUREMENT AND PRIVATIZATION

- Introduction

- TI estimates corruption increases costs of procurement by as much as 50%

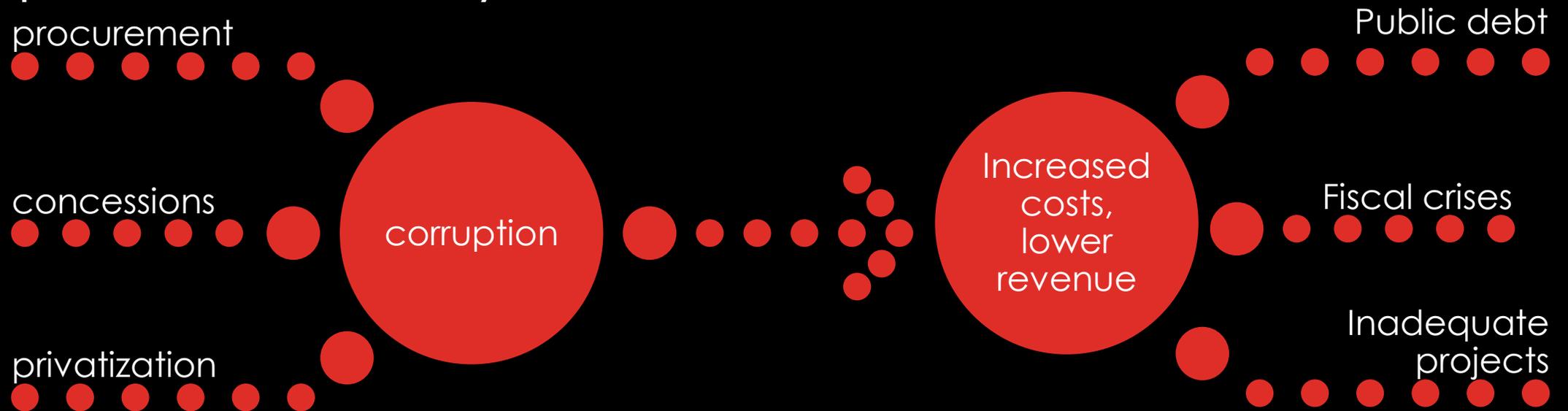
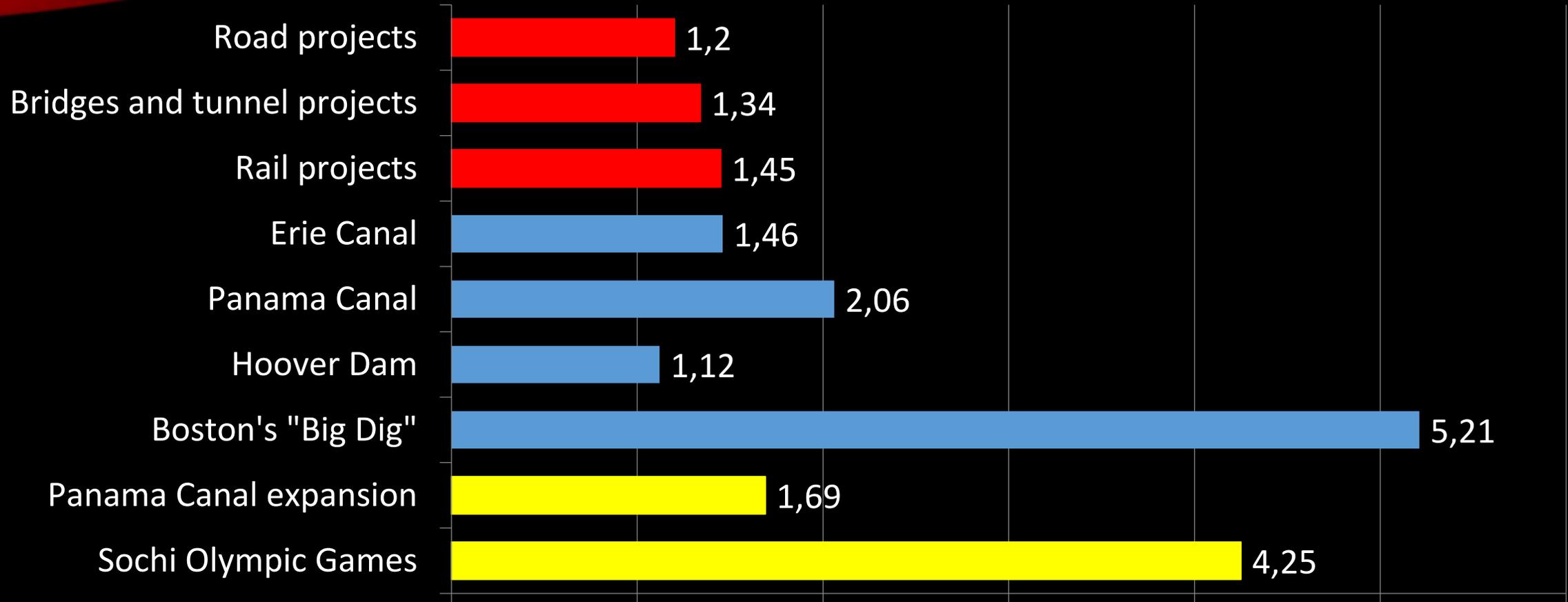


Figure 3.1. Selected Cost Overruns

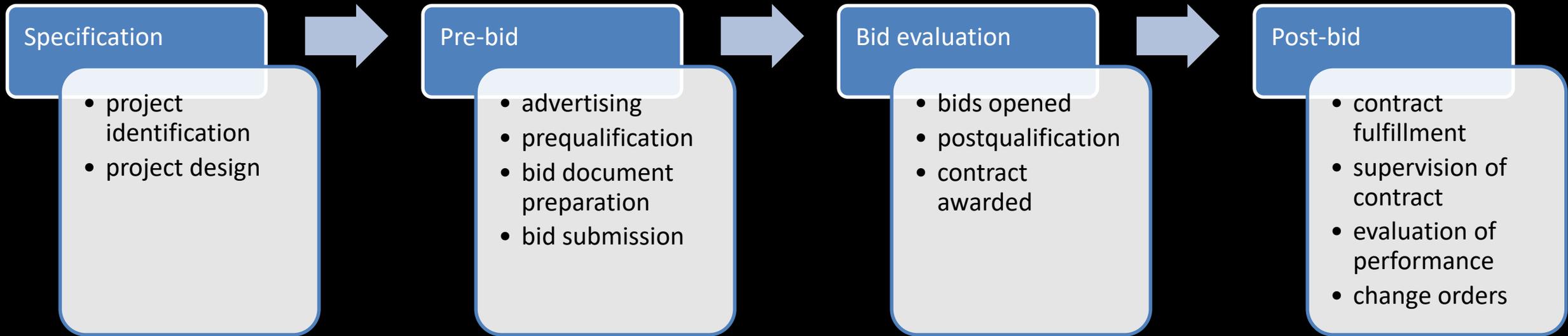


Sources: Red bars: Flyvbjerg (2007), cited in Flyvbjerg and Molloy (2011: 83); blue bars: Engerman and Sokoloff (2006: 105); Yellow bars: calculations based on "Dispute Over Costs Halts Panama Canal Expansion," New York Times, (Reuters), Feb. 7, 2014. <http://www.nytimes.com/2014/02/08/business/international/dispute-over-costs-halts-panama-canal-expansion.html>; and Transparency International, "Major Games: Let Sport Triumph, Not Corruption," posted Feb. 5, 2014, accessed February 13, 2014 at http://www.transparency.org/news/feature/major_games_let_sport_triumph_not_corruption.

PROCUREMENT— NOT JUST INFLATED COSTS

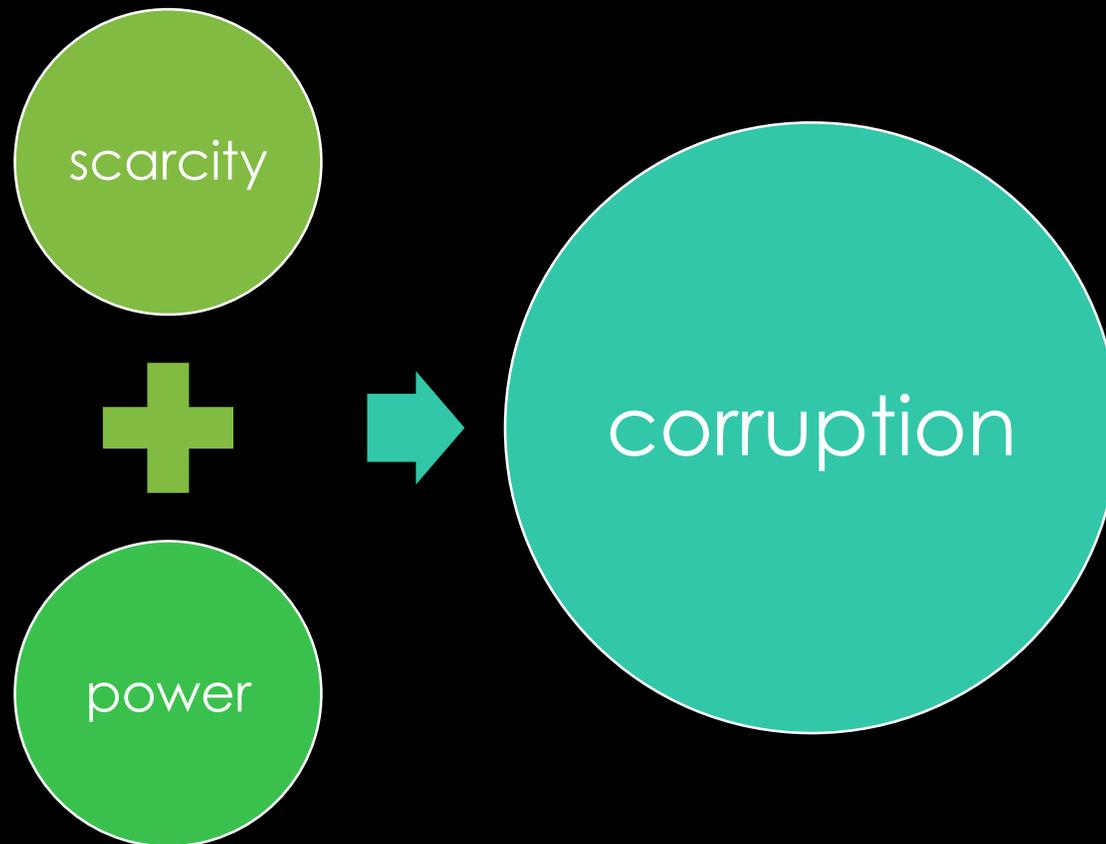
- Lack of competition—bidding rings.
- Timing of costs & benefits: Corrupt rulers are likely to support an inefficient time path of social benefits and costs—frontload benefits.
- Overly elaborate, one-of-a-kind deals.
- Increased uncertainty from risk of regime change, lead to get-rich-quick strategies from firms.

Procurement process



Source: Based on Ware et al. (2007: 308).

REDUCING INCENTIVES AND INCREASING COSTS



Reforms:

- Program elimination or legalization of payments
- Reform of public programs
- Reform of procurement systems
- Privatization
- Regulate financial flows

I. ELIMINATION OR LEGALIZATION

- Eliminate programs that mainly create corrupt incentives
- But avoid
 - Reducing budgets without reducing workload
 - Increasing corrupt incentives elsewhere
- “It is not enough for a country to get its macroeconomic totals in line with IMF guidelines. Nations should be concerned with the underlying structure of public programs, not just the size of government .”

II. REFORM OF PUBLIC PROGRAMS TO LIMIT RENTS

- A. Simplify revenue collection: Fewer steps; Lower rates
- B. Regulation and the allocation of services
 - “Efficient regulation implies a concern for both costs and benefits; it does not necessarily imply less regulation”
- Reform of social benefit programs
 - Direct deposit; Proxy shoppers
- E-Governance
 - Making information available, simplifying applications and requests, and improving accountability

III. PROCUREMENT REFORM

Elements of reform

Discretion

Professionalization

Monitoring

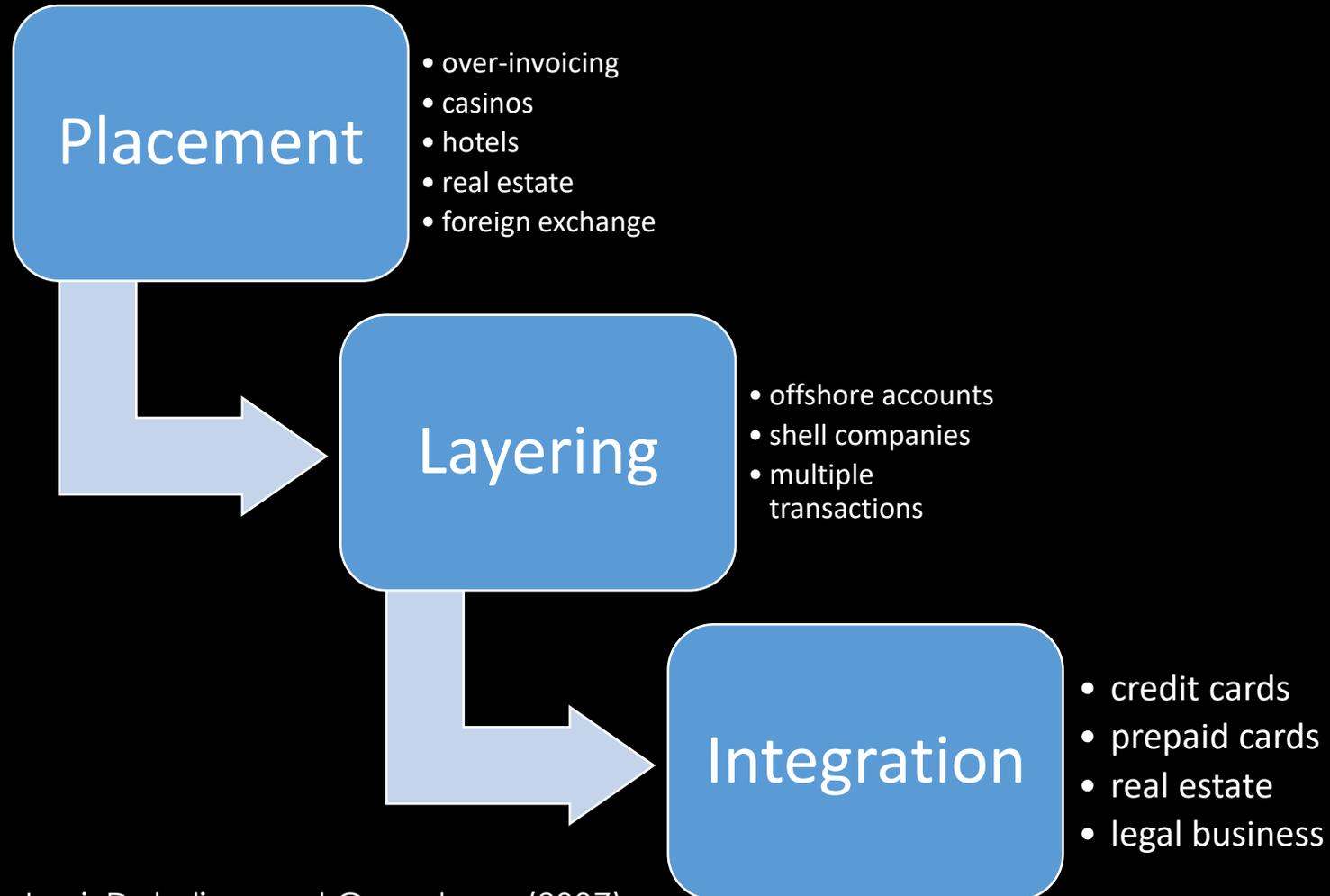
Transparency

Firm performance

IV. PRIVATIZATION

- An Independent judiciary and effective enforcement are essential.
- Regulatory bodies should be professionalized.
- From transitional countries' experience, vouchers and IPOs seem the least corruption-prone methods.

V. Money Laundering—In- & Out-Flows



Source: Authors, based on Levi, Dakolias, and Greenberg (2007).

STRUCTURAL REFORMS: CONCLUSION

- Structural reform should be the first step.
 - Eliminate programs, reform programs or privatize
- Procurement reform.
 - Encourage competition
 - Constrain Discretion (Limit change orders)
 - Professionalism
 - Benchmarking or Off-the-shelf purchases
 - Transparency
 - Control money laundering

ANTI-CORRUPTION AGENCIES



BUYING POLITICAL INFLUENCE & BUYING VOTES

- ***Financing Political Campaigns—Public v Private Funding***
- ***Conflicts of Interest versus Expertise***
- ***Lobbying—Pluses and Minuses***
- ***Misuse of Political Connections***
- ***Buying Votes and Election Fraud***

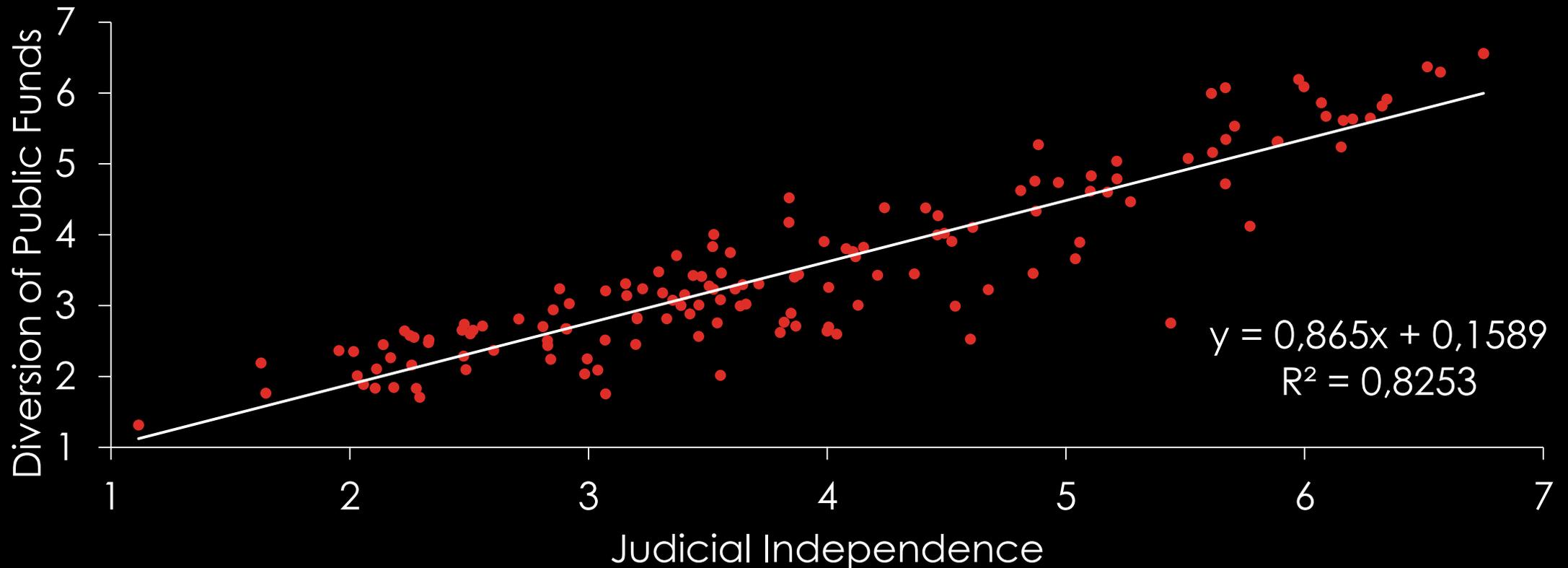
OPENNESS AND ACCOUNTABILITY

- Information and Auditing
- Freedom of information act
- The Media and Public Opinion
- Nonprofit Organizations as Change Agents
- Avenues for Individual Complaints
- Grassroots Oversight of Government Programs

INDEPENDENT JUDICIAL INSTITUTIONS AND ANTICORRUPTION AGENCIES

- The Judiciary
 - **Independence and Competence**
 - Prosecutors
 - Alternative Dispute Resolution
- Independent Anticorruption Agencies

Figure 12.1. The cross-country relationship between judicial independence and diversion of public funds



Notes : Includes 144 countries. Each variable represents respondents ' perception, measured on a scale from 1 (very poor) to 7 (very good). This graph does not prove causality: there may be other variables that lead a country toward both greater judicial independence and lower (better) levels of public embezzlement. A more sophisticated multivariate study would be necessary to explore the marginal effect of an independent judiciary.

Source : Generated by authors using World Economic Forum, *Global Competitiveness Report 2014-2015* dataset,