[665] Paper

The Challenge of Poor Governance and Corruption

Copenhagen Consensus Opponent Paper –

Draft, 19 April, 2004

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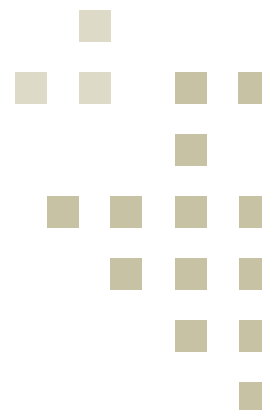# The Challenge of Poor Governance and Corruption

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[Abstract] The paper is the author's so-called 'Opponent paper « to Susan Rose-Ackerman's proposals for good governance and anti-corruption poli-cies at the Copenhagen Consensus 2004 meeting 24–28 May. There the most promising anti-corruption policies had to compete with other best poli-cies at other fields such as fight against AIDS, malaria, hunger prevention, and so on. He argues that while corruption and governance problems are important and may prevent any other kind of policy to succeed, no really effective anti-corruption policy has so far been proposed, and if it was, we wouldn't know that it did. Hence, it would be unreasonable to make a strong claim for anti-corruption projects against their competitors.

The challenge raised by poor governance and corruption to be emphasised here is a challenge of *tools*: Do we have the ability to meet any global challenge if our basic tools for dealing with them, the formal organisations, are populated with a large number of leaders and ordinary members who shirk, embezzle or engage in corrupt transactions? The very same tools would have to be applied when solving the problems of governance and corruption. Hence, if corruption is a key problem, do we have any way of solving it?

Rose-Ackerman (2004) underlines a different side of corruption: Skewed distribution of purchasing power based on private wealth induces illegal buying of influence. That undermines legitimate political power, particularly when based on voting power. This illegal buying of political and judicial decisions by private business, is nowadays called 'state capture', and recent research has been able to capture some of its possible quantitative dimensions (e.g. Hellman et al. 2000). I think this return to old Marxian fields of inquiry has already become fruitful. There are also important spillover mechanisms from the political game to the day-to-day behaviour of formal organisations. Still, I consider the consequences of corruption for that behaviour to be the key challenge.

Rose-Ackerman addresses in her proposal five options, five roads of attack: Voice and accountability, procurement reforms, tax reforms, changes in systems of business regulation and international efforts to limit high-level corruption in business. I will for reasons of space focus on the last option, but in order to so it is helpful to consider some of the empirical characteristics of the field of governance and corruption as a research arena.

Data: Do We Have Sufficiently Precise Knowledge of the Governance Challenge?

Looked from outside, the challenge paper (Rose-Ackerman, 2004) may appear somewhat peculiar by making both the consequences and causes of corruption be classified according to their sources of statistical information. A rather heterogeneous picture of seemingly unrelated phenomena and measures is presented. This is not, however, a flaw in the paper as such, but reflects in an interesting way some inherent characteristics of the corruption and poor governance challenge itself and, to some degree, temporary limitations of current state of relevant research. It has not yet quite digested the large number of recently available data in the field.

In the following I will mainly discuss corruption, not because corruption and the other aspects of poor governance are synonymous phenomena, or always strongly causally linked, but because I have not found any option where trade-offs between the different dimensions of governance are both essential and possible to determine. With the more precise weighing of forces implied by such trade-offs, the problem of noisiness in the different governance indicators becomes acute.[1]

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1. With regard to the problem at hand, one may, for example, believe that the long periods of relatively high degree of political stability in Kenya with relatively low-scale political violence are related to the high level of corruption. But are we in this case dealing with processes that are so predictable that we may for example, settle for an option that reduces corruption with 20% at the cost of increasing the probability of civil war with 10%? With such mixes of data noise and difficult-to-predict situations, I believe it is reasonable to re-

With exceptions, such as Gunnar Myrdal (1968), few economists believed until recently that corruption was a researchable phenomenon. It was not researchable partly because no interesting model had been constructed, but more importantly, no quantitative data were available. Not least due to the early efforts of the author of the challenge paper (Rose-Ackerman, 1978), interesting models were soon constructed, but quantitative data were missing until the mid 1990s. The publication of such data, beginning with Transparency International's Corruption Perception Index (CPI), was part of the political process that has made corruption and poor governance available as a public challenge where quantitative cost-benefit analyses of measures at least are thinkable.[2]

Nevertheless, I will argue, corrupt transactions remain in many ways as unobservable as before. The quantitative information is not based upon direct observation, with the exception of a few case studies that still are extremely scarce. The information is rather based on questionnaires that differ widely in how they relate to observable action. Since the different sources of quantitative information reflect the various forms of corruption and poor governance at different distances from the actual acts, it is reasonable to build different kinds of empirically based models around them. When closer to the actual corrupt acts, the wide variety of situations reflected now also in the data, cries out for specific empirically based models to analyse the set of normally small-scale options tailored to that particular challenge.

Most quantitative research has been cross-country studies based on the most aggregate data. TI's CPI index has been most frequently used, but another developed in the World Bank, roughly using the same sources of information, but applying different principles of aggregation, is likely to become as important.[3] These indexes now allocate numbers for average corruptibility of almost every country in the world of some economic significance, stimulating both political discussion and research.

That research is of great potential value in assessing the economic dimensions of the challenge of poor governance and corruption. The quantitative specification of the negative effects of corruption on growth has been paradigmatic (Mauro (1995)), but many other effects have been studied, some of which have been dealt with in the challenge paper. Since the corruption level is not a policy instrument, however, models where corruption plays the role as dependent or intermediate variable are more immediately relevant. For example, in Ades and Di Tella (1999) the degree of economic openness impacts corruption, and corruption influences growth. Since the degree of openness is possible to influence by a large number of policy instruments,

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strict the range of options considered to situations where all the good things go together – less interesting for economists, but less demanding for the quality of the governance indicators. That is, I may in the following treat corruption and poor governance as synonymous.

2. Before then only commercially produced data were available. These data, however, still constitute the backbone of the indexes immediately available in the public domain, such as the TI and World Bank indexes.

3. The aggregation principles of the World Bank index are explained in Kaufmann et al. (1999). They allow information from sub-series covering only a few countries when constructing the aggregate index covering most countries in the world. By being able to include data from more countries and through the fact that the World Bank researchers have built up other, easy to access, governance indicators of bureaucratic quality, voice and the rule of law, using the same aggregation methodology, it is safe to predict that it will become the database for much research into corruption and poor governance in the future.

including tried methods of trade policy, the implications for the search of policy options are obvious.[4]

The informational core of the TI's and World Bank's governance indexes is assessments made by experts and businessmen collected by different organisations. When constructing the indexes both the TI and the WB economists have, of course, noted many of the problems which arise through the aggregation of heterogeneous data sources and devised two different econometric solutions.

Both solutions assume, however, that the stochastic errors across sub-indicators are independent. The assumption is crucial and difficult to relax, as noted by Kaufmann et al. (1999: 10). Without it, the gains in precision by aggregation become indefinite.[5]

How reasonable is it that the strong correlation between the sub-indexes is due to correlation of errors, and not to independent observations of the same government characteristics? Several of the sub-indicators with the strongest inter-correlation are based on respondents' answers to very general and vague questions about their perceptions of corruption levels in country A, B or C. The questions are not leading the respondents to focus on their own experience. At least in countries where the citizens have no daily, individual experience of corruption, the assessments have to be based on the process through which information about corruption reach the public domain. How is that process?

As far as I know, little precise, empirically based knowledge is here available. As a first approximation, however, I will expect strong correlation and spillover effects: The experts read the same reports and gauge other experts' statements. Since the assessments are often not based on individual experience, when expert X claims corruption in A is very high, expert Z has no clear evidence to the contrary, so when knowing X's statement it may be optimal to make an assessment close to his. Informational cascades may easily develop in this context.[6] The fact that the TI index in particular is widely published, reinforces the argument. The case of information given by expatriate businessmen is somewhat different, but they are not likely to base their assessments to only on their own, independent experience either. Most will be based upon other businessmen's communication. The degree to which that will contain private information, will at best depend on how much genuine information other expatriates reveal.[7] The striking way that corrup-

4. As pointed out by Rose-Ackerman (2004), many explanatory variables in the corruption equations are past events, historical or geographical givens, impossible to influence today, and useless in option search. It is difficult to take authors seriously here when discussing the counterfactual of how much less corruption one might observe in parts of present-day Russia if it had been colonised by England (Treisman, 2002)!

5. One reason why Kaufmann et al. (1999) are not emphasising this problem is that the relaxing of the assumption would result in a greater variance in the country estimates and that would only support their polemics against TI's use of its index to publish a precise ranking of countries in terms of their (perceived) corruptness. An important ingredient in the WB aggregation procedure is that it (endogenously) gives greater weights to those sub-indexes that are more strongly inter-correlated with the others. If that inter-correlation is due to inter-correlation of errors, however, this property of the aggregation procedure may not be of any advantage.

6. Many of the conditions for of such cascades to develop are fulfilled in this case (see, for example, Bikhchandani, et al., 1992).

7. The main reason why most information about corruption remains private (except the daily demand for bribes in high corruption areas) is, of course, that corrupt transactions usually are criminal and the agents performing them are interested in keeping them secret. Fur-

tion has moved from being perceived as a sideline issue in the public mind to a major challenge today may in part reflect this informational structure (Andvig, 2002).

The work under the auspices of the World Bank since 1996 to develop more detailed and focused information about corruption, such as the size and frequency of bribes paid by enterprises, and other sides of public administration may become one of the most interesting and important expansions of statistical information since the development of national accounting. The thrust of this research is reflected in Kaufmann's (2003) strong headline: "The Power of Data: Governance Can be Measured, Monitored, and Rigorously Analyzed." It is now possible to construct reasonably comparable (across countries) measures of different forms of corruption, whether corrupt deals are honoured, and so on, for a large and increasing number of countries, all seen from the enterprises' point of view.

For some countries that information may be compared with the private households' and public officials' experience or perceptions in so-called diagnostic surveys.[8] In another line of research guided by somewhat different theoretical presumptions, the World Bank has focused on the different branches of public government and asked different groups of officials about their perception and experience of governance issues including corruption.[9] For a few Latin American countries Seligson (2002, 2003) has also collected a set of corruption data where households are asked about their direct experience.

So far, however, most micro-based research has relied on the more widely collected business perception data, mentioned above, such as the World Business Environment Survey (WBES), but the results of these surveys are interpreted as if they report the officials' or enterprises' own experience. In many cases this may be misleading. Sensibly, in order to gain answers from the enterprises about their experience of sensitive corruption, the questions had to be "phrased indirectly about the corruption faced by 'firms in your line of business'" (Hellman et al., 2000: 20). Despite the precautions taken, this is not the same as reporting experience. Given the informational nature of corrupt transactions, these perceptions are also likely to be strongly influenced by the other agents' communication of *their* perceptions, which may or may not be based on their own experience.

An important example of possible ambiguity is the World Bank group's paper on multinational companies' behaviour in transition countries (Hellman et al., 2002). Here they find that enterprises from low-corruption countries roughly behave as corruptly as the locals even in the most corrupt countries. It is an interesting hypothesis, to which I return when dealing with the international efforts option, but a more straightforward interpretation is that the multinationals simply perceive the corruption problem roughly in the

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thermore, the agents most likely to discover corrupt transactions, the public or private bureaucracies directly involved, are also normally interested in keeping the acts secret to the public. In the case of private enterprises the economic losses when such information is revealed, may prove significant, around 5% of stock values in more serious cases (Karpoff and Lott, 1995). At this level the information game may at best have a prisoner's dilemma structure. It may be better for all enterprises if everyone told about his/her experience; if only you reveal it, you will lose.

8. See: http://www.worldbank.org/wbi/governance/capacitybuild/diagnostics.html
9. In the case of Bolivia, see Manning et al. (2000). So far, only a few countries are covered.

same way as the locals, they share the same "folklore of corruption" (Myrdal, 1968:940).

Rose-Ackerman (2004) does not discuss the weak observational basis of most quantitative measures used in this field. The result is that one may believe this challenge to have more precise dimensions than is warranted. Despite all the progress and insights and hypotheses made through the quantitative perception data, the challenge of corruption as a field of empirical research is still its secret nature. In order to gain a more precise idea about the size of the corruption and poor governance challenges, more detailed analysis of data sources is needed. In particular, we should know more about how the perceptions about them are formulated and, eventually, how these perceptions may influence the performed actions. A few suggestive observations are made,[10] but to my knowledge few concentrated research efforts. Cábelková's (2001) study from Ukraine is an interesting exception. It models both the impact of actual experience, the impact of media and friends on perceptions and the impact of perceptions on the reported incidence of corrupt transactions at a number of public institutions.

Options – Do We Have the Tools to Deal with the Corruption Challenge?

As pointed out by World Bank researchers (Huther and Shah, 2000) we have two rather different corruption challenges. In one case we have an honest principal, a government willing to deal with corruption and other forms of poor government, and where corruption is not a dominant form of behaviour among politicians and most branches of public administration. In this situation one may often simply create new, working tools that may repair the defect ones: working anti-corruption agencies, reorganisation of public auditing and hiring agencies, and so on. Corruption and poor governance certainly may prove important and difficult to handle issues also in this case, since corruption implies that people try to collect potential economic rents attached to their positions in difficult-to-monitor situations. As crime it is difficult to detect. We may also have strong positive spillover effects in this case: If you make a corrupt transaction it becomes easier for me to do the same.

It is the other challenge, however, the situation where the principal is dishonest or too weak to deal with a public apparatus permeated with corruption, that really is the serious one. Given the present level of cross-country information and concern, the resulting large pockets of mismanagement and deep poverty represent a major global challenge. The option of simply creating new bureaucratic tools is not likely to be available here. They are also likely to be affected. The tools available to deal with such situations are either too weak or too harsh.

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10. For example PricewaterhouseCooper (2001: 6) compares the distribution of different forms of *experienced* economic crime with their *perceived* prevalence among about 3 400 European organisations, mostly business enterprises. While embezzlement constituted 63% of the actual economic crime incidence, but 29% of the perceived prevalence, corruption constituted only 11% of the actual incidence, but 23% of the perceived prevalence. The sample space is defined by a list of possible types of economic crime.

It is also the answer I read from the challenge paper. Since the harsh tools of outside military interventions or internal revolutions are both extremely risky and costly with too uncertain benefits, they will remain outside our scope of attention. To transform, let us say, the World Bank into a kind of activist, anti-establishment type of organisation is not an option either. We have to focus on the weaker instruments. Hence, Rose-Ackerman's (2004) outlines of options deal with a combination of fairly weak measures that may have some positive effects on the second situation, and some measures that may mainly work as a response to the first situation.

As noted in the introduction, in the deep corruption situation the national authorities are unlikely to have regular tools available since they are all likely to become corrupt. Note that this proposition assumes that the spill-over mechanisms across different sectors of the public apparatus inside a country are much stronger than cross-country spillover within the same sector of administration, such as customs. While probably realistic in most cases, the assumption is left unexplained in most of the literature, the challenge paper included. Nevertheless, closer cross-country interaction at sector levels, such as the international anti-corruption movement in customs administrations may assist in reducing corruption in the customs in high-corruption countries (or, eventually, stimulate corruption in low-corruption administrations). In outlining international measures Rose-Ackerman has not sufficiently underlined the possibilities through cross-country interaction at sector levels. More generally, interactions between a thoroughly corrupt public apparatus and some outside agencies or interests may have to be established in order to release internal pressures in corruption-decreasing directions.

This is clearly the central part in the first 'Oversight and Transparency' option in Rose-Ackerman (2004). Here she reports several cases where the combination of publication of precise information of local programmes reaching locals with strong interests in the programmes has succeeded in mobilising groups of locals to become effective monitors of the programmes, sometimes drastically reducing the corrupt waste involved. Due to the painstaking research made at the World Bank (Reinikka and Svensson, 2004) it has been possible to determine the pre- and, post-experiment waste in school-transfer programme in Uganda. While 80% of funds, according to Rose-Ackerman (2004), were wasted before the experiment, only 20% were wasted afterwards. In addition to its scientific interests the example indicates the size of the waste involved in countries with high embezzlement and corruption propensities.

If it is true that public expenditures in these countries are deliberately moved away from education to large infrastructure projects due to even larger corruption possibilities there, an obvious conclusion is that most foreign aid projects based on cost-benefit analysis need to be killed before leaving the drawing board. That is a conclusion I, like most others, am unwilling to draw, but here we have a major challenge. If we calculate the value of resources spent on bribing to zero, as Rose-Ackerman does, the return on the original programme needs to be 50% in order to have a 10% return on the whole transfer programme.[11]

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11. I find Rose-Ackerman's proposal here for how to do cost-benefit analysis of anti-corruption projects very reasonable. The more valuable the original projects are, the more costly

Since unpaid local mobilisation may be difficult to sustain in the long run, and international support is short-run in nature, one may doubt if anti-corruption programmes of this kind will be sustainable in the long run. In particular, in the Uganda case, the anti-corruption project may have been so successful in the first place because the rent-collectors here were among the less powerful.

Presumably, most formal organisations located in the rich countries are comparatively low-corrupt and external to the system of formal organisations of the highly corrupt countries. May they either through designed or uncontrolled interaction become tools for improving the workings of the governance of high-corruption countries? Since I consider Rose-Ackerman's paper here to be somewhat unsystematic both in its choice of issues and choice of options, I will focus on this issue.

International Efforts

North- south interactions: Multinational companies
May the strong governance systems of the large multinational companies somehow induce lower corruption in high-corruption countries? The companies will be involved in three major type of activities: i) regular exports with modest involvement with public authorities, ii) delivery on public construction and consultancy projects (public procurement) which implies denser interaction, and the even tighter involvement implied by iii) foreign direct (real) investment.

The international pressure towards opening the trade regime may here induce less corruption than before, but in public procurement and FDI activities there are no obvious system-wide changes with clear impact on corruption tendencies. Data collected about the multinationals' behaviour, give few grounds for optimism. For example, World Bank research into multinational bribing activities in the post-communist countries may indicate that their bribing connected to regular sales, in public procurement and FDI –related capture activities are roughly on the same scale as the locals', although differing in details (Hellman et al., 2002).While not so clear-cut in this respect, the TI index of the corruption propensity in major exporting countries does not clearly contradict this result.

One result of this research is that the corruption behaviour of US multinationals is not among the best ones in the transition countries. It may support Rose-Ackerman neglecting of the OECD convention against bribing and the other treaties that intend to apply the stronger judicial systems in the home country to reduce their involvement in corrupt transactions in poor, highly corrupt countries. This conclusion appears to follow since the US has applied its judicial apparatus this way since the introduction of its Foreign

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will the corruption waste be, and for given anti-corruption project expense, the higher the rate of return of that project. In general, a person who believes that no foreign aid project is likely to be of value, should not be so worried about corruption. The funds should not be transferred in any case. Another person believing both in the value of many of the original projects, may reach the same conclusion if corruption waste is very high, but for him or her the potential rate of return on corruption projects will be very high, if they work. If no efficient anti-corruption project is possible to formulate, we have a very difficult ethical situation, in many ways analogous to peace-keeping operations.

Corrupt Practices Act in 1977. The low probability of being caught supplies an explanation of why this may be the case.

Nevertheless, this may be too rash a conclusion. The companies involved deny vehemently that they are engaged actively in corrupt activities abroad, but more importantly, the data may, as argued before, be interpreted as reflecting perceptions, not behaviour. Furthermore, in certain bribe situations created under experimental conditions, low probability, but high-value punishment is surprisingly effective in mitigating some forms of corruption (Abbink et al., 2002)[12]

It will be misleading to translate the effects of strong punishment in the experiment into real-world conditions by minor jail sentences or similar punishment directed against individuals. Long-lasting international bid denials simulate better these experimental conditions, particularly so for large, multinational companies. To develop the OECD and the UN conventions in this direction,may make them a more potent option in fighting cross-country corruption. The fact is that the World Bank's list of companies not allowed to bid by their violating no-corruption conditions of the Bank, so far (to my knowledge) does not contain any major, multinational company, and this surely undermines the credibility of the list.[13]

I still believe more may be achieved along this road to make the multinational companies to contribute less to corruption in high-corrupt countries than the voluntary "Publish What You Pay" and EITI initiatives recommended in Rose-Ackerman (2004). While increased information and transparency are certainly to be welcomed, I believe the NGO interests are too muddled and transient to become any external force that may make the kind of pressure performed by the parents-teacher groups in Uganda. With regard to the interest groups internal to the harmed country, I expect also their pressure to be weak in this case, since the potential increase in tax income resulting from the initiatives is likely to be widely spread.

North-south interactions: Foreign aid

Another important arena for transactions between high- and low-corrupt organisations is foreign aid. May such meetings result in the low-corrupt public and semi-public NGO organisations transfer their standards to the high-corrupt public apparatuses, or may the transfer of standards go in the opposite direction? After all, corrupt transactions are profitable for the individuals involved.

Again we have few direct observations. To my knowledge there has been no systematic collection of evidence, although in a number of countries with a tradition of investigative journalism, such as Kenya, the number of docu-

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12. Rose- Ackerman (2004) does not use any of recent experimental evidence. Given the difficulty to transfer the results to real-world conditions, that may be reasonable, but since it is so difficult to observe corrupt transactions, the experiments may be more useful than in most other fields of economics, but sometimes even more difficult from an ethical point of view. At present experiments may shed light on such issues as whether stricter monitoring may increase corruption, the role of transparency in certain situations, the effectiveness of appointed versus elected monitors, the preventive effects of rotation of officials, and so on.

13. This list has already had important impact on the bidding outcomes of other public organisations. The impending case of Acres International now considered by the World Bank's sanction committee may become an exception and improve the credibility of the list (The Guardian, March 16, 2004).

mented stories are large. So far we have to rely on more indirect evidence when regarding the larger picture. Alesina and Weder (1999) show that unlike private FDI, there is no indication that most foreign aid organisations till then had systematically tried to avoid highly corrupt countries, which may not be so surprising since these countries on average also are among the world's poorest. Nevertheless, there is according to the World Bank and TI indexes, a wide variation in the corruption propensities and governance quality also inside this group of countries.

One of the most hotly debated options is whether one may use the information in the governance indexes to systematically direct foreign aid away from the most corrupt and into the poor countries with better governance. In addition to the direct effects such a scheme may give, it may yield disincentives for behaving corruptly, giving politicians directing highly corrupt bureaucracies less resources for patronage. Following this line of approach, recent evidence has shown that even inside highly corrupt countries there are wide variations in the quality of the public sub-sectors (e.g. as documented for Bolivia in Manning et al, 2000). Might not this information also be used in even more fine-grained aid allocation?

Rose-Ackerman (2004: 40-41) touches upon this option at the end, but believing the countries with the worst governance would then tend be isolated, probably sinking into deeper poverty, she does not discuss it systematically. Svensson (2001) suggests a more careful application of the idea: to give programme and fungible forms of aid to countries with good results on the governance indicators (and good macroeconomic policies), while limiting aid to poor-governance countries to non-fungible projects or projects implemented by well-working NGOs, but within the framework of a country plan drawn up by the aid donor(s). To some degree the allocation of foreign aid has recently been influenced by governance considerations, but to my knowledge no study of the effects of the policy shift on corruption has been made.

Rose-Ackerman's objections are reasonable, but since it is an option that goes to the core of the problem of corruption as a global challenge, I miss a more extensive discussion. The option deals, after all, directly with the transmission mechanism from the ideas for solving a major global economic or social challenge, to their possible implementation. It is also evident that if, let us say 80% of aid funds may reach its destination under a system of good governance but only 20% with bad governance, very few projects will give any positive internal rate of returns in the last case, so to scrap projects up front may make good economic sense, if we knew that for sure.

As pointed out in this context by Kaufmann and Kraay (2002), the margin of errors of the government indexes is so large, however, that if only aid could be given to countries that are among the 50% least corrupt (and at least in the best half among half of the other indicators (which is the so-called Millennium Challenge Account conditions), only two of the 74 aid candidacy countries would be certain not to qualify and only eight would certainly do so.

If the errors in the sub-indexes are correlated, the confidence intervals would become even wider(Kaufmann and Kraay, 1999). I think we have good reasons to believe that the indicators are likely to be influenced by

country opinion fashions in the aid industry. It is striking that in 2002 countries like Rwanda, India and Mozambique were among the eight aid-worthy countries.[14] For countries where there are observation from only one sub-index, the 90% confidence interval is so wide that in most cases the outcome – to be aid-worthy or not - would be determined almost by pure chance. The same would naturally apply to the 13 countries where data are completely missing. Hence, it is not possible to apply the policy in any rigorous manner.

Moreover, if any index would be allowed to determine the aid given, all kinds of manipulation of the index, so well-known from the Soviet system, are likely to be tried, undermining the information value of the index itself. This said, the indexes of country corruption combined with bits and pieces of less perception-based indicators represent an improvement on purely anecdotal-based fashions which may otherwise rule the aid industry. Sometimes that fashion is so strong that it overrules the governance indicators. As pointed out by Cooksey (1999) Uganda has been able to collect unreasonable share of foreign aid by projecting a good governance image although being at least as corrupt as its neighbours according to several corruption indicators.

Among the reasons why it appears to be few, if any positive spillover effects from the low-corrupt administrations to the high-corrupt ones some are deeply entrenched and difficult to do anything about. For example, a large number of informal feedbacks about the execution of a public project internal to a democratic country are likely to reach citizens and taxpayers. Some are collected by relevant pressure groups and put into effective use. No similar mechanisms exist with regard to foreign aid. While some multilateral organisations like the World Bank try to compensate by having more professional evaluation procedures than the bilateral aid organisations, their projects are even one step further away from the ultimate aid-giver. The potential monitors of foreign aid such as NGOs and researchers will not have the capacity of informal monitoring that home-country projects are exposed to. Moreover, they usually receive their main support from the same organisations they may monitor. Here is, of course, some possibility of reform by financing monitoring differently. In particular cases, like the Uganda school case, it may even be possible to stimulate pressure groups in the receiving country.

Some corruption-stimulating aspects of the cross-country aid interactions are in principle easy to reform. As noted by Svensson (2001), the pressure on aid administrations to disburse loans and grants before the end of the year and the incentives for disbursing funds both in the bilateral and multilateral aid organisations are strong disincentives against strict monitoring and stimulate collusion with highly corrupt officials in poor countries.

In research on corruption in high-corruption countries, low administrative wages are often emphasised. That sometimes is a problem, but a neglected problem in the cross-country aid interactions is rather that wages for tasks

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14. As pointed out in Seligson (2003:6) the decline in Argentine's status on the TI-index from 5.2 in 1995, the second best in Latin America, to the bottom half by its 2.8 in 2002, is remarkable. Such drastic change is difficult to explain, except through noting that Argentine in 1995 was considered very 'successful', while after the financial crisis of 2001-2002 it was considered a 'failure' among experts , probably also among the experts who rated its corruption rate. .

performed for foreign aid agencies often are way above regular government pay. Two widely different price levels for the same good or service are well-known to be a clear-cut stimulant to corruption. Here collusion among donor agencies may bring down expert wage levels closer to government levels and thereby reduce the level of rent-seeking and corruption in the aid-agency-country-official interactions. The present trends in international foreign aid policy away from projects to direct budget support may also reduce the harmful effects of high wage emulation on local officials. On the other hand the same policy would certainly reduce the external monitoring restrains on local corruption.

So far, we have little information about the spillover from highly corrupt countries into aid agencies. Participating experts claim that the difference between the corruption propensities in the aid-giving and receiving countries persists in the aid interactions while corruption in multilateral organisations is somewhere in between (Cooksey, 1999). If not for other reasons, to make credible the anti-corruption work initiated recently by many different aid agencies, more systematic information should be collected and published.

South-north interactions: The migration pressure

Another major challenge brought up at the Copenhagen consensus, migration, in this case international migration, is also tied to the existence of two prices for the same service, labour performed in rich or poor countries. This situation is driving bribes in the opposite direction in the cross-country agency interactions. Bribes are paid by citizens in poor countries to international agencies and formal organisations located in rich countries.

In TI Kenya's first corruption survey (2002) 'Embassies and international organisations' were ranked as no.10 among 52 public organisations taxing Kenyan households through bribes. Early 2002, UN Office of Internal Oversight Services released a report (UNOIOS A/56/733) which showed that part of the UNHCR staff had colluded with large gangs internal to refugee camps in Kenya taxing each successfully receiving refugee status for between US $ 2000 and 5 000. Both local, international and foreign embassy organisations were involved.

Focusing on what might be done about global challenges, including corruption, the tools of cross-country agency interactions, are clearly important for every issue. I have discussed and outlined a set of reforms based on Rose-Ackerman's suggestions. Alas, so far research-based analysis has not discovered any sufficiently strong instrument to really meet the challenge of corruption and bad governance, I believe.

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