How to Catch Flies with Honey and MILC*

Learn How to Prevent Corruption with Smart Skills.

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Fighting Corruption in La Paz, Bolivia

A Case Study
• Capital city of about 1 million
• Country is the poorest in South America
• Twice the size of France, few paved roads
• Hiperinflation 26,000 % a year
• Crisis forces President to cut his term short
La Paz, Bolivia: 1985

POLITICAL SITUATION
- Democratic elections
- New civilian President
- First elected mayor in 40 years (2-year term)
- Different party from the President
- But lots of international goodwill (WB, GTZ, etc)

ECONOMIC SITUATION
- August 1985, massive “shock” economic adjustment
- Local political autonomy cuts national economic subsidy for city...
- And the city is broke
• New Mayor takes office in September, 1985
• Hyperinflation and collapse of city revenues
• Salary erosion for city employees
• City payroll = 120% of month’s revenues
• And a mine of systemic corruption
• A huge construction unit (4,000 workers)
• Machinery, parts and gasoline stolen
• Poor quality and time delays
• Huge cost overruns
• Location of works affected by bribes (moonlighting)
Taxes and Revenues

• Complexity: 100 plus different taxes

• Property taxes meaningless
  – Low values via hyperinflation
  – Arrangements with assessors
  – The proposed tax assessment survey

• Difficult to pay taxes = long cues

• Fraud on vehicle, and business taxes
Permits and Licenses

- Over-regulation
- Many permits and licenses are required
- “Negotiations” in the corridors of City Hall
- Delays
- Corruption
• Collusion
• Kickbacks
• Complicated procedures in an effort to “control” corruption (26 steps for minor purchases)
• Results: delays, poor quality, high costs, cynicism
- Inflation peddler & speculator
- The nicest cars in the parking lot
- Friend and “lender” to all (including the former Mayor)
- The symbol of mismanagement and corruption
Effects on the City

- Financial collapse is imminent
- Deteriorated performance
- Unable to fulfill mission to the poor
- Political suicide?
La Paz
What Happened?
Fighting Corruption
Key Steps

- Diagnosis
- Strategy
- Implementation
Diagnosis

- Addressing the payroll crisis with employees
- What kinds of corruption? Unpack
- Where, how much, who benefits, who is hurt?
- Participatory diagnosis
- Special studies
## Participatory Diagnosis in Action:
### Analyzing Corruption in the La Paz City Government, 1985

<table>
<thead>
<tr>
<th>Type of Corruption</th>
<th>Value (millions of U.S. dollars)</th>
<th>Who Benefits</th>
<th>Who Is Hurt</th>
<th>Causes</th>
<th>Cures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax evasion (all kinds)</td>
<td>20–30</td>
<td>Evaders</td>
<td>Recipients of city services; nonevaders; future paceros</td>
<td>Hard to pay; taxes too high; low penalties; no reviews of cases</td>
<td>Make easier to pay; lower rates; raise penalties and enforce them; review cases</td>
</tr>
<tr>
<td>Tax arrengas (all kinds)</td>
<td>5–10</td>
<td>Corrupt taxpayers and officials</td>
<td>Recipients of city services; nonevaders; future paceros</td>
<td>Lack of computerization; low effective penalties; no reviews; pay through municipality; low pay</td>
<td>Computerize; raise penalties; review cases; pay through banks; raise pay; raise incentives to collect</td>
</tr>
<tr>
<td>Extortion</td>
<td>0.5–1</td>
<td>Corrupt officials</td>
<td>Direct victims</td>
<td>Difficult rules, rates, and procedures; hard-to-report extortion; low pay</td>
<td>Simplify rules, rates, and procedures; hot line for public reports; raise penalties; review cases; pay through banks; raise pay</td>
</tr>
<tr>
<td>Speed money</td>
<td>0.5–1</td>
<td>Some taxpayers: corrupt city officials;</td>
<td>Most taxpayers via slowdowns; reputation of city government</td>
<td>Difficult procedures; lack of computerization; pay through municipality; low penalties; no surveillance; low pay</td>
<td>Simplify procedures; computerize; pay through banks; raise penalties; surveillance and “whistleblowing”; raise pay</td>
</tr>
<tr>
<td>Theft (city property, parts, “box” fees by police)</td>
<td>0.5–1</td>
<td>Thieves: some who don’t pay vehicle taxes</td>
<td>Recipients of city services; trust in police</td>
<td>Lack of inventories; poor decentralization; low penalties; no reviews or surveillance</td>
<td>Computerize inventories; decentralize responsibility; conduct spot checks and surveillance</td>
</tr>
<tr>
<td>Procurement</td>
<td>0.5–3</td>
<td>Corrupt officials and winning suppliers</td>
<td>Recipients of city services</td>
<td>Lack of information on prices; no reviews; low penalties; low pay</td>
<td>Verify prices; review cases; raise effective penalties; raise pay of decision-making officials</td>
</tr>
<tr>
<td>Reporting late to work; phantom workers</td>
<td>0.1–0.2</td>
<td>Malingers</td>
<td>Morale and reputation of city government</td>
<td>No surveillance; low penalties</td>
<td>Conduct surveillance; raise penalties and enforce them</td>
</tr>
</tbody>
</table>
Developing a Strategy

- Use a framework to guide analysis
- Emphasize institutional adjustment
- Corruption = Monopoly + Discretion – Accountability
- Principal-Agent-Client Model: Information and incentives
- Crime of calculation = Cost/Benefit Analysis
• The principle of frying a “big fish”
  …otherwise, the culture of impunity persists

• The cashier bites the dust

• Others: tax evaders, procurement fixers hit
Implementation Tips

• Involve employees in diagnosis, and development of strategy

• Help your employees before “attacking” them
  – help them with working conditions
  – improve payment

• Recover institutional memory
  – “French Study”/ hire back experienced people

• Pick low-hanging fruit = early easy successes

• Ally with favorable institutional forces
  – “Ride the wave” of reform
• Re-invent the role: not a construction unit anymore, but a promoter and regulator
• Involve private sector
• Huge cuts in personnel 40%
• Carry out systematic cost-benefit studies
• Community-demanded projects
Personnel

- Salaries comparable with private sector
- Huge cuts in numbers & better quality
- Merit system & professionalism
- New blood through “Young Bolivia”
- Young “best & brightest” foreign talent
- Topping-ups
• From 26 steps to 6 steps
• Monitor: the principle of the sample
• Competition and transparency
Permits and Licenses

- Deregulate & promote transparency
- Single registry of all transactions
- Isolate clients from agents handling permits
- Information: Manual for (“Paceño”) citizens
- Certified “Public” Architects (“CPAs”)
• Cut the numbers of taxes (126 to 7)
• Simplify taxes. (asset vs. income tax)
• Pay taxes directly to banks
• “Self-evaluation” of property
• Incentives for tax collectors
• Revenues soared (especially property taxes)
• Investment in public works up by 10 times
• International creditworthiness
• Corruption collapsed
• Re-elected for fourth term
THANK YOU