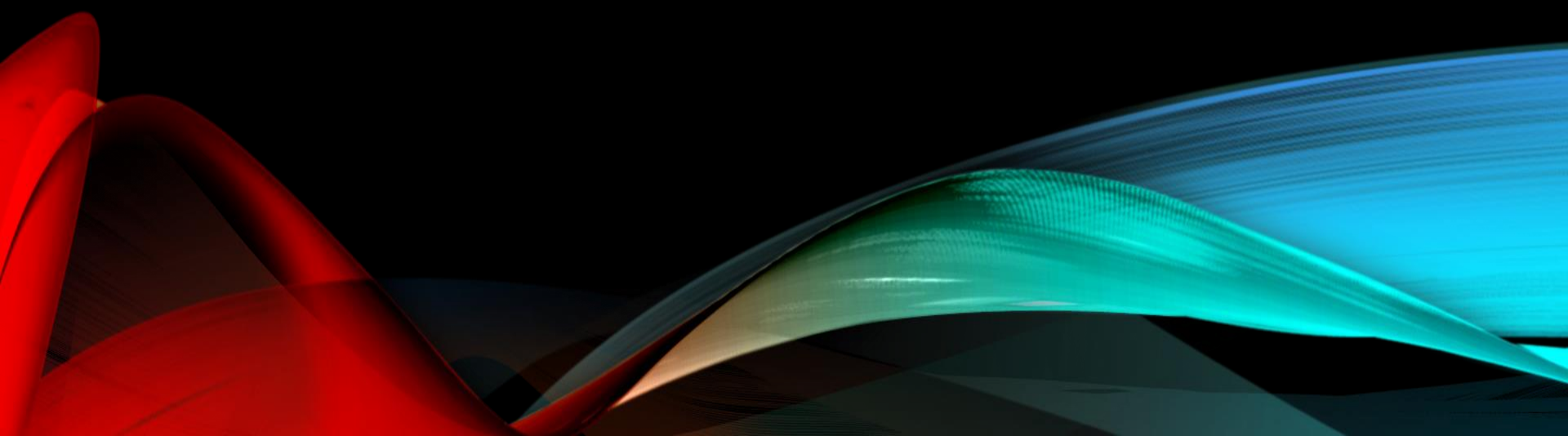
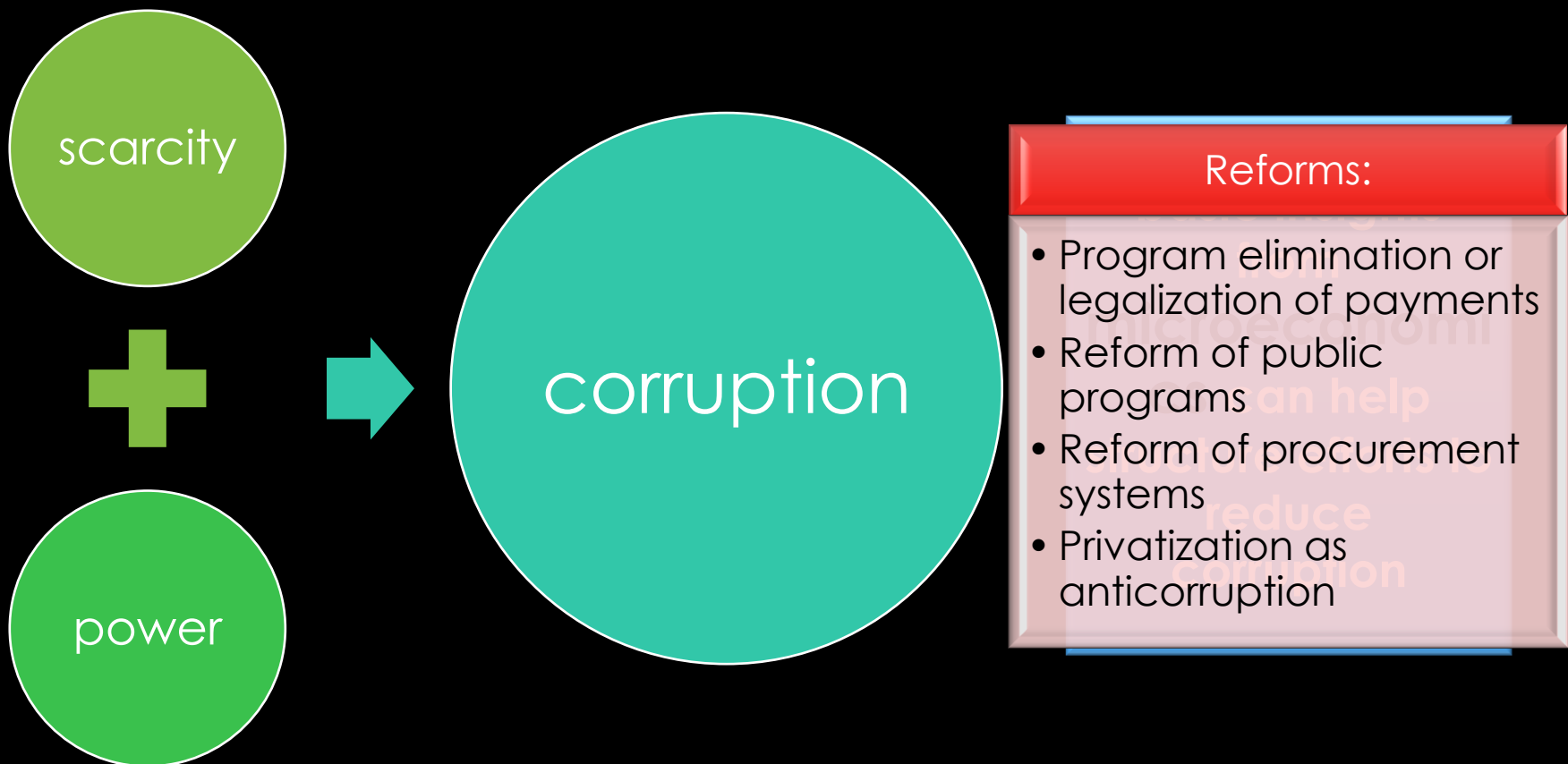


REDUCING INCENTIVES AND INCREASING COSTS

Chapter 4



INTRODUCTION



INTRODUCTION

Supply
side
Incentives

Power

discretion

Low wages

Low professionalism

Low monitoring

Low punishment

Low accountability

Poor transparency

Corrupt culture

Demand
side
incentives

Costly regulations

High taxes

Complex rules

Competition

Government contracts

Government resources

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
- Unbundling
- B. Regulation and the allocation of government 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
 - 3 benefits making information available, simplifying applications and requests, and improving accountability

III. PROCUREMENT REFORM

- Reform in the U.S.
 - four stylized categories: purchases that require specialized research and development, such as newly designed military aircraft; purchases of complex, special purpose projects, such as dams or port facilities, that do not involve advances in technology but require managerial and organizational skills; purchases of standard products sold in private markets, such as motor vehicles or medical supplies; and customized versions of products sold privately, such as special purpose computer systems or fleets of police cars.
 - Contractors would be evaluated in terms of outcomes, not inputs. Agencies must define outcomes carefully and reward contractors on the basis of performance.
- Lessons for developing countries

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.

CONCLUSION

- Structural reform should be the first step in anticorruption.
 - Eliminate
 - Reform
 - Privatize
- Procurement reform is valuable for all governments.
 - Discretion
 - Professionalism
 - Benchmarking
 - Off-the-shelf purchases
 - transparency

Figure 4A.1. Supply-side Reforms

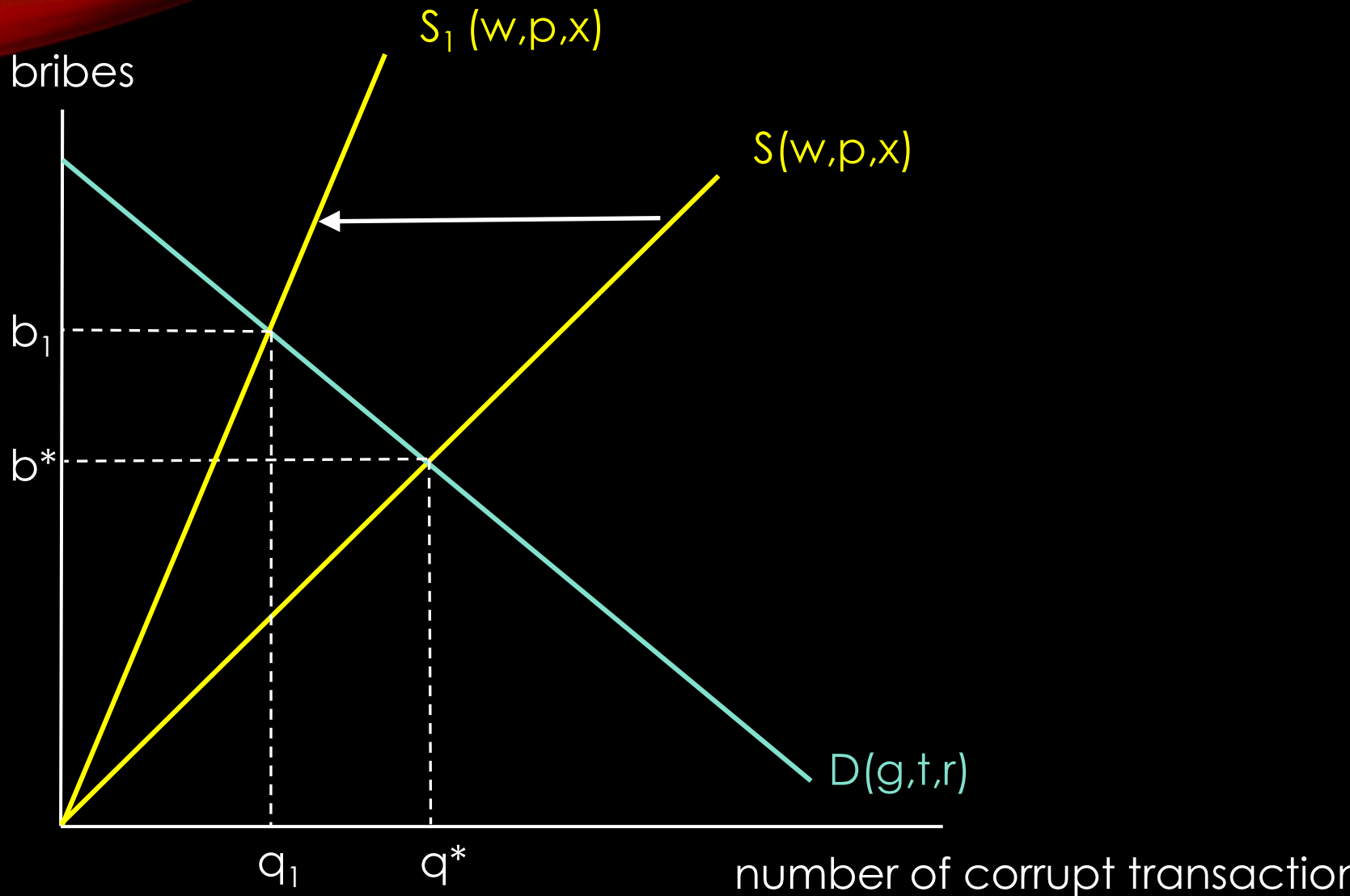


Figure 4A.2. Demand-side reforms

