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The Environment and Governance and Corruption¹

Mitchell A. Seligson and Francesca Recanatini

Ecuador's problems with poor governance and high corruption are legendary and lead to the deficient delivery of public services. In comparison with the rest of Latin America, most of Ecuador's recent indicators reflect deterioration, particularly in terms of the quality of its regulations, participation, the rule of law, and the responsibility and effectiveness of government. Specifically, Ecuador rates as the country with the least control over corruption in Latin America. Corruption is a very serious problem in Ecuador, as clearly reported by most citizens, and it is particularly frequent in obtaining government contracts and receiving public services. The frequency of bribery varies from one service to the next, but occurs less frequently at the subnational level of government. Corruption exacerbates poverty and inequality, discourages tax collection, and reduces the resources available to society. An estimated one-third of available public funds are improperly diverted for political reasons. A program of reforms must focus on the public sector and on civil service. In general terms, a multifaceted plan of reforms focusing on three pillars is needed: strengthening existing regulations and institutions in the fight against corruption; promoting education for the population on its oversight rights regarding the work of government, with the development of mechanisms to monitor and control public spending; and improving governance in order to prevent the various forms of corruption, whether administrative or associated with specific areas such as government procurement and contracting. Three measures are suggested for the short term: the creation of a Governance Pact between the state and civil society, civil service reform, and immediate transparency in the publication of government procurement bidding and contracts via the

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Internet. Supplemental measures in the medium term would be modernizing budgetary information to provide access for citizens, the media, and Congress; regulating finances and contributions to political parties in political campaigns, strictly prohibiting the use of state funds for political campaigns; and strengthening the mechanisms for the administration, control, and social auditing of sectional governments. Finally, a National Transparency Campaign, carried out at the provincial, municipal, and local levels, would be part of a new culture of governance in the country.

A. Governance in Ecuador from a Comparative International Perspective

Although the growth of democracy in Latin America is a welcome trend, the path followed has been neither smooth nor easy. Ecuador finds itself among the countries in the region for which democratization has been a particularly formidable challenge. In recent years, Ecuador has faced political instability, with serious consequences for its economic and social development. However, the government assuming power in 2003 has numerous opportunities to make rapid progress.

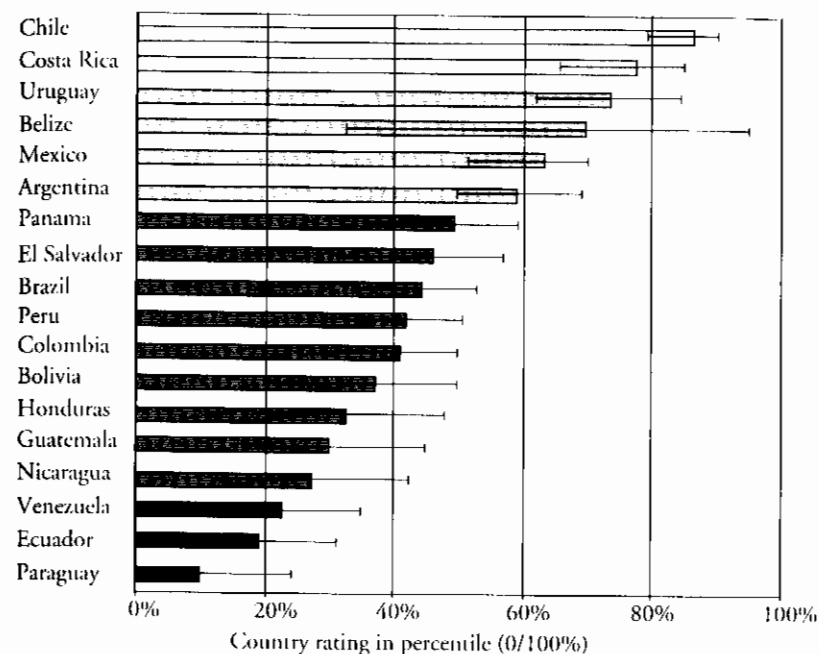
For various years, the World Bank Institute has gathered indicators to measure the quality of governance.² The set of current international data is from the year 2000 and covers some 170 countries (see Figure 1).³

A key component of the indicators is "Government Effectiveness." This measures the quality of public service provided and of the bureaucracy; the fitness of public employees; the independence of public administration from political pressures; and, finally, the credibility of the government's commitment to policies (Kaufmann, Kraay, and Zoido-Lobaton 1999a). Ecuador should be compared with other South American countries through analysis of the data seen in Figure 1. Within the context of Latin America, it is clear that the quality of governmental efficacy in Ecuador does not earn a good rating. In the international context, the country falls slightly below the 28th percentile, unlike Chile, which has a rating higher than 90. In effect, only two other countries in Latin America are in the "low" range in this regard: Venezuela and Paraguay.

2. The aggregate indicators constructed included data from 1997 and 1998. Assuming that institutional indicators do not change too much from year to year, these indicators provide a good measure of the 1990s. However, these indicators may not capture a true institutional improvement (or unfavorable evolution) in the same decade. Kaufmann, Kraay, and Zoido-Lobaton (1999a and b).

3. The thin lines associated with each bar in Figure 1 represent the margin of error in the calculations for a confidence interval of 95 percent. For more data on measurement procedures, see Kaufmann, Kraay, and Zoido-Lobaton (1999b).

**Figure 1. Government Effectiveness
(Latin America and the Caribbean Region, 2000–01)**



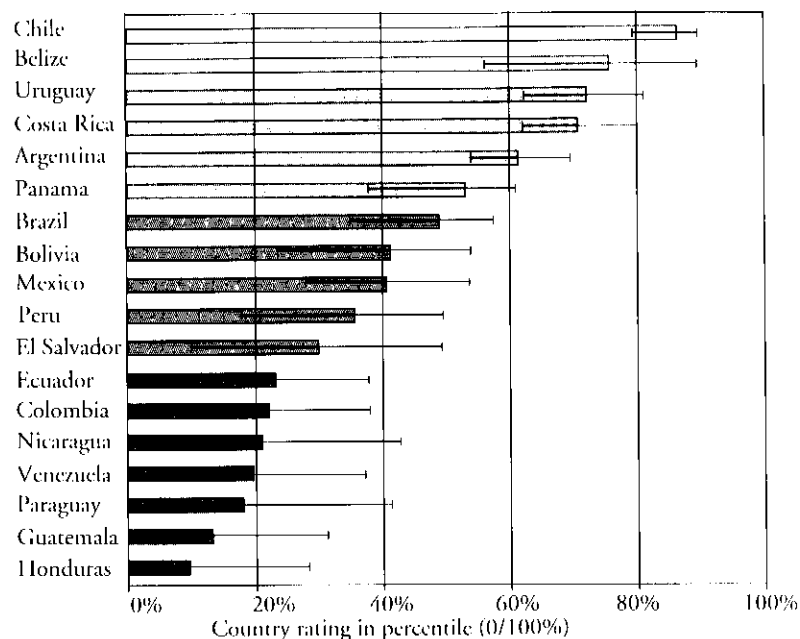
Source: Kaufmann, Kraay, and Zoido-Lobaton, 1999.

Why is governance so problematic in Ecuador? One reason is that the rule of law is very weak. Although its ranking is not as low as in the case of six other countries in the region, World Bank data indicate that Ecuador is in the lowest quartile in the world distribution of the rule of law. This can be seen in Figure 2.

The impact of limitations on the rule of law is, in turn, manifested quite concretely in high levels of corruption. As can be seen in Figure 3, the World Bank Institute's comparative data indicate that controlling corruption is a significant problem in Ecuador. In summary, Ecuador finds itself in a vicious circle of low government effectiveness and limited rule of law, both of which limit efforts to control corruption. As we will see below, all this in turn leads to a decline in investment and economic growth.

The fact that the trend of the indicators seen above has been negative is a cause for concern. As can be seen in Figure 4, which compares the measures of governance for 1997–98 with those for 2000–01, the significant challenges that Ecuador's economic and political system faced during the 1990s affected all measures of govern-

Figure 2. The Rule of Law
(Latin America and the Caribbean Region, 2000–01)



Source: Kaufmann, Kraay, and Zoido-Lobaton, 1999.

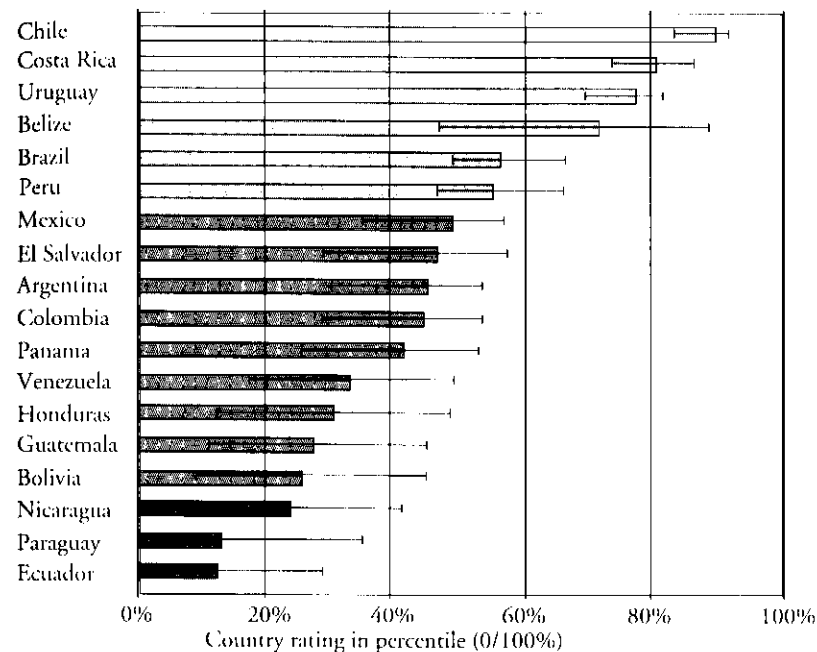
nance. In all cases, the most recent level is lower than the preceding one. It is possible that some stability may have been created in 2002, but there are still no data to corroborate this. However, the presidential campaign seems to have shown that both party elites and the general public have generally rejected the politicians of the past—whom they blame, perhaps with good reason, for the political and economic crisis of the late 1990s. It would seem that Ecuadorans want to begin from scratch.

B. Corruption and Its Impact

As noted above, the problem of corruption is very serious in Ecuador. Good governance is intimately associated with limitations on corruption. Corrupt undermine citizens' confidence in the political system. This section provides information that measures the cost of corruption and poor governance.

According to a survey conducted by the World Bank Institute in 2000, Ecuadoran households consider corruption to be a serious problem. When evaluating the

Figure 3. Control of Corruption
(Latin America and the Caribbean Region, 2000–01)



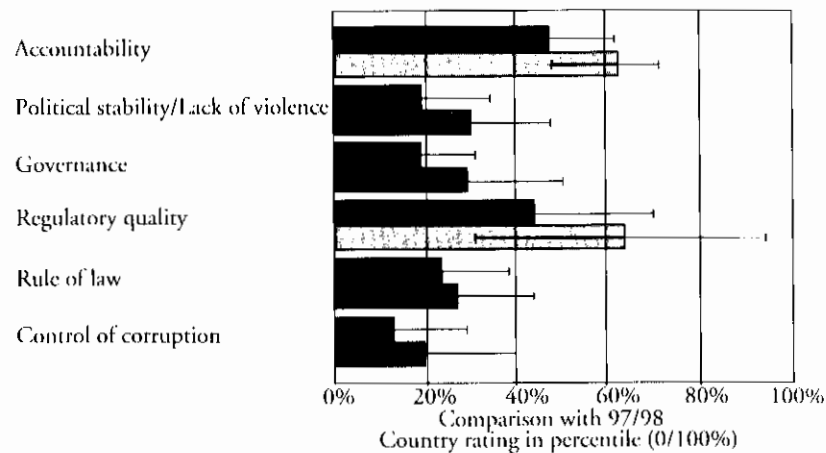
Source: Kaufmann, Kraay, and Zoido-Lobaton, 1999.

seriousness of the country's problems, approximately 70 percent of those surveyed gave "corruption in the public sector" the worst rating possible. Companies also consider corruption to be the greatest obstacle to business development (see Figure 5). When rating the seriousness of a series of obstacles to business development, more than 50 percent of the companies surveyed gave the worst possible rating to corruption (as well as to the high cost of unofficial payments, inflation, crime, robbery, and unstable policies).

The Cost of Corruption

The increasing amount of data from empirical research emphasizes that poor governance and corruption reduce the standard of living and make the distribution of wealth among citizens more uneven. The channels through which corruption affects development are its prejudicial effects on the poor, negative impact on investment and growth, and negative effect on quality in and access to public services such as health and education. In this way, corruption hits companies and households hard.

Figure 4. Changes 1997–98 and 2000–01



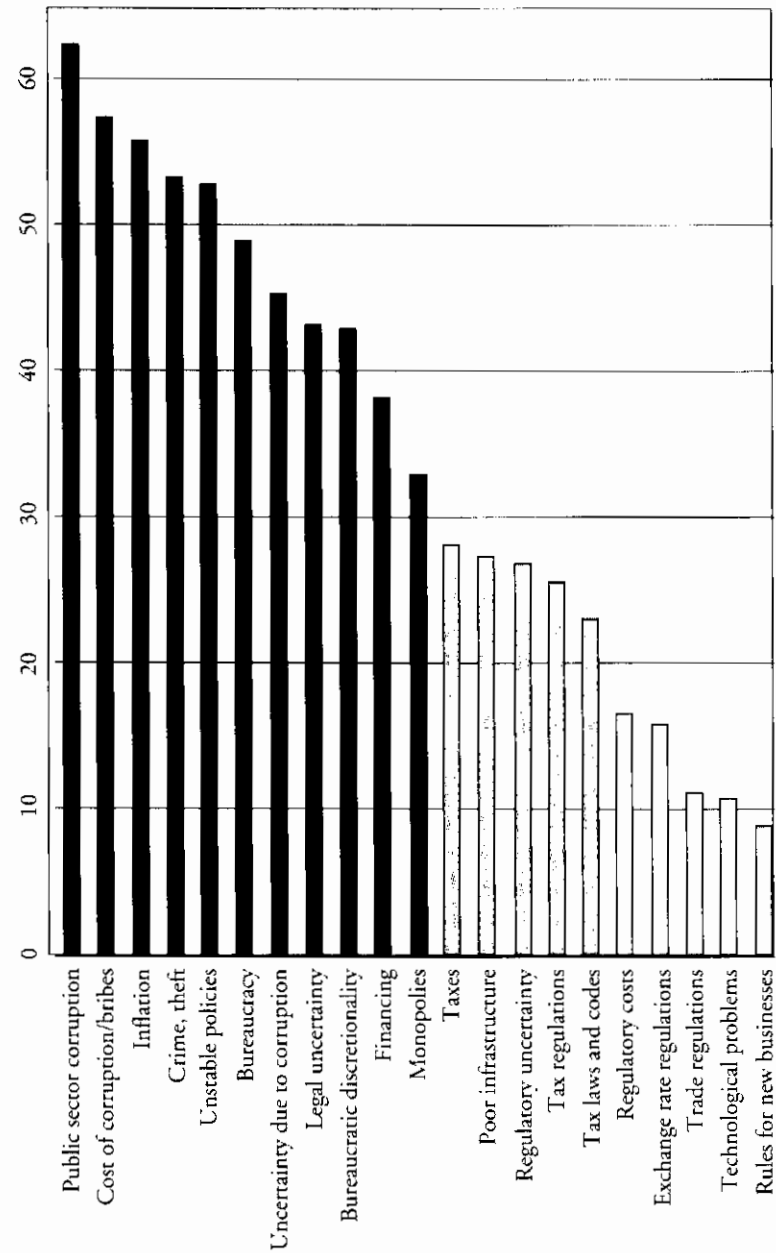
Source: Kaufmann, Kraay, and Zoido-Lobaton, 1999.

The data indicate that corruption perpetuates poverty, given that it acts as a regressive tax (see Figure 6). Households indicate that they allocate an average of 2 to 3 percent of their incomes to paying bribes in order to obtain access to public services. In the case of low-income households, the burden of corruption is heavier. On average, they spend up to 4 percent of their annual income on bribes, whereas the richest households spend less than 1.5 percent. However, Ecuador is not the only country that faces this problem. Data from surveys conducted in various countries suggest a similar scenario: corruption punishes the poorest and thus most vulnerable groups excessively, given that it acts as a regressive tax on users of public services.

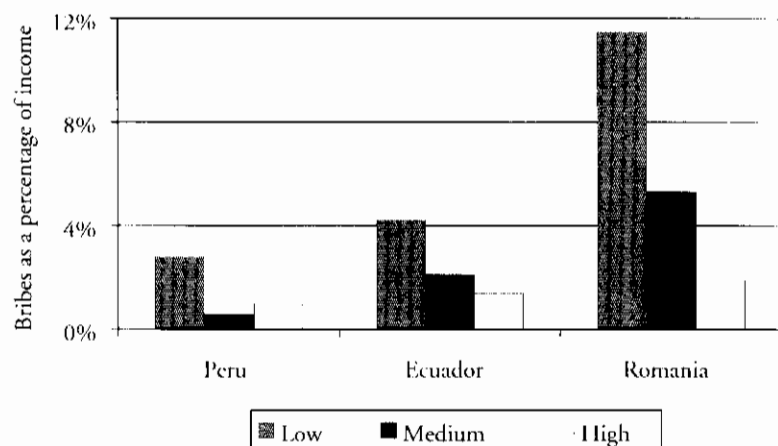
There are other mechanisms through which corruption affects the well-being of poor citizens. Corruption contributes to discrimination in terms of access to public services. The survey indicates that the cost of corruption, in addition to the cost of illegal payments, is that numerous users stop asking for a service because they are unable to pay bribes.

However, individual citizens are not the only ones who are penalized by deficiencies in governance: companies also pay a high cost because of corruption. The data indicate that companies spend more in bribes and bureaucratic red tape than on security. Companies indicate that unofficial payments to public servants represent an average of 8 percent of their gross incomes. In contrast, companies indicate that they spend “only” 5 percent on bureaucratic red tape and 4 percent on security.

Figure 5. Opinion of Companies on Obstacles to the Development of Their Business



Source: World Bank Institute, 2001.

Figure 6. Corruption as a Regressive Tax on Users

Source: World Bank Institute, 2000, 2001.

Small companies must spend more on bribes in terms of their monthly income than large companies. Microenterprises (with fewer than 10 employees) pay an average of 8 percent of their monthly income, while large companies (with more than 100 employees) pay less than 2 percent.

Nearly all companies (97 percent) that work with the public sector indicate that they must pay bribes to obtain purchase contracts. To bid successfully, they must pay an average of 15 percent of the total value of the contract.

The data indicate that corruption discourages private (particularly foreign) investment. Companies were asked whether they had ever decided not to make an investment they had already planned. The data show that companies for which the burden of bribes is highest are those that decide not to invest. In this sense, bribery frightens away investment. In particular, when the difference between local and foreign companies is analyzed, we see that foreign companies that decided not to invest in Ecuador are also those most affected by corruption. The consequences of this are particularly negative.

Corruption is widespread in public services, but some are more corrupt than others. For both households and companies, the likelihood of having to pay a bribe varies depending on the service. The data from the World Bank survey show that, of the services studied, those for which households will most likely have to pay bribes are public registry, running water, electricity, public hospitals, and public education. In the case of companies, the public services for which they will most likely

have to pay bribes are customs, automobile registration, tax inspections, the traffic police, and the technical vehicle inspection agencies.⁴

The amount of the bribe varies considerably depending on the service. On average, households tend to pay relatively higher bribes to the traffic police, customs, the license department, and the national police. Each time they received a service from these institutions, they paid more than \$US4. (Table 1). The average amount of bribes in public schools is \$US11. Companies, on the other hand, usually pay relatively higher bribes to customs, for tax inspections, for import/export permits, and for construction permits. On each occasion, they paid more than \$US40 (Table 2).

It is possible to analyze what service receives the major part of the "booty" if the frequency and amount of the bribes are taken into account. More than 80 percent of the bribes paid by households are for the traffic police, the telephone company, running water, public registry, customs, and the electrical company.⁵ More than 80 percent of the bribes paid by companies are for customs, construction permits, tax inspections, the traffic police, and the national police. This means that the burden of bribes can be considerably reduced if efforts to combat corruption focus on these services from the outset.

The data from the survey conducted by the World Bank Institute in the year 2000 indicate that corruption reduces public resources considerably owing to uncollected taxes and tariffs and misappropriated public funds. On the other hand, both companies and households are willing to contribute money to eliminate corruption. More than 85 percent of the companies surveyed indicate that they would be willing to pay an additional share of their income if this would eliminate corruption. On average, they agreed to pay an additional amount equal to 9 percent of their income. Nearly 70 percent of households stated that they would be willing to pay an additional share of their income if this would eliminate corruption. They indicated that they would agree to pay an average additional amount equal to 12 percent of their income.

Corruption reduces the resources available to public institutions owing to the diversion of funds for political reasons. More than one-fourth of those who work in PetroEcuador (the national petroleum company) and in the National Land Traffic and Transportation Council indicate that public funds are misspent in these institutions. They estimated that between 40 and 50 percent of the funds available are diverted for political reasons. Overall, about 6 percent of public employees interviewed indicated that public funds are misspent in their institutions. They estimated that one-third of the available funds are diverted for political reasons.

4. In calculating the probability of paying bribes, the difference in the number of contacts with each public service is taken into account. For example, it is much more likely that a household will deal with a public hospital than with customs.

5. The expected amount of the bribe for each public service is calculated based on the frequency of contact, the frequency of the payment of bribes, and the amount.

**Table 1. Frequency and Amount of Bribes
(According to Citizens)**

	<i>Probability of paying a bribe (as a percentage)</i>	<i>Amount of bribe paid in each contact, contingent on payment of the bribe (in \$US)</i>	<i>Frequency of payment of bribes contingent on contact (percentage that reports bribe)</i>	<i>Percentage of households with some contact</i>
Public services				
Public registry (identity document, passport)	10.5	2.72	11 (25)	42.4
Installation of running water	7.8	2.42	6 (14)	54.1
Electrical company	6.6	1.90	5 (12)	100.0
Public hospitals	5.1	2.32	11 (19)	99.7
Public educational institutions	4.9	1.74	5 (15)	32.6
National police	4.7	4.37	18 (39)	12.5
Telephone company	4.2	3.72	3 (12)	99.5
Traffic police	3.0	11.50	26 (36)	8.3
Customs	2.4	5.14	30 (50)	4.7
Tax collection offices	2.0	2.31	5 (10)	19.6
Department of drivers' licenses, permits, and so on	1.9	4.48	8 (19)	9.6
Trash collection	1.2	1.03	2 (5)	99.3
Offices that grant construction permits	0.7	3.68	6 (17)	3.9
Post offices	0.3	0.34	2 (4)	99.8
Social Security	0.3	2.87	1 (4)	99.5

Source: World Bank Institute survey conducted in 2000.

The data also reveal the close relationship between bribes and poor service quality. Poor service quality (according to the users' evaluation) is associated with the highest bribes (according to households and companies). The usual argument is that bribes help to speed up the delivery of public services or even increase the quality of the services provided. The data from Ecuador prove that, on average, the higher number of bribes does not result in better quality service provision. The opposite is very much the case: poor service quality and bribery go hand in hand. Households rate customs, the traffic police, the national police, and public registry as being extremely deficient in terms of both service quality and bribes. Similarly, companies give poor ratings to the traffic police, the national police, running water installation, border crossings, and construction authorities both in terms of service quality and corruption. In contrast, they gave good grades to fire inspection, property registry, and company registry.

**Table 2. Frequency and Amount of Bribes
(According to Companies)**

	<i>Probability of paying a bribe (as a percentage)</i>	<i>Amount of bribe paid in each contact, contingent on payment of the bribe (in \$US)</i>	<i>Frequency of payment of bribes contingent on contact (percentage that reports bribe)</i>	<i>Percentage of households with some contact</i>
Public services				
Customs crossing	11.3	83.06	19 (44)	34.3
Automobile registration	11.3	31.69	24 (42)	30.8
Tax inspections	10.0	66.08	16 (36)	42.2
Traffic police	6.1	22.88	46 (61)	11.3
Technical vehicle inspection	5.8	13.95	19 (35)	18.9
Registry of companies	4.8	29.90	8 (22)	26.4
Import/export permits	3.9	58.61	11 (31)	15.9
National police	3.9	24.74	33 (55)	8.6
Construction permits	3.7	49.67	22 (52)	9.2
Installation of electricity	3.7	14.91	18 (33)	12.3
Installation of running water	3.6	18.57	20 (45)	11.9
Health inspections	3.1	26.11	16 (31)	16.9
Property registry	2.8	31.99	6 (16)	17.8
Construction licenses	1.2	32.81	12 (27)	4.9
Fire inspections	1.0	17.89	11 (21)	7.7
Public credit	0.9	9.11	8 (35)	3.9

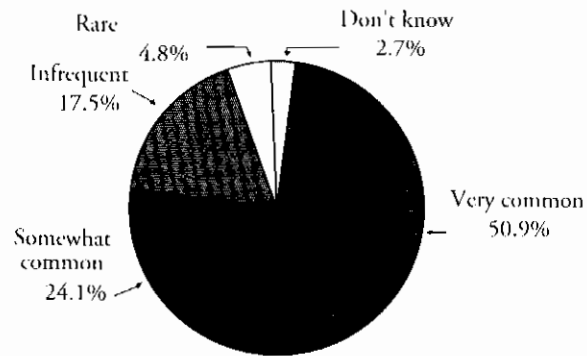
Source: World Bank Institute survey conducted in 2000.

It is no surprise that Ecuadorans perceive public corruption to be widespread. Taking the country as a whole as the basis, three-quarters of the population believe that corruption is very common or somewhat common (see Figure 7). The answer to this question varies considerably depending on the region. As perception moves on a scale from 0 to 100, we see that in Quito, the seat of the national government, the perception is significantly higher than in other areas of the country (see Figure 8).

By way of comparison, Ecuador's indicator is higher than that of any other country for which there are directly comparable data, with the exception of Paraguay. This means that national perception of the magnitude of corruption is higher in Ecuador than in the other Latin American countries, except for Paraguay.

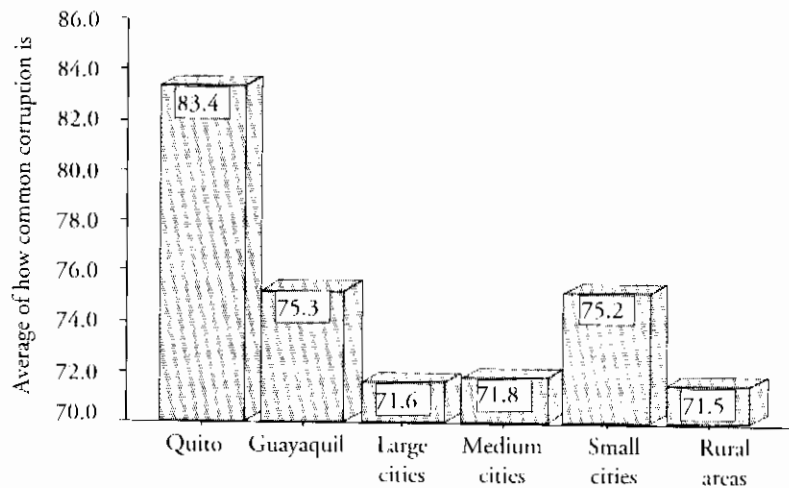
In the survey, Ecuadorans had to rate a large variety of institutions based on a scale ranging from extremely corrupt (rating: 1) to extremely honest (rating: 10). Figure 9 shows the results. Although it may not be surprising, it is disturbing that members of Congress, ministers, and party leaders receive the lowest ratings. Nonetheless, it is to be noted that mayors obtain a considerably better grade. These findings have direct effects on any effort carried out in the fight against corruption.

Figure 7. How Common Is Payment of Bribes to Public Employees?



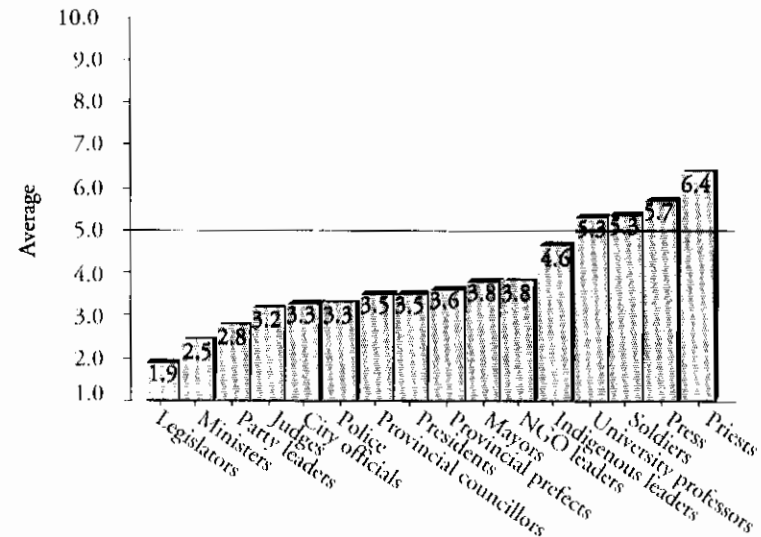
Source: Seligson, 2001.

Figure 8. How Common Is Corruption? (by region)



Source: Seligson, 2001.

Figure 9. Perception of Honesty

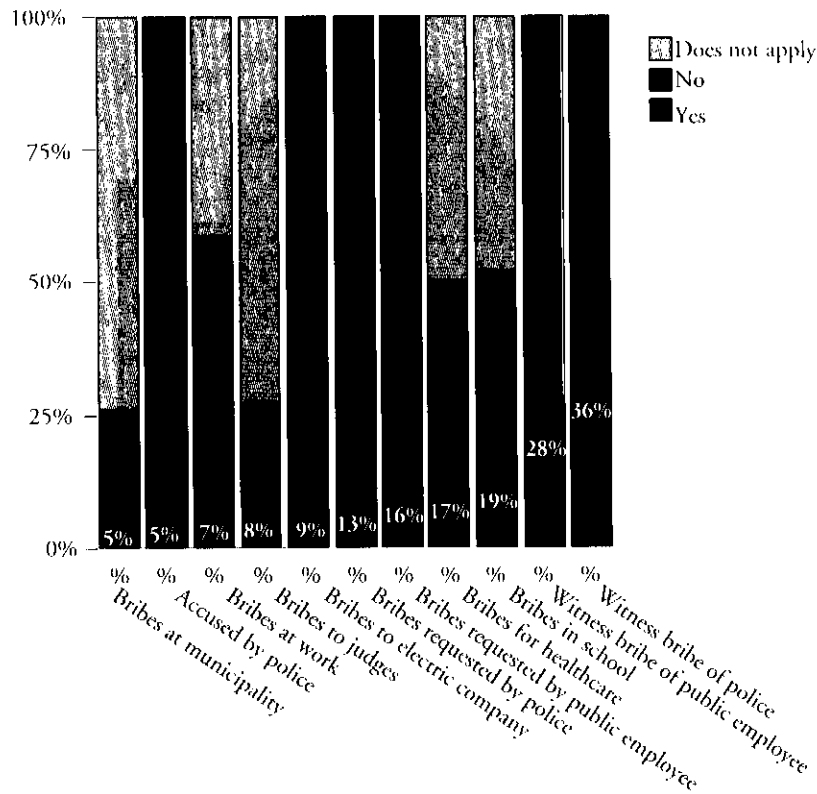


Source: Seligson, 2001.

Focusing the analysis directly on the level of corruption as such, rather than on perceived corruption, the surveyors asked the respondents about their experiences with corruption in the 12 months prior to the interview (see Figure 10). The survey covered a wide range of situations, including direct and personal experience and indirect experience, that is, seeing or hearing about corrupt acts. The most commonly experienced corrupt act is seeing a policeman ask for a bribe. More than one-third had this experience in the 12 months prior to the survey. Having seen a bribe paid to a civil servant ranks second. Sadly, the level is also high for some type of improper payment in the country's public education system: Nearly half of all those surveyed had a child in school in the year prior to the survey and 41.1 percent of these had experienced bribery. As seen in the figure, excluding those who had no children in school, 19 percent of Ecuadorans encountered corruption in this setting.⁶ According to the survey, the fourth most frequent form of corruption occurs in hospitals or health clinics. Of those surveyed, 17 percent had an experience with

6. However, this figure should be interpreted carefully. As indicated above, the question asked about "payments exceeding those required by law." Schools may ask parents for

Figure 10. Forms of Corruption



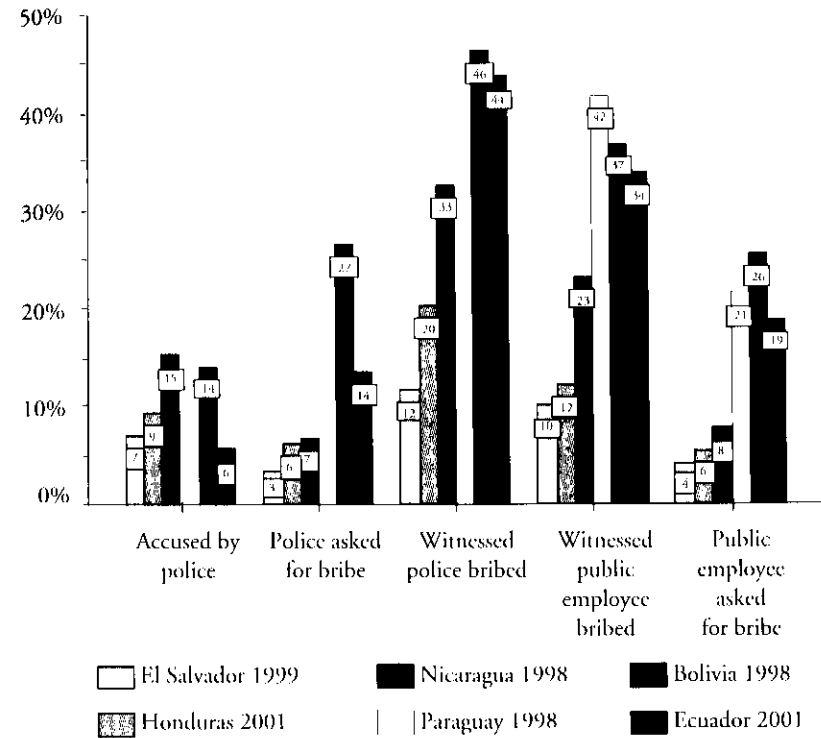
Source: Seligson, 2001.

bribery in these settings. Once again, not everyone used the health services. In effect, only 45 percent of those surveyed used the health services in the year before the survey, but 35 percent of these had to make some kind of improper payment. The remaining types of corruption are shown in the figure.

How do these levels of experience with corruption compare with those in other countries? The results of the World Bank indicators on controlling corruption noted at the beginning of this report put Ecuador almost at the end of the list for Latin America. Figure 11 shows survey results on experience with corruption, and we see that they are broadly consistent with the World Bank's results.

money to pay for books or other educational materials and actually use the money for that purpose. Thus, although these payments may not be required by law, they are not necessarily a clear case of corruption either.

Figure 11. Experience with Corruption



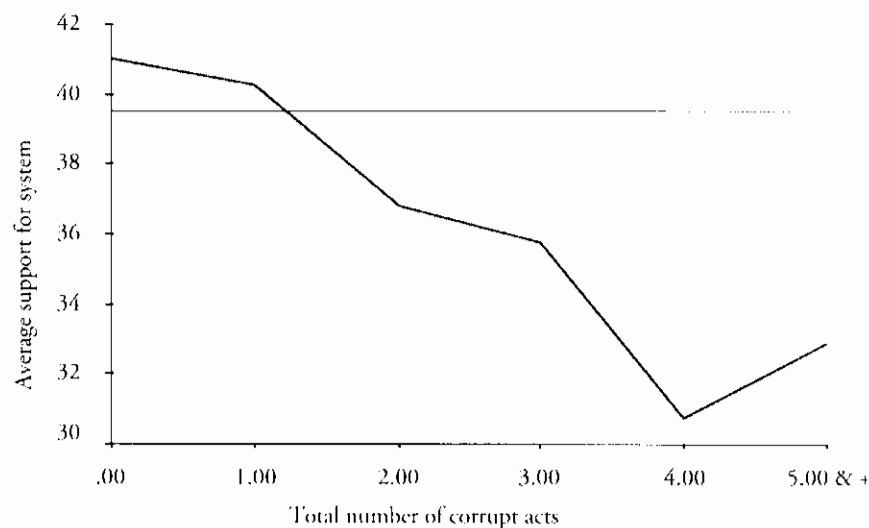
Source: Seligson, 2001.

A general index of victimization by corruption has been created by recording direct and personal experiences with corruption, setting aside observed or second-hand accounts. The index includes bribes paid to the police, to public and municipal employees, bribes at work, in the courts, in the public health services, in the schools, and bribes paid to obtain electrical service. The results show that 50 percent of Ecuadorans have had at least one experience of corruption in the 12 months preceding the survey. In addition, we see that one out of every four Ecuadorans has been the victim of a corrupt act, and that 25 percent have been the victim of more than one. In other words, on average Ecuadorans experienced about one act of corruption in the year prior to the survey.

Perhaps the most important reason for studying corruption is its potential influence on long-term democratic stability. Recent studies conducted in various Latin American countries have shown empirically that citizens who have been victims of

corruption support their political systems less than those who have not (Seligson 2001, 2002). These findings come from studies conducted in Bolivia, El Salvador, Honduras, Nicaragua, and Paraguay. When the measure of support for the system (presented earlier in this work) is used as the dependent variable, the impact of corruption is very clear, as can be seen in Figure 12. The national survey showed that citizens who had not been the victim of corrupt acts during the preceding year were above average in support for the system, but the higher the number of corrupt acts experienced by the person surveyed, the more his or her support for the system was reduced.⁷ The results do not vary when controls for gender, age, education, income, marital status, and city size are introduced. In addition, the effects of political parties were analyzed to check whether official party voters were less likely to report being victimized by corruption. No such effect was found. Corruption in Ecuador is clearly a matter of importance, as in other countries in the region.

Figure 12. The Impact of Being Victimized by Corruption (on support for the system)



Source: Seligson, 2001.

7. The slight increase at the highest levels is statistically insignificant but could reflect the political power of the country's wealthiest groups and their ability to avoid the usual forms of bribery.

C. Local Government and Decentralization

During most of its history, Ecuador has been a highly centralized country. Local governments have been, and continue to be, highly dependent on transfers from the national government because of their limited ability to generate their own revenues. In recent years, the government decided to increase decentralization. As the National Modernization Council (CONAM) has declared, the Political Constitution of the Republic of Ecuador provides that public administration be organized and developed in a decentralized way, and that the central government will gradually transfer its functions, powers, jurisdiction, responsibilities, and resources to independent organizations or other regional organizations.

The data from the University of Pittsburgh/Cedatos-Gallup survey show what citizens consider to be the most serious problems of municipal governments at present. The results shown in Table 3 reveal some variation between regions. Road maintenance is an important problem throughout the country, but it seems much more serious in the rural highlands region. In contrast, problems relating to security and crime are common in urban areas but not in rural areas. We also see that deficient municipal administration is mentioned more frequently by citizens in the urban highlands area. In no region of the country are local corruption, the environment, or taxes considered important municipal problems. This does not mean that Ecuadorans are unconcerned about these problems (in the national context, for example, corruption is mentioned frequently), but rather that those surveyed do not consider these problems to be the most serious in the context of local government.

Problems require solutions. To what extent are Ecuadorans satisfied with the solutions provided by their local governments? Figure 13 shows the results of this question for the entire country.

Figure 14 shows the regional variation within Ecuador. We note that satisfaction is much higher in Guayaquil than in other regions of the country.

Participation is the essence of democracy, and nearly all programs that seek to strengthen local governments include citizen participation as a key mechanism for achieving their objective. As shown in Figure 15, Ecuador is at the very bottom of the list of Latin American countries in this regard.

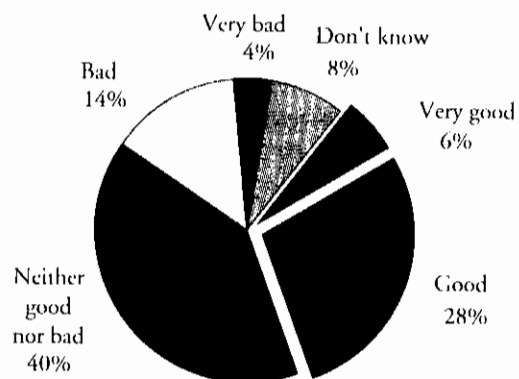
Within Ecuador, urbanization and geographic location affect participation in municipal meetings. The results reveal a notable variation: participation is three times as high in small cities and rural areas than in Quito.

Ecuadorans recognize different levels of government, including local and national. Do they look at all levels the same way, as "just government"? It is clear they do not. Those surveyed were asked what level of government they considered more effective in resolving local problems. The question was, "In your opinion, which has provided the best response to help resolve problems in your community or neighborhood—the national government, Congress, or the municipality?" Figure 16 shows the results. Citizens responded overwhelmingly that the municipal government did best at resolving local problems.

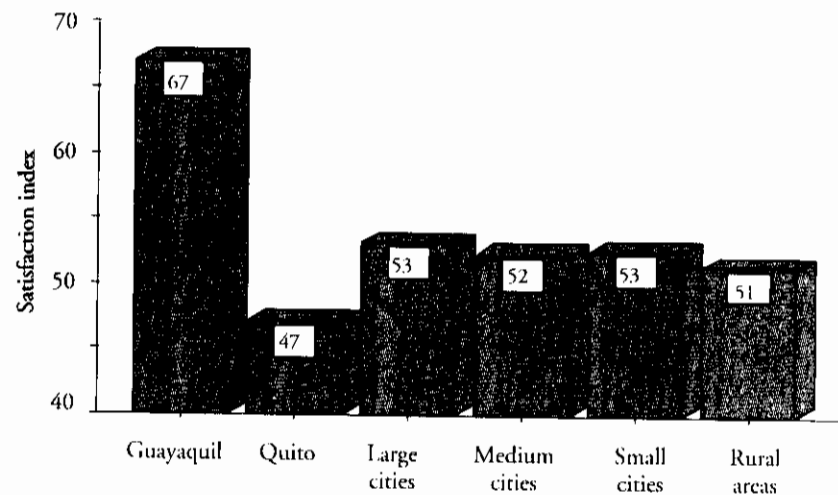
Table 3. The Most Serious Problem Faced by the Municipality (by Region)

	STRATUM				Region		Total
	Urban coast	Rural coast	Urban highlands	Rural highlands	North-east	South-east	
<i>In your opinion, what is the problem in your municipality?</i>							
Lack of water	10.5%	14.9%	7.2%	17.8%	11.9%	10.6%	10.8%
Road maintenance	14.0%	13.7%	13.1%	20.2%	7.1%	10.6%	14.3%
Lack of security, crime	12.0%	8.1%	20.8%	5.5%	4.8%	2.1%	13.4%
Cleaning of public spaces	7.1%	2.0%	2.1%	.3%		2.1%	3.8%
Lack of services	12.5%	14.1%	7.4%	14.7%	11.9%	10.6%	11.2%
The economic situation	11.2%	8.1%	8.6%	11.7%	19.0%	23.4%	10.5%
Lack of funds	8.0%	18.1%	8.9%	9.8%	16.7%	19.1%	9.9%
Poor administration	11.3%	12.1%	21.1%	13.5%	14.3%	12.8%	15.0%
Corruption	1.4%	1.6%	2.4%	1.8%	2.4%	4.3%	1.9%
Lack of machinery and equipment	1.8%		.6%	2.8%	2.4%		1.3%
High taxes	.0%	.4%		.3%	2.4%		.2%
Abuse of mayor's power	.7%		.7%				.5%
Others	.4%		.1%	.3%			.2%
Total	1.7%	.8%	2.4%	.9%	2.4%	2.1%	1.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

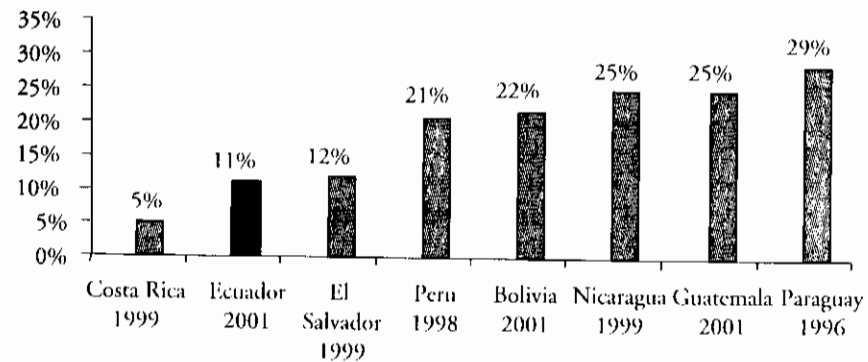
Source: University of Pittsburgh/Cedatos-Gallup.

Figure 13. Evaluation of Municipal Services

Source: University of Pittsburgh/Cedatos Gallup.

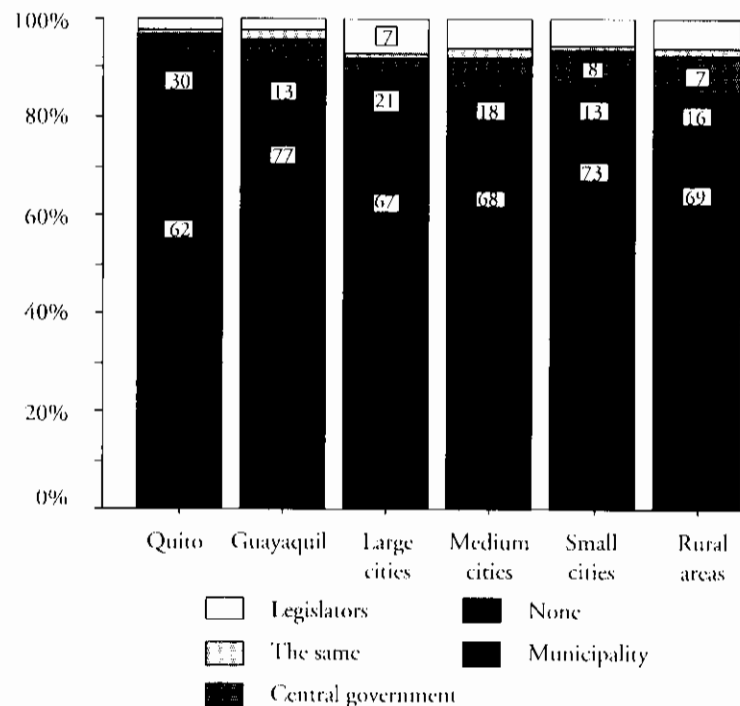
Figure 14. Satisfaction with Municipal Services and Locality

Source: Seligson, 2001.

Figure 15. Comparative Attendance at Municipal Meetings and Open Town Councils

Source: Seligson, 2001.

Figure 16. Who Responds Better to Local Problems (by locality)



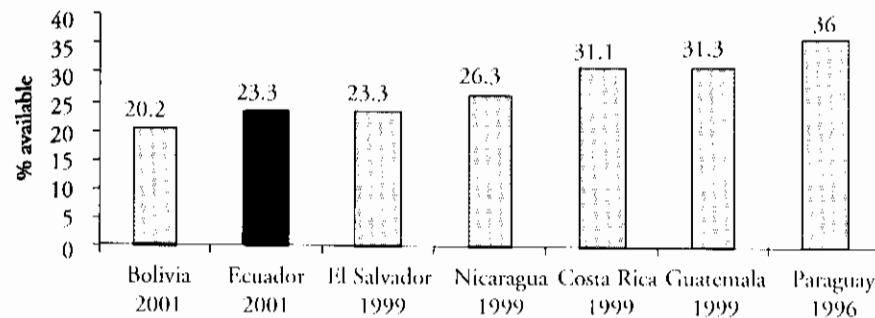
Source: Seligson, 2001.

Local governments in Ecuador face the problem of budgets that are inadequate for carrying out their numerous responsibilities. Those surveyed were asked whether they were willing to pay more taxes to obtain better services. Figure 17 shows that, in Ecuador, the willingness to pay more local taxes is low.

D. Institutional Vulnerability

This section is based on diagnostic work done by the World Bank Institute in 2000 and seeks to provide an initial exposition of the underlying institutional factors that could explain why corrupt behaviors and practices are concentrated in some institutions and not in others. The data from that survey identify the following 10 factors as most important for obtaining good performance and integrity indicators.

Figure 17. Willingness to Pay More Municipal Taxes: International Comparison



Source: Seligson, 2001.

- Procedures manuals that detail the duties and responsibilities of public employees—and that are available to personnel and effectively utilized in their training;
- Policies, guidelines, and regulations on budget management that are set down in writing;
- Suitable personnel not subject to constant changes in administration and who do not fear imminent replacement;
- Standards that allow precise measurement of performance that are implemented and monitored;
- Policies, guidelines, and regulations regarding the provision of services that leave little room for arbitrary or discretionary behaviors on the part of public employees;
- Personnel management practices that reward merit, professionalism, and performance;
- Mechanisms for reporting corruption that are accessible to all and give the accuser credible and effective protection;
- Information channels among organizations that promote good understanding and coordination of functions;
- Motivated civil servants who know their duties and responsibilities, the objectives and strategies of the organizations where they work, and who truly participate in decisionmaking processes; and
- A group of reformist leaders who have the support of upper management.

Another important accountability mechanism is existing systems for reporting corruption. The data indicate that mechanisms for reporting corruption, if effective and independent, can be effective tools for reducing corruption. In effect, in institutions with high grades for integrity, reporting corruption is less discouraged. The

data also indicate that existing reporting mechanisms are generally unknown and extremely ineffective. More than half of the public employees interviewed (60 percent) do not know how to report corruption. This is equally true for most of the households interviewed (90 percent). Those who do know how to report corruption feel that the system for doing so is quite ineffective. Public employees fail to make reports primarily for fear of the consequences. This suggests that, at present, integrity is not an important value in the internal culture of government organizations and that there are few procedures for protecting those who make reports. The second most frequently provided reason is a lack of confidence that the report will actually be investigated and used to curb corruption.

E. Recommendations

The data indicate that Ecuador is facing an enormous challenge of governance. This chapter seeks to highlight the most serious governance problems that the new government must face. The country's central problem is the lack of credibility in key institutions of the central government. These problems are serious not only in absolute terms but also in the general context of Latin America, a region that also suffers from problems of governance. Furthermore, the problems have been growing, which is even more disturbing. In the last election, the citizens' rejection of the traditional parties and the acceptance of new faces is a clear signal that people are tired of the old and want to start anew. Corruption, as shown above, is also a very serious problem in Ecuador. Households and companies indicate that corruption is among the most important social challenges faced by the country and one of the greatest obstacles to business development.

The study also points directly to steps that must be taken to confront these issues. It has already been pointed out that the high level of corruption in daily life is a significant cause of the central government's problems with credibility and legitimacy. Finally, it has been shown that the population has more confidence in local institutions and that this confidence can be a starting point. Therefore, it seems necessary to implement three key measures.

First, the government should make its position against corruption very clear from the outset, which means a broad alliance in a National Governance Pact. Then, ministers must be selected from among public figures of indisputable honesty. These officials must meet the most rigorous criteria so that they do not even have the appearance of being corrupt. Third, going from the short to the medium term, explicit steps must be taken against corruption such as civil service reform to create incentives for honest administration and reporting of corrupt practices. Fourth, Ecuador must devote significant attention to strengthening local governments by giving them control and responsibility. Other policy recommendations will be explained in greater detail in the sections that follow.

The Climate for Reforms

It is easier to design an anticorruption strategy when the levels of resistance likely to be encountered are fully understood. Both surveys suggest that there is a high level of support for many types of reform. Companies and households tend to support the vigorous implementation of anticorruption laws, transparency measures, and strengthening the efficiency of public administration. However, the most notable factor is the overwhelming support for numerous types of reforms expressed by public employees.

The time has come to carry out an anticorruption campaign. The data suggest that although some institutions clearly benefit from the status quo, others are in favor of implementing reforms intended to improve governance and reduce corruption. The Office of the President is in a good position to head up efforts in the fight against corruption. The institutions in which the impulse toward reform is strongest can be turned into useful and powerful allies in the fight against corruption. In general, public employees believe that a public campaign can be an effective step in reducing corruption if it is accompanied by fundamental public sector reforms.

Openness, Transparency, and Accountability in Society

Transparency in government is synonymous with openness. In order to create transparency, the government must give the public (civil society organizations, communications media, or other interested parties) sufficient information about government activities so that the public can act as an effective control on abuses committed by government and public employees. Many countries have promulgated freedom of information laws that require their governments to provide information to the public unless there is a valid reason for keeping the information secret (such as a threat to national security). It is essential to establish clear guidelines for determining when information must be kept secret and to make the necessary investments to train public employees (see Edes 2000).

In a more general way, openness should not be limited to providing information. Civil society and the communications media could be effective allies of the state in working to reduce corruption and promote efficient government. A proactive approach that encourages vigilance in civil society and the media with respect to issues such as large-scale privatization or significant public bidding for contracts will be the most effective approach to creating true transparency and openness in government and reducing corruption.

Another possible reform pointed to by these studies is to increase transparency and vigilance with respect to public life. Many of the specific reforms in a particular government agency that were identified in the plan are aimed at promoting more transparent administrative practices in public life. Another recently popularized technique in Latin America is the scoring cards of public institutions, using surveys

to regularly grade their performance and measure their perceived progress in different areas of governance.

Even though there is strong support for new laws regulating contributions to political parties and political elections, in many countries it is a complicated task to separate political interests from economic interests and at the same time maintain a dialogue between the private sector and the state. Although no political system can claim that it has been able to fully resolve this difficult question, the principle of transparency is certainly an essential first step in the right direction. Requiring transparency in the financing of political parties and their campaigns reveals the explicit and implicit links between politicians and the interests that support them. The practice of mandating the preparation and publication of detailed reports on the finances of all political organizations and identifying contributors and beneficiaries gives civil society, the media, and the general public tools that allow them to identify the sources of state capture. The survey results suggest that Ecuador is prepared for reforms of this type.

Prohibiting the use of state resources (funds, postal services, automobiles, and so on) for political purposes and generating public sector neutrality help to ensure that public employees serve the interests of society rather than the interests of politicians or some business in particular. Other measures include limiting the amount of money that can be spent in political campaigns, providing public financing, and prohibiting certain types of entities from making contributions to political campaigns.

Imperatives for Public Administration

Improved employee hiring practices and merit-based promotions can strengthen the ability of public agencies to provide quality services. The data show that the clarity with which staffing decisions are explained correlate closely to corruption. The dissemination of personnel management procedures and adherence to these procedures must be considered an imperative in combating corruption and not simply a form of good public administration. Similarly, insulating public employees from political changes will help to limit the scope of state capture.

The surveys also provide an important rationale for clarifying and broadly publicizing the rules and procedures of internal administration in general. State agencies in which the rules and procedures are clear, well supervised, and do not create excessive bureaucracy show the lowest levels of corruption.

Although establishing a meritocracy and strengthening the rules of internal administration were the measures that gained most support among public employees, there were other reforms in public administration that also received notable support and should be implemented immediately. Strengthening budget management systems, ensuring that public employees have the information they need to do their work, and providing a strong sense of mission and direction to the client are measures that will surely promote the development of a professional and honest public sector.

Corruption seems to be concentrated in high-revenue areas such as the customs service and the national petroleum company, in internal oversight areas such as the General Comptroller's Office, and Congress. However, the head of the country, the Presidency, and the institutions most recently reformed, such as the Internal Revenue Service, seem to be most free of corruption. In fact, the action plan that the government of Ecuador developed in 1999 included improved performance in the customs service and in PetroEcuador among its major objectives. However, data from the survey conducted by the World Bank Institute in the year 2000 once again underline the need to focus reforms on these two areas. Internal oversight mechanisms were the second focus area targeted by the plan. The 2000 survey and Ecuador's recent experience indicate that it is important to further strengthen these mechanisms.

In terms of the provision of public services and the administration of public resources, it is important to evaluate the actual impact that resources allocated to services have on citizens. This facet has not been explored as yet and should be studied in depth in order to ensure efficiency in the use and allocation of public resources.

A Broad and Inclusive Approach

The results presented in this chapter highlight the fact that corruption is not reduced simply through strong law enforcement, but rather through direct incentives given to public employees, companies, and households. Many reforms that are important in and of themselves (regulatory reforms, development of public administration, health sector reforms, and openness in government, to mention only a few) can also be considered components of an anticorruption campaign.

Although the process of developing and implementing an anticorruption strategy depends on the policies and priorities of each individual country (there is no single recipe for success), lasting efforts generally have two traits in common. First, the strategies recognize that the task of reducing corruption entails not only strict enforcement of regulations, but also implementation of social changes and improvements in public sector governance. Various countries, Honduras and Slovakia among them, have adopted variants of the tridirectional strategy of enforcing anti-corruption statutes, educating the public on what rights they have when dealing with the public sector and on the damage done by corruption, and preventing corruption through improved governance in the public sector.

Second, durable anticorruption strategies follow the inclusive approach. Given that reducing corruption goes beyond enforcing the law, a broad approach to this problem must be accompanied by collaboration and participation in decisionmaking on the part of a broad spectrum of governmental and nongovernmental leaders. A high-level facilitating council, supported by a professional secretariat, can help bring together representatives from both central and local government agencies to develop specific action plans to implement the anticorruption strategy. Through the

explicit inclusion of representatives outside government, facilitating councils can create greater credibility and at the same time add an important ally for reducing corruption.

Broad support for and coordination of the principles of an anticorruption strategy that includes prevention, education, and law enforcement are extremely important first steps. However, the implementation of that strategy may be an enormous challenge. In order to ensure progress, detailed actions plans for reducing corruption and improving the quality of the entire public sector are required, followed by strict oversight of their implementation. When no progress is made, external oversight creates accountability, but only if action plans are formal and public.

The climate in Ecuador is favorable for reform because broad support already exists among the three groups surveyed for many types of reforms that can help to reduce both state capture and administrative corruption, and because rigorous sanctions exist for violators. As the need to act and the support of the population are both clear, the key now is to capitalize on the growing momentum by developing and implementing a broad-based action plan. This plan should reflect the ideas of people both inside and outside of government and should not only consider aspects related to enforcing the law but prevention as well. Progress will be made only with a direct attack on the institutional weaknesses that encourage corruption.

Policy Matrix

Problems	Policy measures		Progress indicators	Objectives/goals
	Short term (to June 2003)	Medium term (2003-07)		
Lack of confidence in central government institutions.	<ol style="list-style-type: none"> 1. Selection of ministers with indisputable record of honesty. 2. Virtual publication of all government procurement. 	<p>Creation of vigorous national campaign in favor of transparency, accompanied by incentives for reporting corrupt practices.</p>		
Lack of confidence in central government institutions.	<ol style="list-style-type: none"> 1. Signing of a Governance Pact between government and civil society to reach consensus on anticorruption strategy. 2. Design and implementation of a permanent program of scoring cards filled out by the public to rate the performance of Ecuador's institutions. 	<ol style="list-style-type: none"> 1. Conversion of Pact into permanent commission that can manage the protransparency campaign 2. Consolidation of Scoring Cards program. 3. Discussion of strategy in national and regional workshops. 	<ol style="list-style-type: none"> 1. Creation of Governance and Transparency Commission. 2. Results of institutional ratings exercise and definition of program goals. 3. National and regional workshops. 	<p>Joint development (government and civil society) of an anticorruption strategy.</p>
High levels of corruption in daily life.				<p>Strengthening local governments and the courts. Civil service reform.</p>

Annex Governance in Ecuador: Citizens and Public Employees Give Their Opinions

The preceding data provide a good overview of the quality of governance in Ecuador in international terms and suggest the existence of some serious problems. However, these data do not provide information on the specific dimensions of governance or on measures that could be taken to improve Ecuador's situation.⁸ The intent is to fill in this gap through surveys, including the largest survey ever conducted in Ecuador, which investigated citizens' opinions regarding good governance (Seligson, Grijalva, and Córdova 2002), and a series of surveys conducted by the World Bank on corruption (World Bank Institute 2000). These surveys provided detailed information on how Ecuadorans evaluate the operation of their political system, corruption and its impact and costs, and the governance situation at the subnational level.⁹

Legitimacy of the Political System

The support of its citizens is a key factor in the stability of any country. The first question is, "Is there a political community in Ecuador?" The answer is emphatically "Yes." The overwhelming majority of Ecuadorans from all regions of the country are very proud to be Ecuadoran.

Although these results indicate that Ecuadorans overwhelmingly believe that they are part of a political community, this does not necessarily mean that they trust the institutions that govern them. In fact, as can be seen in Figure A1, there is a wide gap between pride in being Ecuadoran and pride in the Ecuadoran system of gov-

8. The World Bank's governance indicators are based on indicators taken from a variety of sources. Most of these indicators are surveys (or compilations) of experts' opinions in various research institutes such as *Freedom House* and *Economist Intelligence Unit*. The only Ecuadoran public opinion survey used in this set of indicators, *Latin Barometer*, includes a modestly sized sample (about 1,000) and does not allow for a breakdown by region. In addition, the raw data that allow for a detailed analysis are kept confidential by *Latin Barometer Corporation*.

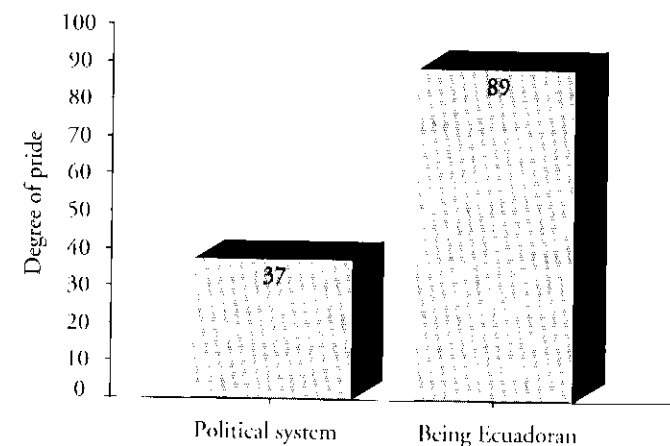
9. The survey on efficient governance, which included more than 3,000 subjects, was carried out by the University of Pittsburgh in collaboration with CEDATOS/Gallup of Ecuador in late 2001. That survey covered all provinces except for Galapagos, which was excluded for budgetary reasons. The margin of error in this sample was very small (± 1.8 percent). The World Bank Institute conducted separate surveys on public employees, companies, and households between April and June of 1999. It then prepared a preliminary report based on this exhaustive diagnosis and presented it to the government. The principal objective of this study was to contribute to the design and implementation of a detailed and participatory anticorruption strategy and action plan. The results of the World Bank Institute are based on surveys of 1,139 public employees, 1,164 companies, and 1,800 citizens.

ernment. While the former is close to the top on a scale from 1 to 100, the latter is well below 50. These results have an effect on governance as the degree of support for the political system is used to measure political legitimacy and without legitimacy there is no democratic political system that can remain stable for a long time. Furthermore, governments that try to govern without the support of the population are destined to encounter difficulties, as demonstrated by the Ecuadoran situation in recent years. Citizens must have confidence in their government's right to govern (which is the essence of a government's legitimacy).

The University of Pittsburgh (Seligson 2000) has developed a compound measure of support for the system that has been broadly applied and allows for international comparison. As shown in Figure A2, Ecuador does not have a good rating compared to other Latin American countries. Another noteworthy observation is that low support for the system is coupled with higher levels of education. This means that more educated Ecuadorans, who have better access to information from the media, are less likely to support the system. It is also clear that a major factor reducing support for the system is citizens' perception of the economy: those who feel that the economy is doing worse are those who support the political system less. These results would not be so disturbing if the perception of the economy were better than it is, but 62.9 percent of those surveyed maintained that the economy has been performing poorly or very poorly.

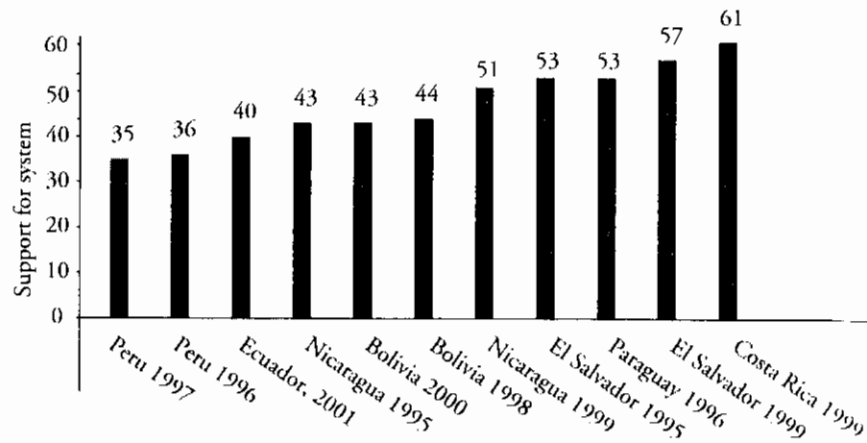
A more detailed look at specific institutions, both public and private (see Figure A3), indicates that citizens' confidence in them is extremely varied. The Catholic

Figure A1. Pride in the Ecuadorian Political System vs. Pride in Being Ecuadoran



Source: Seligson, 2001.

Figure A2. Comparative Support for the System



Source: Seligson, 2001.

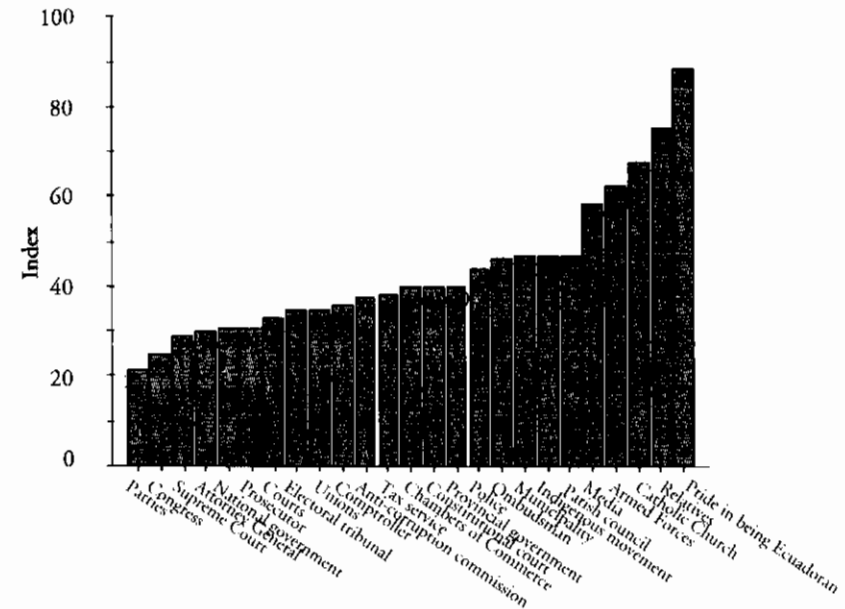
Church has a high rating, as is usually the case in most countries of the region. It should be noted that the recently established “parish boards” also have a relatively high rating. However, it is disturbing that democratic institutions par excellence, namely the political parties, Congress, and the Supreme Court, enjoy very low levels of confidence.

On the other hand, it should be pointed out that the municipality as an institution has a comparatively good rating, much higher than national democratic institutions. This suggests that more importance is assigned to local government. At the same time, the study results indicate clearly that support for the national political system is very closely associated with the level of satisfaction with municipal services, indicating that one way to build the legitimacy of the national political system is to increase the effectiveness of local governments.

Participation of Civil Society and Governance in Ecuador

According to the writings of Alexis de Tocqueville (1875) on democracy in North America, an important factor in uniting citizens and their officials is an active civil society. A factor more directly related to this chapter is that social capital is considered to play an important role in economic growth (Helliwell and Putnam 2000). Recent events in Ecuador have made clear the extent of the impact that participation has on the political system. Ecuadoran citizens can organize themselves, and have in fact done so, in order to exert pressure and demand that their claims be heard.

Figure A3. Support for Institutions

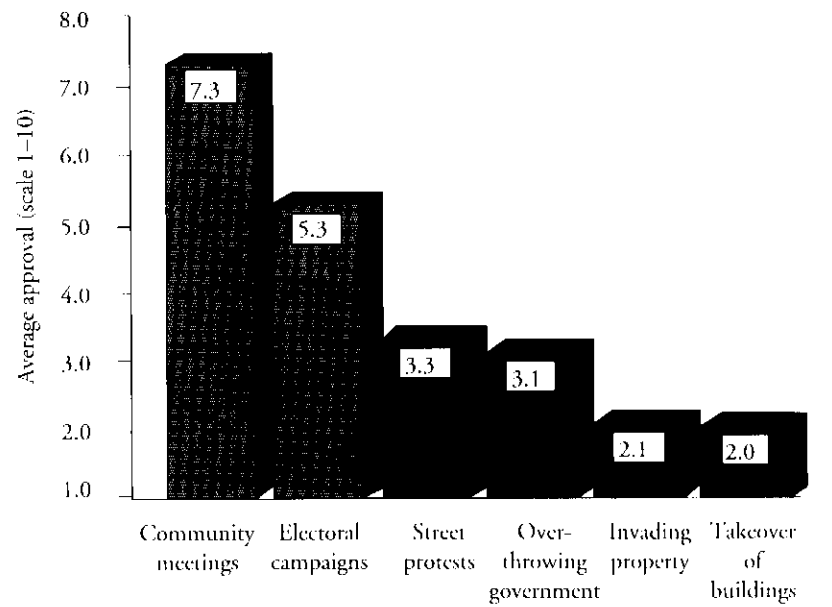


Source: Seligson, 2001.

To what extent is there active participation of civil society in Ecuador and what factors could be inhibiting that participation? On the positive side is the fact that Ecuadoran citizens participate in civil society in many ways such as in their resounding support for nonaggressive ways to express their needs, as can be seen in Figure A4. On a scale from 1 to 10, participation in community groups and electoral campaigns receives the most support. However, there is strong opposition to civil disobedience.

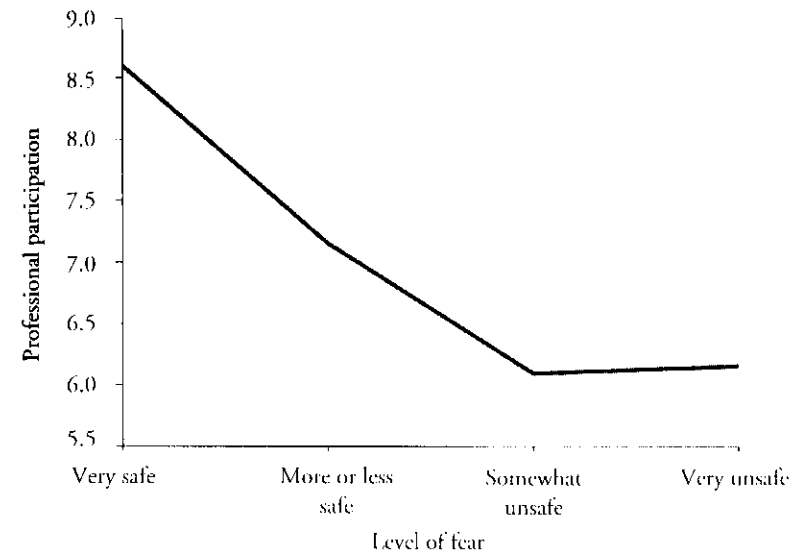
Participation is conditioned and limited by many factors and there is a wide gap between men and women in many countries in the region. Another factor that limits participation is crime. It is disturbing that crime is so common in Ecuador. In the year the survey was conducted, 20 percent of the population had been the victim of some form of crime. However, very few citizens report crime to the authorities. In turn, there is growing fear of crime that acts to limit participation, as shown in Figure A5. The decline in participation generated by fear of crime is regrettable because, as also indicated in Figure A6, there are direct links between participation at the community level and support for the system.

Figure A4. Approval of Conventional or Aggressive Forms of Political Participation



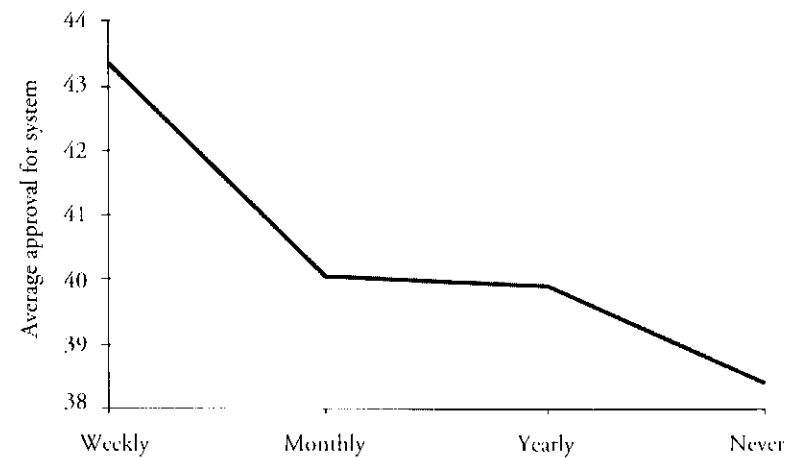
Source: Seligson, 2001.

Figure A5. Professional Participation and Fear of Crime



Source: Seligson, 2001.

Figure A6. Participation in a Parents' Committee and Support for the System



Source: Seligson, 2001.