



ISSUES OF DEMOCRACY

D E C E M B E R 2 0 0 6

TRANSFORMING
THE CULTURE OF
CORRUPTION





Issues of Democracy: Volume 11, Number 12

Editor	Alexandra M. Abboud
Associate Editor	Rosalie Targonski
Reference Specialist	Anita N. Green
Photo Editor	Maggie Johnson Sliker
Cover Design	Min-Chih Yao
Editor-in-Chief	George R. Clack
Executive Editor	Richard W. Huckaby
Production Manager	Christian Larson
Assistant Production Manager	Chloe D. Ellis

Editorial Board	Jeremy F. Curtin
	Janet E. Garvey
	Charles N. Silver
	Jeffrey E. Berkowitz

Front cover: Illustration ©2004 Getty Images, Inc.
All rights reserved.

The Bureau of International Information Programs of the U.S. Department of State publishes electronic journals in five thematic areas under the *eJournal USA* logo—*Economic Perspectives, Global Issues, Issues of Democracy, Foreign Policy Agenda, and Society & Values*. These journals examine major issues facing the United States and the international community, as well as U.S. society, values, thought, and institutions.

One new journal is published monthly in English and followed by versions in French, Portuguese, Russian, and Spanish. Selected editions also appear in Arabic, Chinese, and Persian. Each journal is catalogued by volume (the number of years in publication) and by number (the number of issues that appear during the year).

The opinions expressed in the journals do not necessarily reflect the views or policies of the U.S. government. The U.S. Department of State assumes no responsibility for the content and continued accessibility of Internet sites to which the journals link; such responsibility resides solely with the publishers of those sites. Journal articles, photographs, and illustrations may be reproduced and translated outside the United States unless they carry explicit copyright restrictions, in which case permission must be sought from the copyright holders noted in the journal.

The Bureau of International Information Programs maintains current and back issues in several electronic formats, as well as a list of upcoming journals, at <http://usinfo.state.gov/pub/ejournalusa.html>. Comments are welcome at your local U.S. Embassy or at the editorial offices:

Editor, *eJournal USA*
IIP/PUBS
U.S. Department of State
301 4th Street SW
Washington, DC 20547
United States of America
E-mail: eJournalUSA@state.gov

About This Issue

“Corruption is no longer a local matter but a transnational phenomenon that affects all societies and economies, making international cooperation to prevent and control it essential.”—United Nations Convention Against Corruption

“We have identified corruption as the single greatest obstacle to economic and social development.”—The World Bank

“Corruption traps millions in poverty.”—Transparency International

“For too long, the culture of corruption has undercut development and good governance and bred criminality and mistrust around the world.”—President George W. Bush

According to the World Bank, corruption can generally be described as the abuse of public power for private benefit. Types of corruption include grand corruption, which involves corruption that pervades the highest level of national government, to petty corruption, the exchange of very small amounts of money or the granting of minor favors by those in minor positions. Regardless of the scope of the corruption, such acts undermine the development of civil society and exacerbate poverty, especially when public resources that would have been used to finance people’s aspirations for a better life are mismanaged or abused by public officials.

In recent years, through a series of international agreements, a global framework for combating corruption has begun to emerge. Individual countries can now make their anticorruption efforts more effective by vigorously implementing anticorruption measures and relying on international cooperation to support them. This issue of *eJournal USA* highlights the important roles that the public sector, private sector, and nongovernmental organizations play in combating corruption worldwide.

The Editors



ISSUES OF DEMOCRACY

U.S. DEPARTMENT OF STATE / DECEMBER 2006 / VOLUME 11 / NUMBER 12

<http://usinfo.state.gov/pub/ejournalusa.html>

Transforming the Culture of Corruption

4 **Principled Responsibility: Transforming the Culture of Corruption**

CONDOLEEZZA RICE, SECRETARY OF STATE

The United States is proud to support those who advance the fight against corruption by promoting honest governance and integrity, restoring the public's trust, anchoring market integrity, and nurturing a free media and open society.

5 **Addressing Corruption Through International Treaties and Commitments**

JOHN BRANDOLINO AND DAVID LUNA,
ANTICORRUPTION AND GOVERNANCE INITIATIVES,
BUREAU FOR INTERNATIONAL NARCOTICS AND LAW
ENFORCEMENT AFFAIRS, U.S. DEPARTMENT OF
STATE

By agreeing on mechanisms to fight corruption, the international community is opening the doors for increased multilateral and bilateral cooperation on important but traditionally local fronts.

9 **Combating Kleptocracy**

In 2006, to combat high-level corruption, the United States implemented the National Strategy to Internationalize Efforts Against Kleptocracy.

11 **Shedding Light on Corruption: Sunshine Laws and Freedom of Information**

DONALD F. KETTL, DIRECTOR, FELS INSTITUTE OF GOVERNMENT AT THE UNIVERSITY OF PENNSYLVANIA
Regulations against corrupt practices and legislation to increase government transparency have reduced corruption by examining government closely to weed out waste, fraud, and abuse.

14 **Effective Anticorruption Approaches**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT,
OFFICE OF DEMOCRACY AND GOVERNANCE
Good governance and accountability create conditions that lift people out of poverty, raise education and health levels, improve the security of borders, expand the realms of personal freedoms, nurture sound economic and sustainable development strategies, and create healthier democracies.

16 **The Costs of Corruption**

JOHN SULLIVAN AND ALEKSANDR SHKOLNIKOV,
CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE
Corruption, while benefiting a few individuals, is costly to society, the private sector, and governments in the long run.

19 Promoting Global Corporate Transparency

PHILIP UROFSKY, SPECIAL COUNSEL, BUSINESS FRAUD & COMPLEX LITIGATION GROUP, CADWALADER WICKERSHAM & TAFT LLP, WASHINGTON, D.C.

In 1977, the U.S. Congress enacted the Foreign Corrupt Practices Act to bring a halt to the bribery of foreign officials and to restore public confidence in the integrity of the American business system.

22 The Role of Civil Society in Securing Effective and Sustainable Reform

NANCY BOSWELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, TRANSPARENCY INTERNATIONAL-USA

The role of civil society is central to bringing anticorruption commitments to life.

25 Fostering “Champions of Development”: Millennium Challenge Corporation

AMBASSADOR JOHN DANILOVICH, CHIEF EXECUTIVE OFFICER, MILLENNIUM CHALLENGE CORPORATION

The Millennium Challenge Corporation is providing a powerful incentive for governments to adopt tough anticorruption policies and strengthen their anticorruption institutions.

28 Bibliography

29 Internet Resources

Principled Responsibility: Transforming the Culture of Corruption



Democracy only achieves lasting prosperity when the rule of law is sanctified and when government is transparent and accountable to its people. Corruption corrodes these underpinnings of free society and human progress. The international community stands united in our belief that every man, woman, and child deserves to be governed with the highest level of public integrity so that they can realize their full potential. Citizens deserve accountability and principled responsibility from their leaders. The best hope for winning the battle against corruption is our continued commitment to values of honest governance, openness, just conduct, and the rule of law.

Enduring Values

In cooperation with other dedicated partners, the United States will continue to promote transparency, prosecute high-level corruption, and deny safe haven to corrupt officials.

Through instruments such as the U.N. Convention Against Corruption (UNCAC), we are committed to enhancing international commitment and cooperation to recover and return stolen assets that can be used to promote development and accountability.

The United States is proud to support those who advance the fight against corruption. We stand by partners who promote good governance, public and private sector integrity, and freedom of the press. These efforts will restore public trust in government and provide a framework for economic investment into the country to work.

In pursuit of these high standards, we must build a coalition of public and private partners at both the local and national levels. We and our partners must condemn, expose, and punish corruption. Through our shared principles, we can build the will and capabilities of peoples and governments to fight corruption and transform the culture.

New Horizons

The work of democracy is a daily process to build the institutions of democracy. We can create a better future by uniting in our support of good governance and against corruption. Through our continued cooperation with our international partners, we can build societies where all individuals can achieve the full extent of their liberty. And through a new commitment to responsibility, we can build a firm foundation of principle for future generations.

Condoleezza Rice
Secretary of State

Addressing Corruption Through International Treaties and Commitments

John Brandolino and David Luna

Once considered to be the province of each nation's government, the fight against corruption is now the work of the international community, working together to complement and assist governments' efforts. The authors outline the broad range of multilateral and international agreements that form a global anticorruption network. John Brandolino is director for Anticrime Programs and David Luna is director for Anticorruption and Governance Initiatives in the Bureau for International Narcotics and Law Enforcement Affairs of the U.S. Department of State.

Corruption was once considered such a pervasive phenomenon that addressing it seemed an almost insurmountable challenge. However, in the past 15 years, the international community has witnessed a marked and positive change in the global fight against corruption. Prior to this sea change, countries were reluctant to even talk about corruption and considered it solely a domestic problem. Today, there are a plethora of gatherings and multilateral mechanisms specifically created to address the problem of corruption. Fifteen years ago, countries allowed tax deductibility for bribes paid to foreign officials. Today, more and more nations are working together to prosecute bribery. Indeed, 15 years ago, some countries erroneously argued that corruption was actually acceptable in certain cultural situations or to facilitate business in developing countries. No one would dare argue that today.

Since 1996, international anticorruption agreements have served to heighten political commitments to fight corruption and have identified fundamental international norms and practices for addressing corruption. Fighting corruption was once thought to be the domain of each

government. Due in part to anticorruption agreements, reinforced by the growing statements of political will, it is now universally accepted that the international community can complement and assist a government's efforts to fight corruption, and that the international community has a genuine interest in seeing corruption addressed locally and on a global level.

By agreeing on mechanisms to fight corruption, the international community is opening the doors for increased multilateral and bilateral cooperation on important but traditionally local fronts. This, in turn, encourages the sharing of best practices, builds trust and relationships between cooperating countries, and ultimately increases the effectiveness of bilateral and multilateral efforts and development assistance programs.



Consolidating Principles for Fighting Corruption

Multilateral anticorruption agreements bring together internationally recognized principles to fight corruption and formalize government commitment to implement these principles. These principles, embodied most recently in the United Nations Convention Against Corruption (UNCAC), go beyond simply exhorting governments to criminalize various corrupt actions. They recognize that the fight against corruption requires concerted action on a number of fronts.

These agreements address one or more fronts for anticorruption action, including the following:

- *Law Enforcement.* Impartial investigatory, prosecutorial, and judicial powers are key to effectively uncover and

prosecute public corruption. As such, they commit governments to establish effective criminal laws, sanctions, and law enforcement bodies to detect and deter bribery and other core corrupt acts.

- *Public Sector Prevention:* Many international anticorruption agreements commit governments to take a wide range of actions, such as maintaining high standards of conduct for public employees, establishing transparent procurement and financial management systems, avoiding conflicts of interest, requiring financial disclosures of personal assets, protecting whistleblowers, establishing effective institutions and procedures of accountability within government and externally, and providing access to government information.
- *Private Sector Prevention:* Many international anticorruption agreements also highlight and commit governments to establish measures that constructively affect private sector behavior, such as maintaining an effective regulatory framework to prevent the hiding of illicit or bribe payments in company accounts, corporate fraud, and prohibitions against tax deductibility of bribes.
- *Follow-up Mechanisms:* In the context of some multilateral anticorruption instruments, follow-up review or evaluation mechanisms may facilitate international cooperation and technical assistance to address weaknesses. There are currently four active anticorruption mutual evaluation mechanisms that rely on peer review to monitor and promote implementation: the Organization of American States Follow-up Mechanism, Council of Europe Group of States Against Corruption, Organization for Economic Cooperation and Development Working Group on Bribery, and the Stability Pact Anticorruption Initiative.

Existing International Agreements and Initiatives

The most comprehensive and globally applicable agreement to date was developed under the auspices of the United Nations. More than 130 countries participated in

the two-year negotiation for the U.N. Convention Against Corruption, which entered into force in December 2005. It covers all of the areas for action mentioned above and, for the first time, establishes a framework for cooperation in asset recovery cases. It also is on track to be the first true globally applicable international anticorruption agreement, with 140 signatories and 80 parties to date.

In Europe, the Council of Europe (COE) has developed three primary instruments to guide members in the fight against corruption. Two of these documents are conventions (the 1997 COE Criminal Law Convention Against Corruption and the COE Civil Law Convention Against Corruption), and one consists of nonbinding principles (the COE Twenty Guiding Principles to Fighting Corruption). COE has also developed a peer review mechanism for monitoring implementation of

By agreeing on mechanisms to fight corruption, the international community is opening the doors for increased multilateral and bilateral cooperation on important but traditionally local fronts.

these principles and conventions for 42 nations, including the United States. The European Union (EU) also has developed several documents to guide members. These include the 1997 EU Convention on the Fight Against Corruption Involving Officials of the European Communities or Officials of Member States and the 1998 EU Joint Action on Corruption in the Private Sector. There is also a 2002 EU Framework on Combating Corruption in the Private Sector. A Stability Pact developed in 2000 that was signed by seven Southeast European nations, and the resulting peer review

mechanism to monitor implementation, is known as the Stability Pact Anticorruption Initiative (SPAI).

In Latin America, the 1996 Inter-American Convention Against Corruption was negotiated under the auspices of the Organization of American States (OAS), which in 2001 created a peer review mechanism for monitoring implementation. Currently 33 nations, including the United States, are party to this agreement.

In Asia, 21 nations in the Asia-Pacific region have adopted a nonbinding compact against corruption. Known as the ADB/OECD Anticorruption Action Plan for Asia and the Pacific, this compact was developed under the auspices of the Asian Development Bank and the Organization for Economic Co-operation and Development, and peer review is anticipated in the



© AP Images/Marty Lederhandler

United Nations Secretary-General Kofi Annan, left, discusses the importance of national leaders in Africa demonstrating political will to combat corruption, protect human rights, and pursue sound economic policies, in 1998. Several measures to fight corruption in Africa have been developed, including the African Union Convention on Preventing and Combating Corruption, adopted in July 2003.

future. In 2004, leaders of APEC (Asia-Pacific Economic Cooperation) approved an APEC Anticorruption Course of Action that includes a strong commitment to implementing the U.N. Convention Against Corruption and to working regionally to deny safe haven to corrupt officials, those who corrupt them, and their illicitly acquired assets.

In Africa, the African Union Convention on Preventing and Combating Corruption was adopted by the heads of state at the African Union Summit held in Maputo, Mozambique, in July 2003. The 2001 South African Development Community (SADC) Protocol Against Corruption contains measures adopted by the 14 SADC nations. In 1999, the Global Coalition for Africa (GCA) developed nonbinding principles to combat corruption that were adopted by 11 GCA member states.

In the Middle East, Arab states have been working through a regional network, the Good Governance for Development (GfD) Initiative, to provide support for an ongoing process of governance reform and public sector modernization and to create the conditions needed for economic and social development throughout the region. Fighting corruption is a main pillar of action, particularly efforts to implement the U.N. Convention Against Corruption.

The 37 nations that have signed the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions have created a peer review mechanism to monitor

implementation. The OECD convention is relatively narrow and specific in its scope. Its primary focus is the use of domestic law to criminalize the bribery of foreign public officials.

The work and principles of the Financial Action Task Force (FATF) also contribute immensely to the international anticorruption agenda. The FATF establishes global standards to combat money laundering and financial crime in its 40+9 Recommendations, and it monitors countries' implementation of these

recommendations. This intergovernmental body brings together representatives from supervisory/regulatory authorities and financial institutions to address abuse of the financial system, which has included abuse posed by corruption.

In recent years, the Group of Eight (G8), an informal group of eight countries—Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States—who meet to discuss broad economic and foreign policies, has made the fight against corruption a top priority, including efforts to combat high-level corruption (kleptocracy), deny safe haven to corrupt officials, coordinate on the recovery of illicitly acquired assets, and support for transparency pilots to improve budget, procurement, and concession-letting accountability and transparency.

Moving Forward

International anticorruption agreements continue to play a key role in the growing international condemnation of corruption. They commit governments to take action and help facilitate international cooperation and technical assistance.

The U.N. Convention Against Corruption (UNCAC) represents a landmark development in the architecture of international anticorruption agreements. It takes the topics covered in previous regional and global conventions, and more, and combines them into one comprehensive set

of commitments. It is the first international agreement to attract more than 40 parties, with more than 80 to date, and will likely become the first globally applicable international instrument dealing solely with corruption. The tested principles for fighting corruption, including the importance of international cooperation, are now enshrined as global principles that can be viewed as emanating solely from a group of like-minded countries or regions.

As governments slowly begin to embrace UNCAC and devise a follow-up process for promoting implementation and facilitating technical assistance, existing regional commitments and mechanisms are important to keep governments working together on corruption issues in a familiar setting and with familiar partners. In addition, the world's leading exporters must continue their close

and intense cooperation via the OECD Antibribery Convention and its related monitoring mechanism to reduce the practice of bribing foreign officials in international business transactions. OECD countries must demonstrate political will by enforcing their laws criminalizing such bribery.


While international instruments and multilateral frameworks offer an invaluable tool in the global fight against corruption, the hard task of harnessing the political will into demonstrable actions will continue to remain critical. The United States is committed to working with all partners around the world to ensure that, 15 years from now, taking effective actions against corruption becomes second nature for most governments in the world. ■



DEMOCRACY DIALOGUES

Join the global conversation about Democracy at www.democracy.gov. The Democracy Dialogues website addresses specific topics about democratic governance through interactive forums, readings, videos, webchats and more. Be a part of the conversation today.

<http://www.democracy.gov/>



Combating Kleptocracy



Under Secretary of State for Economic, Business, and Agricultural Affairs Josette Sheeran discusses President George W. Bush's National Strategy to Internationalize Efforts Against Kleptocracy, or high-level corruption, during a news conference at the State Department in Washington, D.C., on August 10, 2006.

Large-scale corruption by high-level public officials—kleptocracy—is a particular threat for democracy and rule of law in developing countries. Such corruption undermines financial accountability, discourages foreign investment, stifles economic performance, and diminishes trust in legal and judicial systems.

According to the World Bank, \$1 trillion is paid every year in bribes, and according to the United Nations, more than \$400 billion has been looted from Africa alone and stashed away in foreign countries. Kleptocracy is a development issue, because high-level corruption undermines economic development and renders important issues, such as the fight against poverty, ineffective. In many parts of the world, kleptocrats have lined their own pockets instead of funding development, such as new roads, schools, and hospitals.

In recent years, the United States and its international partners have been developing new ways to deny corrupt officials access to the wealth they have accumulated through corrupt activities, and they have been employing new ways to target their assets.

In 2006, to combat high-level corruption, the United States implemented the National Strategy to Internationalize Efforts Against Kleptocracy. The strategy takes the fight against high-level corruption to

a new level by involving U.S. foreign partners and financial institutions in more robust efforts to develop best practices for uncovering and seizing stolen funds, enhance information sharing, and ensure greater accountability for development assistance.

Two crucial aspects of the fight against kleptocracy are the denial of safe haven to corrupt officials and recovery and proper dispersion of the proceeds of corrupt acts.

Denial of Safe Haven

On January 12, 2004, President Bush issued Presidential Proclamation 7750, which gives specific legal authority to the secretary of state to identify persons who should be denied entry into the United States because they are involved in public corruption that has serious adverse effects on the national interests of the United States, including:

- the international economic activity of U.S. businesses;
- U.S. foreign assistance goals;
- the security of the United States against transnational crime and terrorism;
- the stability of democratic nations and institutions.

This proclamation prevents such people from coming to the United States to enjoy the fruits of their corruption and sends a strong message that the United States is committed to supporting international efforts to combating public corruption wherever it occurs.

Asset Recovery

The United States also is working with international partners to trace and recover the proceeds of corruption. Using law enforcement investigation and forfeiture tools, the United States also provides assistance to foreign investigations to recover assets.

In recent years, U.S. authorities have returned to various countries millions of dollars embezzled by these countries' former leaders.

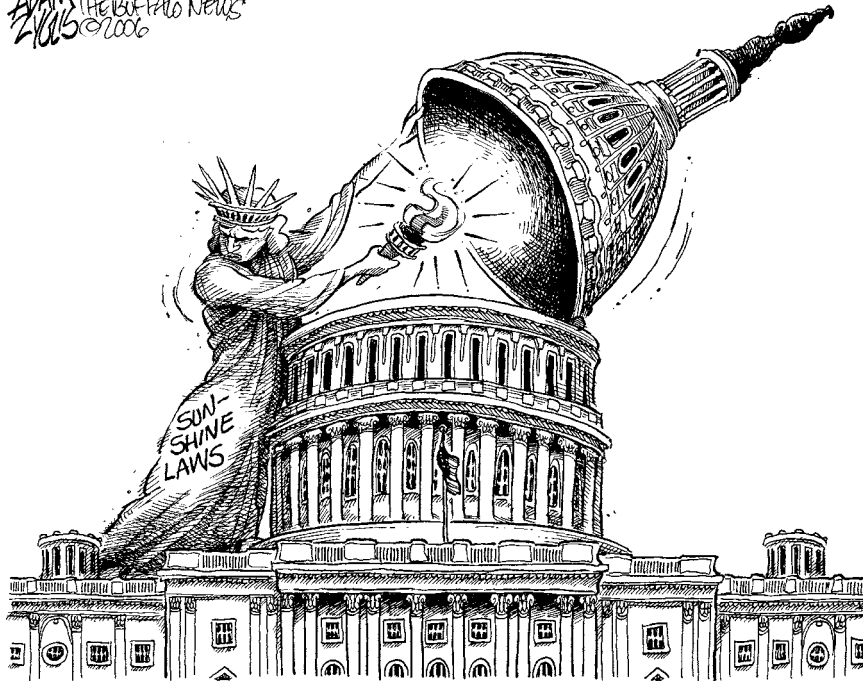
The United States also will be working with international partners to enumerate best practices for identifying, tracing, freezing, and recovering assets illicitly acquired through grand corruption, and it is working with other international financial centers to establish and promote best practices to deny entry to proceeds of corruption, facilitate sharing of suspicious financial information, and encourage and develop public and private partnerships.

In addition to these measures, President Bush's Millennium Challenge Account—a program that provides aid to foreign governments committed to ruling justly, investing in their people, and encouraging economic freedom—rewards countries for rooting out corruption. ■

Shedding Light on Corruption: Sunshine Laws and Freedom of Information

Donald F. Kettl

ADAM ZYGIS
WWW.ADAMZYGIS.COM
THE BUFFALO NEWS
© 2006



Adam Zyglis (www.adamzyglis.com), *The Buffalo News*

*Although it may be impossible to eliminate corruption in the United States, regulations against corrupt practices and legislation to increase government transparency have reduced corruption by examining government closely to weed out waste, fraud, and abuse. Freedom of information and “sunshine” laws are two of these important anticorruption tools. Author Donald F. Kettl is director of the Fels Institute of Government at the University of Pennsylvania and author of *System under Stress: Homeland Security and American Politics*, second edition (2007).*

Americans have long employed two very different approaches to fighting corruption. The first—and the one with the deepest roots—is regulation. If there is a practice that citizens or elected officials find unwise or distasteful, the instinct has long been to write a rule against it. This has led to a proliferation of rules, sometimes with a whole regulatory apparatus growing to prevent the repetition of a single problem.

The Watergate investigations into the Nixon administration’s use of presidential power in the 1970s stimulated a second broad approach to fighting corruption. Rules alone did not prove enough to prevent widespread abuses of executive authority. Moreover, many reformers were deeply concerned about both the concentration of executive power and the veil of secrecy that often enshrouded its use. Congress sought to reduce corruption through several new programs aimed at increasing transparency.



© AP Images

A general view of the Senate Watergate Committee hearings on August 3, 1973. The Watergate Committee discovered evidence that eventually forced U.S. President Richard Nixon to resign from office.

It is impossible, of course, to eliminate corruption. There are many opportunities for steering public processes in ways that distort public purposes for private gain, and it is impossible to eliminate it by rule. But, as the American approach of the 1970s suggested, it might be possible to reduce it by opening up government's doors, by shining a bright light inside, and by empowering investigators to examine government closely to weed out waste, fraud, and abuse. This approach has deep roots in American political tradition, and it echoes what James Madison, fourth president of the United States, wrote in 1822: "A popular Government without popular information or the means of acquiring it, is but a Prologue to a Farce or a Tragedy or perhaps both. Knowledge will forever govern ignorance, and a people who mean to be their own Governors, must arm themselves with the power knowledge gives."

Freedom of Information

One of the most important elements of this strategy is the Freedom of Information Act (FOIA). First passed in 1966, FOIA establishes that government documents are, at their core, the possession of the people and that the people have a right to view them. The act switches the traditional burden of proof from a presumption that documents were private unless citizens could establish a basis for seeing them, to a presumption that documents were public unless government could establish a basis (such as national security and personal privacy) for keeping them private. Perhaps even more important, FOIA established the foundation on which subsequent reforms were built:

that citizens had a right to know about their government and what it was doing.

A companion law, the Privacy Act of 1974, established that citizens had a right to view the information that the government had collected about them. The Federal Bureau of Investigation, for example, had kept substantial files on some individuals. Critics charged that the bureau had violated the individuals' rights in collecting the information, that the information might have been false, and that the government might use the information against them without their knowing about it. Under the Privacy Act, citizens could obtain copies of such government files and, if necessary, challenge the accuracy of information within them. The act also restricted the government's ability to disclose personal information about citizens. Together, FOIA and the Privacy Act not only established the legal basis for the government's transparency policy but also required government agencies to write clear guidelines on how they would implement them, so that the transparency policy itself was transparent.

Government Transparency

Congress followed in 1976 with the Government in the Sunshine Act. With a handful of exceptions, mainly for national security and personal privacy, the law requires government meetings to be open to the public. Public agencies must give advance notice about upcoming meetings and their agendas, and they must keep public records about the meetings' results. In addition, the act carefully defines a "meeting," to prevent groups of government officials gathering to make decisions while claiming that it was not an official meeting.

Two years later, Congress added the Inspector General Act, which created high-level officials in each federal agency to conduct independent audits and investigations. These inspectors general had broad power to explore agency operations, and they had authority over their own budget and staff. The administration of President Jimmy Carter had promoted the act. When Ronald Reagan succeeded him, he dismissed all 16 inspectors general, which led to widespread concern that he would not be tough on government waste. He countered by reappointing five of the inspectors general, naming 11 new officials, and saying that each one would be "meaner than a junkyard dog." The inspectors general have often produced tough reports on big issues, from mismanagement of the federal government to difficulties in contract

administration. Their sharp words have often stirred deep political conflict, but they remain an important part of the federal government's transparency policy, despite many opportunities to undermine their role.

These are all federal government initiatives, and their requirements apply only to federal agencies. However, most individual state governments in the United States have adopted similar legislation (and state rules generally govern the operation of local town and city governments). Since the 1970s, transparency has become as important as regulatory approaches in the American effort to reduce corruption.



© Getty Images/AFP/Jim Watson

President George W. Bush signs the Federal Funding Accountability and Transparency Act of 2006 in front of members of Congress on September 16, 2006, in Washington, D.C. The bill requires the creation of a searchable online database of all government contracts.

Other Issues

Of course, firm policies do not always produce the desired reality. Government officials have been convicted for using their professional positions for personal gain, including efforts to secure future employment at businesses with which they had negotiated contracts and to receive kickbacks on other deals. The inspector general staffs remain relatively small in comparison with the size of

the activities they are overseeing. That means they must, inevitably, target some issues over others, and that has led to charges that they miss some problems and sometimes choose others to focus on for political reasons.

Moreover, these transparency measures are costly because they make the administrative process more cumbersome. Agencies have had to create new staffs charged with reviewing citizen requests for files and information. They have had to establish new procedures for publicizing their work and their results, and the advance notice requirements of the Sunshine Act make it harder for agencies to act quickly, since every meeting

must first receive advance public notice.

Furthermore, transparency has not reached everywhere in government. The judicial branch, especially at the federal level, has resisted some of the transparency movement, especially in television broadcasts of oral arguments and decisions.

Nevertheless, the rise of the transparency movement in American government has largely had positive results. It helped restore trust in government and its processes following the turmoil that accompanied the Watergate investigation of the early 1970s. It has increased civic engagement in government. Even critics would grudgingly admit, despite the procedural difficulties that it creates, that more transparency has improved the overall level of deliberation in the process.

Transparency has not replaced regulation as the first bulwark against corruption

and it has not eliminated corruption, but it certainly has made the process democratically more robust. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Effective Anticorruption Approaches: U.S. Agency for International Development (USAID), Office of Democracy and Governance

An effective response to corruption starts with two indispensable acknowledgments: first, that no system or society is immune to corruption, and second, that we may need to commence our efforts with the very basic process of building a mutual understanding of what we mean when we say the word corruption.

Multi-faceted approaches are essential. Even when our resources are small, USAID staff spend a great deal of time coordinating with host-government counterparts and other donors to assure that a comprehensive approach to anticorruption reform is undertaken and that *diplomatic* as well as *programmatic* resources are brought to bear. USAID's experience in Kenya is a good example of what is achievable through support to reformers and institutions on several fronts. While events in that country led to a decision to reduce our assistance to certain government institutions like the Directorate of Government Ethics, earlier program support from the United States and other donors helped that office gather important information that has now been taken up by the Parliamentary Public Accounts Committee—also a recipient of USAID capacity-building support—and continues to shape a very important public debate and investigation process in that country. And, of course, none of these developments would have progressed this far without the very vital role played by Kenyan civil society, with whom USAID has partnered and which has been at the forefront of the anticorruption battle for many years.

Civil society is always a necessary partner. Governments don't often reform on their own, even when there is strong leadership supporting these changes. Some of our best results have been achieved when local communities get involved in monitoring the execution of development projects and budgets. In Colombia, community *veedurias* (citizen oversight committees) have changed hiring practices at local schools and prevented road builders from using inferior materials. In Mali, taxpayers in one Bamako district uncovered discrepancies in local budgets that led to the removal and indictment of several local officials. Similar results have been achieved in USAID programs in Rwanda and Tanzania and elsewhere.

Institution-building approaches work in places where the governance basics are established and where there is strong political commitment to change the way the public's business is conducted. USAID support has helped the Indonesian Anticorruption Commission and the South African Specialized Commercial Crimes Court achieve important successes, but in less conducive settings, specialized institutions like these have not performed as well. The record of anticorruption commissions globally bears this out.

Leveraging resources, political commitment, and development outcomes by mainstreaming anticorruption objectives and principles can be a successful strategy. USAID is pursuing this approach partly to address the problem of shrinking resources for more traditional governance work and partly because we have seen that corruption is difficult to combat only from a governance perspective. But even more importantly, we have seen enough examples of communities and governments galvanizing around reforms that involve service delivery and improving their global economic standing to indicate that this is a promising area for further effort. On the other hand, we also are aware of the risks of assuming that reforms we promote will have anticorruption impact, but not articulating it in the planning, negotiation, or expected results of an activity.

While we have learned what works, we have also discovered some ineffective approaches:

- Public awareness programs not tied to reforms
- Reforms without public awareness programs
- Failure to take a long-term approach
- Recommendations unsupported by research and data collection
- Donor-driven programs that are perceived as such.

USAID will continue to work closely with cooperating governments, multilateral institutions, and the community of nongovernmental organizations to ensure a strategic and effective correlation between U.S. government diplomatic and programmatic activities. Good governance and accountability create conditions that lift people out of poverty, raise education and health levels, improve the security of borders, expand the realms of personal freedoms, nurture sound economic and sustainable development strategies, and create healthier democracies. ■

The Costs of Corruption

John Sullivan and Aleksandr Shkolnikov

John Sullivan is executive director of the Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce. Aleksandr Shkolnikov is a program officer at CIPE. Following is an excerpt from their article outlining the cost of corruption for businesses and average citizens alike. This text first appeared in the article "Combating Corruption: Private Sector Perspectives and Solutions" in the September 2004 issue of Economic Reform, a CIPE publication.

Why fight against corruption? In many economies, corruption is institutional and dealing with it on a daily basis seems more convenient than combating it. Looking at corruption as an economic issue means that corruption is more than simply a wrong behavior. It means that corruption, while benefiting a few individuals, is costly to society, the private sector, and governments in the long run. Corruption must be rooted out because it:

Misallocates resources

Resources that otherwise could be directed towards production of goods and services are often devoted to corruption. This includes direct resources involved in cash transfers and indirect ones, such as maintaining contacts with government officials or providing an operation or production license to a less efficient firm. Corruption also misallocates resources that could otherwise be used for provision of public services. Funds for licenses or tax income, instead of contributing to the budget, may simply end up in the pockets of corrupt government employees. Also, resources are not used most efficiently, as it is not the most efficient but, rather, the best-connected firm that gets a government contract.

Fosters misguided and unresponsive policies and regulations

In the systems that are corrupt, lawmakers will often generate policies and regulations that are not intended to

improve overall economic or political environment. Rather, they benefit a few who are close to the decision makers or those who are bribing government officials to pass a favorable regulation.

Lowers investment levels

Corruption has negative effects on the levels of both foreign and domestic investment. Investors will ultimately avoid environments where corruption is rampant because it increases the cost of doing business and undermines the rule of law. Corruption is also often associated with a high degree of uncertainty, something that always drives investors away.

Reduces competition and efficiency

Government officials demanding bribes for providing or denying services like licenses or permits limit the number of firms able to enter the market, thereby creating a "rent-seeking" environment that forces companies that are unwilling or unable to pay bribes into the informal economy. Rent seeking sometimes leads to trade protectionism, and also to the fact that bad quality or inefficiently produced inputs result, which in turn lowers effectiveness, productivity, and competitiveness. Overall, the lack of competition hurts consumers, who receive fewer technologically advanced goods and goods of otherwise lower quality and pay higher prices for these goods.

Lowers public revenue for essential goods and services

Tax evasion, one of the biggest threats to government revenue flow, is widespread in corrupt countries because firms that are informal do not report their profits and subsequently do not pay taxes. Also, firms that operate in the formal economy will pay bribes instead of taxes when tax administration is corrupt or opportunities for abuse of the tax code are widespread. Moreover, corrupt government agents take for themselves fees and payments they collect from firms for the state budget, thus depriving

government of funds needed to provide essential goods and services.

Increases public spending

Public investment projects often offer opportunities for government officials to get bribes. Simply put, faced with the possibility to directly benefit from awarding contracts to cronies, government officials will promote as many public investment projects as possible. In fact, these scandals erupt not only in corrupt developing countries, but also in more developed nations where corruption is less rampant. In many countries, it is sometimes the case that projects awarded to cronies are never finished as funds simply get stolen. Corruption also causes mismanagement of public investment projects and thus contributes to larger fiscal deficits, jeopardizing sound fiscal policy.

Lowers productivity and discourages innovation

In corrupt systems, individuals and firms spend time and resources engaging in corruption (paying bribes, nurturing relationships with corrupt agents, etc.) rather than in growth-enhancing activities. Also, corruption discourages innovation, as corrupt systems lack rule of law institutions that protect property rights.

Increases costs of doing business (serves as a tax on business)

Time and money spent on bribing government officials and dealing with complex regulations increases the costs of doing business. These costs are either passed on to the consumers through increased prices or products of lower quality or serve as a barrier to market entry by firms. Also, corrupt judicial systems limit the ability of business to enforce contracts, hindering normal operation and blocking new opportunities.

Lowers growth levels

Corruption hurts small enterprises because the high costs of corruption (time and money) are harder to sustain for smaller firms than for larger firms. Generally, small firms have less power to avoid corruption, and they tend to operate in highly competitive environments and, thus, can't pass on the costs of corruption to customers. Thus, in

corrupt environments, it is harder for small businesses to survive, and this hurts an economy's growth rate because small firms are the engine of growth in most economies.

Lowers private sector employment levels

By forcing business into the informal sector, creating barriers to entry, and increasing the costs of doing business, corruption essentially reduces private sector employment because firms are less likely to grow and expand.

Reduces the number of quality public sector jobs

Corrupt governments often offer many low-paying jobs to patronize key constituents. Also, the quality of public jobs suffers in corrupt systems because government officials spend resources on extorting bribes rather than providing services. For example, in many cases, within licensing agencies, public officials will simply stall the licensing process if they don't receive additional payments or gifts.

Exacerbates poverty and inequality

Corruption lowers the income-earning potential of the poor because there are fewer private sector opportunities. Also, by limiting spending on public sector services, corruption facilitates inequality—it limits access to such essential resources as health care and education.

Undermines the rule of law

Corruption creates a culture where government officials are not held accountable for their actions. Also, in corrupt systems, laws and regulations on paper are not enforced consistently and fairly. Therefore, what matters is not the law but whom you know and how much you are willing to pay.

Hinders democratic, market-oriented reforms

In order to be successful in building market economies and democratic societies, countries have to build and develop institutions that provide the enforcement of laws and ensure a transparent and inclusive policy-making process. In corrupt systems, developing such sound and

well-designed institutions is an arduous task. Corrupt government officials responsible for reforms are less likely to take measures that will directly limit their ability to personally benefit from bribes and kickbacks. Corruption also undermines the legitimacy of public office and hurts the democratic process by discouraging people from participation.

Increases political instability

Widespread corruption contributes to political instability because citizens are encouraged to oust leaders who are corrupt and who can't effectively represent the interests of people.

Contributes to high crime rates

Corruption fosters a system with a high disregard for the rule of law and creates a society where legal, judicial, and enforcement institutions are ineffective. In corrupt systems, it is easy for crooks to buy their way out of punishment. Corruption not only leads to political and corporate crime, but it is also responsible for fostering organized crime. ■

Excerpted from Economic Reform Issue Paper No. 0409, September 22, 2004. Copyright © 2004 Center for International Private Enterprise.

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Global Forum V

The Global Forum V on Fighting Corruption and Safeguarding Integrity will take place in South Africa from April 2-5, 2007. Approximately 1,500 Ministers, leaders of international and regional governmental organizations, senior anti-corruption officials, academics, experts and civil society representatives from around the world are expected to attend. The focus of the forum will be the implementation and practical application of the various international and regional standards for fighting corruption at domestic, regional and international levels. The first Global Forum on Fighting Corruption and Safeguarding Integrity was convened in Washington, D.C. by the U.S. Government in 1999. Since then, subsequent forums have been hosted by the governments of the Netherlands, South Korea, and Brazil. The final declaration from the IV forum in Brasilia in 2005 can be found at <http://usinfo.state.gov/ei/Archive/2005/Jun/11-988891.html>).

Promoting Global Corporate Transparency

Philip Urofsky

In 1977, the U.S. Congress enacted the Foreign Corrupt Practices Act (FCPA) to bring a halt to the bribery of foreign officials and to restore public confidence in the integrity of the American business system after government investigations found that more than 400 U.S. companies admitted making questionable or illegal payments in excess of \$300 million to foreign government officials, politicians, and political parties. Today, U.S. firms seeking to do business around the world must be familiar with the FCPA.

In general, the FCPA prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business. The FCPA has had an enormous impact on the way American firms do business. Several firms that paid bribes to foreign officials have been the subject of criminal and civil enforcement actions, resulting in large fines and suspension and debarment from federal procurement contracting, and their employees and officers have gone to jail. To avoid such consequences, many firms have implemented detailed compliance programs intended to prevent and to detect any improper payments by employees and agents.

Author Philip Urofsky is special counsel in the Business Fraud & Complex Litigation Group with the law firm of Cadwalader Wickersham & Taft LLP in Washington, D.C. He was previously a prosecutor in the Fraud Section at the U.S. Department of Justice, where he was responsible for supervising and conducting investigations and prosecutions of violations of the Foreign Corrupt Practices Act.

Every action that a corporation takes, whether overseas or in the United States, is necessarily through the acts of one of its officers, employees, or agents. Under laws in certain countries, corporations can be held liable for the wrongful acts of such individuals. Corporations often are made up of thousands of officers, employees, and agents, frequently spread over a large geographic area. If one employee in a corporation engages in a corrupt activity, the entire corporation may be held liable for the act of that one person, regardless of his or her position or rank in the company.

Compliance Programs

To address these issues, many corporations in the United States have created detailed and comprehensive compliance programs to ensure that the company's officers, employees, or agents understand how to apply U.S. laws like the Foreign Corrupt Practices Act (FCPA) in everyday business dealings. Although compliance programs were originally designed to prevent legal problems for the corporation, the U.S. government has recognized the value of these programs as a form of "soft law enforcement" and encouraged their development.

A compliance program needs to address the specific risks that a corporation faces. One of these risks, both in the United States and overseas, is that a corporate officer, employee, or agent may offer, or be solicited to offer, a bribe to a government official to obtain some advantage or to avoid something negative from happening to the corporation. For U.S. corporations with international operations, this usually is referred to as FCPA risk, i.e., the risk that the corporation may be prosecuted by the U.S. government under the Foreign Corrupt Practices Act, as well as by foreign governments under foreign antibribery laws.

Best Practices

When developing a compliance program, there is no single set of best practices that will assure a company that it is safe from FCPA risk. Indeed, in many ways, the number-one best practice is to design a program that addresses the specific risks faced by a specific business organization. There are, however, procedures and controls and other business techniques that have been proven to yield results that may help a company develop its own, customized compliance program.

The number-two best practice is that the compliance program must be aligned with the type of business a company does overseas and how it does business. For example, companies whose main customers are governments, such as in the defense industry, or whose products are heavily regulated, such as insurance

companies or banks, obviously have considerable interaction with government officials, and the company can target its compliance efforts at those interactions and at the employees involved in them. On the other hand, companies such as pharmaceutical companies, who sell to a broader range of customers, some of whom may be governments or government employees, must implement a compliance program that targets their entire sales force.

The number-three best practice is that the compliance program must be promoted, in a credible way, by senior management—known as “tone at the top”—as the way in which the company does business. The message that must be conveyed to all of the company’s officers, employees, and agents is that the compliance program is not some form of overly bureaucratic procedure that distracts

from and obstructs doing business or even that it is a “necessary evil.” Instead, senior management should embrace the program as a reflection of the corporation’s values and a way to ensure that the company is successful over the longer term. Management should emphasize that using improper methods to accomplish a short-term success, such as winning a specific lucrative contract, could lead to long-term failure if the company loses its reputation for honesty and integrity, is subject to enforcement actions by one or more governments, and is potentially excluded from bidding for future government business.

There are certain basic elements to an FCPA compliance program. These include:

- *Training*: All employees doing business overseas, even if based domestically, should be trained concerning the substance of the FCPA prohibitions and the specific procedures adopted by the corporation to address FCPA risk. Further, as both the workforce and the procedures may change over time, this training should be repeated on a regular basis, and the company should ensure that all employees attend the training.
- *Customized message*: Although I have referred to FCPA risk, the real risk is corruption, whether in violation of the FCPA or another country’s antibribery laws. When training non-U.S. employees, a corporation should explain why the FCPA is relevant (because the parent company is a

U.S. company and subject to U.S. law) but also emphasize the importance of complying with all laws. Although corporations obviously want to convey a uniform message to their employees around the world, they should also address local concerns and laws through the training.

- *Due diligence on agents*: Prior to hiring someone to act on the corporation’s behalf, the corporation must conduct due diligence to assure itself that it is not hiring someone that will get it in trouble. Through personal interviews, questionnaires, independent research, and references, it should assure itself that the agent is qualified and has a reputation for integrity and honest business dealings.
- *Due diligence on third parties*: Prior to engaging in business with a third party, whether as a business partner, subcontractor, joint venture partner, supplier, or service

provider, the corporation must conduct due diligence to assure itself that it is not improperly providing funds to a government official. This issue could arise when the government official is an owner of the third party or will otherwise directly benefit from the business, or when the government official will indirectly benefit because the third party is owned by or employs a close relative of the government official. In

most cases, this kind of due diligence is accomplished through asking the third party to fill out a questionnaire identifying its owners, officers, and significant managers and then verifying this information through public sources and references, and, in many cases, conducting in-person interviews with potential third parties.

- *Contractual terms*: Companies should require in their contracts agents and third parties to agree not to make unlawful payments and, importantly, ensure that they can sever the business relationship should the agent or third party violate that agreement. Depending on the type of business and relative leverage of the parties, the company should also seek the ability to audit expenditures of funds by the agent or third party that relate to the company’s business.
- *Internal books and records*: An important aspect of a compliance program is to ensure that employees create an auditable record that they conducted the necessary

Management should emphasize that using improper methods to accomplish a short-term success, such as winning a specific lucrative contract, could lead to long-term failure if the company loses its reputation for honesty and integrity

due diligence and controlled the expenditure of corporate funds. At one level, this is no more than good business; on a legal level, it ensures that should there be an allegation that the company made an improper payment, it can demonstrate either that the payment was not made or that the payment was made without its authorization and against its clear policies and procedures.

- *Periodic audits:* Companies with either external or internal auditors—or both—should ensure that appropriate audits are conducted both of the compliance program itself and of books and records relating to areas of the business facing FCPA risk. In a perfect world, such audits will confirm that there are no problems or issues. In the real world, they may suggest areas in which additional controls are required, areas in which the compliance program no longer tracks the business organization, and employees or groups of employees who would benefit from

additional training. In the worst case, they may reveal past or ongoing violations of the law that the company will need to address quickly.

No compliance program can prevent a determined effort by a single employee, or group of employees, to evade corporate controls, nor will it be effective without the support of senior managers throughout the organization. A properly designed program, however, adopting best practices to the specific needs of the company, should help detect and deter wrongful conduct and enable a company to focus on its business. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

The Role of Civil Society in Securing Effective and Sustainable Reform

Nancy Boswell

Today, there is broad agreement that corruption causes unacceptable harm and that failure to address it is irresponsible. Under pressure from civil society, which is composed of nongovernmental, nonprofit, and independent organizations, governments and international institutions have concluded anticorruption agreements and made other commitments to improve governance and accountability. The role of civil society will continue to be central to bringing those commitments to life, and the future of the anticorruption agenda will depend on creating deeper engagement of civil society and ensuring it has the technical capacity, financial resources, access to information, and protected political space to carry out its essential oversight and advocacy role. Nancy Boswell is a member of the Transparency International board of directors and president and chief executive officer of Transparency International-USA, the U.S. chapter. Transparency International is a network of civil society organizations in more than 90 countries, working with government, international institutions, and the private sector to reduce corruption and bribery.



© AP Photo/ Ahn Young-joon
Citizens show anti-corruption cards in Seoul, Korea on May 3, 2002 to protest government corruption scandals. The letters on the cards read "Corruption."

In the early 1990s, citizen protests against corrupt governments and corporations sparked the beginning of the anticorruption movement. At that time, there was little understanding of the full extent of the damage caused by corruption and a tacit acceptance of its inevitability. Widespread understanding that corruption impedes development, distorts competition, denies the poor access to basic services, and creates risks for political and personal security is only fairly recent.

For example, after decades of denial, the World Bank, under the leadership of then-President James Wolfensohn, acknowledged that corruption is the "single greatest obstacle to economic and social development" and, thus, to reducing poverty. Today, the Bank's current strategy on governance and anticorruption aptly describes the myriad of ways corruption damages the economy, political life, and particularly the poor:

On a daily basis, poor people around the world are unable to access health clinics, schools, or other essential services because their public systems are unresponsive or because they themselves cannot or will not pay bribes. Corruption and weak governance often mean that resources that should fuel economic growth and create opportunities for the poor to escape poverty instead enrich corrupt elites. In some cases, extremely poor governance and corruption have contributed to financial and economic collapse, public alienation, and even violence and failed states, with disastrous consequences for the poor.

Promoting Action on the Ground

With consensus on the damage caused by corruption, governments have undertaken a range of initiatives to improve governance. However, they have been slower to recognize and support the critical role of civil society in assuring that those initiatives achieve their objectives.

For example, governments in the Americas agreed



©AP Photo/ STR

Hundreds of protesters march in Harare, Zimbabwe, on October 25, 2003, World Anti-Corruption Day.

to a regional anticorruption convention in 1996, but it was not until several years later, at the instigation of civil society organizations led by Transparency International, that parties to the Inter-American Convention Against Corruption agreed to a Follow-Up Mechanism to promote implementation. Since creation of the mechanism, civil society has pressed for ever broader opportunities to present its views and to engage with governments in promoting implementation. With those opportunities, it has provided a critical nongovernmental perspective and momentum for reform. Civil society has played a similar role in reviews of enforcement of the Organization for Economic Co-operation and Development Convention on Bribery of Foreign Public Officials and of the anticorruption conventions of the Council of Europe and its Group of States Against Corruption.

It is clear from experience with this and other anticorruption conventions that civil society plays a key role in promoting action on the ground. The U.N. Convention Against Corruption (UNCAC), with ratification by 80 countries to date, has tremendous potential to create a global as well as national framework

for reform. Experience with other conventions makes clear, however, that UNCAC will require an effective follow up process to promote implementation. As Transparency International has pointed out in its recommendations to the Conference of States Parties, a critical component of such a process will be transparency and broad and reliable opportunities for civil society participation.

Securing Government Accountability

The World Bank and other development banks have been developing anticorruption strategies over the past several years and are coming to recognize the importance of civil society in demanding and securing governmental accountability. But, as banks, with governments as shareholders, they are struggling to find ways to engage more actively with civil society and to promote such engagement by the governments themselves. According to the bank's current strategy, "[a] key cross-cutting priority is to help states become more transparent by facilitating great participation and oversight by civic organizations and the media. Citizens and media that have broad access to information on the operation of state institutions are crucial for holding the state to account."

While this principle is indisputable and straightforward, transparency and opportunities for participation are still elusive in many countries. Moreover, the capacity of multilateral institutions is limited by the political will of its members. For example, the International Monetary Fund's Code of Good Practices on Fiscal Transparency, or "Code," appropriately states that publication of fiscal information, including on budgets and procurement, is an obligation of the government and

should be timely and accessible. Yet, not all governments adhere to this practice and all retain the right, despite efforts to the contrary, to deny publication of reports on their compliance with the Code.

Notably, the Code recognizes that special attention to transparency is essential in the context of natural resources and the extractive industries as these areas are particularly prone to corruption. Nations rich in resources do not have to rely on the public for revenues, and, historically, those least receptive to notions of transparency and accountability have been among the poorest despite natural wealth. The Code's call for "clear and transparent contractual arrangements" underscores the need for public oversight of governmental action, granting concessions, and other means of exploiting public assets.

This principle underlies the Extractive Industries Transparency Initiative, which seeks to increase transparency of payments and revenues from oil, gas, and mining. According to the United Kingdom, which launched the initiative in 2002, "increasing transparency and knowledge of revenues will empower citizens and institutions to hold governments to account. Mismanagement or diversion of funds away from sustainable development will become more difficult."

Underlying this and the growing range of anticorruption and transparency initiatives is the United Kingdom's recognition that "the role of civil society will be critically important in terms of using the data disclosed to hold governments accountable for its expenditure."

Fulfilling the Promise

However, although transparency and opportunity for civil society participation and oversight are essential, there is an assumption that, once achieved, civil society will have the capacity to carry out its vital functions. Despite extensive efforts to enhance governmental technical and financial capacity, similar efforts to support civil society, in the broadest sense, are, as yet, far from the scale required. Further action is needed in the following areas:

- Transparency of government functions, decision making, and expenditures; access to information, including unfettered Internet access; and opportunities for participation and comment must be institutionalized and routinely provided.
- Training is needed so that civil society, including civic organizations, professional associations, and the media, can make effective use of information.
- Training is also important to promote good governance, transparency, and accountability within civic organizations.
- Financial resources, without political strings, are essential to enable civil society to carry out its functions: gathering information, educating the public, building coalitions, and bringing to bear the requisite level of expertise to analyze information such as extractive revenues, national budgets, and public procurement.
- Responsible civil society organizations must be free to organize and speak out, without legal prohibitions restricting their capacity to operate or to secure funding from legitimate sources.
- Civil society activists engaged in oversight, including the media, must be protected from libel suits, threats of violence, and arrest.

Attention to these issues will help assure that civil society fulfills its promise. This is even more important in countries where entrenched vested interests—the corrupt, those who corrupt them, and those who facilitate corruption—make civil society efforts even more vital and more difficult. With ample signs of governmental resistance and even outright hostility to basic democratic rights in a growing number of countries, it is time for all stakeholders in the international community to support civil society. This will help ensure the necessary local impetus for reform that is effective and sustainable. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Fostering “Champions of Development” Millennium Challenge Corporation

In 2002, President Bush called for a “new compact for global development” and proposed the formation of the Millennium Challenge Corporation (MCC). In January 2004, with strong bipartisan support, the U.S. Congress established the MCC and provided nearly \$1 billion in initial funding and \$1.4 billion and \$1.7 billion in the following years for the MCC and its foreign assistance program, including the Millennium Challenge Account (MCA). The MCC focuses on promoting sustainable economic growth that reduces poverty through investments in areas such as agriculture, education, private-sector development, and capacity building.

Ambassador John Danilovich, chief executive officer of the Millennium Challenge Corporation and former U.S. ambassador to Brazil and Costa Rica, discussed the unique role of the MCC in fighting corruption worldwide with eJournal USA.

Question: What is the role of the MCC in fighting corruption worldwide, and how do the MCC’s anticorruption initiatives help fight poverty?

Ambassador Danilovich: MCC is providing a powerful incentive for governments to adopt tough anticorruption policies and strengthen their anticorruption institutions by tying its assistance to how well countries fare on our corruption indicator. To date, our board of directors has approved anticorruption assistance programs totaling more than \$200 million with a number of countries, including the Philippines, Ukraine, Moldova, Paraguay, Albania, Tanzania, Malawi, Indonesia, and Zambia, among others. Generally, such programs focus on reforms of tax administration, police, courts, the civil service, agencies tasked with investigating high-level corruption, and government auditing agencies. By working with these countries to address corruption, MCC is strengthening effective governance and making the country more attractive for private investment, which is key to long-term, sustainable economic development in these emerging markets.



© AP Images/Gerald Herbert

Ambassador John Danilovich, chief executive officer of the Millennium Challenge Corporation, right center, shakes hands with Armenian Minister of Finance and Economy Vardan Khachatryan, after signing a \$235.65 million Millennium Challenge Compact between the United States and the Republic of Armenia at the State Department in Washington, D.C., on March 27, 2006. Secretary of State Condoleezza Rice, center, and members of the Armenian delegation look on.

Q: The MCC has said that fighting corruption is a main component in fighting poverty. What is the correlation between corruption and poverty?

Ambassador Danilovich: Corruption reduces investment, increases costs, lowers productivity, undermines confidence in public institutions, raises interest rates, limits the development of small and medium-sized enterprises, undermines public financial management, and leads to inferior educational and health outcomes. Corruption can also increase poverty by skewing government expenditure in favor of the rich and well-connected, weakening customs and tax administration, making the tax system more regressive, promoting tax evasion, and rendering the assets of the poor less attractive as collateral for securing loans. The World Bank refers to corruption as “the single greatest obstacle to economic and social development.”

Q: Are there any countries in particular that you'd like to highlight as having made strides to remedy corruption within their governments? Through what means did these countries meet their objectives?

Ambassador Danilovich: Since being selected as an MCC-eligible country, Georgia has adopted dramatic anticorruption reforms. These actions have led to a significant improvement in its World Bank Institute's Control of Corruption indicator: from the 36th percentile in 2004 to the 78th percentile in 2005.

In 2002, approximately 37 percent of firms in Georgia reported that "irregular additional payments" were often necessary to get things done. That number declined to approximately 7 percent in 2005. The so-called bribe tax [bribes as a share of annual sales] has also decreased from approximately 2.7 percent in 2002 to 0.5 percent in 2005. The government of Georgia has arrested scores of corrupt public officials, made important legislative changes that facilitate the prosecution of corruption cases, fired 15,000 members of the notoriously corrupt police force, dramatically increased the salaries of 10,000 public servants to counter the lure of petty corruption, and improved public financial management through adoption of a medium-term expenditure framework and a single treasury account for the central government. The World Bank's *Doing Business in 2006* report also identifies Georgia as one of the most aggressive economic reformers in the world: "A new licensing law cut from 909 to 159 the number of licensed activities. A one-stop shop was created for license applications, so that now businesses can submit all documents there, with no verification by other agencies required. A simplified tax code eliminated 12 of 21 taxes. And the time to register property fell by 75 percent and the cost by 70 percent." The IFC [International Finance Corporation] claims that Georgia is another example of reform that can be attributed to the MCC.

Q: How are anticorruption initiatives measured? For example, when countries begin to make anticorruption strides, are there certain indicators? What are those indicators?

Ambassador Danilovich: There are various methods to measure the effectiveness of anticorruption initiatives. One can survey firms, citizens, and government officials and ask them about their experiences with corruption. One can evaluate the strength of a country's anticorruption

legal framework. One can also measure the government's willingness to investigate and prosecute corruption cases.

MCC primarily relies on the World Bank Institute's [WBI] index for measuring corruption. This index takes into account up to 21 different data sources, depending on availability in the respective countries. One of the advantages of the WBI's index is that it measures the perceptions and experiences of individuals and firms in the country as they relate to corruption. This provides governments with honest feedback from the people living and doing business in their countries, who have firsthand knowledge of the situation on the ground.

For example, one of the sources used by the World Bank Institute is Transparency International's Global Corruption Barometer. In Indonesia, where corruption has plagued the public sector for years, the government finally appears to be turning a corner, and this is showing up in Transparency International's poll. According to the 2005 Global Corruption Barometer, 81 percent of Indonesians believe that corruption will decrease over the next three years. Out of 69 countries surveyed, Indonesia was the single most optimistic country regarding the anticorruption efforts of its government.

Q: What is the "MCC effect" that you have talked about in many of your speeches?

Ambassador Danilovich: MCC's selection criteria are motivating countries to enact reforms they otherwise might not have made in order to become eligible for MCC funding and to maintain that eligibility. Countries are taking it upon themselves to reevaluate their policies, regulations, and legislation to improve their governance, fight corruption, ramp up investments in health and education, and adopt micro- and macroeconomic reforms. We like to call this incentive effect the "MCC effect," and it is widely documented.

According to the *Doing Business* project at the International Finance Corporation, 24 countries specifically cited the MCC as the primary motivation for their efforts to improve their business climate. The IFC has found that these reforms "can add between a quarter and half a percentage point to growth rates in the average developing economy."

Interministerial committees and presidential commissions have been set up in over a dozen countries to devise reform strategies that address our selection criteria. Presidents and ministers come to us, write to us, ask our

ambassadors in the field, “What reforms do we need to make to become eligible for MCC funding?”

These reforms are yielding tangible benefits.

The government of El Salvador, which was inspired by the MCA to reduce the number of days it takes to start a business from 115 days to 26 days, has seen a 500 percent increase in business registration and a sharp spike in customer satisfaction: from 32 percent to 87 percent.

The government of the Dominican Republic has also expressed a great deal of interest in becoming MCA eligible and has set up three working groups to address performance weaknesses in each of the MCA categories: Ruling Justly, Investing in People, and Economic Freedom. Presidential Technical Secretary Temistocles Montás said the following about the MCA selection criteria: “We are embracing these goals because they are the right thing to do. They will constitute part of this administration’s legacy to the Dominican people.” The government plans to release an MCA Action Plan and launch an MCA-Dominican Republic Web site to highlight the reforms they are adopting to become MCA eligible. Most recently, the government informed MCC that because of its desire to become MCA eligible,

Providing aid to countries will not work if they are not champions of their own development.

it would roll out a large measles immunization campaign that will reach 5 million people.

In Indonesia, Finance Minister Sri Mulyani Indrawati has repeatedly argued that the real draw of the MCA is its “good housekeeping seal of approval,” which sends a powerful signal to private investors. As she puts it, “It’s not about the money. It’s about the recognition that we’re doing the right thing.” This year, in an unprecedented move, Philippine President Gloria Macapagal-Arroyo matched MCC’s \$20 million Threshold Program with \$19 million in anticorruption counterpart funds. The announcement of the MCA Threshold Program appears to have given the Philippines renewed vigor in fighting corruption.

In the development field overall, other donors are taking note of MCC’s approach of funneling resources specifically to performing countries. We see a growing interest among some donors to consider rating systems or report cards—similar to ours—to determine which countries might receive assistance. Providing aid to countries will not work if they are not champions of their own development. ■

Bibliography

Readings on anticorruption issues and activities

Della Porta, Donatella, and Alberto Vannucci. *Corrupt Exchanges: Actors, Resources, and Mechanisms of Political Corruption*. New York, NY: Aldine de Gruyter, 1999.

Heidenheimer, Arnold J., and Michael Johnston, eds. *Political Corruption: Concepts & Contexts*. New Brunswick, NJ: Transaction Publishers, 2001.

Johnson, Roberta Anne. *The Struggle against Corruption: A Comparative Study*. New York, NY: Palgrave Macmillan, 2004.

Johnston, Michael. *Syndromes of Corruption: Wealth, Power, and Democracy*. Cambridge, UK; New York, NY: Cambridge University Press, 2005.

Kang, David C. *Crony Capitalism: Corruption and Development in South Korea and the Philippines*. Cambridge, UK; New York, NY: Cambridge University Press, 2002.

Karlins, Rasma. *The System Made Me Do It: Corruption in Post-Communist Societies*. Armonk, NY: M.E. Sharpe, 2005.

Kidd, John, and Frank-Jürgen Richter, eds. *Fighting Corruption in Asia: Causes, Effects, and Remedies*. River Edge, NJ: World Scientific, 2003.

Klitgaard, Robert E. *Controlling Corruption*. Berkeley, CA: University of California Press, 1988.

Kpundeh, Sahr John. *Politics and Corruption in Africa: A Case Study of Sierra Leone*. Lanham, MD: University Press of America, 1994.

Krastev, Ivan. *Shifting Obsessions: Three Essays on the Politics of Anticorruption*. Budapest, Hungary: Central European University Press, 2004.

Levi, Michael, and David Nelkin. *The Corruption of Politics and the Politics of Corruption*. Oxford, UK; Cambridge, MA: Blackwell Publishers, 1996.

Mbaku, John Mukum. *Bureaucratic and Political Corruption in Africa: The Public Choice Perspective*. Malabar, FL: Krieger Pub. Co., 2000.

Mungiu-Pippidi, Alina. "Corruption: Diagnosis and Treatment." *Journal of Democracy*, vol. 17, no. 3, July 2006, pp. 86-100.

Nareesh, Ragan. "Public Corruption." *American Criminal Law Review*, vol. 43, no. 2, Spring 2006, pp.825-868.

Pereira, Luiz Carlos Bresser, and Peter Spink, eds. *Reforming the State: Managerial Public Administration in Latin America*. Boulder, CO: Lynne Rienner Publishers, 1999.

Rose-Ackerman, Susan. *Corruption and Government: Causes, Consequences, and Reform*. New York, NY: Cambridge University Press, 1999.

Sampford, Charles, et.al., eds. *Measuring Corruption*. Aldershot, England; Burlington, VT: Ashgate, 2006.

Shah, Anwar. "Combating Corruption: Look Before You Leap." *Finance and Development*, December 2004, pp. 40-43.

Stapenhurst, Rick, and Sahr John Kpundeh, eds. *Curbing Corruption: Toward a Model for Building National Integrity*. Washington, DC: World Bank, 1999.

Thompson, John B. *Political Scandal: Power and Visibility in the Media Age*. Malden, MA: Blackwell, 2000.

Tulchin, Joseph S., and Ralph H. Espach, eds. *Combating Corruption in Latin America*. Baltimore, MD: Johns Hopkins University Press, 2000.

Internet Resources

Online sources for information about anticorruption issues and activities

Handbooks

The Open Society Justice Initiative
Poder Ciudadano's Transparent Elections Handbook
(Preliminary Version, 2000)

http://www.justiceinitiative.org/db/resource2?res_id=102247

Overseas Private Investment Corporation (OPIC)
Anti-Corruption Policies and Strategies Handbook (2006)
<http://www.opic.gov/about/Transparency/documents/opicanticorruptionhandbook0906.pdf>

U.S. Agency for International Development (USAID)

Money in Politics Handbook: A Guide to Increasing
Transparency in Emerging Democracies (2003)

http://www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/pnac223.pdf

A Handbook on Fighting Corruption (1999)

http://www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/pnace070.pdf

Web Sites

The Cost of Corruption

<http://americanradioworks.publicradio.org/features/corruption/>

Fighting Corporate and Government Wrongdoing: A
Research Guide to International and U.S. Federal Laws on
White-Collar Crime and Corruption

<http://www.llrx.com/features/whitecollarcrime.htm>

Global Integrity

<http://www.globalintegrity.org/2004/country.aspx>

Global Integrity provides in-depth reports on the state of
public integrity and corruption in 25 countries.

Transparency International

Global Corruption Report 2006

<http://www.transparency.org/publications/gcr>

Political Corruption: Selected Web Links

http://www.transparency.org/global_priorities/corruption_politics/links_political_corruption

Transparency International-USA

www.transparency-usa.org

U.S. Department of State

Anticorruption Initiatives

<http://www.state.gov/p/inll/corr/>

Bribery and Corruption

http://usinfo.state.gov/ei/economic_issues/bribery_and_corruption.html

Online Reading

Anderson, James and Cheryl Gray. *Anti-Corruption in
Transition 3: Who Is Succeeding... and Why?* World Bank
Publications, 2006.

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:20989777-pagePK:146736-piPK:146830-theSitePK:258599,00.html>

Gurgur, Tugrul, and Anwar Shah

Localization and Corruption: Panacea or Pandora's box?
World Bank Publications, 2005

<http://info.worldbank.org/etools/docs/library/206958/Localizationandcorruption.pdf>

Money in Politics, A Study of Party Financing Practices in 22
Countries

<http://www.accessdemocracy.org/showdoc.asp?lang=1&id={324ACB49-B2B9-4CF2-971B-BD449BEF9377>

World Bank Governance Library

<http://info.worldbank.org/etools/library/governance.asp?topicID=646&n=1&del=&cdrom=>

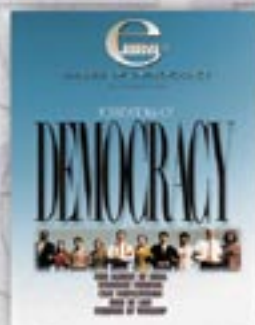
Includes full text of 45 World Bank publications on
anticorruption.



**A MONTHLY JOURNAL
ABOUT THE UNITED STATES
OFFERED IN MULTIPLE
LANGUAGES**

Five Thematic Editions:

- Economic Perspectives
- Foreign Policy Agenda
- Global Issues
- Issues of Democracy
- Society & Values



REVIEW THE FULL LISTING OF TITLES AT
<http://usinfo.state.gov/pub/ejournalusa.html>