

Combating Corruption: Private Sector Perspectives and Solutions

Corruption in many countries is no longer silently accepted. Largely responsible for the change in attitudes were the increased awareness of costs associated with corruption and the rise in the number of countries that embrace democratic freedoms and market economies. But as the awareness of corruption becomes more widespread, the need for sustainable solutions is more urgent.

CIPE and its partners have been at the forefront of combating corruption for the past twenty years. CIPE's approach has been unique because it does not intend to place the burden of responsibility for corruption on government officials alone, as it is often done. Instead, by arguing that the private sector is also a participant in corruption, CIPE and its network of partners in over 90 countries have worked to design and implement local private sector solutions to the problem of corruption. In the coming years, the emphasis should be put on consolidating those efforts and strengthening the global role of the private sector anti-corruption efforts. The recent addition of the tenth anti-corruption principle to the U.N. Global Compact is one of the first important steps in such process.

Corruption, as an institutional problem, prospers in countries with weak legal systems, poor enforcement mechanisms, vague and complex laws and regulations, and too much discretionary power with little transparency at various levels of government. Therefore, sustainable solutions require an institutional approach to combating corruption – not blaming it on individuals but reforming government agencies, reducing opportunities by simplifying laws, codes, and regulations, creating sound corporate governance mechanisms, and ensuring fairness and transparency in public-private sector relationships.



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The Center for International Private Enterprise is a non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy. CIPE has supported more than 800 local initiatives in over 90 developing countries, involving the private sector in policy advocacy, institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE programs are also supported through the United States Agency for International Development.

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Introduction

Widespread and persistent corruption remains one of the leading problems for business, governments, and citizens worldwide. Increasingly, efforts to combat corruption are no longer just a prerogative of NGOs and civil society organizations – businesses are also mounting sustained efforts to address both the supply and demand side of corruption. The recent addition of an anti-corruption principle to the U.N. Global Compact, endorsed by 1,700 members, illustrates the increasing importance of the private sector in a global fight against corruption. “Companies are waking up to the need to fight corruption,” said Transparency International Chairman Peter Eigen, when the addition of the new principle was announced in June 2004. The event signified that sustainability, business leadership, and good governance are becoming the defining elements of the private sector’s internal safeguards against corruption.

External measures to fight corruption are created as part of the institutional development of countries – developing the incentive structures that reward honesty and transparency and punish bribery and abuse of public office. Despite the continued pervasiveness of corruption, decades of reforms and the success of countries in combating corruption cannot be ignored. As corruption still remains on the top of the list of issues of concern for business both internationally and locally, the emphasis should be put on continuing second-generation reforms in countries where anti-corruption efforts have succeeded and applying the lessons learned in countries where anti-corruption efforts have failed to strengthen institutions that make corruption unsustainable.

Due to the efforts of the past decade, in many countries corruption is no longer silently accepted. Largely responsible for the change in attitudes were the increased awareness of the negative effects associated with corruption and the rise in the number of countries that embrace democratic freedoms and market economies. Initiatives to combat bribery in those countries have been spearheaded by the business community, which today recognizes that it can no longer remain on the sidelines and blame corruption on government officials alone. Public officials in those countries also increasingly put corruption on top of the agenda in the electoral process, recognizing their constituency’s concern with the high levels of bribery and the need for a market economy based on the principles of fairness and competition. The challenge now is to ensure that public officials’ commitment to eradicating corruption goes beyond grandiose statements intended to ensure additional electoral votes. Otherwise, governments face the danger that the public will distance itself from the

political process and become cynical about the prospects of reducing corruption. This trend has been a frequent occurrence in Southeastern Europe, according to a recent report.¹ Similarly, the challenge is also to ensure that the private sector continues to put effective governance mechanisms in place, moving beyond simply making statements on the ills of corruption and taking real measures to make it unsustainable.

In other countries where due to the closed nature of their political and economic environments corruption remains institutionalized and off-limits to public scrutiny, initiatives of the private sector and civil society, as well as international pressure and increased competitiveness in the search of foreign capital, play a key role in reducing opportunities for corruption and paving the way to economic growth. In such environments where the political will for anti-corruption initiatives is lacking introducing measures that put forth the institutional solutions to corruption on both sides of the equation should be a priority for the business community.

NGOs and civil society organizations alone can’t reduce corruption – business participation is the key to success. The stakes for the private sector are high – if businesses choose to remain on the sidelines and continue to participate in corruption, they face missing opportunities for foreign investment. Moreover, a lack of competitiveness will leave such businesses unable to survive in a highly demanding global economy. Experience shows that business participation – effective and consistent advocacy efforts on the part of associations and chambers of commerce – can lower corruption levels and allow more efficient markets and governments to arise. Increasingly, both local and international business communities refuse to accept the uncertainty that comes with extortion, bribery, and lack of fairness.

Combating corruption should be thought of as more than simply weeding out crooked government officials. Such an approach has been implemented in many countries, and has proven to be unsuccessful in terms of reducing the extent of corruption. Corruption is a symptom of underlying problems, not the problem itself. Therefore, the trends that sustain it should be addressed. These problems include opaque regulations, weak enforcement mechanisms, barriers to business, inefficient government agencies, absence of a public dialogue on corruption, excessive discretionary powers in the hands of public officials, and a lack of checks and balances. Simply, corruption is an institutional problem and the institutions that allow for sustainability of corruption should be reformed.

As acts of weeding out single corrupt officials are coming to be viewed as publicity stunts and an insti-

tutional approach to combating corruption is gaining momentum, the next decade of anti-corruption reforms in developing countries will place an amplified emphasis on more effective law enforcement and a strong judiciary. Anti-corruption reforms should move beyond advocacy and policymaking, as proper and fair implementation of laws and regulations requires increased attention. It is a reality in too many countries that policy intentions differ from policy outcomes, and the seemingly effective measures to reduce corruption fail. This policy gap should be addressed if corruption is to be reduced.

This paper reviews the causes and consequences of corruption and provides a series of anti-corruption private sector strategies that have reduced opportunities for corruption in a number of countries across the globe. It also defines corruption and, by looking at it as an economic issue, explains why combating corruption is essential to members of the public and private sectors and civil society.

Defining Corruption

Corruption can be broadly defined as the abuse of entrusted power for personal gain. While there is broad consensus that bribing a civil servant is corruption, practices like hiring relatives (nepotism), giving contracts to supporters (cronyism), and abusing privileged information to buy or sell stock (insider trading) may be viewed differently around the world. However, following the Asian and Russian financial crises, the trend seems to be in the direction of a broader definition of corruption.

Corruption takes many forms, especially in the developing world, and is often hard to observe. Grand corruption, for example, is done behind closed doors and often carefully concealed by the involved parties. To make corruption less observable, direct cash transfers, such as bribes, can be substituted by gifts or kickbacks at times provided through third parties or relatives. In some countries, gifts to public officials are expected. In others, public officials themselves may extort bribes for the services they are expected to provide in the first place.

It is important to recognize that petty corruption is just as important as corruption on a larger scale involving top executives and government officials. In many countries it may be considered reasonable to be able to offer a bribe to an inspector to avoid a fine for a minor violation, but it is unacceptable to have an owner of a company bribe a politician to get an export license. This is where the problems lie – as petty corruption becomes heavily embedded in the system it is no longer recognized as a corrupt behavior, yet, in reality, by reinforcing the culture of bribes even

on the small scale, a society ends up providing incentives for government officials to be corrupt by rewarding them and strengthening corruption as an institution.

Another form of corruption, often ignored, is tied to the concept of conflict of interest. In fact, conflict of interest is often not recognized in many economies, as it is sometimes not even defined in a local language or its violation is not perceived as a problem. Essentially, the problem of conflict of interest is twofold. It can occur on the public-private level or on the private-private level. From the public-private perspective, it involves the notion that government officials are not supposed to be involved in for-profit enterprises, especially in the area of their public office, as they can provide favors and indirectly influence decision-making to provide favorable treatment to enterprises with which they are directly involved. Essentially, the problem in such a case is that personal interests may be in conflict with the interests of the public office. On the private-private side, the concept concerns the issue of one firm performing two conflicting tasks, such as auditing and consulting. This has been one of the forces behind financial scandals in both developing and developed countries.

Exploring all the various forms of corruption is beyond the scope of this paper. In the end, because the definitions of corruption vary and because corruption takes many forms, the problem often becomes an issue of morality. Yet, the issue has to be looked at and analyzed as an economic one – threatening economic development, jobs, incomes, efficiency, and investment. Rather than thinking of corruption as a wrong behavior, it has to be thought of as a behavior that imposes additional costs on citizens, businesses, governments, and whole economies in the long run.

Corruption can be described in the framework of supply and demand. The supply side of corruption is the private sector that provides bribes, gifts, and kickbacks to the government officials who, in turn, are the demand side of corruption. For decades, anti-corruption measures targeted the demand-side of corruption by, for example, limiting the ability of government officials to accept bribes and gifts or award contracts and licenses to friends and family members. Although such measures are important in their own right, they often ignore the role of the private sector in combating corruption. In the past, the private sector took a position that corruption exists because government officials are corrupt and failed to take the blame. Yet, the supply side of corruption – the private sector – is an equal participant in corruption, and efforts to limit its ability to engage in corruption are therefore equally important.

Table 1. Corruption and Foreign Direct Investment in Central and Eastern Europe and Former Soviet Union

	Corruption Rating 2001	FDI 1989-2000 (\$ mil)	FDI per cap 2000 (\$)	FDI per cap 1989-2000 (\$)
Low Levels of Corruption				
Slovenia	2.00	1,534	67	768
Poland	2.25	29,052	240	751
Estonia	2.75	1,926	168	1,337
Hungary	3.00	19,420	164	1,935
Average			160	1,198
Medium Levels of Corruption				
Latvia	3.50	2,430	139	1,027
Czech Rep.	3.75	21,673	434	2,102
Lithuania	3.75	2,367	96	642
Slovakia	3.75	3,611	278	669
Croatia	4.50	4,085	167	907
Romania	4.50	6,768	45	303
Bulgaria	4.75	3,307	120	407
Macedonia	5.00	437	85	219
Belarus	5.25	781	10	78
Georgia	5.25	687	19	128
Average			139	648
High Levels of Corruption				
Albania	5.50	546	27	161
Armenia	5.75	605	39	159
Bosnia	5.75	307	27	71
Kyrgyz Rep.	6.00	458	9	97
Moldova	6.00	438	23	102
Tajikistan	6.00	144	4	23
Ukraine	6.00	3,345	12	67
Uzbekistan	6.00	1,021	9	41
Azerbaijan	6.25	4,092	61	502
Kazakhstan	6.25	8,499	77	571
Russia	6.25	12,344	14	85
Turkmenistan	6.25	882	21	170
Yugoslavia	6.25	118	11	13
Average			26	159
<i>Source: Freedom House "Nations in Transit 2001"</i>				

The Costs of Corruption

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 inef-

ficiently 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.

Region/Group	Percentage of revenues paid in unofficial payments to public officials
Central and Eastern Europe	5.5
South Asia	5
East Asia Developing	4.6
Commonwealth of Independent States	3.4
Latin America and the Caribbean	2
OECD*	0.6

Source: Batra, Kaufmann, and Stone. Investment Climate Around the World, 2003.
**Organisation for Economic Co-operation and Development*

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.

The Roots of Corruption

Before proposing projects to curb corruption, it is important to understand the nature and the roots of corruption. Although there are cultural differences between countries, the primary cause of corruption is ill-designed institutions. Corruption can often be blamed on inefficient economic systems, where regulatory hurdles such as conflicting and restrictive rules and regulations along with excessive discretionary powers in the hands of government officials and inefficient court systems create opportunities for public servants to be corrupt and force the private sector into corruption to avoid the inefficiency of the formal economy.

One theory often aired in discussions of corruption is that countries with large public sectors are more likely to have high levels of corruption. But the cases of Singapore, Finland, and Sweden invalidate this theory. In those countries, corruption levels are among of the lowest, while the size of the public sector is large. These examples demonstrate that it is not the size of the public sector, but a lack of good governance that causes higher corruption levels.

Unclear, complex, and frequently changing laws and regulations

Opportunities for corruption arise in inefficient systems where businesses explore ways to avoid inefficiencies. Corruption thrives in systems plagued by inadequate, unclear, excessive, unpublicized, and frequently changing laws and regulations.

Trade laws and customs procedures in many developing countries are a good example of how complex regulations breed corruption. Restrictive trade policies often compel firms to try to gain preferential treatment (obtaining an export license for example) by bribing customs officials – these types of policies lead to rent-seeking. If customs agents deliberately create delays, some companies are forced to bribe government officials to move forward. If customs duties are too high or companies are required to spend days processing paperwork, they will simply bribe the customs officials, if such an opportunity exists, which will be cheaper for them in terms of time and money. In fact, a study by the World Bank suggests that introducing a more simplified (uniform) tariff schedule can reduce corruption and at the same time increase government

revenues.²

Burdensome taxation regimes are another good example of how complex regulations are responsible for corrupt behavior. To avoid paying unreasonably high taxes or to take advantage of numerous complex exemptions, firms not only misreport their profits but also often bribe government officials. On the other side, tax administration officials extort additional payments (bribes) from companies because they can use complicated tax codes at their own discretion to impose higher taxes on companies. In fact, a number of studies suggest that tax administrations in developing countries are among the most corrupt government agencies.

Lack of transparency and accountability

Lack of transparency and accountability is another reason for high levels of corruption – corrupt behavior is easier to sustain in the systems that lack those institutions. When citizens do not have mechanisms to hold government officials accountable, they are essentially handing them a blank check. Corrupt government officials often remain in office because a lack of transparency allows them to conceal corruption (by refusing to provide any information or simply providing the wrong information) and a lack of accountability gives them an opportunity to abuse the system without significant consequences. These issues are at the center of the current debate on democratic governance, whereby society seeks to establish certain institutional mechanisms to ensure that public officials act in the interest of the public and justify their actions to the electorate.

Political contributions

It is important to recognize that in many countries corruption is a result of the illegal funding of political parties. Political corruption scandals are not limited to developing countries – even in the most industrialized countries such as France, Germany, and the United States, politicians and political parties have in recent years been accused of participating in illegal political funding. Essentially, illegal political contributions hamper the development of fair competitive markets. They ultimately lead to the capture of the decision-making process by commercial interests and abuse of fraudulent relationships between the executive powers and the private sector.

Low public sector wages

While many studies suggest that raising public sector wages is not enough to reduce corruption,³ the fact is that low wages do force some percentage of public sector employees into corruption. Low wages are often responsible

for petty corruption – small-scale corruption on the local level. Public sector employees in developing countries are often not paid enough to meet daily needs, thus accepting and extorting bribes often becomes their only source of a living income. In addition, a study by the IMF⁴ shows that a relationship exists between public sector wages, manufacturing sector wages, and corruption. In such an environment, government officials perceive their wages, which are lower than private sector wages, as “unfair,” and thus feel compelled to engage in corruption to keep things fair. This creates a circle where the government can’t pay enough to its servants because it doesn’t have enough funds, but the funds that the government is supposed to receive from the private sector in licenses, taxes, and other forms end up in the pockets of public servants because of corruption. However, it is important to note that simply raising the wages of government officials will not curb corruption – as long as opportunities to abuse the system exist and punishment is weak, corruption will persist.

Inadequate, inconsistent, and unfair enforcement of laws and regulations

Weak enforcement is a significant yet often overlooked component of corruption. There are numerous examples of countries that pass legislation aimed at limiting corruption or eliminating one of the sources of corruption – by enacting laws to simplify business registration procedures, for example – but this legislation is never enforced. This lack of enforcement creates double systems where the right regulations seem to be in place, but corruption is still prevalent. Worthy of mention: law enforcement agencies are often among the most corrupt agencies, especially on the local level, as citizens and businesses often prefer to pay a small bribe than face a criminal penalty.

Weak punishment for violations

Corruption also thrives in environments where perpetrators are at lower risk of being caught and punished. When punishment is inadequate to deter corruption and the justice system is too slow to respond, the incentives for corrupt behavior outweigh the possible costs – such as losing public office or facing jail time. Also, corruption itself, particularly political corruption, makes punishment weaker. This happens when public officials are able to provide favors to each other in order to conceal corruption. Some countries, like China, have tried to solve the problem by making punishment severe, such as meting out the death penalty for high-ranking officials caught in corruption. Yet this strategy has been unsuccessful, as measures to tackle the incentives and opportunities for corruption have not been implemented. Russia has also recently turned to

publicizing corruption scandals involving high-ranking officials and making public arrests of those individuals. The emerging consensus there is that these actions do little to stop corruption, but impose additional costs, where corrupt government officials charge premiums for the “risk” of being caught. Thus, although weak punishment is a facilitator of corruption, it has to be addressed in conjunction with larger, systematic reform.

Combating Corruption

In the early stages of anti-corruption initiatives it is important to break the taboo about discussing corruption. While discussion of corruption is increasing in many developing countries and media coverage of it is more pervasive, there are countries where the topic is still off-limits due to its political sensitivity and social acceptance. There is also a need to dispel the myths that sustain corruption, such as, corruption is inseparable from traditions and culture in certain countries.

Here lies one of the problems with combating corruption – corruption itself becomes widely accepted and perceived as a part of daily life. Sentiments such as “it has always been done this way,” “nothing can be done about it,” or “it is too sensitive an issue to address because everyone is doing it” are common. For many people it becomes easier not to combat it, but rather to get used to it and develop mechanisms to keep it manageable on a daily basis. It is important, therefore, to demonstrate to the public, the business community, and the government that corruption is not permanent and inevitable – that it can and should be dealt with.

Many countries face a lack of political will to combat corruption. Often, grandiose statements by high-level public officials about the importance of anti-corruption measures do not translate into commitment on the local level to tackle the institutional problems that sustain corruption. This is not surprising, since local officials are often major beneficiaries of corruption, and in a broken system they have few incentives to eliminate this source of personal gain. This lack of political will discourages the private sector and regular citizens, as it seems impossible to implement anti-corruption initiatives in environments where political leaders block such initiatives and weak democratic institutions do not allow citizens to hold their leaders accountable for such actions. Yet an absence of political will does not imply that political will cannot be created.

There are several ways in which political will to combat corruption can be fostered, and the private sector and NGOs play a key role in this process. On one side, the problem can be approached from a globalization perspec-

Combating Corruption: A Policy Toolkit	
<p>CIPE with the help of its partner organizations has developed a policy toolkit that gives specific recommendations on policies and actions to be taken in order to curb bribery. A condensed version of the toolkit is presented here; it is available in its entirety on CIPE's website at www.cipe.org.</p>	
Public Sector Recommendations	Private Sector Recommendations
<ul style="list-style-type: none"> · Establish sound procurement codes that require open bidding and tenders to act as a preventative on corruption · Require independent audits on both small-scale and large procurements funded through the multilateral development banks or other foreign assistance instruments · Conduct legal reform and simplification as a measure aimed at removing barriers to business development and reducing opportunities for corruption · Private sector associations and think tanks should take an initiative in creating an inventory of legal barriers and duplicative regulations · Reduce the "shadow" economy because those excluded from the system are more likely to engage in bribery · Simplify tax codes · Salaries of civil servants must be competitive with private sector ones 	<ul style="list-style-type: none"> · Develop an independent media equipped with tools of analysis to detect and expose fraud and corruption can be a deterrent to corrupt behavior · Involve think tanks, business associations and other NGOs in the anti-corruption process to build public understanding of the costs of corruption and support for the needed reforms · Enable legislation to implement the OECD Anti-Bribery Convention · Help create and commit to internationally accepted accounting standards · Develop good standards of corporate governance, using general OECD guidelines as a start · Promote clear rules on conflict of interest for the members of the public sector · Establish clear guidelines on standards by which government agencies award subsidies and exemptions from fines, tariffs, and taxes

tive. As international trade becomes more widespread and the process of globalization affects businesses of all sizes and profiles, corruption makes business uncompetitive and corrupt countries end up on investor "black lists." This means that governments face the prospect of an uncompetitive economy, which translates into political instability through lower government revenues and an inability to provide social services to the population. From this perspective, it is becoming harder for politicians to ignore corruption.

On the other side, the problem of political will can be approached from the grassroots level, where private sector representative organizations such as chambers of commerce and business associations can not only approach the government about reform, but also engage the government in a dialogue with the business community. Increasingly, corruption is one of the top issues in the electoral process, as government officials cannot ignore constituents' interest in eradicating bribery and extortion.

Admitting that corruption is a serious threat to economic development is not nearly enough. The next step is to identify the root sources of corruption and demonstrate how corruption occurs – this is a basic audit of countries' institutional and administrative resources. The pattern

leading up to corruption is similar in many countries – it is often a combination of obscure and opaque laws and regulations, complex tax codes, overregulation of economic activities, overstaffing of government agencies and lack of technological innovation within them, absence of an independent audit, weak corporate environment, shortage of accountability mechanisms, and lack of transparency in policy-making and in relationships between government and business.

After the root sources of corruption are identified, the next step is mobilizing key anti-corruption constituencies and building anti-corruption coalitions. This is one of the keys to the development of successful anti-corruption strategies, because lack of communication and cooperation among members of the private sector can weaken their ability to successfully develop and implement anti-corruption initiatives, as well as advocate for reform. An important part of this stage is promoting a healthy dialogue between the private sector and government to ensure that policies designed to curb corruption address the real needs of the business community. The private sector and independent think tanks play a crucial role in this process by providing information to government officials in a timely manner. Mobilizing constituencies and building coalitions leads

to a successful development of action plans with specific anti-corruption policies. Yet, in many countries, most problems occur when its time to implement and enforce those policies. Anti-corruption policies will often wallow on paper while corruption persists on a daily basis. Effective oversight of implementation and evaluation of programs is critical.

Measures

Many measures of corruption and governance are not specific – they uncover correlations between the rule of law and corruption levels but fail to indicate what exactly needs to be done to reduce corruption. Similarly, studies showing that civil servants are corrupt are a useful starting point but they often fail to indicate why civil servants are corrupt.

Not all countries are the same – raising the question of whether a “one size fits all” approach is viable. Although corruption varies in scope and definition in different countries, in its essence it requires the same cure – reforming institutions to make them more efficient. The challenge is identifying which institutions are key to the problem and prioritizing the reform process among them. For example, while some countries may require a complete regulatory overhaul, others may have the right rules in place but lack sufficient enforcement of those regulations.

Specific measures to curb corruption should address both the private and the public sectors – the demand and the supply sides – equally. The private sector does not always recognize that it is in fact a source of corruption – after all, in many cases bribes and kickbacks have to be offered before they are accepted. Although its true that the private sector is often a victim of corrupt government officials who use their power to extort bribes, especially from smaller entrepreneurs, the private sector often facilitates corruption – such as when businessmen try to gain preferential government treatment or win over their competitors. Measures that address the supply side of corruption aim at limiting the ability of the private sector to willingly engage in corruption. Efforts on the demand side of corruption, on the other hand, aim at limiting the ability of public sector employees to extort bribes and use their power of public office for personal benefit. In the end, measures on both sides aim at correcting the institutional problems, i.e. taking away the incentives and opportunities to be corrupt. It is important to look beyond simply weeding out corrupt individuals to reforming systems that reward corrupt behavior.

Supply side

Supply-side programs focus on minimizing the

causes and opportunities for illicit payments and activities primarily within the private sector. Key strategies include:

Institute sound corporate governance systems

Although corruption is bad for business, individual companies that engage in corruption receive a short-term advantage. It is important to set up a system that makes it hard for companies to engage in corruption, even if corruption seems desirable.

Corporate governance is perhaps the single most effective tool to limit the ability of the private sector companies to participate in corruption. Good corporate governance establishes a system where companies are unable to provide bribes covertly and are easily held accountable for wrongdoing. The core values of corporate governance are fairness, transparency, accountability, and responsibility, and the mechanisms that are involved in building good corporate governance systems guide the relationship between owners, managers, employees, and other stakeholders. Corporate governance ensures that managers act in the interest of a company, board members exercise good judgment, investors receive timely and relevant information, and decision making is not done behind closed doors. By making companies transparent and by holding decision makers accountable for their actions, corporate governance makes it hard for companies to provide bribes or other company resources to government officials in exchange for services.

Although corporate governance is valuable in creating responsible companies, the argument is that it often only applies to large companies and is not applicable to smaller companies owned by one person or several partners. In such firms, there is only one person who is responsible for giving bribes and maintaining favorable relationships with government officials and often that person can't be held accountable. The question then becomes, “what are the incentives for smaller companies not to be facilitators of corruption and are such incentives established?”

The problem can be approached from two sides. On one side, companies of any size are increasingly under pressure to be good citizens in their communities – and efforts to combat corruption as well as responsible governance are the core pillars of good corporate citizenship. As being a good community citizen becomes an issue of competitiveness, corruption has to be addressed. If this corporate citizenship concept is applied, corruption becomes a behavior that can lead to an adverse consumer reaction – consumers punishing companies through market mechanisms for behavior they deem unfair.

The problem can also be approached from the side of business associations and chambers of commerce. As

firms join professional associations, where such membership aids in their growth and development efforts, internal mechanisms can be set up where individual company performance is monitored and deviations from the rules are punished. Monitoring can prove costly, but the cost benefit analysis of one or two firms gaining an unfair advantage and the whole industry facing competitiveness and efficiency costs suggests that it may be worth it. Also, self-regulation codes of conduct, such as those issued by the International Chamber of Commerce (ICC) for its members, can also be effective in setting up self-regulatory mechanisms within the international business community.

Improve accounting standards

Another key supply-side anti-corruption strategy, which partly arises from the need for stronger corporate governance mechanisms, and the importance of which is often overlooked, is improving accounting standards. Proper financial reporting is crucial to efforts to combat corruption because it makes the provision of illegal payments and services difficult to conceal, especially for companies that operate in different markets and have access to various confusing accounting practices. The role of accounting standards grows ever greater in importance as globalization of markets continues, companies seek access to a larger pool of investors, and the importance of quality information is no longer constrained by geographical location or a specific industry. Further development and adoption of the International Accounting Standards (IAS) can lead to a global convergence of accounting and audit systems.

Implement codes of conduct for intermediaries

As multinational companies (MNCs) are increasingly dependent on intermediaries to open up markets and make them function, those same intermediaries also increasingly abuse this dependency. Such abuse is especially easy in local settings where companies require assistance with such important daily issues as taxes, customs, shipping, contact administration, and payment collection. But the integrity of MNCs is threatened when their agents are themselves dishonest and corrupt; therefore corporations are often faced with the need to monitor agents' performance and ensure their integrity. Since such monitoring can get expensive, the solution may be a system of incentives to dissuade corruption from entering the system from local markets. The short-term benefit of corruption is in this way threatened with the possibility that a corrupt agent will be excluded altogether.

Such is the idea behind Transparent Agents and

Contracting Entities (TRACE), an international non-profit association that conducts corruption reviews of its members and posts ratings thereof, and runs compliance training and anti-corruption workshops; its members are commercial intermediaries such as sales agents, distributors and suppliers. TRACE recognized the willingness of companies to be corruption-free at every level of their supply chain and set up a system that allows it to combat corruption by creating an honest international business environment, where the privilege of doing business is reserved for companies that do not engage in corruption. TRACE maintains a database of "clean" companies and provides its members with a background check on honest agents throughout the world.

Implement and strengthen anti-bribery laws

The OECD "Convention on Combating Bribery of Foreign Public Officials in International Business Transactions," signed in 1999, is an important step in combating corruption. When the convention was signed, it was hailed by business as a measure that would help eliminate the competitive disadvantage associated with firms that do not have insider access and are not willing to "grease the wheels." But the OECD Convention is just the first step. There is a greater urgency to make sure that signatory countries' laws are brought in order and that countries enable proper enforcement of those anti-corruption laws.

The OECD Anti-Bribery Convention spurred the private sector's efforts to reduce bribery. In addition to the aforementioned ICC rules on bribery and extortion and the efforts by TRACE to combat bribery within private sector intermediaries, another worthy effort has been the development of the Business Principles for Countering Bribery⁵ by Transparency International (TI) and Social Accountability International (SAI) with input from companies, academia, trade unions, and other NGOs. These principles can serve as a good starting point for companies to develop a trust-based and inclusive internal culture in which bribery is not tolerated and assess their own present anti-bribery system.

The most prevalent forms of bribery the Principles seek to address are: political and philanthropic contributions, gifts, hospitality, expenses, and other types of facilitation payments. Also, implementing the principles requires that boards of directors take formal responsibility, create effective whistle-blowing channels with no penalties to the whistleblowers, create embedded internal control systems including formal accounting procedures that check for bribery, internal communication and training, as well as ensure that external communication is effective.

Demand side

Demand-side initiatives aim to minimize the underlying causes and opportunities for corruption within the public sector and limit corrupt agents' ability to extort bribes and kickbacks in return for favors. Key methods include:

Streamlining legal and regulatory codes

As the primary source of corruption is inefficient regulations, efforts to simplify legal and regulatory environments should form the core of anti-corruption initiatives. The purpose of such efforts is to take away opportunities for corruption, when public officials either use selective judgment in applying laws or businesses try to bribe public officials to avoid unnecessary and costly regulatory hurdles.

The efforts of the National Association of Entrepreneurs (ANDE), a voluntary private business association in Ecuador, illustrate this approach to reducing corruption. To address widespread corruption and the need for legal reform in Ecuador, ANDE identified and proposed the elimination of duplicative and conflicting commercial laws. Importantly, ANDE's focus was not to blame past corruption on any one particular group, as is often done, but rather to initiate reforms that would change the direction of business and institute clean practices.

To identify the roots of corruption ANDE reviewed the country's commercial laws, particularly those concerning production, foreign trade, the establishment of official prices in the private sector, and technology transfers. ANDE's studies showed that since the founding of Republic of Ecuador more than 150 years ago, some 92,250 legal norms have been created, of which 52,774 were in force in 1997. The sheer number of overlapping, unclear, and contradictory laws has created an environment of legal chaos and has left the application and enforcement of laws to the discretion of bureaucrats.

ANDE ensured the support of chambers of commerce, industry, agricultural entities, labor unions, ministries, and NGOs before it presented its legal reform proposals to the government. Due to lack of political will and the slow pace of widespread change in Ecuador, the government implemented only 25 percent of the changes proposed by ANDE (over 1,300 rules and regulations), yet the Quito Chamber of Commerce is pressing the government to implement the remaining 75 percent.

The experience of ANDE and other think tanks and associations suggests that they play a key role in legal simplification. Governments are often compelled to make decisions and execute "top-down" reforms once problems get out of hand. Yet input from the private sector is key

to the formulation of legal and regulatory reform – the private sector knows first-hand the inconsistencies that hamper business growth and present opportunities for corruption for both business and government officials. Such a grassroots approach to reform is more effective in reducing opportunities for corruption than a top-down method.

Supporting e-government systems

The idea of e-government is relatively new but it has become increasingly popular in recent years. In terms of reducing corruption, the central aim of e-government systems is to make government operations transparent by making information easily accessible. Such systems allow countries to reduce opportunities for corruption, since all the paperwork is done electronically, government officials' discretion in evaluation is significantly limited, and processing time is reduced. At the same time, e-government mechanisms increase the efficiency of public services, providing opportunities for a better use of public resources.

Reforming tax regimes

Complex tax regulations are often related to high levels of corruption, and, as an effective anti-corruption measure, the reform of tax systems deserves a great deal of attention. Although burdensome and complex taxation systems breed corruption, government efforts to remedy the situation often miss this point. Through taxes governments seek funds to provide basic services, but as tax evasion becomes widespread, funds end up in the pockets of corrupt government officials. Facing budget deficits, governments, in turn, try to increase taxes, which only further fuels corruption and tax evasion and the misallocation of tax proceeds. Faced with complex and high tax rates, businesses are sometimes compelled to seek opportunities to bribe public officials, as avoiding burdensome taxes becomes a competitiveness issue – if a company is to pay its full share of taxes it becomes increasingly uncompetitive in a market where others cheat or face lower taxes in neighboring regions.

Simplifying tax codes reduces corruption in two ways – by limiting the ability of government officials to use their own discretion in applying tax regulations and by reducing tax evasion (increasing tax compliance) through lower taxes.

A reform of the tax regime has worked to the benefit of the private sector in many countries. Often, the more important changes occur on the local level, where small entrepreneurs or coalitions of professional associations are able to work directly with the government on implementing small but important modifications to the tax code. In Kosovo, for example, a local think tank, Riinvest Institute

for Development Research, worked with local business associations and policy makers to reduce the burden placed on the business community as the main tax contributor to the budget. As a result, legislators widened the tax base, making changes to the taxes on property, wages, and profits. In Ukraine, the Center for Independent Political Research (UCIPR) and the Coordinating Analytical Center for Business Associations of Ukraine (CAC) embarked on an advocacy program in 2000 to modify the burdensome tax system there. By conducting public awareness campaigns, mobilizing entrepreneurs, and working to establish public-private dialogue, UCIPR and CAC were able to secure commitments from policy-makers, later fulfilled, to improve the tax legislation to, among other changes, include a flat tax for small firms.

Lowering barriers to starting and operating a formal business

Business registration procedures present a field of opportunities for corruption. One of CIPE's first partners to research the negative effect of burdensome business registration procedures was Peru's Institute for Liberty and Democracy (ILD). In the early 1980s, Hernando de Soto, the head of ILD, decided to set up a small business and attempted to get it licensed. With the help of five university students who spent several hours a day winding their way through Peruvian bureaucracy, he discovered that to obtain a legal license to operate took 289 days and cost 31 times the average monthly minimum wage. Since then, a similar approach has been undertaken in many countries, and the result has always been the same – burdensome business registration facilitates corruption in two ways: directly, by forcing entrepreneurs to bribe government officials to simplify the registration process, and indirectly, by forcing entrepreneurs into the informal sector, survival in which most often involves bribes.

As the issue of business registration procedures and their effect on corruption levels is explored, the problem evolves into one of transaction costs – constraints on business beyond business registration, such as labor laws and enforcement of contracts. Simply put, when the costs of complying with official regulations exceed the benefits, companies will seek a more “efficient” resolution of problem, thus institutionalizing corruption.

Streamlining business inspection procedures

One of the complications of the informal sector that also applies to the formal economy is that businesses are a subject to frequent government inspections. In many countries, the authority of the inspectors is so strong that they have the ability to shut down companies for a short

period of time if they so much as suspect incompliance with any one of many regulations, no matter how inconsequential. This forces business to give bribes, as being shut down even for a few days, especially for small entrepreneurs, can force companies out of business. Limiting the number of inspections and inspection agencies is also an important step in reducing corruption. In Russia, for example, where inspections have become increasingly widespread in their scope and authority in recent years, anti-corruption efforts have yielded a regulation prohibiting government inspectors from shutting down businesses for incompliance with regulations; exceptions are made rarely.

In Ukraine, UCIPR, in the course of its work on combating corruption, has helped ameliorate the problem of rampant, arbitrary inspections. In the late 1990s, recognizing the large impact of corruption on economic and political environments, UCIPR established a multi-front campaign to promote increased awareness of the problem and proposed several initiatives aimed at providing a free flow of information to citizens and decision makers about the reform process, which also provided a platform for debate on corruption. In a collaborate effort, UCIPR assembled a coalition of political leaders, NGOs, and think tanks and worked to raise the level of awareness and commitment to fighting corruption. As a result, the government enacted stricter regulations on inspectors and legally reduced the annual number of required inspections from 100 to 22.

Reforming customs regimes

Customs, especially in countries with closed or heavily controlled markets, is one of the government agencies most susceptible to corruption. Effective customs administration is one of the keys to a country's successful development as it deals directly with foreign trade and tax payments. Reform of customs agencies is needed to reduce opportunities for corruption in such areas as export/import licensing, tariff avoidance and reduction schemes, and smuggling of goods.

In 2001, the Belgrade Center for Liberal Democratic Studies (CLDS), an independent think tank in Serbia, undertook the arduous task of reforming one of the most corrupt agencies in that country – the Customs Administration – where, according to preliminary surveys, over 50 percent of the employees were in some way involved in corrupt activities. In the early stages of its reform project, CLDS organized surveys and public meetings to provoke public discussion of corruption and of the negative impact of Customs Administration corruption on Serbia's economic development. Then CLDS carefully examined the structure of the Customs Administration and its opera-

tions and came up with a list of the root causes of corrupt behavior in customs: low wages for customs officials, a culture of corruption, lack of regulations and/or enforcement mechanisms to hold government officials accountable for corrupt behavior, insufficient resources, national protectionist policies or otherwise restrictive foreign trade policy, complex customs procedures, and high and diverse customs duties with numerous exemptions.

CLDS produced a number of reform recommendations for the government concerning current Customs Administration rules, regulations, and procedures. The recommendations centered on reform of the wage structure and creation of an incentives scale for customs officials, introduction of a new monitoring system for transparency of all the procedures, introduction of a Code of Ethical Standards for employees, implementation of severe punishments for corrupt staff, formulation and provision of guidelines for a public relations campaign against corruption, and provision of incentives to all the Customs Administration “customers” to increase anti-corruption pressure on the Administration.

Reforming government agencies

In light of such efforts to reform customs agencies, it is important to apply similar efforts to reforming other key government agencies. As the findings by CLDS show, often opportunities for corruption often arise because of weak internal organization and lack of innovation in government agencies. Among the issues that should be addressed are: implementation and verification of codes of conduct, institutionalization of transparent and straightforward hiring and performance standards, increase in wages, introduction of regular audits, mandating financial disclosure for civil employees, hiring staff with high integrity, and forming autonomous anti-corruption commissions.

Reforming procurement policies

Corrupt procurement processes are a cost to business and society as firms with insider contacts remain in business and the most efficient firms almost always are pushed to the sidelines. To combat corruption, especially at the top echelons, it is important to establish sound procurement codes that require open bidding and tenders. At the core of such codes are efforts to eliminate the discretionary power of government officials in conducting bidding procedures, open up the bidding process and make it public, and fully disclose procedures and requirements.

For example, in the mid-1990s, the Liberal Institute of Rio de Janeiro (ILRJ) led a project titled “Reducing Transaction Costs in Brazil.” Through studies by its economists, ILRJ documented that the cumbersome

bureaucracy and lack of transparency created high costs for business and lowered benefits for consumers. To address the problem, ILRJ proposed several reforms, seven of which were adopted by policymakers. The policies included: better dissemination of bidding rules, reduction of the discretionary power of bureaucrats, better definitions of decision-making authority, more competition among contract bidders, broader criteria for evaluating proposals, and waiving bidding requirements only in urgent cases. As a result of the ILRJ project, significant legislative changes in Brazil were passed to reduce transaction costs. Perhaps the most important was the passage of a law to reduce the ability of bidders to collude and fix prices in the public contracting process. Another piece of legislation streamlined the judicial process in labor law proceedings that affect more than 2 million cases annually. The law reduced the number of judges on each labor case from three to one, significantly reducing the cost of these procedural transactions.

On the local level, similar efforts can be very effective in reducing corruption and paving the way for fair and transparent market transactions. For example, the Colombian Confederation of Chambers of Commerce (Confecámaras) in the late 1990s recognized that on paper Colombia had a sophisticated set of norms and instruments for detecting, controlling, and punishing corrupt practices. However, these mechanisms were often not applied, partly because of fear of political backlash from entrenched, corrupt politicians. Confecámaras therefore attempted to put forth measures that would ensure application of anti-corruption initiatives on the supply-side of the equation – the private sector.

Confecámaras worked with local businesses to establish clear rules and codes of conduct in procurement processes and to demonstrate the benefits of compliance. With input from local business leaders, Confecámaras developed local ethical codes of conduct, to which over 1,000 businessmen voluntarily signed in the first year alone. To ensure transparency in public procurement, Confecámaras also proposed the development of integrity pacts. In the first year, a total of 12 integrity pacts were signed between local businesses and governments and the total value of the contracts that were signed under integrity pact requirements with the Manizales city mayor amounted to USD1,039,200.

Beyond the Supply and Demand Sides of Corruption

There are measures designed to reduce both sides of the corruption equation through exposure and enforcement.

Raise awareness among key stakeholders about the need for reform

Through surveys, opinion polls, and communication campaigns, it is important to expose the costs of corruption, not only for business and government, but for the larger society, and promote public-private participation in the design and implementation of anti-corruption reforms. Communication is crucial because efforts that do not include the input and support of either party face a failure of implementation. Therefore, roundtables and conferences with civil society groups, business, and government officials play an important role in focusing the attention of various stakeholders on specific issues. Publication of anti-corruption materials that outline successful initiatives shows that combating corruption is not hopeless, and the business community, civil society groups, and government officials can all work together to reduce corruption.

Train journalists to identify and report on corruption, and improve access to information

An investigative media is one of the keys to exposing and fighting corruption. Media should be independent and laws protecting journalists, such as confidentiality of sources and freedom of speech, enforced. However, journalists should not concentrate solely on exposing corrupt individuals but rather explain corruption and its costs from an economic viewpoint and follow up on any given corruption story to ensure that the involved individuals are held accountable.

In Latin America, for example, in the 1990s, media reports of corruption, with few exceptions, have had the most impact of the various means to expose bureaucratic corruption. However, these reports have frequently been selective, incomplete, colored by ideological slants, and even inaccurate because of the internal censorship of editors and media owners who were tied to or bowed to the pressures of governing parties and economic elites. To address these problems, the regional organization Journalists Against Corruption (PFC) was launched in August 2000. PFC was envisioned as a project to strengthen Latin America's most promising anti-corruption tool – watchdog journalism.

PFC has become an expansive and dynamic anti-corruption online clearinghouse, a network, service provider, and support system for Latin American journalists and media that cover corruption in the region. It provides journalists with a venue to obtain and exchange information, contacts, and investigative assistance, to benefit from a regional network, and to learn how to more effectively combat corruption and support anti-corruption initiatives. In addition, PFC monitors and disseminates information

about legislation, court rulings, and actions that facilitate or impede investigations and reports of corruption. PFC also takes action on behalf of journalists and media that suffer reprisals for covering corrupt activities. Through its daily review of 50 major newspapers in all the Spanish-speaking countries of Latin America and a compilation of articles and editorials about corruption and free press issues, PFC has been able to encourage and contribute to cross-border investigations and knowledge of corruption in the region.

The work of PFC is responsible for increased pressure on government officials in the region. Since the coverage of corruption within government agencies in the region has increased and become more effective, there is an increasing popular awareness of the problem and growing public support for anti-corruption measures. By keeping media reports of corruption alive, PFC assists journalists and the media in pressuring governments to implement transparency reforms and other anti-corruption legislation, and in forcing legislative and judicial bodies to take action against the corrupt by making their activities more public.

Since September 2000, PFC has responded to over 700 requests from journalists for investigative assistance related to specific cases of corruption, conducting Internet searches, developing tailored network systems, and encouraging and facilitating mutual cooperation between journalists. Some 70 percent of the cases involved cross-border connections. During the same 40-month period, PFC also responded to 250 requests from journalists for more general information on and strategies to investigate such topics as government slush funds, nepotism, the illicit use of government resources in election campaigns, and reports on access to information and other press and anti-corruption laws and non-compliance. This investigative assistance has facilitated breaking and continuing news coverage by national press in Latin American countries leading to government investigations of corruption by former presidents Arnoldo Alemán (Nicaragua), Luis González Macchi (Paraguay), and Gustavo Noboa (Ecuador), and of presidents Alfonso Portillo (Guatemala), Enrique Bolaños (Nicaragua), Abel Pacheco (Costa Rica), and Lucio Gutiérrez (Ecuador). Former President Alemán was convicted for multiple corruption charges and sentenced to 20 years in prison in December 2003.

To promote transparency in government it is also important to ensure that citizens have access to information. In the mid-1990s, the Philippines-based Center for Media Freedom and Responsibility (CMFR) worked in six Southeast Asian countries (Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Singapore) to improve access to economic information in the region and analyze

the link between transparent access to business information and reduced corruption and greater accountability in governance. CMFR conducted focus group discussions with government officials, business leaders, academics, and members of the media in each of the six capitals. Then a regional forum was convened in Manila in October 1997, where the results of discussions were presented and participants drafted a regional strategy for reducing corruption and cronyism through transparent access to business and economic information. As a result, CMFR succeeded in drawing attention to the importance of free access to information in all of the countries involved – the first such media-oriented effort in Southeast Asia. Today, national Freedom of Information Acts (FOIA) are increasingly debated by lawmakers in the region, and in Indonesia, Parliament is currently reviewing a draft of the law.

Conclusion

Corruption is often viewed a social issue because definitions of corruption vary and what is perceived to be corruption in some countries could be a socially acceptable behavior in others. Corruption is also frequently legitimized as a means of avoiding inefficient regulations and is even perceived as a contributor to economic growth in some countries, such as in Asia in the 1990s. But in reality, corruption creates inefficient and uncompetitive economic systems and threatens democratic institutions.

Corruption is an economic issue and not a moral one. Combating corruption, therefore, requires looking at the costs that it imposes on business, governments, and society and instituting good governance mechanisms within both the public and private sectors. Such mechanisms take away the opportunities for corruption and hold corrupt public officials and companies accountable for their actions.

As corruption is a problem of both private and public sectors, both sectors should implement anti-corruption measures. Simply blaming corruption on the other party, as is often done, does not solve the problem. Also, anti-corruption measures should not be focused on weed-

ing out single corrupt individuals. Such measures merely deal with the symptoms of a larger problem. Instead, anti-corruption initiatives should address the root sources of corruption – inefficient institutions. Building a system of strong, balanced institutions reduces corruption by creating a set of reliable incentive structures, where compliance is not costly and corrupt behavior is monitored and punished.

Special attention should be paid to enforcement. In many corrupt systems there are worthy initiatives that introduce desirable rules and regulations. Yet, while anti-corruption measures often make it through the legislative process, they don't make their way into daily life because enforcement is weak. Also, the private and public sector and NGOs should focus their efforts on reducing the number of regulations and substituting them with more efficient ones rather than introducing new measures that may end up being duplicative and conflict with current law.

The institutional approach to combating corruption means that reforms cannot simply be imported from other countries. Business associations and chambers of commerce play a key role in changing incentive structures, because entrepreneurs know first-hand the inefficiencies of economic and legal structures and the opportunities for bribery that arise as a result. The breadth of international experience should be combined with valuable local knowledge if anti-corruption initiatives are to succeed.

Initiatives to combat corruption should come from the private sector, as well as from governments and civil society groups. Recognizing its role, the business community continues to mount successful efforts not only to reform external institutional structures, but also to build internal mechanisms to make corruption unsustainable within the private sector. The challenge in the coming years is to ensure that it is not only a handful of private sector organizations that actively participate in combating corruption. To reduce corruption, a widespread commitment by the private sector, regardless of size, industry, and location is essential.

¹Tisne, Martin and Smilov, Daniel. "From the Ground Up: Assessing the Record of Anticorruption Assistance in Southeastern Europe," The Center for Policy Studies, Central European University, Budapest, Hungary, 2004.

²Gatti, Roberta. "Corruption and Trade Tariffs, or a Case for Uniform Tariffs." *World Bank Policy Research Working Paper 2216*. The World Bank Development Research Group, November 1999.

³Although recent findings indicate that higher wages coupled with audit controls and oversight are effective at reducing corruption (see Di Tella and Schargrodsky 2003:289).

⁴Van Rijckeghem, Caroline and Weder, Beatrice. "Bureaucratic Corruption and The Rate of Temptation: Do Wages in Civil Service Affect Corruption?" *Journal of Development Economics*, 65, 2, 307-331. 2001.

⁵For more on the Business Principles, please visit www.transparency.org.

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