



Canadian International
Development Agency

Agence canadienne de
développement international

Anti-Corruption Programming: □



Questions and Strategies

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Canada 



ANTI-CORRUPTION

PROGRAMMING:

Questions and Strategies

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Canadian International
Development Agency

Agence canadienne de
développement international

Canada

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EXECUTIVE SUMMARY

This document is the result of a number of consultations with CIDA staff as well as external stakeholders and builds on a previous document entitled "A Primer on Anti-Corruption for CIDA, Partner Organisations and Canadian Executing Agencies". A previous draft of this document was called "Anti-Corruption Programming: Questions, Strategies and Guidelines". During the consultations on the document, it was clear that many CIDA staff felt that the Agency should be taking corruption - as a development issue - much more seriously and that more management direction was needed. While wishing stronger direction, staff members were very ambivalent about the usefulness of guidelines. The document has been revised somewhat and now concentrates on improving 1) our understanding of the impact of systemic corruption on the viability and sustainability of projects and programs, 2) taking corruption issues into account in policy and program decisions, and 3) the programming of specific anti-corruption activities.

The anti-corruption debate has evolved very rapidly, most significantly in its openness and the level of effort being put into a variety of anti-corruption activities by multilateral and bilateral agencies, as well as non-governmental organisations and the private sector. The heightened interest seems to be a combination of a growing realisation of the consequences of corruption for development activities, attempts to create a more level playing field for global trade, and the fight against global organised crime.

Corruption must be seen in the context of the economic, financial, political and historical context of the power relationships of a society. The framework proposed in the document suggests that reform approaches (there are no solutions) will be found in the interplay between the public sector, judiciary, parliaments, civil society, private sectors (domestic and international), regional and international organisation - and not infrequently organised crime, the military and police. Because of the interaction between these various groups, an integrated approach is crucial.

Section 6 discusses several programming issues at the Agency and Branch levels: 1) the importance of increasing our understanding of the effect of systemic corruption of program and project goals and sustainability, 2) the importance of improving programming decisions in situation of systemic corruption; 3) balancing less paternalistic approaches with issues of accountability, 4) the need for more information and tools for programming anti-corruption activities, 5) striking a balance between management or disbursement pressures and the need to face corruption issues, and 6) the need for greater leadership to make corruption a greater priority. Several approaches are proposed including making the anti-corruption dialogue more open (within the Agency as well as inter-departmentally), strengthening programming and evaluation, strengthening leadership and support to Canadian and multilateral anti-corruption efforts, encouraging recommendations to change the scope, size and nature of programs and possibly disengage when corruption is judged to be a serious constraint, and providing increased support and recourse to CIDA employees and CEAs who wish to express ethical concerns.

Section 7 reviews lessons learned and best practices in terms of broader strategic issues (institutional strengthening, leadership and local ownership, decentralisation and the necessity of

taking a long-term approaches) and specific initiatives (institutional and policy reform, privatisation, improving oversight agencies, strengthening procurement, public sector reform, strengthening judicial systems, and parliamentary reform. It also describes the considerable progress that has been made in the development and use of various types of anti-corruption surveys - particularly those developed by the World Bank.

Section 8 discusses a number of operational issues including facilitation payments, "income supplements" to counterparts, controlling corruption within projects, reporting corruption and protecting whistle blowers, and blacklisting firms who engage in corrupt activities;

The document concludes by suggesting several ways in which CIDA could strengthen its role, by:

- Encouraging greater openness and discussion of corruption issues
- Encouraging and supporting programming decisions to fight corruption
- Making corruption part of the analysis of programming, policy and evaluation exercises, including risk analysis
- Strengthening the capacity and understanding of managers, programmers and staff to understand corruption issues
- Strengthening the sharing of information on lessons learned and tools for measuring and analysing corruption
- Being more proactive

1. INTRODUCTION

Corruption is a major development issue and deserves to be taken seriously in analysis and practice in the same way as other development questions. While the discussion of corruption has become much more open, serious analysis and open discussion within agencies such as CIDA still seems difficult. Why is that? Is it that there are few rewards (and distinct dangers) for civil servants or politicians to initiate a serious, open debate or raise problems? Is it because acceptance of a certain level of corruption is part of doing business - and development? Is it because the debate touches on messy issues of ethics and morality - when a discussion of GDP or cost-effectiveness apparently does not? Is it because there appears to be a certain level of moral self-righteousness on the part of people and institutions from industrial countries and some hypocrisy in the fight against corruption to create a "level" playing field for global trade. There is, no doubt, some truth in all of the above. However, suspicions about motivations and the nature of corruption should not confuse the issues. The anti-corruption fight is important. If equitable and sustainable development is to occur in developing and transitional economies and their citizens are to function and prosper (in the broadest sense) in an increasingly global economy, the role of civil society, judicial systems, public service, and democratic institutions (whatever shape they take) must be dramatically strengthened and the external factors contributing to corruption must also be addressed.

This document argues that CIDA should treat corruption issues more openly and rigorously with its various Canadian and international stakeholders, including, obviously, various country partners. To do so, it will need to strengthen its own capacity to be more analytic and proactive. One of the consequences will be more difficult programming decisions.

1.1 *Hear no Evil*

The consequences of ignoring governance issues, of which systemic corruption is a major symptom, are extremely serious. A classic case, but not isolated, is Indonesia. For many years the donor community, bilateral and multilateral, applauded Indonesia's development efforts as measured by increasing GNP, poverty reduction, declining levels of infant and child mortality. These efforts were rewarded with increased commitments of official development assistance. Private sector investors in parallel rushed in. With a few exceptions, the majority of international investors, donors and NGOs - as well as Indonesian investors and senior officials - denied, ignored or down-played the rapidly accumulating danger signals. "There were no obvious warning signals of the kind of catastrophe that was about to hit Indonesia - at least {none} that we were watching," said Dennis de Tray of the World Bank in Jakarta.¹ The economic and political system, based on crony capitalism and a sophisticated alliance with the military, had captured the public service, the judiciary, national and local parliaments and large segments of the economy. The results were seriously flawed economic, financial, judicial and democratic institutions, a closely controlled press and civil society - and systemic corruption.

¹ Catching the Asian Flu, Time, November 3, 1997.

After the financial crash in 1997, the results were massive unemployment, drastic reductions in standards of living, increases in poverty levels, major declines in public services, and economic and financial institutions in complete disarray. On the positive side there have also been democratic elections for the first time in 35 years, a housecleaning of the Supreme Court and liberation of the press and civil society organisations. The reasons for the extent of the crash do not all rest within Indonesia. However, the progressive erosion of governance foundations accompanied by the institutionalisation of systemic corruption means that the reform process must be measured in terms of years, if not generations.

The purpose is not to assign guilt or point fingers. The point is how do we (Canadians, Indonesians, bilaterals, multilaterals, civil society organisations, and other countries) learn from this? How can we better recognise the danger signals? How do we get the issues out in the open? How can we develop a more productive dialogue between stakeholders seeking reform? How can Canadian stakeholders support others struggling for change? How do we respond to those who do not want to see or listen? Indonesia is not an isolated example.

1.2 CIDA Now

The CIDA policy framework consists of four main elements:

- Canada's Official Development Assistance (ODA Policy Framework)
- The CIDA Development Policy Base
- Agency Program Management Frameworks
- Bilateral Program and Project Management Frameworks

Corruption is not mentioned in either the Six Program Priorities or in the Principles of Effective Programming. In the documents that make up the Development Policy Base, there is no reference to corruption, although in two recent sectoral documents there are brief references. It was not possible to identify any Bilateral or Multilateral program documents which treat corruption in any depth. Neither program has a requirement to assess corruption as part of programming. CIDA does not have an overall policy statement on anti-corruption. The only two documents that CIDA has are: A "Protocol for Dealing with Allegations of Corruption" prepared by the Contracting Management Division and the CIDA Anti-Corruption Primer. A summary of anti-corruption initiatives at CIDA is available on Entre-Nous (the CIDA Intranet). An anti-corruption section is currently being added to the Governance Home Page. This does not mean, however, that CIDA staff ignore corruption issues. It often is considered as part of the assessment of governance issues. Information is shared and issues are discussed and debated among staff.

The Government of Canada

The Government of Canada does not have a one overall policy on corruption per se but a number of measures are contained in various legislation and regulations. The Department of Justice has produced a summary of Canadian Public Integrity and Anti-Corruption Measures.² There are a number of examples of collective initiatives by the Canadian private sector to develop corporate social responsibility (CSR) such as the International Code of Ethics for Canadian Business, which covers community participation and environmental protection, human rights, corruption and bribery as well as employee rights, health and safety.³ The Export Development Corporation (EDC) is in the process of responding to the December, 1999 report on the review of the ED act by the Parliamentary Committee Standing Committee of Foreign Affairs and International Trade. The report raised issues related to human rights, labour and other concerns. The Canadian Commercial Corporation (CCC) is in the process of developing a code of conduct for its staff and board members. Current CCC contracts contain a no-bribery/corruption of officials (Canadian or foreign) clause. The Auditor-General's report of 2000 contains a chapter on "Values and Ethics" in the Federal Public Sector and reviews government initiatives undertaken since his 1995 report on values and ethics. Two deputy ministers have been assigned the responsibility of reinvigorating a discussion of values and ethics, an Office of Values and Ethics has been assigned to support them, the Public Service Commission is trying to implement a values-based staffing system, and three major departments are trying to implement sophisticated values-and-ethics initiatives.

What does this reflect? Within the Canadian government and the private sector there appears to be a growing concern about ethics, social responsibility and legal issues such as bribery, money laundering and corruption. Within CIDA, the current situation appears to reflect a combination of several things. First, CIDA managers, programmers and operational staff, whether they are in the Policy or operational branches, are faced (many would say overwhelmed) with a myriad of complex and demanding programming and operational requirements which make priority setting extremely difficult. Second, it is one thing to identify and analyse governance/corruption issues. Determining what the role of a relatively small bilateral donor in addressing them is another issue. Third, and not exclusive to CIDA, there is a tendency to write documents, particularly public ones, with an emphasis on the positive and to avoid negative issues such as corruption which might support critics. Finally, the consequences of taking a strong stance on corruption issues has many programmatic implications for CIDA, as well as its relations with multilateral agencies, other departments and the private sector. It is not obvious how much support staff or the Agency might receive for taking a stronger stance.

² See "Primer on Anti-Corruption for CIDA, Partner Organizations and Canadian Executing Agencies," by Bruce M. Bailey, written for CIDA Policy Branch, 2000. (Referred to as the CIDA Anti-Corruption Primer in the rest of the document)

³ Social Dimensions of Trade, Corporate Social Responsibility, DFAIT Discussion paper May 2000.

2. AUDIENCE

This document is intended for:

- Senior managers and programmers in all branches of CIDA, and
- CEAs and Partnership Organisations who assist in planning CIDA programs and projects, or who manage projects

It is hoped that it will also be of interest to interdepartmental colleagues who participate in or influence ODA and CIDA programming.

3. PURPOSE AND FOCUS

This document is concerned with several related programming issues:

- The importance of improving our understanding of the impact of systemic corruption on program and project viability and sustainability
- Improving policy and programming decisions, including how proactive and assertive the Agency should be on corruption issues, and issues of engagement and disengagement when there is lack of commitment and/or capacity
- Improving programming of anti-corruption activities

It also treats a number of corruption issues related to project management

4. THE ANTI-CORRUPTION BACKGROUND

4.1 *The evolution of the anti-corruption debate*

Corruption in industrial countries and so-called developing and transition economies is not new. What is new, however, is the nature, level and breadth of efforts being made to understand and combat it - and the openness of the discussion.

Efforts to combat corruption now go well beyond the interests of multilateral and bilateral development agencies, and involve trade, justice and enforcement agencies, international organisations such as the OECD, and private sector associations. Country specific anti-corruption issues are now intertwined with larger global issues related to international crime (money laundering, illegal immigration, the drug trade, organised crime) and international trade (anti-bribery to level the playing field, deregulation, reduction of subsidies, etc.).

Specific manifestations include:

- The adoption of explicit policies and guidelines by many multilateral and bilateral development agencies
- Increased anti-corruption programming
- The inclusion of anti-corruption clauses in requests for proposals, contract documents, and loan or contribution agreements
- The development, use and improvement of analytic tools and approaches to understand the degree and nature of corruption which barely existed ten years ago, many of these led by the World Bank and TI
- Increased international co-operation between agencies as well as countries
- The growth of Transparency International into what is now a well-recognised and respected organisation, with chapters around the world
- An explosion of anti-corruption web-sites from Eastern Europe, to Asia to Latin America
- A parallel explosion of literature
- The rapid growth of a range of anti-corruption activities (some successful, some less) on the part of a large number of countries, in co-operation or independent of foreign donors
- The adoption by several countries, including Canada, of legislation making it a criminal offence to bribe foreign officials. (Money laundering legislation is coming next)
- A mushrooming of both private and public sector interest and effort in ethics education and training, particularly in Europe and North America

4.2 What is driving the interest?

Several related factors appear to be influencing the increased interest:

- a growing realisation and understanding of the negative effects of corruption on developing and transition economies,
- growing concern about international/organised crime,
- attempts to level the playing field (particularly for industrial countries) by establishing common rules and standards related to legal requirements, subsidies, tariffs, etc. in an increasingly global economy
- a growing appreciation of the weakness in the management and governance of financial systems at country, regional and international levels
- a very strong effort on the part of the World Bank to correct past errors and to take leadership on anti-corruption issues
- increasingly stronger linkages between governance (corruption being symptomatic of poor governance) and poverty reduction programs
- growing concern related to accountability issues as they concern budgetary support and programs such as SWAp

4.3 Who are we to preach?

The anti-corruption efforts of industrialised countries, whether it is intended or not, often takes on an excessively moralistic, "preachy" tone. The perpetrators of corruption in developing or transition economies are not always their citizens. During the Cold War period, several industrialised countries, from both blocks, interfered in the political process of countries in the developing world by supporting, maintaining and even installing corrupt leaders. Many wealthy nations have followed a double standard in their foreign policy, promoting democracy at home and autocracy abroad. Political patronage in many industrial countries, in the form of massive contributions to political parties and their members in return for favours, is seen by many as another variation of legalised corruption.

Corruption is a universal, historical phenomenon. It is found, to varying degrees and forms, in every society including Canada. Corruption requires complicity between at least two parties: the corrupter and the corruptee, including, frequently, their agents. The store that displays goods in such a way that makes it easy for consumers to load up - also encourages shoplifting. Private sector financial institutions that make loans too easily available in search of quick profits - and complain about the corrupt nature of the borrowers - share responsibility. Donors (bilateral or multilateral) who made and continue to make large amounts of funds available knowing the extreme weaknesses of a country's financial and other institutions, and the effect of corruption on those institutions, likewise share responsibility. (For more information of the nature, causes and consequences of corruption, see Annex 2)

For those who view globalisation with more alarm than hope, there is a strong suspicion that many anti-corruption measures - levelling the playing field (some would say clearing), combating international organised crime, and reducing money laundering - are more for the benefit of industrial countries than of the so-called developing ones.

5. UNDERSTANDING AND RESPONDING TO CORRUPTION - A FRAMEWORK

Defining Corruption - and its Consequences

The CIDA Anti-Corruption Primer defines corruption, gives examples of its nature, causes, and consequences and its links with governance issues. For those who do not have the Primer in front of them, an updated version of the section *Understanding Corruption* is included in Annex 2. The CIDA Anti-Corruption Primer emphasises that corruption is universal, and has both a demand and a supply side. It uses the most recent definition of the Council of Europe which broadens the scope to include the private sector and civil society: ⁴

“bribery and any other behaviour in relation to a person entrusted with responsibilities in the public and private sector, which violates their duties that follow from their status as a public official, private employee, independent agent or another relationship of that kind and is aimed at gaining undue advantage of any kind for themselves or for others.”

Corruption occurs at those points where political, bureaucratic and economic interests coincide. There is legislative corruption when politicians sell their votes to pressure groups, and administrative corruption when public officials take payoffs to allow some one to secure a procurement contract or to evade taxes. Distinctions can be drawn between systemic or pervasive corruption and more episodic forms. The terms “grand” and “petty” are often used. “Grand” refers to very large amounts and usually involve the most senior officials in the political, public or private sectors, or some combination. “Petty” is often used to refer to small amounts, often facilitation payments or quasi “user fees”. However, petty is relative. If the person affected is poor, or on a very low income, the term petty may be far from appropriate.

The causes, consequences and costs of corruption are intertwined. When corruption is systemic and pervasive, it poses a serious development challenge. In the political realm, it undermines democracy and the legitimacy of government by subverting formal processes. In doing so, it reduces seriously the trust and confidence of people in their institutions. Corruption in elections and in legislative bodies reduces accountability and representation in policy making. Corruption in the judiciary undermines the rule of law. Corruption in public administration results in uneven provision of services. It undermines economic development in a variety of ways by creating distortions, inefficiencies, and diverting resources.

EXAMPLES OF CORRUPTION

- **Bribery**
- **Kickbacks**
- **Nepotism**
- **Collusion**
- **Influence-peddling**
- **Fraud**
- **Embezzlement**

⁴ For more detailed definitions of various forms of corruption used by the Asian Development Bank, see Annex 3.

More generally, corruption erodes the institutional capacity of government as procedures are disregarded, resources are siphoned off, and officials are hired or promoted without regard to performance. It threatens people, especially the very poor, who have no resources to compete with those willing to pay bribes. It widens the gender gap because it is often redistributed from the poor (disproportionately women) to office holders (mostly men). Finally, corruption is unsafe. It makes it easy to ignore or circumvent regulations about health, safety and the environment.

Finally, the Primer emphasises that anti-corruption measures (there are no easy solutions) are long term.

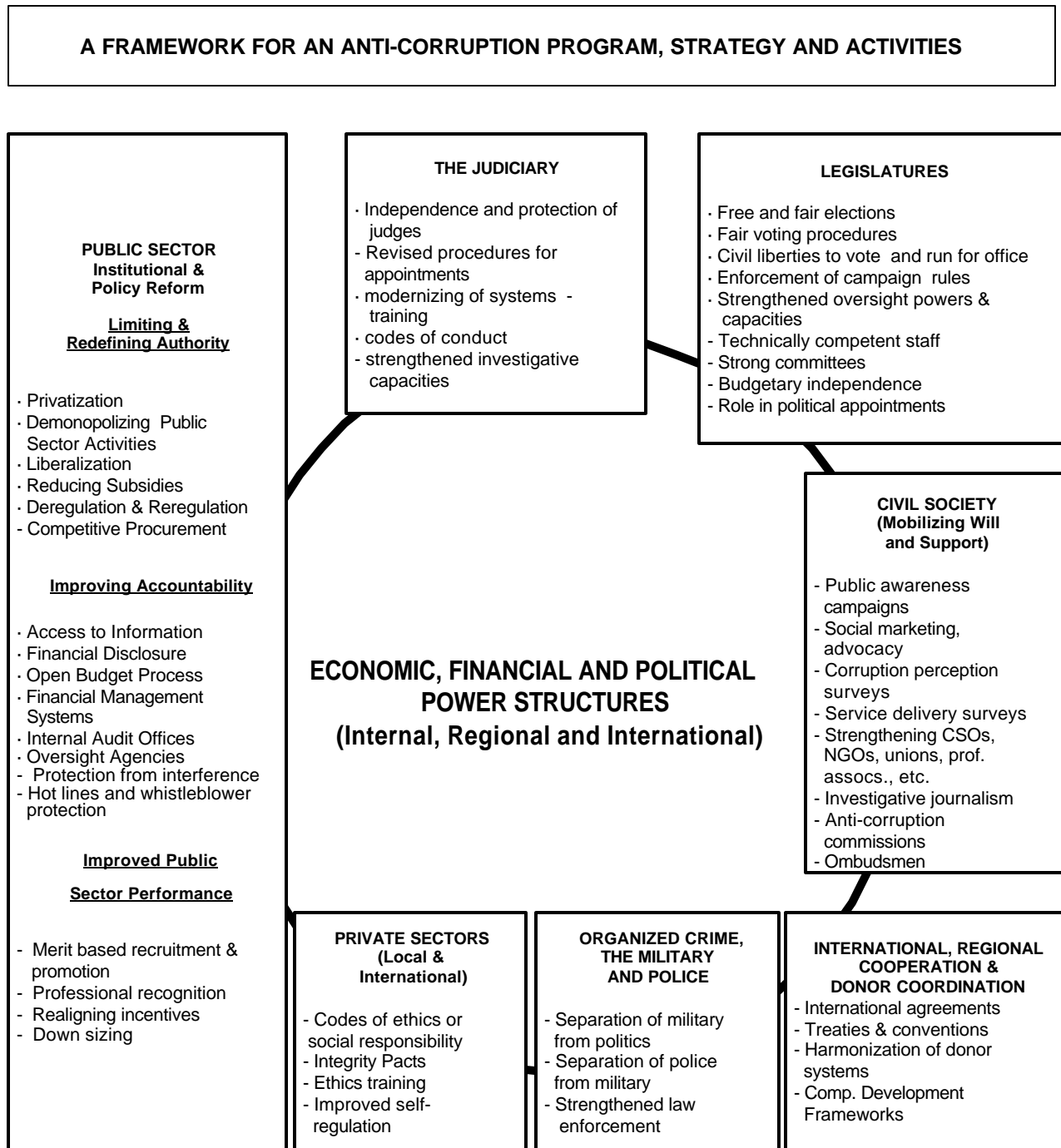
A Framework

The basic premise of the framework that follows (next page) is that corruption must be understood in the context of the economic, financial, political and historical context of the power relationships of a society. Reform approaches (there are no solutions) will be found in the interplay between the public sector, the judiciary, parliaments,⁵ civil society, private sectors, regional and international organisations - and not infrequently organised crime, the military and the police.

The context and nature of corruption varies widely. The fact that countries are clustered together at a certain level of ranking on the Transparency International (T. I.) Index (or any other index) gives us a rough sense of the proportion of the corruption problems - but not the nature. The nature and sources of corruption in a middle income economy with large natural resources, relatively high inward foreign investment and a high degree of "crony capitalism" are obviously quite different than those of a low-income economy which is resource poor and has relatively little foreign investment. The economies of Russia and the countries of the former Soviet Union differ significantly among themselves and are, in turn, very different from, for example, the economies of Latin American countries. Having said that, reform approaches invariably come back to the need for some combination of effort within the seven boxes in the framework diagram.

⁵ There is no presumption that western style parliamentary democracy is the only solution.

Figure 1: A Framework For An Anti-Corruption Strategy and Activities



The CIDA Anti-Corruption Primer describes the different specific approaches found in the framework.⁶ A frequent response is to attack the problem from the public sector perspective. Typically this involves a combination of institutional and policy reform (limiting and redefining authority, improving accountability, and improving public sector performance). The public service is obviously a major factor in both the sources of corruption as well as its reduction. At the same time, judicial reform and strengthening legislative institutions are also key. However, this institutional approach does not always give enough emphasis to societal issues and the need to change attitudes and mobilise political and public opinion and strengthen civil society. Finally, an understanding of the power structures behind corruption is essential in order to understand how and to what extent powerful elites control key institutions such as the public service, the judiciary and parliaments.

***When the elephants fight
it is the grass that suffers.***

African Proverb

This framework provides a general starting point for thinking about the causes and nature of corruption - and possible reform approaches. Other programming issues, such as what type of analysis CIDA should invest in, how much effort should go into it, and what, realistically, a small bilateral agency such as CIDA can hope to achieve are discussed in the sections that follow.

⁶ For more in-depth information of frameworks and strategies, consult the USAID, Trans International and World Bank web-sites.

6. PROGRAMMING ISSUES

6.1 *Agency Level*

At the Agency level, there are several broad interrelated anti-corruption issues:

1. There is growing evidence that an environment of systemic corruption and weak governance affects the achievement of program and project goals and their sustainability, no matter how well individual project activities are designed or "fireproofed". There is no simple, empirical way to measure this - but many indications. Continuing to try to strengthen individual institutions, or parts of them, that are being undermined by larger systemic problems is unlikely to be effective. Individual projects that seem well designed often falter in implementation and are unsustainable.
2. There is a need to improve our understanding of the nature and impact of corruption in both macro and micro level terms in order to make well informed programming decisions related to initiating, redirecting or withdrawing from certain types of activities or programs, developing policy options for inter-departmental or international meetings, and programming specific anti-corruption activities.
3. There is increased pressure and a desire on all sides to change the paternalistic nature of "donor-recipient" relationships which resulting in movement toward more equal "partnership" relationships which in turn require new approaches to accountability, particularly joint accountability. The issues become more specific in the operational considerations of sector-wide approaches (SWAs), in delegated procurement of bilateral funds, use of untied funds on projects, joint financing, and the "nationalisation" efforts of many Canadian NGOs.
4. There is an increasing interest in and demand for programming anti-corruption activities. Staff members need greater access to information, tools, training and lessons learned.
5. There is a need to strike a balance between management and disbursement pressures, the need to openly discuss corruption concerns, protect staff or CEAs who raise issues, and to take appropriate programming and operational decisions related to those concerns. Management and disbursement pressures affect all projects, particularly in Bilateral Branches because of sheer size and numbers, but also Partnership and Multilateral Branch programs that CIDA supports less directly. To, perhaps, oversimplify - there are pressures on all dev't actors, on CIDA managers, CEAs, counterparts, and partner organisations to keep projects moving and to achieve results. Many managers as part of "managing the possible" avoid bad-news stories, especially if the project appears to be achieving results, is at a sensitive

stage, or is in an emergency situation. Multilateral agencies face similar pressures on both loan and grant projects. More complex are the dilemmas faced by multilateral lending agencies such as the IMF to release very large tranches of money when non-release could have major political/stability consequences.

6. Corruption issues need greater priority and leadership. But realistically how - and why? There are some grounds to think that corruption concerns fall into the category of the "flavour of the month" and have already been overtaken by other issues. Making anti-corruption too big an issue when there are no easy solutions may produce other problems, raise public concerns, and produce few short-term benefits. In the view of many, as long as CIDA ensures that its projects are as "fire-proofed" as possible, supports some small bilateral projects such as the training of judges or parliamentarians, as well as multilateral initiatives - this may be enough. Major CIDA supporters recognise that corruption is an important, complex issue with no easy solutions and would welcome a more open discussion.

What to do?

Recognising that there are no simple answers, this document proposes several approaches:

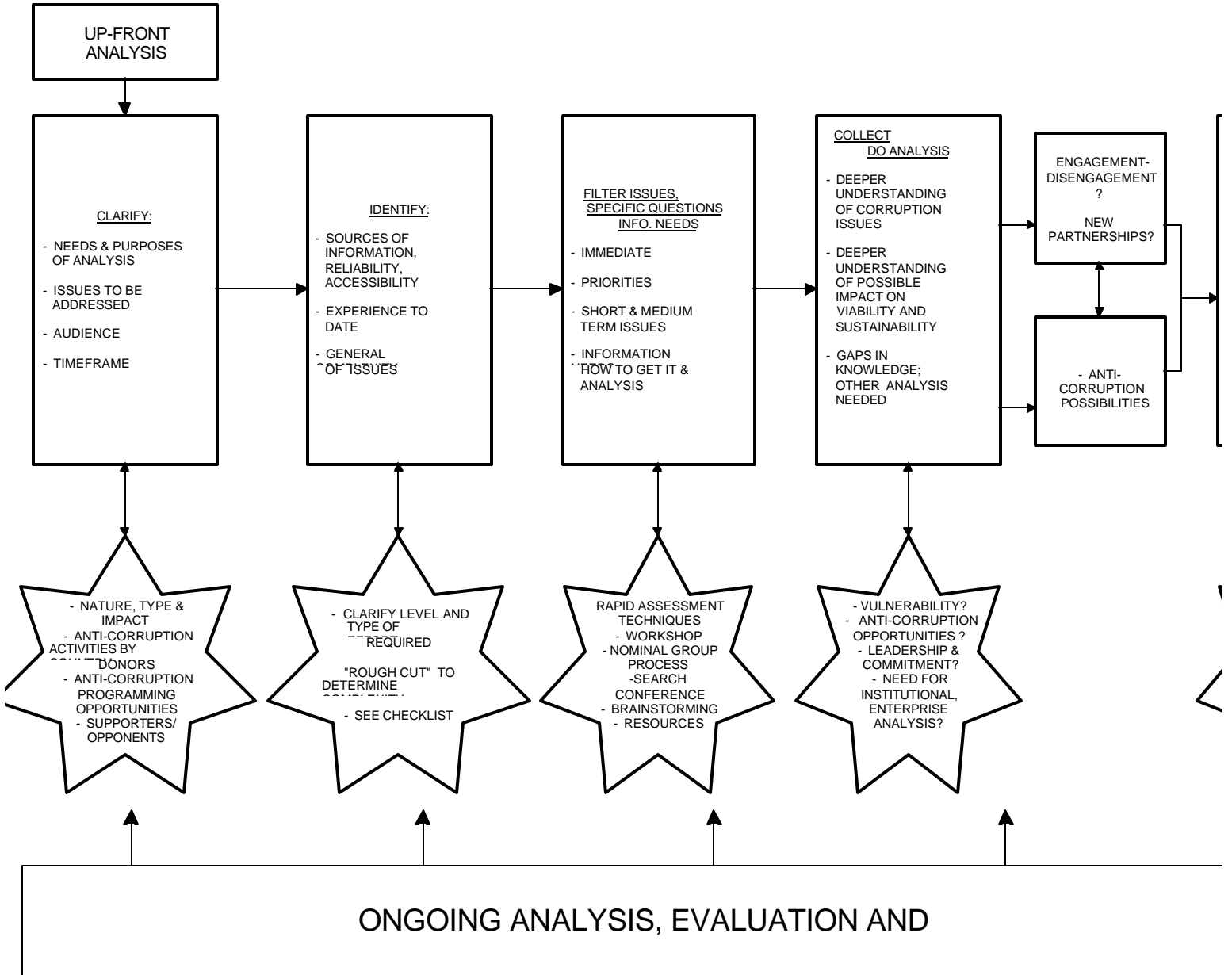
- Initiate a more open dialogue within the agency, with interdepartmental colleagues, CEAs, and various partners. The purpose of this dialogue would be to produce principles to guide CIDA staff in its interaction with its various stakeholders
- Strengthen programming and evaluation, so that (a) key policy documents make substantive reference to governance and corruption issues (b) Branch (Bilateral, Multilateral and Partnership) programming processes undertake more substantive analysis of governance and anti-corruption issues, and (c) evaluations and corporate reviews examine more carefully the implications of systemic corruption
- Strengthen Agency capacity to analyse and understand corruption as well as to carry out programming of anti-corruption activities
- Provide leadership and active support to Canadian and multilateral anti-corruption efforts
- Encourage and support programming recommendations to change the scope, size and nature of programs, and possible disengagement from situations where there is very limited leadership, commitment or capability to improve governance and undertake anti-corruption reform measures
- Provide trustworthy and effective support and recourse to CIDA employees (and possibly CEAs) who wish to express ethical concerns

6.2 Bilateral Programming

Bilateral country programmers face the daunting challenge of developing an ongoing understanding of the developmental situation of the country concerned, the programs and priorities of the government, Canadian resources, and programs of other donors in order to make informed recommendations about the direction of the CIDA program. This requires an ability to integrate constantly changing information about a wide and diverse range of complex issues related to the history, culture, economy, institutions and specific sectors of the country. Corruption/governance is one among many important issues.

The purpose of anti-corruption analysis is to deepen our understanding of the issues, to understand better the impact of corruption on the viability and sustainability of CIDA activities and to provide a basis for programming directions and decisions. One of the major challenges is to make the analytic process manageable and useful. Everything cannot be analysed in detail. In very large, complex, countries such as China or India national/macro level analysis is only useful to a point. Some filtering and a clear sense of what analysis is needed for what purpose is obviously important. Figure 2 presents a visual summary of the programming process.

Figure 2: Corruption Issues: Analysing and Programming



Should an assessment of corruption be mandatory as part of the country programming process? The simple answer is yes. However, an overly simplistic "one size fits all" type of requirement will only invite lip service. Just as there is a need to filter the issues and identify priority concerns within a country program, such an approach could be taken across geographic programs.

This section is divided into the following parts:

- Working the questions through
- Analysing corruption activities
 - Specific corruption questions to address
 - Filtering the issues and establishing priorities
 - Where to find information - a checklist
 - Specific and Specialised Surveys
- Communicating the Conclusions
- The Need for Partnership Approaches
- Engaging and disengaging

6.2.1 Working the questions through

The challenge of corruption is not simply an analytic one. It involves managerial choices, judgement, communications, and personal ethical issues. Whether Bilateral managers and programmers are starting a new program, updating the framework of an existing one, or involved in ongoing program activities, there are a series of anti-corruption questions which are useful. It is helpful to know that there is an increasing amount of hard data available, particularly through World Bank surveys:

First,

- How well do we understand the nature and extent of corruption?
- How well do we understand the impact of corruption on the developmental situation and the institutions of this country?
- If corruption is systemic, how does it affect the likelihood of achieving program and project results and their sustainability?

The next level of questions includes:

- How do we determine the extent and nature of corruption?
- What kind of analysis should be done and how much is necessary?

The results of a first cut at analysis, particularly in large, complex economies may reach a number of possible conclusions. First, about trying to do the analysis:

- The issues are big, complex and dynamic.
- There is limited reliable, hard information. Most of what is available is anecdotal. Some filtering and priority setting is required.

The results of further analysis may produce several possible conclusions:

- There is little hard data but the anecdotal information is extremely disturbing.
- The nature and extent of corruption is clearly such that there is a very high probability that program and project goals will be seriously compromised.
- Corruption is extremely serious but there may be a way to undertake limited programming because there are reasonable developmental grounds to maintain a presence in the country
- Corruption is a serious issue but there is will and capability, either in civil society or among some individuals or groups in government, to fight corruption. Programming anti-corruption activities is a definite option.
- Corruption is an issue but not in all sectors or institutions of civil society or government. Corruption concerns can be managed and broader programming opportunities exist. There may or may not be opportunities to program anti-corruption activities as well.

When the initial assessment is that corruption is so serious that goals may be compromised and sustainability is a distant possibility, some of the possible issues and concerns are:

- Is more analysis going to be useful? What are the costs-benefits of more? If more analysis should be done, what kind?
- How do staff and managers communicate their concerns and reservations, especially if they are based on very little hard data? Will we get support? Are political and/or commercial reasons for programming more important than developmental ones?

If an implicit or explicit decision is made to continue to program in a situation of extreme and pervasive corruption, the major question is:

- How do I program for damage control? Are there realistic options, such as focussing programming and project planning on anti-corruption measures or in sectors, agencies, civil society organisations that are less corrupt? Am I fooling myself, and others, to suggest this?

6.2.2 Analysing, Measuring and Understanding Corruption

Analysis and understanding of corruption requires both up-front and ongoing analysis. The up front analysis must be rigorous and at the same time avoid the "Tolstoy/Michner" syndrome of thickness and production time. If much of the analysis is likely to be done by consultants, considerable thought should be given to how the knowledge is going to be retained within the Agency. Figure 2 (page 13) provides an overview to an approach to the analysis of corruption issues. It may appear linear, but we all know that such analysis is highly iterative.

One of the problems of initiating analysis is that we do not always know what we do not know.

The first set of questions about analysis to be addressed include:

- What are the needs and purposes of the analysis?
- What is the (analytic) question, or set of questions, to be addressed?
- Who is the audience?
- What is the timeframe?

Next, identify the sources of information and do an initial very broad review to get a feel for the complexity of the issues.

6.2.3 Specific Corruption Questions to Address

Corruption issues can be addressed as part of governance or separately. The boxes in the Framework (page 8) provide a structure for directing some of the key questions, which include:

- What are the major power interests in the economy? Where are the major financial concentrations particularly in terms of exports, inward foreign investment and domestic investment? (Follow the money)
- How effective and capable are key financial and economic regulatory agencies and institutions such as the national bank and key economic institutions? Are accurate, frank reports produced regularly? Do the agencies work in a transparent manner?
- Which are the key anti-corruption and oversight agencies (audit bureaus, parliamentary committees, anti-corruption agency, etc.). What are their mandates, powers (investigate, call witnesses, convict and assess penalties), staffing (qualifications, numbers, positions filled), reporting arrangements, independence and track record. How effective and capable are they?
- What is the extent and nature of corruption? Is it growing, declining, changing and how? What are the major manifestations? Is it primarily political patronage? Is it systemic?
- Which institutions are the most vulnerable? (Public Works and Customs are usually high problem areas)
- What are the main efforts being made to fight corruption and how effective do they seem to be?

-
- Finally, it is not just a question of the compiling horror stories but gaining a better understanding of the impact of corruption of institutions and financial systems, what is being done to combat it, and how effective the efforts are.

6.2.4 Filtering the issues and establishing priorities

Time and resources will be limited. The issues may be too big and too complex to cover everything in up-front analysis. It may not be obvious what is more important. Filtering the issues and establishing priorities is necessary. Approaches may vary from the informal such as sitting down with a few people who know the issues and talking the priorities through. There are also a number of rapid appraisal techniques and group processes that offer more structured approaches. A more traditional workshop is another possibility.⁷ Establishing priorities will in turn help to clarify information needs and will provide some stimulus to think about what kind of resources are needed to carry out the next steps. Unless there is a special requirement it is not obvious that CIDA should involve itself in any kind of original in-depth study or survey at this stage.

6.2.5 Where to Find Out

There are a wide variety of sources of information, much of it obvious. The following is a checklist:

- A significant number and variety of World Bank and World Bank Institute surveys have been conducted and offer good sources of hard data. The World Bank is also supporting anti-corruption activities in 30 - 40 countries.
- Officials of oversight and watchdog agencies. They are usually quite candid and can provide direction in finding relevant documents and other resources.
- Audit, evaluation and related reports, or excerpts from government, international agencies, NGOs, or private sector organisations. Translation may be necessary. Quality may vary.
- "Corruption Watch" types of NGOs, professional organisations (lawyers, accountants, auditors) and universities faculty are good sources information about types and examples of corruption, how it works, and how effectively agencies are in dealing with it.
- Newspapers and magazines (local, regional and international). Many newspapers now are on the Internet.

⁷ There are many techniques, one of which is the Nominal Group Process. ICA Associates Inc. (affiliated with the Canadian Institute of Cultural Affairs) offers a methodology which assists a group to deal with large amounts of data in a short time.

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- Officials and politicians of the country are increasingly open about talking about corruption. Time, place and familiarity with the individual may influence what they are willing to talk about. Often responses will be predictable but there may be many surprises too.
 - Officials of lending agencies (private, public and international). Lenders of development assistance loan funds have a different perspective on corruption than those from agencies who provide grants.
 - Advisors (local and international) who are working on governance issues, public service reform and/or specific anti-corruption activities.
 - Private sector people (local and international). Although private sector people have always been willing to complain about governments, they too are increasingly willing to be frank about corruption and how it "works", including their own responses.
 - Ordinary people (taxi drivers are usually an exceptional source) can provide an important understanding of how "petty" corruption (payments for birth certificates, to teachers, to hospital staff, etc.) works in practice and how it affects everyday life.
 - Minority groups such as (Chinese in S-E Asia, East Asians in East Africa) who may or may not be rich, frequently offer another perspective.
 - Corruption and related indices. (See the CIDA Anti-Corruption Primer for sources).
 - The Internet has already been mentioned, but it is worth repeating. The regional development banks (particularly the Asian Development Bank and the Latin American Development Bank), the World Bank, OECD, and Transparency International (T. I.) are major sources.

6.2.6 Specific and Specialised Surveys

If a decision is made to undertake anti-corruption programming, more specific information may be required. Several survey diagnostic tools are available.

Diagnostic surveys have evolved very rapidly under the leadership of the World Bank Institute's Governance and Anti-Corruption Core Program. The surveys described below are different from traditional analysis. They are more proactive and aimed at awareness raising and mobilising the involvement of a variety of stakeholders, particularly civil society. They are seen at the outset as potential input to action plans.

The main characteristics of the new diagnostic tools are:

- They are focused on institutions, not individuals, and result in institutional data on performance and governance;
- The process used to carry them out depoliticises the debate
- They emphasise experiential rather than perception data
- They comprise closed, indirect questions that maximise response rates and facilitate rigorous and systematic analysis of the data, and
- Independent and technically capable local NGOs and firms, capitalising on strengthening local knowledge and expertise conduct them.

Public Officials Survey: The purpose of this survey is to understand institution specific determinants of corruption (including bribery, nepotism, political interference, embezzlement, etc.), discretionality/informality, performance and governance. Survey results inform the policy dialogue on the links between governance and poverty alleviation, social sector outcomes and political and values/cultural differences.

Enterprise Survey: the purpose of this survey is to study the business environment, with a special emphasis on the effects of public sector governance and corruption on private sector development. This survey examines firms' roles as users of public services and subjects to regulations, and clients for licenses and permits. Special attention is devoted to the judicial system.

Household Survey: The purpose of this survey is to study the citizen's experiences with and the perceptions of corruption in the public and private sectors. Citizens are surveyed in their roles as users of public services, subjects to regulations. And clients for licenses and permits. Special attention is devoted to social services such as health care or education.

Specialised survey: the purpose of this survey is to study (1) a special sector or group where corruption is perceived as prevalent, such as electricity, customs and forestry; or (2) a special sector or group that is known to play a potentially important role in anti-corruption, such as the judiciary or mass media.

For example, a survey at the municipal level could allow participants to identify key agencies involved in or vulnerable to corruption (institutional vulnerabilities and how costly or prevalent corruption is. From this, priorities could be defined, and feasibility (political and other) could be assessed.

These surveys work best and are most useful when they are part of a collaborate effort (civil society, government people or agencies, donors, professional or private sector associations, other donors) with individuals and organisations who are concerned with fighting corruption. They

can also be helpful in developing local capacity when local NGOs or private firms carry them out.

Box 1: Tools for Analysis and Reform of Corruption

The everyday lives of most Africans are permeated by corruption in the areas of land use, road transport, health care, credit, and imports and exports. However, Africans are beginning to talk openly about this phenomenon. USAID/Senegal and the Center for Institutional Reform and the Informal Sector, held a training workshop in Dakar and developed a tool kit to assist transparency advocates. It defines and analyses corruption, draws attention to areas most vulnerable, synthesizes lessons from case studies in other parts of Africa, and provides guidance for those facing similar issues.

DAC Evaluation Abstracts, Report Number PN-ABZ-679 (On Entre Nous, CIDA's Intranet System)

6.2.7 Communicating the Conclusions

There is no conclusive way to "prove" the extent to which pervasive corruption and weak governance impacts on project viability and sustainability, although there may be plenty of evidence. The inability to prove its impact should not be a reason to avoid raising the issues and taking steps to adjust the program. The topic is no longer taboo. The concerns and programming options should be discussed openly with managers and interdepartmental colleagues. If the recommendation is to get involved in specific anti-corruption activities, some of the examples of lessons learned and best practices can be found in the last section of this document.

6.2.8 Look for Partnerships

If one of the decisions is to start programming specific anti-corruption activities, such as judicial reform, strengthening parliamentary committees, establishing integrity pacts, etc., partnership approaches are critical for several reasons. Fighting corruption and working to improve governance are complex, long term, and often involve large efforts. Leadership and commitment must come from the country itself. Multilateral agencies, such as the UNDP, may play a coordinating role. Smaller bilateral donors such as Canada can often play an important role by providing strategic support by supporting surveys, or other activities such as parliamentary reform. The partnerships that are required are often complex and may involve civil society organisations, selected individuals or institutions of government, the private sector, parliamentarians, etc. Donors can play a supportive role, but especially in fighting corruption, leadership must come from within the country. The section on lessons learned discusses this in more detail.

6.2.9 Engaging and Disengaging

The results of deeper analysis may raise concerns about programming in general and/or the usefulness of programming anti-corruption activities. What terms of engagement or disengagement, from programs or projects, should bilateral or multilateral donors develop in their relations with recipient countries? The issues apply whether one is looking at the overall program relationship or more particularly at anti-corruption activities. This section is meant to summarise a number of issues that were raised in a paper prepared by Steven Langdon.⁸

While recognising that there are no easy and universal answers to the classic engagement questions, the paper argues that:

- Donors should move away from conditionality arrangements, to stress engagements based on performance in recipient countries rather than promises
- Country frameworks against corruption should be developed through donor-recipient interaction and co-operation, with emphasis on local ownership and leadership in country-specific strategies
- Non-engagement and disengagement should be options chosen by donors in circumstances where initiatives by recipients are seen as non-credible and local ownership is clearly absent. Co-operative interaction should focus around institution building, wide incorporation of stakeholders, joint monitoring processes, tracking the implementation of oversight and transparency institutions, public service reform, and priority funding and other support for anti-corruption agencies
- Normally, even when disengagement takes place, continued donor support for civil society groups and regional networks should be maintained albeit perhaps at lower levels.

Bangladesh is a case in point where the governance situation would make it extremely difficult to expect donor engagement in a country framework against corruption. There is widespread bribery, basic oversight institutions such as the Public Accounts Committee are ineffective, and there is open acknowledgement of illegal campaign actions by key legal leaders. Yet the civil society institutions in Bangladesh are amongst the most activist and effective anywhere in the world.

(Langdon, p. 14)

⁸ "Terms of Engagement: Towards Strategy and Guidelines for Donor-Recipient Interaction Against Corruption," by Steven Langdon, Senior Associate, Parliamentary Centre, Ottawa, Canada. Prepared in co-operation with Heather Baser, Policy Branch CIDA, for the Anti-Corruption conference of the Ustein Abbey Donors, Maastricht, April, 2000.

The paper emphasises assessment of ownership, leadership, and commitment as being essential to effective action against corruption. While these are not easy concepts to operationalise the following indicators can be helpful:

- Are government priorities backed by budget allocations?
- Who within government has contributed to the development process? Staff at several levels or just one?
- Has the government gone through an internal process to secure real commitment?
- Does the government produce robust arguments when donor positions conflict with their view?
- Who has endorsed the program - parliament, cabinet, the President?
- How much involvement is there from other stakeholders such as civil society, business, and the media?

Leadership needs to be assessed in a continuing way, too - not just in the sense of political will being evident, but in the broader sense of leadership capacity in a political context to achieve results, as reflected in:

- Strong personal commitment to program goals
- Ability to anticipate problems, flexibility in pursuing goals and skills in bargaining
- Political sensitivity to national and local aspects of the program
- Ability to hire good staff and inspire them to work

Box 2: Political Will and Ownership in Tanzania

The 1995 election in Tanzania of President Mpaka put in office someone with the "political will" to highlight the corruption problem. Yet the country proved unable in the aftermath of his election to demonstrate real ownership or responsibility in the anti-corruption fight. The country left in place most senior political leaders whose integrity was at question, understaffing continued in the Prevention of Corruption Bureau so that years later only 44 of 130 positions were filled, and the World Bank had to conclude in 1998 that Tanzania did not meet "the credibility test for application of a no-bribery clause in IDA funded procurement."

A country's political commitment can be examined by reviewing:

- The extent to which support for government action is widespread and multileveled
- How many stakeholders, including senior civil servants themselves, are involved?

- Local analysis of just how deeply and in what ways corruption has penetrated governance systems
- What internal processes have been undertaken inside state structures to build commitment?
- How widespread mobilisation has been of varied stakeholders in society against corruption
- Whether or not serious or credible sanctions have been identified or enforced, and
- The continuity of concern about corruption matters evident in government and among stakeholders

The paper by Langdon makes a number of recommendations, which in addition to the above mentioned subjects, also discusses:

- Monitoring indicators
- Public Service reform
- How donors can avoid contributing indirectly to corruption pressures by changing incentive systems (setting up special project units with higher salaries)
- The importance of ensuring that anti-corruption agencies are financially safeguarded and independent

6.3 Multilateral Programming

If there is any doubt about the openness of the corruption issue and the growing importance of anti-corruption, check out the web sites of virtually any of the regional development banks (particularly the World Bank), and the UNDP.

CIDA's Multilateral Branch ensures that Canada has a voice at key international organisations. It influences policy and program proposals, and to some degree operational decisions, through the Canadian representative (the director), through interdepartmental colleagues, or through direct discussions with the staff of the multilateral agency. Influence can be expressed through advocacy, support, disagreement and, to a limited degree, the earmarking of funds. Canada's influence, relative to the size of its contributions, is often surprisingly strong.

"...the direction is clear. We should be even more careful, particularly in the field of corruption, of undemocratic regimes, not to work together with them.....this is an issue for our shareholders"

**IMF Managing Director, Horst Kohler
National Press Club, Washington,
Aug. 7, 2000**

Fighting corruption is not a required theme of multilateral programming. Anti-corruption issues are approached on a case by case basis and may be interwoven with governance concerns.

Support of anti-corruption activities from multilateral agencies falls into four main activities:

- International efforts to combat corruption
- Country specific efforts to fight corruption
- Ensuring the integrity of projects financed by international lenders and donor institutions
- Training and dissemination of information related to anti-corruption policy, activities and lessons learned

International efforts include the work of the OECD to combat illicit payments in international trade and investment, with a particular focus on criminal and tax laws. The Inter-American Convention Against Corruption has been negotiated under the auspices of the OAS and requires a good deal of cross-border co-operation and the strengthening of national laws. The International Chamber of Commerce (ICC) has urged its members to adopt codes of conduct designed to limit bribery in international trade.⁹ The importance of improving monitoring has been acknowledged.

Multilateral agencies, particularly the UNDP and a number of the international lending agencies, have made strong efforts to support the anti-corruption activities of a number of countries. The UNDP often plays an important co-ordinating role which bilateral donors cannot play. As part of this role, it avoids conditionality. The IMF encourages or requires policy and institutional reform, improved accountability and improved public sector performance as part of the release of loan funds. The World Bank and regional development banks support specific anti-corruption activities and are also concerned about ensuring the integrity of their own funds, particularly loans. The OECD has been the major force behind the introduction on anti-bribery legislation. Its work involves monitoring in this area as well as work related to money laundering, public procurement and public/private sector ethics.

Ensuring the integrity of project funds has different implications for the lending agencies than for grant financing agencies. In principle, loan funds belong to the government involved and are their responsibility. Having said that, most lending agencies require adherence to their own institutional procurement requirements and, frequently, insist on the involvement of their own staff, consultants and executing agency staff in overseeing such requirements. The dynamics for staff and consultants of international lending agencies to ensure integrity on loan projects is quite different from CIDA financed grant/contribution projects.

The World Bank have taken a lead role in terms of analysis and conceptual work, as well as the development of tools for analysis, anti-corruption strategies and approaches (internal and external), training and dissemination of information. In some cases anti-corruption is a topic in and of itself. In other cases, it is presented as part of governance. Whether or not you agree with

⁹ Corruption and Good governance, Discussion paper 3, Management Development and Governance Division, Bureau for Policy and Programme Support, United Nations Development Programme, July 1997, pp. 98-99.

some of their policies, the effectiveness of some activities, or have doubts about motivation or approaches, their web-sites offer a very rich mixture of information ranging from the more conceptual to lessons learned and best practices. The World Bank Institute also supports a variety of training in governance and anti-corruption.

Multilateral Branch programming for anti-corruption

The role, mandate, size and impact of multilateral agencies varies from specialised agencies such as UNICEF and the World Food Program (WFP), to the large lending agencies such as the IMF, World Bank and the regional development banks. Some agencies are clearly leaders in anti-corruption analysis, the development of tools, and specific approaches to fighting corruption. Others focus on their own specialised activities and the integrity of their own operations. The importance given to governance and corruption issues is quite variable. Basically, the issues faced by individual grant financed agencies are the very similar to those faced in bilateral projects, an obvious difference being that bilateral agencies must answer to national oversight agencies, parliaments and media.

Presently, governance/corruption is not a required theme or topic of CIDA Multilateral Branch programming. Should it be, what are the issues and what form might programming take?

Key questions are:

International efforts to combat corruption

- What are the current and upcoming major anti-corruption activities (policy, legislative and monitoring) and what role can the Multilateral Branch and other Canadian agencies play in promoting and supporting them?

The attention of multilateral agencies (not directly involved in governance and anti-corruption) to the issues

- How well do such agencies understand the nature, and extent of corruption and the effect it may have on achieving program and project results and the sustainability of those results? Is there a role for multilateral branch to encourage improving their understanding? Are efforts to "fire-proof" activities sufficient and to what extent are they effective?

Country specific efforts to fight corruption

- What can Multilateral Branch do to further enhance these efforts?

Ensuring the integrity of projects financed by international lenders and donor institutions

- What role can Multilateral Branch usefully play in improving the effectiveness of the integrity systems of various agencies?

Raising the Level of Interdepartmental Debate

- CIDA policy and operations is strongly influenced by interdepartmental interests. How can Multilateral Branch assist in improving the level of discussion on anti-corruption issues?

Changing Relationships and Accountability

- The desire to shift away from more traditional "Donor-Recipient" relationships to more partnership based ones affects the activities of all the stakeholders. In particular, the debate on accountability and partnership needs both more leadership and openness.

Training and dissemination

- How well do multilateral branch staff understand the issues and the anti-corruption programs supported by key multilateral institutions?
- How can we facilitate and improve the learning that is taking place in Multilateral agencies and feed it back to CIDA staff and other stakeholders

How assertive should Multilateral Branch be in advocating anti-corruption issues?

Anti-Corruption Programming

Should corruption issues be a requirement of the Multilateral programming process?

Given the growing importance of the issue, the answer is yes. However, it must be approached with a sense of strategy and priorities, relative to other issues, among anti-corruption issues - and, in relationship to resources available.

6.4 Partnership Branch Programming

"The Canadian Partnership Branch (CPB) promotes partnerships between organisations in Canada and developing countries to support sustainable development and reduce poverty in the developing world."¹⁰ The program is essentially responsive and provides grants and

¹⁰ Canadian Partnership Branch Home Page.

contributions to support Canadian partner organisations that are, in turn, responsible for the design, planning and implementation of the programs and projects. Partner organisations are required to ensure the active participation of their developing country counterparts and to demonstrate that their activities contribute to sustainable development. This responsive approach is intended to give Canadians the opportunity to shape Canada's ODA program and to enrich it with their insights, capabilities and experiences. The partner organisations include private business, institutions (such as Canadian universities, colleges, co-operatives, associations and unions), Canadian and International Non-Governmental Organisations (NGOs), as well as private sector and civil society organisations which support internships in international development for Canadian youth.

The Alliance of Manufacturers and Exporters Canada, which is supported by CPB is actively involved in documenting Canadian business ethics and building awareness among the Canadian public, private and voluntary organisations. This is done through annual and regional meetings including International Co-operation and Development Days. CPB promotes business ethics and responsibility in international co-operation. In 2000 the Centre for Innovation in Corporate Responsibility produced a study sponsored by CPB entitled "Engaging Stakeholders and Business-NGO Partnerships in Developing Countries" which emphasised the importance of trust, reputation and the engagement of local community stakeholders in building sustainable development.

The major governance/anti-corruption issues include:

Increasing the awareness of the impact of corruption

- Some NGOs have been some of the most vocal critics of CIDA, multilateral donors and countries themselves on a variety of subjects, including their unwillingness to be more assertive about corruption. This does not mean, however, that all Partnership Branch stakeholders have a strong awareness of the impact of corruption. Branch staff and partner organisations could benefit from a better understanding of the issues and what is being done.
- Strengthening understandings of how to manage in a high-corruption environment. NGOs are increasingly getting involved in project planning and management, in large measure to supplement organisational revenue. In many cases the projects involve CIDA financing, but may also be with organisations such as IFAD, the World Bank, or regional development banks. Some projects are multi-donor and could involve both loan and grant funds. Procurement could be involved, an area in which many NGOs lack experience.

Partnership, nationalisation of Canadian NGOs and accountability.

- NGOs have been at the forefront of developing relationships of equals. At the same time, accountability, particularly as local NGOs take over (nationalise) the operations previously managed by Canadian NGOs, can be an issue. This could include more attention to the selection of new partner organisations.
- Overall governance systems of NGOs (Canadian and partner organisations) are variable. Partnership Branch could take more initiative to ensure transparency, accountability and overall governance is strengthened. At the same time, it is important to convey a sense of proportion. Excessive efforts to fire-proof individual projects and activities by overly strengthening accounting systems and micro-management may distract from the larger issues of viability and sustainability.

Shaking insights from partnership organisations about anti-corruption and collaborative efforts into the Agency

- The importance of civil society (organisations and individual) partnerships in fighting corruption is increasingly recognised. Increased sharing of experiences and seeking increased collaboration with bilateral and multilateral partners would be beneficial.
- Encouraging civil society organisations to build alliances to support good governance and fight corruption.
- Building alliances, sometimes among diverse stakeholders, are key to anti-corruption activities. The Branch could play a strong advocacy role in encouraging such alliances.

Increased Support to Anti-corruption Activities

- Although Partnership Branch is essentially responsive, it can also encourage certain types of activities. A number of NGOs are playing an important role not only in advocacy activities but also in carrying out surveys.

Anti-Corruption Programming

Corruption issues may not seem to have the same degree of importance as in bilateral or multilateral programs. This should not deter Partnership Branch from identifying corruption issues as part of their overall programming approach. As in the other branches, selective identification of key issues should be done.

7. LESSONS LEARNED & BEST PRACTICES

A review of the literature is both encouraging and disturbing. A great deal of the literature on best practices rapidly slips into a listing of what should be done, not what was done and what worked or did not work. At the same time, there is a great deal that is positive, not only in anti-corruption work, but also in terms of broader public management reform efforts, together with increasingly active civil society organisations, the media and public reactions. This section provides a number of examples of lessons learned and how to find more information.

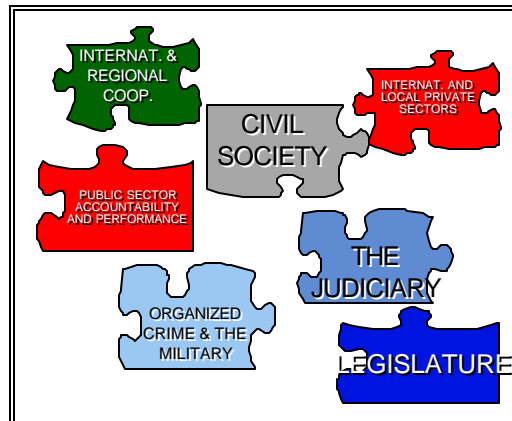
7.1 Sources of Information

Two major sources of information - but far from the only - are T. I. and the World Bank. The T. I. Source Book brings together best practices in the area of building and maintaining a country's national integrity system. It provides examples from a broad range of countries around the world, both industrialised as well as developing or transitional economies. The Source Book is divided into two parts. The first discusses the concepts and the second, their application in practice. It is downloadable from the Internet and has been adapted for Spanish speaking countries to reflect their legal systems, etc. It is also available in other languages. (www.transparency.org/documents/source-book) The T. I. Directory of Anti-Corruption Programs in CEEC is now on-line, constantly under revision and has a searchable database that serves as a reference to all programmes and personnel concerned with anti-corruption activities in the Central and Eastern European Countries (CEECs). (<http://www.transparency.org/sigma/index.html>). The World Bank (www.worldbank.org), and the World Bank Institute (www.worldbank.org/wbi) web sites are a particularly rich sources of information. They contain:

- Information on programs and activities
- A variety of publications, working papers and articles on governance and anti-corruption
- An annotated bibliography
- Online resources and links with partners
- Upcoming conferences and events
- Governance datasets
- Diagnostic tools
- Information on how to design and carry out surveys
- Survey results
- Training and seminars available including e-learning
- Case studies, lessons learned, and chat groups

CIDA, partner and CEA practitioners who are starting or updating analysis can find a wide range of survey results.

Figure 3: The Corruption Framework Puzzle



In addition, there is an astounding number of other web sites that offer a very broad range of information on anti-corruption activities. An annotated list of useful web sites is found in the CIDA Anti-Corruption Primer. If you are not sure where to start, (aside from T. I. and World Bank sites) the following ones will open many doors:

- USAID - Center for Democracy and Governance – www.usia.gov/topical/econ/integrity/usaid
- Anti-Corruption Network for Transition Economies – www.nobribes.org

7.2 Broader, Strategic Issues

Anti-corruption measures can be seen as part of broader governance issues, or as more discrete, specific issues. At the broader, more strategic level, several key lessons emerge:

7.2.1 Collective and collaborative effort is required.

There are at least two types of collective effort that are important - international and country specific. The experience of developing anti-bribery legislation has clearly demonstrated the first. No one country (or firm) will wish to act unilaterally in a situation where bribery is common. All bribers (or at least the major ones) must be convinced to stop together. Efforts to persuade OECD countries to adopt anti-bribery legislation were achieved primarily because agreement to take a collective approach was reached and has resulted in most of the signatories adopting such legislation.

Unilateral approaches by either bilateral or multilateral donors with individual countries are unlikely to be effective. Experience from several countries makes it clear that the most promising anti-corruption efforts require local leadership and commitment, as well as the

collective effort of a variety of local stakeholders from civil society, private sector, and government. Donors, to the extent they are involved, can support these efforts.

7.2.2 An Integrated Approach is required

The Framework diagram emphasised the importance of analysing corruption in terms of the interaction between several factors including the public sector, the judiciary, the private sectors, parliaments, civil society, etc. Efforts to fight corruption must take into account the key relationships between various players and institutions. Tackling one part of the puzzle in isolation is very unlikely to be successful.

7.2.3 Institutional Strengthening and Capacity Building

A recurring theme, whether it involves strengthening the audit function or the judicial system is the importance of institutional strengthening and capacity building. Improved procedures or regulations, removal of corrupt officials or judges and their replacement is unlikely to solve the problem unless a broader assessment of institutional strengths and weakness is taken and acted on.

Punishing offenders may have some effect but is unlikely to have long-term impact if institutions do not change. Corruption must be tackled through a combination of approaches, which includes legal prosecution combined with organisational change and reform. Incentives for public servants must be realigned and they must be appropriately protected. Oversight functions must be strengthened. The organisational culture that promoted systemic corruption must be changed.

Box 3: Removing the Offender Without Eliminating the Offence ¹¹

"At one level, corruption can be seen as a problem of individuals with excessive ambition or greed. If this were the case then a strategy of throwing out the "rotten apples" ought to work. But when this action has been taken in a few instances (in Sierra Leone) against senior government ministers, corruption has persisted exposure and prosecution can remove the offender but not eliminate the offense. Corruption has continued unabated in Sierra Leone because the organizational systems and culture have remained unchanged. The circumstances that produced the corruption have let it happen again."

7.2.4 Local Leadership and Ownership

Local ownership and leadership are crucial to anti-corruption efforts. Assessing the strength of local leadership capacity and supporting it is central to developing and sustaining an effective

¹¹ The TI Source Book, p. 78

program of anti-corruption. Too often the initial assessment is general and overly optimistic. Local leadership and the potential for ownership need greater consideration from the outset.¹²

7.2.5 Decentralisation and working with local government

Decentralisation is complex, long term and not a panacea for governance or anti-corruption problems. Implementing decentralisation in situations of limited capacity and systemic corruption is certain to be highly problematic. Nevertheless, there are a number of interesting pilot examples of selectively working with sub-national governments. In Venezuela, for example, substantial reductions in corruption and poverty and an increase in business activity were achieved within a short two-year period.¹³

A recent detailed survey study by IFES (Institute for Electoral Systems) found that local governments in Ghana were well regarded by local civil society groups, active and quite efficient in service delivery, and often a base for building integrity, contrary to the views of T. I. Ghana leaders. The reasons for the differences of view are not known, but would be interesting. An evaluation of programs promoting participatory development and good governance by the DAC in 1997 examined four topics related to decentralisation:

- Democracy and political equity
- Management efficiency
- Financial performance through increased revenue generation and rational decision making, and
- Provision of a better environment for private enterprise and responsiveness to local needs

The evaluation covered a number of countries in Sub-Saharan Africa (Tanzania, Zambia, Uganda, Ghana, Ivory Coast, as well as India (State of Karnataka), Bangladesh, Sri Lanka, as well as a number of countries in Latin America. The conclusions were extremely varied. The study concluded that the contribution of decentralisation to governance is promising in countries that have a long history in nation building and a bureaucratic history. It had its least impact on governance in many of the least developed countries. The study also concluded that generalisations about all developing countries do not provide much insight or knowledge and that it is difficult to measure the impact of decentralisation of governance.¹⁴

¹² See Steven Langdon, "Terms of Engagement"

¹³ Improving Governance and Controlling Corruption: New Frontiers and the Case for Collective Action, Daniel Kaufmann and Colleagues, The World Bank, April, 2000, p. 16. For more additional information see the writings of Maria Gonzalez de Asis, Sanjay Pradhan, Randy Ryterman and Shag-Jin Wei of the World Bank.)

¹⁴ Evaluation of Programs Promoting Participatory Development and Good Governance, Synthesis Report, DAC Expert Group on Aid Evaluation, 1997, pp. 55-72.

7.2.6 Recognising both public and private power structures

Private power structures (cronies, monopolistic or oligopolistic groups, semi-feudal families, crime syndicates, etc.) and their formal and particularly, informal, interaction with the public sector is a key feature of corruption. Because of their mainly secretive nature, information is hard to obtain. However, concentrating on improvements to public sector institutions or the judiciary without an appreciation of these power relationships is almost certain to limit what can be achieved.

7.2.7 More proactive, less traditional approaches.

Many of the approaches which show the most promise include a strong component of awareness raising and mobilising a variety of groups including civil society organisations.

7.2.8 Anti-Corruption is Long Term

Eliminating corruption is not possible. Reducing corruption should be the long-term goal. Common sense and experience tells us that this is a long-term effort. Quick results should not be expected, although there can be surprises in particular situations. Identifying priorities which have high or reasonable potential for success is also important.

7.3 *Specific Initiatives*

7.3.1 Institutional and Policy Reform

Some policy reforms have the potential for quick results, particularly some macroeconomic reforms and deregulation, which do not make major demands on institutional capacity. These include:

- Lowering tariffs and similar barriers
- Unifying market determined exchange rates and interest rates
- Minimising regulation, licensing requirements, permits and other potential barriers
- Eliminating enterprise subsidies
- Abolishing monopoly marketing boards
- Strengthening and enforcing transparency of banking regulations, auditing and accounting standard

Box 4: Reducing Import Taxes & Simplifying Procedures - Senegal

A study of the customs administration in Senegal found that a reduction in import taxes, simplification of their structure, implementation of reforms reducing the discretionary powers of customs officials and computerization of procedures helped to reduce the level of fraud by 85% between 1990 and 1995.

Observer, p. 46, No. 220, April 2000

Other potential areas for reducing corruption such as tax reform, liberalisation of financial or environmental regulation require close attention to the capacity of governments to implement policy reforms and regulate. If capacity is lacking, policy reforms may increase the risk of corruption. The answer is not to forgo reform but to strengthen institutional capacity, particularly to support new forms of regulation and oversight.

Privatisation

Demonopolising public sector activities and privatising state assets, frequently recommended, is a subject of extensive theory, debate and experience. The actual process of privatisation has had mixed results, particularly when assets have been undervalued and there has been collusion between public employees and private sector purchasers. In Russia the absence, inadequacy and ambivalence of law, combined with poor organisation and corruption of law enforcement, has opened wide opportunities for asset appropriation by the powerful, the greedy and the unscrupulous. Privatisation in Latin America was plagued with weak law enforcement and conflict of interest. In some cases, privatisation increased, rather than reduced, market concentration. Appropriate regulation of privatised firms to ensure public needs are met has frequently proven to be problematic.

An evaluation of programs promoting participatory development and good governance was published by the DAC in 1997.¹⁵ In assessing privatisation the study addressed:

- The effect of the privatised enterprises themselves
- The impact on government finances
- Social impact
- Overall economic effects, and
- Lessons learned

¹⁵ Evaluation of Programs Promoting Participatory Development and Good Governance, Synthesis Report, DAC Expert Group on Aid Evaluation, 1997, pp. 39-43.

Highlights of the lessons learned and critical success factors include:

- Establishing a proper balance between objectives such as raising revenue, competition, consumer choice, is critical to long term success
- Too many governments fail to distinguish properly between short and long-term objectives and ignore the importance of such things as a framework for competition
- Privatisation requires proper preparation and planning. (The contrast between the Czech and Russian mass privatisation is given as an example)
- Clear political will, accompanied by thorough planning to establish a clear institutional structure and proper procedures for its implementation are important preconditions for success. This includes educational work to develop a better understanding of the need for privatisation.
- The quality of the policy environment is a vital factor. This includes the introduction of general and sector regulatory frameworks related to such matters as modern corporate law, shareholder rights, competition policy, utility regulatory frameworks, capital market laws and trade liberalisation policy.

The issue of whether public sector firms will perform with the same level of efficiency as private sector firms, if they operate in a competitive market, if management follows signals from the market, and if management is rewarded on the basis of performance, is hotly debated. So too are the positive welfare benefits to society. New Zealand's "corporatization" efforts in the mid-80s achieved efficiency and financial gains in ten of eleven enterprises studied.¹⁶ The most powerful recent empirical evidence to support the thesis that reform can work without ownership change comes from China. There are now about 1.3 million township and village enterprises employing 90 million people. They account for more than 20 percent of China's industrial production and are growing more rapidly than the traditional state-owned enterprise sector. They are a stunning example of how positive performance can be achieved by firms that are not privately owned - but that are made to act as if they were.¹⁷

The document does not even pretend to survey the extensive literature on this topic. However to access a broad range of evaluative material, go to the World Bank website (www.worldbank.com), including the Public Policy for the Private Sector series which is an open forum to encourage dissemination and debate on ideas, innovations, and best practices. The views expressed are not officially those of the World Bank or its affiliated organisations, although Bank staff may contribute.

¹⁶ Ian Duncan and Alan Bollard, Corporations and Privatization: Lessons from New Zealand (Auckland Oxford University Press, 1992)

¹⁷ Is Privatization Necessary?, John Nellis, Manager, Private Sector Development, World Bank, May 1994

7.3.2 Improving Accountability

Offices of the Auditor-General

The auditor-general must be seen as independent and fair. There are several factors that affect this. The selection and removal process must be protected from political influence and patronage. The appointment process must be made on the basis of merit and should involve institutions and persons other than the party in power. The auditor-general must be constitutionally protected from arbitrary removal. The office should not be accountable to or susceptible to pressure from the clients or institutions audited. Funding must be adequate and the Office should have relative freedom to manage its budget and hire and assign competent staff. It is constitutionally anomalous for the executive to have control over the budgeting and staffing. The trend is to uncouple the Office from the overall general public service pay structure to allow it to determine the terms and conditions of employment. Best practices dictate that the office of the Auditor General should itself be subject to peer review to ensure quality.

There is a growing trend on the part of public sector companies to argue for contracting out the audit function to the private sector. There are a number of arguments against this, conflict of interest being one of the strongest. A second argument is that the Auditor General acts as a link between various audited departments and ministries - and the Legislature. The Legislature relies on the Auditor General to have an overview of government and to sort out the most important issues in terms of public sector management. Third, proposals to contract out are often based on the belief that the Auditor General's office is lagging behind. The response to this should not necessarily be contracting out but to rehabilitate and better equip the office. There is, however, a strong argument for contracting out - efficiency being the major one.

As with many other activities, best practice suggests that institutional strengthening is a key aspect of improving the effectiveness of the audit function and activities such as training should be linked to larger systemic improvements.

Strengthening Procurement

Procurement of goods and services is one of the areas most vulnerable to corruption, particularly bribes, kickbacks, political patronage, and extortion. The T. I. Source Book offers a good description of how corruption "works" and provides a wide range of suggestions to minimise corruption in the procurement process from bid announcement to bid evaluation - to post contract award activities.

Lessons learned cover a number of areas including:

- The importance of public exposure, the role of the press and creating public awareness
- Integrity Pacts (explained below)

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- Strengthening the legal framework and its enforcement, particularly in terms of bribe paying
 - Making better use of the rules and procedures established by the IFIs in other areas of procurement
 - Developing a corps of well-trained, competent and honest civil servants to carry out procurement.
 - Keeping the selection process for small contracts simple
 - Tackling commissions to local agents. If these can be rendered transparent, it would have a major impact on corruption

There are several models of laws related to procurement which are intended to consolidate existing laws that have developed in a haphazard way. These include those of the GATT/World Trade Organisations, the United Nations Committee on International Trade Law (UNCITRAL's), the European Union's and various national codes. Procurement guidelines are available from a number of sources including the World Bank (Guidelines for Procurement under IBRD Loans and IDA Credits) and the Official Journal of the European Communities, Procurement Directives. A checklist prepared by the Hong Kong Independent Commission Against Corruption can be found in the Companion Volume of the T. I. Source Book.

One of the most promising tools is the Integrity Pact, originally called the "Islands of Integrity" concept, developed by T. I. in the mid-1990s. The pact (contract), involves a written undertaking between the government office inviting contractors or suppliers to submit tenders and bidders (and their agents) and that they will not engage in bribery and other unethical behaviour.¹⁸ Roberto Provera takes a similar approach.¹⁹ At the present time, according to T. I., the Integrity Pact concept is being considered or applied in some form in the following places:

- Argentina - Buenos Aires - Subway construction
 - Colombia - Telecommunications Services, Electricity Distribution, Construction of Bridges and Highways, and Urban Development
 - Benin - Highway project
 - Papua New Guinea - Privatisation of State Assets
 - Indonesia - various projects under the Technology Ministry, with financing from the ADB
 - Nigeria - several projects
 - Nepal - the City of Bhaktapur
- (Past applications took place in Ecuador, Panama and Argentina.)

One drawback to Integrity Pacts has been some opposition from international lending institutions to project specific arrangements, the view being that the law should be changed across the board. This presents difficulties when a government has difficulty in persuading its legislature to back

¹⁸ For a more complete explanation see, The Integrity Pact (TI-IP) - The Concept, the Model and the present Applications, A status Report as of November 1, 1999.

¹⁹ Roberto Provera, Fighting Corruption in Development Aid (Supply Tenders), May 1998

serious anti-corruption efforts, and where there is limited capacity to police new arrangements. Making the Anti-Bribery Pact approach a voluntary one is getting encouraging support from both the private and public sectors. Initial monitoring suggests that this innovation is working and that it is serving to significantly reduce corruption levels in selected major contracts.

There is remarkable consistency in the approaches to designing an Integrity Pact, despite a wide variety of details. Some governments and officials are willing to go further than others. Up until now, it has not been possible to hold up a model of a full Integrity Pact that has been applied successfully in a major country. However, this is expected to change. The Integrity Pact concept continues to be seen as sound and workable. There is convincing feedback from both sides - governments as well as major international contractors and suppliers - that the Integrity Pact can be an important instrument in reducing corruption and bringing more integrity and more efficiency into public contracting.²⁰

"Outsiders", such as third party consultants with no conflict of interest, or respected individuals with known integrity, can also play a potentially useful role in providing expertise combined with integrity. Possibilities include:

- preparing bidding documents
- participating in the evaluation process
- serving on the contract-award committee

Best practice documentation also emphasises the importance of striking a balance between checks and balances and efficiency. There are many examples of countries where laws and regulations have become so complex that everything comes to a standstill. In many countries it is virtually impossible to award a major contract in less than two years, after the bids are received.

Improving Financial Management Systems

In recent years, IFIs and bilateral financing institutions have taken measures to improve financial management, both in their own projects, and in national governments. Strengthening financial management of projects protects the donor from embarrassment, but does not protect the recipient government against fraud and waste or deal with the underlying causes of corruption. Funds are fungible, and while projects may be protected, the problem shifts to another place. In Latin America and the Caribbean Region, the IFIs now have in place or in planning Integrated Financial Management Systems (IFMS) Projects in Bolivia, Argentina, Guatemala, Honduras, Ecuador, Colombia, Venezuela, Nicaragua, El Salvador, Panama and the Dominican Republic. The Spanish government is collaborating with Uruguay and Costa Rica. USAID was a pioneer in developing a Model Integrated Financial Management System for Latin America which has served as the conceptual model after being accepted by the Donor Consultative Group on

²⁰ Ibid

Improving Government Financial Management. Other regions using the IFMS approach include Ghana and Vietnam. More information can be found through USAID's Latin American Countries Regional Financial Management Project and the World Bank's Latin American Public Sector Modernisation Unit.

In summary, while IFIs have begun to face up to the problem of financial corruption in several ways, there is much more that can be done. Donor "enclave" project efforts to strengthen project accountability have largely ignored the importance of sound internal controls and the role of internal auditors.²¹ More importantly, "enclave" projects and special management units only delay dealing with issues of improved public service management.

Box 5: Guatemala's Integrated Financial Management System²²

Guatemala's Integrated Financial Management System (IFMS) has been supported by two sequential Bank-funded projects. They have aimed to improve service delivery by promoting more transparent, efficient, and effective public sector financial operations. They have involved modernizing the government's budgeting, accounting, cash management, and auditing sub-systems. These components are fully integrated through updated laws and regulations, coherent and consistent accounts classifications and administrative procedures, and a powerful single relational database information technology system, providing on-line, real time information to managers and stakeholders. After four years, the results have been remarkable, including

- **Lower prices paid to suppliers**
- **Elimination of arrears to suppliers**
- **Financial transactions are only entered once and reported instantaneously**
- **The increasing electronic transfer of funds has reduced costs**
- **The number of budget line items has been reduced from nearly 8,000 to about 900**
- **The database provided immediate and detailed information on all recorded transactions**
- **The 1999 budget was presented to Congress on CD ROM**
- **Legislators, private citizens, NGOs and any stakeholders can access proposed and executed national budgets at several computer sites and on the internet**
- **Physical and financial indicators are now included in the budget to better measure performance**

With the IFMS, the Government has put in place a basic building block to increase transparency and reduce corruption. Administrative discretion in payments has been limited dramatically. Public procurement is now conducted on the basis of bids rather than price quotes from a list of (phantom) suppliers. Civil society can be better informed of the use of its tax revenues.

²¹ TI Source Book, Chapter 17

²² Adapted from *The Fight Against Corruption. A World Bank Perspective*, Central America Management Unit, Latin American and the Caribbean Region, Stockholm, Sweden 25 - 28 May, 1999.

Information Technology

Better use of information technology, including the Internet, to improve procurement and the management of customs functions is showing considerable promise. At a three-day seminar²³ on transparency hosted by the Inter-American Development Bank, in May this year, Mexico, Chile and Canada reported on how their governments are using the Internet to increase transparency of public procurement. Antonio Scheleske, head of procurement policy for Mexico's federal government, said more than 3.5 million individuals have used the online Compranet service to purchase bidding documents, track procurements, look up contract awards and compare prices. However, several panellists at the same seminar warned that technology on its own does not increase transparency and foster greater confidence in government. Reforms on many other fronts are required.

7.3.3 Improving Public Service Performance

The debate about the roles of the role of the state and the private sector will probably be with us forever. However, even the strong proponents of a small public sector, high degrees of privatisation, and a strong private sector agree that a professional, merit based public service is crucial. The experience of the World Bank and virtually every donor shows that civil service reform is slow and uncertain. An integrated approach is needed and partial solutions such as downsizing or pay increases have not, in themselves, worked well. At the same time, it is well recognised that the longer salaries (and other benefits) remain grossly inadequate, the more bureaucratic corruption will remain entrenched. However, pay reform alone is not sufficient. A series of actions are required from merit-based recruitment and promotion to steps to protect public servants from political interference and patronage. There are no short-term solutions.

7.3.4 Strengthening the Judicial System

An independent, impartial, clean, and informed judiciary with the administrative capacity to support its work is central to honest, open and accountable government. This is obviously necessary to deal with specific cases of corruption but is also the basis for preventing and reducing corruption more generally. Some of the key areas of vulnerability to judicial independence include:

- The appointments process - to ensure members of the judiciary have integrity, ability and are qualified in the field of law

An independent judiciary which is tainted with corruption or inefficiency is counter productive. In Brazil, one reform measure is to try and wrestle control of funds for courthouse buildings from the judiciary - although this would extend executive power.

The Economist, September 17-22, 2000, p. 42

²³ Copies of conference papers are available at www.iadb.org/leg/transparencia.asp

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- Protection of judges from the executive and other outside influences
 - Staffing of lower level positions on the basis of merit
 - Lower level interference on the part of subordinates (lost files, delays, influencing the assignment of cases, etc.)
 - Adequate remuneration and security of tenure (removal must be only for just cause)
 - Speedier judicial procedures
 - Promotion on the basis of experience, professional competence and integrity
 - The need for an independent operational budget sufficient to ensure ongoing upgrading of administrative systems and adequate numbers of qualified staff. ²⁴

Other key areas of concern include:

- The Attorney General, while a member of the executive, is not a member of the judiciary. The functioning of the office is dependent upon impartiality and freedom from party political or similar influences. There is also a need for truly independent prosecutors.
- The need to upgrade laws, regulations, administrative procedures as well as the capacity of institutions and their staff to deal with new aspects of commercial and economic law such as white collar crime, bankruptcy, competition and intellectual property law - as well as corruption.

The appointment of judges, as well as prosecutors, is highly political. Different countries have established varying ways to appoint, re-appoint or promote the judiciary. Usually a distinction is made between the senior judiciary and the judicial officers who hear the more run-of-the-mill cases. There have been a number of important pronouncements on the independence of the judiciary, several of which appear in the Companion Volume to the T. I . Source Book.

Best practice suggests that regardless of how some issues, such as appointments, are resolved, long-term efforts are required which involve capacity building and institutional strengthening. Efforts such as training, seminars and study tours can be helpful but are not sufficient and sustainable in the absence of longer-term approaches such as ensuring protection from outside influences, adequate remuneration, promotion on judges on the basis of merit, reform of administrative systems, and adequate numbers of qualified staff, also paid on the basis of merit.

7.3.5 Parliamentary Reform

Parliaments, national and local, have an essential role as watchdog, regulator and representative of public interests and can be part of the institutionalised system of checks and balances necessary to accountable government. They can reduce secrecy, monopoly and discretion.

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However, they do not guarantee clean government, nor do they eliminate all corruption. Some of the most difficult issues to contend with include:

- Financing of political parties and campaigns
- Abuse in the elections process (ballot stuffing, falsification of voters lists, manipulation of vote counts)
- Relationships between Ministers and civil servants
- Immunity privileges of members
- Ensuring accountability of members to constituents once elected

Some examples of things that can and are being done include:

- In South Africa the reform process has centred on opening up the parliamentary process as open to the public and the press as possible, and empowering select committees, particularly the Public Accounts Committee, to hold the executive accountable.
- Empowering electoral commissions to preside over free and fair elections within party congresses. As an example, see the new electoral law in Ghana, 1992
- Independent electoral commissions and polling officials to carry out and supervise elections, assisted by local NGOs and international organisations have had a positive effect in many situations.
- A number of countries are taking steps to minimise conflict of interest situations by monitoring the assets, income, liabilities and business interest of parliamentarians (and public officials) . For this to work requires transparency and parliamentarians cannot be their own judges.
- Clear guidelines on the acceptance of gifts. Malawi has recently adopted new guidelines.
- CIDA has provided support to the Parliamentary Centre to support training of parliamentarians. The Centre also hosts seminars whose topics have included corruption and accountability as well as globalisation and corruption.

Box 6: Stamping out Political Corruption and Financial Abuse - Korea ²⁵

The Government of South Korea took a unique approach to stamp out not only political corruption but other forms of financial abuse by banning the use of fictitious or "borrowed" names in financial deals. Under the old system, Koreans using fictitious names could easily hide assets, avoid taxation, bribe officials and make illegal campaign contributions. Under the decree, a "real names" accounting system is applied to all financial transactions, including deposits and savings, and stocks and bonds. Those holding assets under false names were required to convert these to real name account within two months and those intending to open bank accounts - or to withdraw large sums - had to register their real names by presenting their national identity cards. Failure to do so results in investigation by the tax authorities and penalties up to 60 percent of the accounts.

7.3.6 Civil Society Participation

Civil society participation and oversight on the part of organisations or individuals is a crucial part of combating corruption. Their actions help to make the state to be transparent and accountable to the public. The actions of civil society organisations and individuals empower other citizens to play an active role in areas such as:

- Freedom of the press
- Ensuring public access to government information
- Requiring certain types of government meetings to be open to the public
- Conducting public hearings on draft laws or regulations
- Publishing judicial decisions
- Improving public service
- Strengthening the system of administrative appeals
- Monitoring performance by civil society

The Indonesian House of Representatives recently set up a 45 member Audit Commission to review the Assets of government officials. The members of Audit Commission will, themselves, be investigated and declare their wealth.

The Indonesian Corruption Watch (ICW) and the Indonesia Legal Aid and Human Rights Association (PBHI) in turn questioned the process and results of the selection process after it was announced by the House of Representatives.

Jakarta Post, July 6, 2000

Some of the most interesting work is being done by Civil Society Organisations and professional associations, with and without support from development agencies. Best practice suggests that fighting corruption needs coalitions among various stakeholders. New survey techniques

²⁵ TI Source Book, Part B, Chapter 5.

underline the importance of involving a range of stakeholders, including civil society, as part of a more proactive way to shape alliances and work together.

Survey Diagnostic Tools

The World Bank and the World Bank Institute have pioneered the design and use of surveys. The first set of in-depth governance and corruption diagnostic surveys of public officials, firms and citizens was carried out in Albania, Georgia and Latvia. Surveys have now

been carried out in other countries and cross-country correlations of institutional and other variable has significantly expanded the understanding of corruption and its causes, particularly its institutional roots.

Survey respondents (citizens, enterprises, and public officials) report on embezzlement of public funds, theft of state property, regulatory failures, and various forms of bribery. Confounding sceptics who claimed that parties to corruption would systematically underreport it, these studies demonstrate that respondents are willing to discuss agency-specific corruption with remarkable candour, and firms also volunteer detailed information about bribery and misgovernance. When data is presented in workshops to members of the business community and civil society, the nature of the policy debate changes. Prior to the workshops, information was often vague, unsubstantiated, or personally accusatory. The workshops help to get it focused on empirical evidence and systemic weakness.

Obtaining more empirical, reliable information is a major benefit. An equally important benefit results from the process used to carry out the surveys. The participative nature of the surveys and the discussion process often identifies supporters (some unexpected) and opponents, as well as potential leaders and allies. When surveys are carried out using local NGOs or other organisations, local capacity to do further work is created.

Lal Bihari, founder of the Association of Dead People, learned he was deceased when he applied for a bank loan in 1975. He was told quite peremptorily that he could no longer be who he was since official records showed him as being dead which had allowed his uncle to inherit Mr. Bihari's share of the ancestral farmland. Mr. Bihari, a poorly educated merchant found his mission in life: championing the cause of similarly expunged.

Globe and Mail, October 25, 2000

Box 7: Linking Surveys to Strategies and Action Plans

A survey of customer perceptions was conducted in Campo Elias, Venezuela, in June and July 1998. Enterprises and citizens were asked about the delivery of services and the integrity and credibility of local government. The diagnostic survey concluded that two main factors affected perceptions of corruption. First, inefficient, excessively complex, and unpredictable administrative procedures were used to certify tax payments and to grant construction, industrial and commerce permits. Second, public information and accountability were lacking.

The results of the diagnostic surveys were presented to a workshop facilitated by the World Bank Institute and held in participation with the community.

Strategies for municipal reform were developed based on survey findings and group decisions. Working groups identified barriers to reform as well as available resources for curbing corruption and reforming municipal government. They also devised solutions and offered methods for monitoring change through an action plan.

Five measures were created - and enacted through municipal ordinances - to increase citizen participation in government:

- **The program for citizen involvement in municipal budgets**
- **The Tripartite Auditing Commission**
- **The Office for Development and Citizen Participation, created to foster dialogue between government and civil society, to promote citizen participation in government, to organize and disseminate information about municipal services, officials, and procedures, to respond to citizen complaints, and to serve as a focal point for anti-corruption campaigns.**
- **Guaranteed free access to public documents**
- **Controlling Corruption - a service that allows citizens to track municipal transactions through the Internet. Citizens who do not have Internet access may gain access through the Office of Information.**

After implementation, a second survey of customer perceptions was conducted to evaluate the reform program. The 1999 survey found that perceptions in the monitored areas of government performance improved significantly.

Lessons learned included:

- **Political commitment is indispensable**
- **Surveys are useful for raising awareness and evaluating reforms**
- **Deficient regulation creates confusion, increases arbitrary discretion, and encourages corruption**
- **Public perceptions of wrong doing contribute to corruption**
- **Information is essential for accountability, transparency, and participation.**

Maria Gonzolez de Asis (Public Sector Management Specialist, World Bank Institute)

Service Delivery Surveys

Client and citizen surveys that incorporate feedback from citizens have helped to improve public sector performance in many countries. Surveys can take many forms. The "Scorecard" invented by Sam Paul in Bangalore, India, illustrates the approach. It entails periodic evaluations of local public services and of bribery and extortion that are published and have led to improved service delivery. Similar initiatives have taken place in Campo Elias, Venezuela, and Ternopyl, Ukraine.

The Internet has also emerged as a cost-effective way of increasing access to the legislative process. Regina Celia Peres Borges, head of information management in the Brazilian senate, reported on how INTERLEGIS, an online legislative information system has made it easier for ordinary citizens to reach their representatives and intervene in the law making process.

*IDB Seminar on Transparency,
Washington, D. C. May, 2000*

The World Bank and the World Bank Institute are developing service delivery surveys to produce information that can be used to set a base line of service delivery and the perceptions of the impact of corruption. This is being done in association with CIET International, an NGO that builds local capacity to sustain follow up surveys.

Anti-Corruption Agencies

The determined and innovative measures taken by the authorities of SAR Hong Kong are one of the few examples of a government instituting a major anti-corruption program over a long period. In the space of twenty years or so, the scale of corruption has declined considerably.

Box 8: Cleaner Hong Kong²⁶

The Independent Commission Against Corruption (ICAC), a specialized body separate from the civil service and the police, and reporting directly to the governor, was set up in February of 1974. It coordinates the fight against corruption on three fronts: enforcement, with investigation and prosecution of recent cases of corruption; prevention, by modifying the organization and culture of the bureaucratic apparatus and by providing advice and assistance to companies on preventing corruption; and educating the population about the evils of corruption. The power to prosecute after completion of investigations is vested with the Secretary for Justice. The separation of powers ensures that no case is brought to the courts solely on the judgement of the ICAC.

All types of corruption are targeted: both public and private corruption, and "petty" and "high-level" corruption. Lastly, and most importantly, the strategy brought together the authorities and the business community, and the support of the population was constantly enlisted. The fact that other broader reforms took place simultaneously is often under-emphasized.

The campaign has borne fruit, earning kudos from TI who applauded the relatively "clean" construction of the Hong Kong airport and its massive infrastructure. The \$20 billion project was carried out between 1991 and 1998 with a minimum of corruption, on schedule, and on budget. Hong Kong is now largely seen as intolerant towards public corruption although there are important concerns about corruption coming over from the mainland.

To what extent the Hong Kong experience is replicable is often debated.

Ombuds Offices

In many countries, the mandate of the Ombudsperson also extends to investigating and inspecting systems of administration to ensure that they restrict corruption to a minimum. The principles of an ombudsperson has been found to be extremely adaptable, and has worked well in parliamentary democracies, societies with radically different ethnic and religious backgrounds, and in one-party and military states. Several conditions seems to be key. First, the appointment process is crucial and the office must be seen by the public to be fair, competent, independent, and serving their best interests, not a bureaucratic appendage serving the objectives of the ruling party. Tenure must be secure. Second, the office must be adequately funded, responsible for its own budget and not subordinate to another department. Third, the hallmark of the office should be that citizens have direct access. They do not have to go through lawyers or their elected representatives and the process is free. Access also means that the ombudsperson can travel. Otherwise it will be the urban literate who make use of the services.

²⁶ Observer, p. 46, No. 220, April 2000

Many countries, industrial and developing, have an Ombudsperson. Success varies. The appointment process of Papua New Guinea is often cited as a model. The office of Ombudsperson has generally not been as successful as had been hoped in Anglophone Africa, with the exceptions of Namibia and Uganda.²⁷ Best practice suggests that the grounds for removal should be similar to those for members of the senior judiciary.

International and Regional Co-operation

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is an important example of the need for an approach for achieving objectives collectively. Money laundering represents one of the next major challenges. The OECD countries need to assess the adequacy of their legislation on corruption and money laundering and in particular to check that handling of corruptly acquired funds is treated as money laundering. They should support legal actions by foreign governments to recover corruptly acquired assets. The Financial Action Task Force (FATF) set up by OECD countries aims to co-ordinate these efforts and to promote cross border co-operation by member states. Donors should be active in supporting FATF and to help establish regional groups such as those that exist in the Caribbean and are being developed in Asia and East/Central Africa.

Collective action is also required to deal with "black listing" of firms suspected of bribery or malpractice in winning development assistance contracts. The World Bank operates a Fraud and Oversight Committee which reviews possible cases within Bank programs and black lists firms guilty of infractions. The black list is published.

7.4 Regional Co-operation

Aside from efforts being led by the OECD and other international organisations, there are several important examples of regional co-operation.

The Inter-American Convention Against Corruption was signed in Caracas on March 29th, 1996. It is now in force and has been signed by 26 states and ratified by 19, including Canada (as of June 6, 2000). The Convention calls for international co-operation in a range of areas of corruption including bribery, illicit enrichment, extradition, measures regarding property, and bank secrecy.²⁸

²⁷ TI Source Book, p. 121.

²⁸ The Inter-American Convention Against Corruption, Edmundo Vargas Carreno, InterAmerican Development Bank, May 2000.

In the African context, the African Parliamentarians Network Against Corruption (APNAC) was set up as a result of parliamentarians getting together in a regional workshop run by the Canadian Parliamentary Centre. APNAC now has continent-wide ties against corruption. Using limited external funding and Internet connections, it has drawn M.P.s from countries with noted corruption problems (such as Kenya and Zimbabwe) into ongoing ties with other parliamentarians from countries where more credible anti-corruption efforts have been taking place (such as Ghana, South Africa, Benin and Uganda). APNAC sponsored an anti-corruption workshop recently in Tanzania and has also initiated interaction with the National Assembly of Nigeria and with T. I . Nigeria around the establishment of a code of ethics. Its website is www.apnac.org

Sharing and Pooling Donor Resources; Harmonising Systems

The sharing and pooling of resources and harmonising systems, particularly accounting, audit and reporting systems, offers another important way for donors to collaborate.

Box 9: Utstein Donor Collaboration in Tanzania

Utstein donors are mainly engaged in supporting the multilateral debt fund and sector improvement programmes in health and education as well as public service reform where pooling arrangements for donor funding are already in existence. Areas of collaboration include:

- **Acceptance and use of each other's documentation for making new commitments e.g. Use of a U. K. appraisal document for future support by Dutch Government in health**
- **Agreeing to joint appraisal missions and annual review missions to minimize duplication and overburdening government**
- **Harmonization and development of common donor systems for disbursing funds for programme support and allowing one donor to transfer funds to another to support specific activities**
- **Movement toward direct budgetary support linked to Government strategies and action plans and the achievement of agreed outcomes**

The World Bank has taken a useful initiative with its support for country assessments of procurement and financial systems.

Development Frameworks

The Utstein Partners Anti-Corruption Conference, Maastricht, in April, 2000 highlighted the need for better donor collaboration and co-ordination in the development of policies and frameworks for anti-corruption. Proposals included the need for comprehensive development frameworks that could provide a strategic framework for collective donor action on governance and corruption. Specific examples are poverty reduction strategy papers (PRSPs) as a basis for concessional lending by the IFIs and for debt relief under HIPC. These in turn could be linked to a longer term Comprehensive Development Framework (CDF) prepared by the countries themselves in consultation with the private sector and civil society. Such a framework could provide a basis for collective donor action. Sector wide approaches represent another, less comprehensive approach to improve co-ordination.

Box 10: Bolivia: Corruption and the Comprehensive Development Framework ²⁹

Bolivia launched a national dialogue in 1997. A national action plan was developed which included four pillars: opportunity, equity, dignity and institutionality. Corruption was seen as a major obstacle which demanded direct action through a national anti-corruption programme and parallel efforts to enhance the effectiveness, transparency and accountability of public institutions.

The anti-corruption programme is comprehensive including specific measures such as asset declaration by public officials, enhancing the capacity of the Audit office and action to increase constraints on corruption by strengthening the judiciary and reforming the civil service. It also aims to improve transparency by improving government financial systems. Agreed targets included compliance with recommendation of the Comptroller of Audit.

Improved donor co-ordination

In many African countries, in particular, governments are overwhelmed with an array of various donor driven projects using their own reporting systems. There is no international donor forum for dealing regularly with the developmental aspects of corruption issues. Although there are no major differences in policy, specific activities and priorities inevitably reflect the mandates and expertise of individual organisations. This leads to differences of emphasis and approach. In particular:

- The IMF attaches high priority to improving the economic policy environment and seeking transparency in budgets and public expenditure. It does not seek to tackle corruption more generally.

²⁹ Jeremy Clark, Improving Donor Co-ordination, DFIT, U. K. (email version of paper prepared for the Utstein Conference)

-
- The World Bank and the UNDP emphasise a comprehensive approach focusing on strengthening public sector institutions. The World Bank recognises the importance of the political aspects of corruption but does not address them directly.
 - Bilateral donors vary widely in their approaches but emphasise the importance of action to address corruption in international trade and finance since this is often where problems originate, particularly in developed and middle income countries.

There are at least four areas in which donor co-ordination could or is being improved:

- The use of comprehensive development frameworks
- Sharing and pooling arrangements between donors
- Improving core budget, financial management, accounting, procurement and auditing systems in partner governments
- Expanding the international effort

Conditionality

Conditionality can apply to projects (counterpart funding, accounting requirements), sector-based conditions (real resource increases), macro-economic requirements (money supply, fiscal balances) or what some have called level four or crosscutting, non-economic conditionalities in the areas of governance, environmental norms or poverty reduction targets. The main lesson is that donor-led initiatives based on significant conditionalities are now increasingly viewed as ineffective.³⁰ The trend is toward co-operative, partnership-based approaches that stress dialogue and engagements based on performance rather than on promises.

Mainstreaming

The World Bank, of all the development agencies, has gone the farthest in mainstreaming governance and anti-corruption. In 1997, the Bank's management directed that every Country Assistance Strategy (CAS) contain a diagnosis of the country's governance conditions as well as an assessment of the corruption risks to Bank projects. Among CASs that have addressed issues of governance and public sector institutional reforms to date are those for Albania, Bangladesh, Bolivia, Bulgaria, Colombia, Gabon, Indonesia, Kenya, Papua New Guinea, Philippines and Thailand. Evaluative reports are also an important target for the mainstreaming effort. The Operations Evaluations Department (OED) is carrying out an evaluation of the Bank's anti-corruption program. Efforts are also underway to assess how effectively corruption risks have been addressed in operational work. The Bank's mainstreaming effort also emphasises building

³⁰ Terms of Engagement: Towards Strategy and Guidelines for Donor-Recipient Interaction Against Corruption, Steven Langdon, Senior Associate, Parliamentary Center, Ottawa, Canada, p. 4

internal capacity through training, research, analysis, and new diagnostic tools, and knowledge management.

7.4.1 The Private-Corporate Sectors ³¹

The OECD recommendation of May 1997 and the subsequent passing of legislation in Canada as well as a number of other countries, has triggered a major debate about the criminality of off-shore bribery. In parallel and partly as a reaction, a number of private sector firms, particularly those with considerable international business, have adopted codes of conduct, which may include anti-corruption provisions. Some business and professional organisations (e.g. the International Chamber of Commerce) have codes of conduct for their members, but they are normally advisory rather than mandatory. The ICC is responding to criticisms that the voluntary nature of the code reduces its capacity to police and monitor its members and is looking for ways in which it can be made effective.

In September 1997, thirteen Canadian companies developed the International Code of Ethics for Canadian Business. The Code covers Beliefs, Values, Principles and its Application. Commitment to not participate in corrupt business practices is a clear part of the values and principles. A number of Canadian companies now have their own Code of Ethics.

Who is responsible for preventing fraud?

"There is still much confusion over who has the responsibility for manning a system of internal control in individual businesses, and for preventing fraud. Just 29 % and 22 % respectively responded with the correct answer: 'The whole board'

*Price Waterhouse Survey on Corporate Governance,
January 1995.*

Looking at 32 Canadian companies with international operations, KPMG Canada found a marked difference between the codes of subsidiaries of American Corporations and those of Canadian companies. "With few exceptions, the code of the US parent stood as the code of the Canadian subsidiary, unchanged and firmly rooted in US law. The Canadian corporations were more apt to include a clause requiring adherence to laws 'foreign and domestic' and reflect Canadian values of tolerance, co-operations, and compromise and appeal to these guiding principles rather than merely impose narrow legal rules prohibiting certain conduct."

*Canadian Corporations and Social Responsibility, the
North South Institute, p. 9*

The best voluntary codes are those which are not only specific, but also require an annual or six-monthly signature from the chief executive to confirm that they have been observed in every

³¹ TI also has a Bribe Payers Perceptions Index which can be found on its Website.

respect. It also must be recognised that the best voluntary code is only as effective as the company's board of directors is determined that it should be.

There appears to be considerable scope for international or country professional associations and federations to include a mandatory anti-corruption clause in their ethics codes, with expulsion from its membership as the sanction for non-observance.

7.4.2 Ongoing Research and Evaluation

The Management Development and Governance Division (MDGT) of the UNDP through its PACT Program is currently undertaking a joint research project with the OECD Development Center. The study will review anti-corruption reform strategies, institutional systems and implementation issues in Benin, Bolivia, Morocco, Pakistan, Philippines and Tanzania. ³²

³² UNDP Approach to the fight against Corruption: Good Governance in Pursuit of Sustainable Human Development, UNDP discussion paper, Principal author Prof. Susan Rose-Ackerman, Henry Luce Professor of Law, Yale University. (Undated, downloaded from the Internet)

8. OPERATIONAL ISSUES

Key operational issues that have been identified by CIDA staff and Canadian Executing Agency included:

- Facilitation payments
- Supplements to counterparts
- Controlling corruption within a project
- Building anti-corruption into projects
- Reporting corruption

While these issues are of direct concern to the CIDA they are also of concern to multilateral donors and other partners whom CIDA supports and, of course, other donors.

8.1 *Facilitation Payments*

Is corruption a matter of scale? Is there a difference between grand and petty corruption? Under Canadian legislation, facilitation or "grease" payments are not illegal but they are not condoned either. There is general agreement that facilitation payments are highly undesirable. But it is also recognised that in the real world, neither companies nor governments can adhere to the strictest principles on what may involve very small matters.

Facilitation payments take many forms, vary from country to country in their nature and extent but are essentially the same thing - income supplements. In many cases, facilitation payments are meant to either speed up a process or simply ensure that something gets done (as opposed to not getting it done). They are, for the most part, one-off payments to minor officials to do the work that they are already being paid (usually inadequately) to do. However, sometimes, they may involve relatively substantial payments to more senior staff. Depending on the social system of the particular office, larger payments may get shared among lower level staff. Facilitation payments can also be required within the private sector. For example, such payments are frequently necessary to move a CV or job application from the desk of one person to the top of the pile of someone else's desk.

Facilitation payments fall into different categories:

- One-off or irregular payments, for example, to a utility company to speed up telephone installation or electricity service, or for clearing goods through customs, "other security services", obtaining a birth certificate or driver's license.

-
- Payments by a CEA to get information, maps or books from a government agency - which the agency is or may be required to provide under the terms of the loan agreement, memorandum of understanding or a similar agreement.
 - Regular payments for various services such as obtaining visas, "security or cleaning services".

8.2 Supplements to Government Employees

Supplements are paid with the hope that government employees assigned to the project will be more motivated to do work for it (as opposed to another project) or not be obliged to seek work elsewhere and thus be more available to the project. Supplements can be provided through:

- Salary top-ups
- Payments to attend meetings, workshops or training
- Fees for "services", such as processing a consultant's invoice on a loan project
- Extra per-diems added on to travel time
- Short-term contracts to write documents, speak at a workshop, etc., and
- In some cases, demands for kickbacks from local consultants

The distinction between facilitation payments and supplements to government employees often blends together. The general perception is that they are different. There are different opinions as to whether such supplements should be considered as "corrupt". Both facilitation payments and supplements are symptomatic of larger public service problems, primarily (but not exclusively) low salaries. However, in some cases, they have also become part of a deeply ingrained, self-reinforcing culture of how government offices, the private sector and donors work together. Practices often vary considerably from one office to another, and among individuals within a country. The dilemma is that continuing such practices reinforces the weakness of the system and avoids reform. Not providing supplements may mean that government employees assigned to the project may often be much less available. At what point donors and their executing agencies are part of the problem needs more assertive discussion.

8.3 What to do?

8.3.1 Day-to-Day Issues

There are no simple answers to dealing with facilitation payments - but seeking advice from those who have a good working knowledge of the culture of the country and the institutions - coupled with good judgement and an ethical framework you respect makes for a good start. It is surprising (sometimes), the positive effect of a polite explanation that "We are not allowed to

make such payments". The effect may also be serious delay, no action, or other kinds of problems. Facilitation payments are full of grey areas.

There is growing concern that the continuing practice of supplementing counterparts is only delaying dealing with public sector reform. The administratively simple (and superficial) way to resolve the problem with counterparts is to ensure that loan, contribution and contract agreements are carefully negotiated and formulated so that such payments are made out of the government's own counterpart budget. If well negotiated, and if there are enough government counterpart funds, this approach more or less eliminates the problem for the donor and the CEA. Another solution is to make such payments through a local partner. Still another is to bury such payments in PSUs (Project Support Units) which only shifts the problem. Such solutions do almost nothing in terms of dealing with the root causes, except to reinforce them.

If government counterpart funds are inadequate, or if a counterpart still looks for support, there is no simple answer. Judgement, an assessment of the possible consequences (short and longer term) of not providing support, and some thinking about more legitimate options for providing support are required. Some of the options include:

- Saying no. "I understand your problem, but even if I wanted to, I cannot". (The regulations of my firm, CIDA, etc. prohibit such a payment.)
- Open discussion with the senior government counterpart, especially if this is a recurring issue, to seek a mutually satisfactory solution.
- Offering support that is more developmentally defensible such as training and professional development, equipment, etc.
- Co-operative arrangements with other donors or other projects

One other "solution" has been the creation of special project management units where higher salaries are formalised. This helps out the project but does nothing to solve the underlying problem. The issue must be tackled on an institutional basis.

8.3.2 Systemic Change

Do you want to try and change the system or its practices? If the concern is with annoying facilitation payments that are outside your project, handle with great care. In many cases it is better to leave such issues alone and put energy into project related problems.

If is the mandate of your project to rationalise user fees or fees for services, remember:

- The payments represent income, for the most part, for relatively low-income people.

-
- Even when rationality says that the payments should be formalised into user fees, there are almost certain to be other issues. Try to understand the financial culture of the organisation. In addition, there may be a legal requirement that revenue collected from user fees or from sales (for example maps) must be turned over to the national treasury, rather than being retained by the agency concerned. The revenues then disappear into another larger black hole so that no one wins.

At the same time, there are things that can be done, especially when there is a willingness and leadership.

- In the Philippines, (unlike many countries) people who overstay their visa pay for an extension at the airport when they leave. The process and price is transparent.
- The National Mapping and Survey Agency in Indonesia, after years of selling maps "under the counter", has established a sales office with a catalogue of its products, a pamphlet explaining the procedures for purchasing products and a price list for paper maps. While there is room for significant improvement, it works. More recently, the sale of digital products has been particularly complicated because of pricing policy and copyright issues, as well as a continuing tendency for staff to sell products privately.

8.4 Controlling Corruption Within a Project

This is a very large topic and beyond the scope of this document to deal with in detail. It is important to separate at least three types of issues:

- Actions over which the CEA project manager has reasonable control such as the possible involvement of an individual employee (or group of employees) in fraud or kickbacks,
- Activities which are controlled by government employees (project counterpart budgets or, in the case of multilateral loans projects, the use of loan funds).
- Actions by the CEA and/or actions by CIDA staff or representatives

In the case of the first, the "answers" seem to lie in prevention, sound managerial control, regular audits and dialogue. Clearly, major kickbacks cannot be tolerated, but judgement has to be exercised about how strong a stand should be taken on minor issues such as drivers "skimming" on gasoline purchases. Managerial judgements need to be made about the negative costs and impact of "zero tolerance". Excessive control and

An Ontario Superior Court judge has dismissed a multimillion dollar lawsuit filed by two civil service whistleblowers against federal officials and Foreign Affairs Minister Axworthy. The judge ruled that the pair had other avenues for their complaints and that federal officials could not be held liable even if the two had been harassed.

*Globe and Mail,
September 23, 2000*

micro-management can solve one problem but create others. The companies of some executing agencies have their own codes of ethics that are discussed with all project staff. Possible problems are also discussed to help reach agreement how everyone will handle difficult situations and grey areas. Not everyone shares the same perceptions about what is ethical or corrupt behaviour and it can be very useful to have such a dialogue about this. Local staff can also be reminded that they receive relatively high salaries compared to government counter-parts, in part, to ensure that they do not need to seek other sources of revenue. Finally, some projects are creating "Integrity Circles" (This is a Corruption Free Zone!) which involve local staff as well as counterparts.

"I believe that the vast majority of public officials are dedicated, capable and professional. I believe that the federal public service ranks among the best in the world. However, this does not mean that we should not cast a critical eye on government.

I believe that that most important values and ethics that should guide public officials are the ones that have historically been the core of good government: respect for the law, respect for the public interest, and the principle that public service is public trust.

This strong foundation should not be taken for granted."

Denis Desautels, Auditor-General, Globe and Mail, Oct. 20, 2000

Corruption can occur in the use of government counterpart funds associated with a CIDA project, and impact the objectives and sustainability of the project. Considerable judgement and caution is required before taking action. Be very sure of the reliability of information, its source and the motivation for providing it to you. Seek advice from people with experience and knowledge, and who can be trusted.

What does a CIDA staff person or representative do when a CEA, or a CEA staff member is suspected of corruption? Similarly, what does a CEA do if she or he suspects a CIDA or other employee of the government? For the CIDA person, the guidelines "Protocol for Dealing with Allegations of Corruption" are posted on Entre-Nous under Corporate Documents/Contracting Management/Guidelines/Protocol.

The CEA will have its own corporate reporting procedures.

However, it is possible that the usual administrative channels may not be felt to be satisfactory - for many possible reasons. Currently there are no recognised alternate channels for "whistleblowers". Consideration should be given to establishing such a channel, such as through the CIDA Ombudsperson.

Should CIDA have a code of ethics? The auditor-general is encouraging this across government. Certainly many staff would welcome an opportunity to discuss ethical issues more openly - and how to deal with them.

Blacklisting Firms for Corrupt Practices ³³

The government of Canada and private sector firms cannot and do not condone corrupt practices. There are two broad issues:

- From a strictly Canadian perspective, what are the pros, cons and options related to blacklisting firms? and
- From an international perspective, how important is it for Canada to demonstrate support to organisations such as the World Bank that do blacklist firms?

The Department of Supply and Services is in the process of reviewing their procedures and CIDA will be consulting with them to discuss the possibility of harmonisation of procedures.

³³ CIDA's Protocol For Dealing with Allegations of Corruption can be found in Annex 2. The policy of the Asian Development Bank can be found in Annex 4.

9. CONCLUSION

This document has argued that corruption, particularly when viewed as part of governance, is a serious issue that impedes development progress and the achievement of development assistance goals and their sustainability. The largest CIDA Bilateral programs operate in countries that are, for the most part, high on the T. I. Corruption Perceptions Index, and high risk in their exposure to corruption.³⁴

Corruption is now a very open subject. It is a major concern, world wide, not just of development agencies, but in a broad range of international agencies, the private sector and developing and transitional economies. Most of all it is a concern for ordinary people who are affected daily - particularly the poor. With the increased openness, the debate has moved from the general to the operational. Improved tools for analysis have been developed and there is now a very large literature related to lessons learned and best practices. In parallel, public service ethics is an issue of growing importance and all agencies of the Canadian government are likely to be required in the future to develop ethics programs and be more active in this area.

Table 1: Rank of Bilateral Disbursements Compared to T. I. Index¹

COUNTRY	RANK IN BILATERAL DISBURSEMENTS (1997-1999)	RANK ON 2000 T. I. INDEX (OUT OF 90)
Bangladesh	1	N/A
China	2	63
Cote d'Ivoire	3	71
Haiti	4	N/A
Cameroon	5	84
Indonesia	6	85
Ghana	7	52
Egypt	8	63
Senegal	9	58
India	10	69

Corruption will not go away by changing priorities or approaches. Sector Wide Approaches, or focussing on health and education will not change the realities of corruption. Without a reasonably competent and clean public sector, an equally competent and clean judiciary, plus an active and informed civil society and an ethical private sector, advances in the economic and social sectors may be achieved, but at a high cost and with skewed benefits for the more affluent.

There are several ways in which CIDA could strengthen its role:

- Encourage greater openness and discussion of corruption issues, with CIDA, interdepartmentally, CEAs and with development partners

³⁴ The Corruption Perceptions Index (CPI) relates to the degree of corruption as perceived by business people, risk analysts and the general public. The lowest ranking (least corrupt) in 2000 is Denmark (#1). Azerbaijan (#96), Indonesia (396), Nigeria (398) and Cameroon (#99) are the highest (perceived as most corrupt).

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- Encourage and support programming decisions, bilaterally and multilaterally, to fight corruption and protect development resources
 - Ensure corruption is a topic of branch program exercises and major policy papers
 - Strengthen the capacity of managers, programmers and staff to analyse and understand the issues
 - Be more proactive in encouraging discussion and in the support of specific anti-corruption initiatives

Annex 1: LIST OF ABBREVIATIONS

Abbreviation	Name
AAA	The Americas' Accountability/Anti-Corruption project
ADB	Asian Development Bank
APNAC	African Parliamentarians' Network Against Corruption
BI	Business International
BPI	Bribe Payers Index
CAS	Country Assistance Strategy (World Bank)
CCC	Canadian Commercial Corporation
CEA	Canadian Executing Agency
CEECs	Central and Eastern European Countries
CEER	Central European Economic Review (Affiliated with the Wall Street Journal)
CICP	Centre for International Crime Prevention (UN)
CIDA	Canadian International Development Agency
CSR	Corporate Social Responsibility
DCEC	Directorate of Corruption and Economic Crime (Botswana)
DPEPA	The Division for Public Economics and Public Administration (UN)
EDC	Export Development Corporation
EDI	Economic Development Institute (World Bank)
FATF	Financial Action Task Force (OECD)
FDI	Foreign Direct Investment
FEED	Forum for Entrepreneurship and Enterprise Development
FIAS	Foreign Investment Advisory Service (WB and IFC)
GCR	Global Competitiveness Report
ICAC	Independent Commission Against Corruption
ICAC	Independent Commission Against Corruption
ICC	International Chamber of Commerce
ICRG	International Country Risk Guide
IDA	International Development Association
IDB	Inter-American Development Bank
IDW	Indonesian Corruption Watch
IFC	International Finance Corporation
IFES	Institute for Electoral Systems
IFI	International Financial Institution
IFMS	Integrated Financial Management System
IJNet	International Journalist's Network
IMF	International Monetary Fund
IPOC	Integrated Proceeds of Crime
NGO	Non-Government Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PREM	Poverty Reduction Economic Management (The World Bank)
SIGMA	Support for Improvement in Governance and Management in Central and Eastern European Countries
SIS	Special Investigations Service

TI	Transparency International
UN	United Nations
UNDP	United Nations Development Program
UNICRI	United Nations Interregional Crime and Justice Research Institute
USAID	United States Agency for International Development
WB	World Bank
WJIN.NET	World Justice Information Network

Annex 2: Corruption: Definition, Nature, Costs and Causes

Definition

Corruption is universal, and has both a demand and a supply side. Although corruption is increasingly being recognised as threatening the rule of law, democracy and human rights, undermining good governance and hindering economic development, there is no one definition. The most common definition, and that used by the World Bank (WB), is “abuse of public office for private gain”, but this suggests that corruption is largely a problem of the public domain. The recent definition of the Council of Europe broadens the scope to include the private sector and civil society:

“bribery and any other behaviour in relation to person entrusted with responsibilities in the public and private sector, which violates their duties that follow from their status as a public official, private employee, independent agent or another relationship of that kind and is aimed at gaining undue advantage of any kind for themselves or for others.”

Thus, corruption may involve a combination of illegal activities (bribery, fraud, extortion) which are, by definition, subject to laws (effective or less effective), and other activities (nepotism, cronyism, trading in influence, monopoly practices and collusion) which may be either less clearly defined in law – or not defined at all. The specificity of the definition becomes important when developing policies and guidelines.

The Nature of Corruption

Corruption occurs at those points where political, bureaucratic and economic interests coincide. There is legislative corruption when politicians sell their votes to pressure groups, and administrative corruption when public officials take payoffs to allow some one to secure a procurement contract or to evade taxes. Distinctions can be drawn between systemic or pervasive corruption and more episodic forms. The terms “grand” and “petty” are often used. “Grand” refers to very large amounts and usually involve the most senior officials in the political, public or private sectors, or some combination. “Petty” is often used to refer to small amounts, often facilitation payments or quasi “user fees”. However, petty is relative. If the person affected is poor, or on a very low income, the term petty may be far from appropriate.

Corruption is distinctive because of its two-sided nature. If just one of the parties is deterred, the deal will not go through. Criminal law in some countries distinguishes between “active” and “passive” corruption. “Active” bribery and corruption involve offering and seeking money, pledges or benefits in exchange for favours. “Passive” bribery and corruption involve a person accepting gifts, money, pledges or benefits in exchange, for which the person who accepts misuses his/her position by favouring the giver. “Enticement” is when something is corruptly

offered. “Extortion” is when something is corruptly demanded. The *briber* is usually seen as the active party, the *public servant* as passive. In practice, there can be a wide variety of circumstances, with the situations reversed. The distinction between active and passive, between extortion and bribery means little, given the need for both parties to agree. A more useful distinction is whether the benefit received in return for the bribe is one to which the briber is legally entitled.³⁵

Another way to consider corruption is in terms of power relationships. Jean Cartier-Bresson differentiates four permutations:³⁶

- Bilateral monopoly, when public and private sectors are evenly balanced and where the economic and political elite is small and homogeneous. Here the elite, and possibly the electorate, prohibits the petty corruption of bureaucrats.
- The demand side is stronger than the supply side. Examples are kleptocracies such as the former Zaire and Pakistan where it is the recipients who set the transaction prices.
- The supply side is stronger than the demand side. Here private elite or multinational firms exert power over minor public officials. The state gives in to organised crime under the threat of violence.
- The supply and demand sides are fragmented, with multiple bribe payers in competition with one another, as in Ukraine.

Finally, corruption can be seen in terms of the effects of cronyism, collusion and nepotism (as they are often referred to in Southeast Asian economies) which complement or reinforce monopolistic and oligarchic business practices. When the state apparatus is weak, hampered by excessive or outdated regulations, frequently overburdened with inefficient enterprises, when salaries of civil servants are low, and the private sector is growing rapidly - it invites capture by economic and social elites. Obvious forms of corruption such as payoffs, bribes, kickbacks and gifts become commonplace and part of the norm. The latter are, in most cases, clearly illegal. However, they are rarely prosecuted and corruption and inefficiencies in the judicial system make conviction unlikely.

³⁵ *Corruption and Good Governance*, Management Development and Governance Division, Discussion Paper 3, United Nations Development Program (UNDP), New York, July 1997

³⁶ Jean Cartier-Bresson, *The Economics of Corruption*, *Observer*, No. 220, April 2000.

Governance and corruption

Control of corruption is one of several interrelated components of governance. It is particularly symptomatic of fundamental weaknesses in the state. There is a growing body of empirical evidence that there is a direct connection between competent and transparent government institutions and sound economic and social development.³⁷ Higher, more fairly distributed incomes and improved social conditions (declining infant mortality, higher life expectancy, etc.) are found in countries with effective, honest and merit based government institutions, where the rule of law prevails, and where civil society and the media have an independent voice. History, and a view of our current world, shows us that capable and clean government does not require a country to be fully modernised or wealthy.

Causes

The causes of corruption vary. They are contextual and relate to a country's history, political, social and economic development as well as its bureaucratic and private sector traditions. Corruption tends to flourish when institutions (the public service and judiciary in particular) are weak. Robert Klitgaard suggests a simple model:

$$C = M + D - A$$

$$C \text{ (Corruption)} = M \text{ (Monopoly)} + D \text{ (Discretion)} - A \text{ (Accountability)}$$

Additional letters could include + LE (Lack of Ethics). Corruption will tend to flourish when a person, organisation or group has monopoly power over a good or service, when regulations are badly defined and ever-changing, the discretion of public officials high, accountability is low, ethical principles are weak, and the penalties for corruption (for both givers and takers) are low or not enforced.

The Consequences and Costs of Corruption

There is growing empirical evidence concerning the various consequences and costs of corruption. Attempts to rationalise corruption because it has been with us throughout history, that it may be part of the inevitable cost of economic growth, "progress" and development, or that it can be positive in circumventing bureaucratic rules and regulations - lack substance.

The causes, consequences and costs of corruption are intertwined. When corruption is systemic and pervasive, it poses a serious development challenge. In the political realm, it undermines democracy and the legitimacy of government by subverting formal processes. In doing so, it

³⁷ "Improving Governance and Controlling Corruption: New Empirical Frontiers and the Case for Collective Action," Daniel Kaufman and colleagues, Background Paper for Maastricht Conference, April 25 - 28, 2000.

reduces seriously the trust and confidence of people in their institutions. Corruption in elections and in legislative bodies reduces accountability and representation in policy making. Corruption in the judiciary undermines the rule of law. Corruption in public administration results in uneven provision of services. It undermines economic development in a variety of ways by creating distortions, inefficiencies, and diverting resources.

More generally, corruption erodes the institutional capacity of government as procedures are disregarded, resources are siphoned off, and officials are hired or promoted without regard to performance. It threatens people, especially the very poor, who have no resources to compete with those willing to pay bribes. It widens the gender gap because it is often redistributed from the poor (disproportionately women) to office holders (mostly men). Finally, corruption is unsafe. It makes it easy to ignore or circumvent regulations about health, safety and the environment.

Annex 3: Detailed Definitions of Corruption - Asian Development Bank ³⁸

"The abuse of public or private office for personal gain"

Corruption involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed.

Within this definition, the term "official" includes any government employee (including employees of state owned enterprises and subvented agencies), or any employee of an individual, firm or organization, and any principal, partner, shareholder, director or officer of any such firm or organization, as well as agents operating on their behalf. "Improper and unlawful enrichment" includes the solicitation, extortion or receipt of a bribe; it also includes patronage, nepotism, the theft of state or public assets or the diversion of state or public resources. Corruption also encompasses the behavior of the person inducing, offering, arranging or otherwise knowingly facilitating the corrupt behavior of such officials. "Those close to them" includes members of the their immediate and extended family, friends, business partners and associates, employees and political supporters.

A list of illicit behavior typically referred to as "corruption" is presented below. This catalogue is not exhaustive and is intended to illustrate the areas of greatest interest and concern to ADB. Some types of corruption are internal, in that they interfere with the ability of a government agency to recruit or manage its staff, make efficient use of its resources, or conduct impartial in-house investigations. Others are external, in that they involve efforts to manipulate or extort money from clients or suppliers, or to benefit from inside information. Still others involve unwarranted interference in market operations, such as the use of state power to artificially restrict competition and generate monopoly rents. The list includes: (i) The design or selection of uneconomical projects Bank Operations because of opportunities for financial kickbacks and/or political patronage; (ii) Procurement fraud, including payments, kickbacks, collusion, overcharging, misrepresentation, the delivery of substandard goods and services that do not conform with agreed specifications, the selection of contractors and suppliers on criteria other than the lowest evaluated substantially responsive bid, or the selection of consultants on criteria other than the best technical proposal; (iii) Illicit payments of "speed money" to officials to facilitate the timely delivery of goods and services to which the public is rightfully entitled, such as permits and licenses; (iv) Illicit payments to officials to facilitate access to goods, services, and/or information to which the public is not entitled, or to deny the public access to goods and services to which it is legally entitled. Regional; (v) Illicit payments to prevent the application of rules and regulations in a fair and consistent manner, particularly in areas concerning public safety, law enforcement or revenue collection; (vi) Payments to officials to foster or sustain

³⁸ OM Section 55: Issued on 20 July 2000, Anticorruption, Bank Policies (BP)

monopolistic or oligopolistic access to markets in the absence of a compelling economic rationale for such restrictions; (vii) The misappropriation of confidential information for personal gain, such as using knowledge about public transportation routings to invest in real estate that is likely to appreciate; (viii) The deliberate disclosure of false or misleading information on the financial status of corporations that would prevent potential investors from accurately valuing their worth, such as the failure to disclose large contingent liabilities or the undervaluing of assets in enterprises slated for privatization; (ix) The theft or embezzlement of public property and monies. Indicators; (x) The sale of official posts, positions, or promotions; nepotism; or other actions that undermine the creation of a professional, meritocratic civil service; (xi) Extortion and the abuse of public office, such as using the threat of a tax audit or legal sanctions to extract personal favors; (xii) Obstruction of justice and interference in the duties of agencies tasked with detecting, investigating, and prosecuting illicit behavior.

In all of the examples cited, the official who is enriched, the payer of such benefits, and anyone knowingly facilitating such arrangements are each engaged in corrupt behavior. From time to time, it may be necessary for ADB to employ more specialized definitions of corruption to address particular types of illicit behavior. In the area of procurement, for example, ADB defines "corrupt practice" as "behavior on the part of officials in the public or private sectors by which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed, and it includes the offering, giving, receiving, or soliciting of any thing of value to influence the action of a public official in the procurement process or in contract execution." ADB defines "fraudulent practice" as, "a misrepresentation of facts in order to influence a selection process or the execution of a contract to the detriment of the borrower, and includes collusive practices among suppliers designed to deprive the borrower of the benefits of free and open competition."

Annex 4: Frequently Asked questions

A number of consultative sessions and anti-corruption seminars have taken place involving CIDA staff and CEAs over the past two years. Frequently asked questions fall into two categories, programmatic and operational. They include:

- How does CIDA define corruption?
- What is the CIDA policy on anti-corruption?
- How should we program in an environment of systemic corruption?
- How should we program specific anti-corruption activities? What works? What are models of success?

- Am I obliged to report corruption? What form and process should it take?
- Where or to whom can I go for advice?
- What do I do if I disagree with the advice given to me?
- What are my rights if I am accused?
- What should we do (in a variety of corruption situations), when:
 - a clearly illegal act has been committed (under Canadian laws or the laws of the country involved, with evidence,
 - there has been a clear violation of regulations or guidelines (with evidence),
 - illegal acts or violations of regulations are suspected but there is no clear evidence,
 - judgement calls are required - particularly on facilitation payments,
 - actions that are legal and within regulations but bending Govt. of Canada and/or CIDA principles or guidelines are being committed,
 - actions are being committed that an individual personally does not find ethically acceptable

- Is CIDA considering developing a black list of Canadian executing agencies involved in corrupt/illegal activities?
 - Under what circumstances or basis could blacklisting occur?
 - What is/would be the process for blacklisting CEAs? (Who does what?)
 - What are the specific consequences/penalties of being blacklisted? Is there a range of penalties? For how long can a CEA remain blacklisted?
 - What recourse to appeal does a CEA have?
 - What are other consequences? If blacklisted by CIDA can this extend to other agencies of the Govt. of Canada and/or other international agencies? If a CEA is blacklisted by an agency such as the World Bank, does this mean it can or will be (automatically) blacklisted by CIDA?

Annex 5: Indices to Measure Corruption

Transparency International's Corruption Perceptions Index (CPI) provides data on perceptions of corruption as a means of enhancing understandings of levels of corruption from one country to another. Its approach is based on the use of a composite index or a "poll of polls". Its sources include data from the Economist Intelligence Unit, Gallup International, the Institute for Management Development (World Competitiveness Yearbook), Political and Economic Risk Consultancy (Asian Intelligence Issue), the Political Services (International Country Risk Guide), the World Bank (World Development Report & Private Sector Survey) and the World Economic Forum (Global Competitiveness Survey). As with any index, the T. I. Index has its critics. One criticism is that it is based on perceptions. For a complete discussion of methodology, sources, year to year comparisons, and reliability see: 1998 Corruption Perceptions Index: Framework Document by Dr. Johann Graf, I, 22 September (www.transparency.org/documents) Transparency International has also developed a second index called the Bribe Payers Perceptions Index.

Other indices, designed primarily for private sector investors, can serve as useful surrogate indicators. Each has its own methodology and, in some cases, produces different results from others. In some, but not all cases, corruption is one of several questions addressed. The indexes include:

- The Business International (BI) Index
- The International Country Risk Guide (ICRG) Index (Political Risk Services - www.prsgroup.com)
- The Global Competitiveness Report (GRC) Index (World Economic Forum - www.weforum.org)
- The Political and Economic Risk Consultancy, Ltd. (PERC) asks to what extent corruption exists that detracts from the business environment for foreign companies in 12 Asian Countries (www.asiarisk.com)
- CEER (Central European Economic Journal) - Wall Street Journal Index (interactive.wsj.com/ceer)

Other sources of corruption information include:

- The World Competitiveness Yearbook (WCY) which asks to assess whether "Improper Practices (such as bribing and corruption) prevail."

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- The same question was posed in the Global Competitiveness Survey of 1996. The question was changed in 1997 to "Irregular, additional payments connected with import and export permits, business licenses, exchange controls, tax assessments, police protection or loan application are common/not common."
 - Gallup International asks whether there are many, few or no cases of corruption among politicians, public officials and police.
 - The Economist Intelligence Unit (EIU) aims at measuring the pervasiveness of corruption. Corruption is one of over six indicators used to measure country risk.
 - The World Development Report asks two related questions with respect to corruption. "Please judge on a six point scale how problematic corruption is for doing business" and 'Is it common in my line of business to have to pay some irregularly, additional payments to get things done. (true always, frequently, sometimes, seldom, never).'

Annex 6: CIDA Protocol for Dealing with Allegations of Corruption

1. The Canadian International Development Agency (CIDA) aims at achieving the highest standards of ethical behaviour and expects adherence to these standards from all employees as well as from entities involved in CIDA-financed contracts and contribution agreements. CIDA has modified its standard anti-corruption clause and has inserted it in all aid related contractual arrangements. Should an entity engage in corrupt practices, there may be grounds for terminating the contractual arrangement or for undertaking other action.
2. These procedures set out in this document are internal to CIDA. They complement the Agency officer guidelines on corruption prepared by Policy Branch. Note that in some cases, activities relating to corruption and bribery may amount to crimes under Canadian law. The Corruption of Foreign Public Officials Act, which came into force on February 14, 1999, makes it a criminal offence to bribe a foreign official in order to obtain an advantage in the course of business. Situations involving allegations of criminal activity may require referral to police authorities or other actions which are different from the procedures outlined in this Protocol. Allegations of criminal activity should be brought to the attention of the Manager, Security Services who will determine the appropriate course of action according to the particular circumstances.

PURPOSE

3. This document sets out procedures for headquarters and field employees for handling allegations of corrupt practices associated with funding by CIDA under a contract or a contribution agreement.

PRINCIPLES

4. These procedures are based on the following principles:
 - a. Any audit / query must be conducted in a manner that protects the privacy and the rights of the parties involved. For instance, release of personal information, confidential information and commercial information is governed by the requirements of the Access to Information Act and the Privacy Act. The documentation may be accessible through the *Access to Information and Privacy Act*,
 - b. Any investigation of an allegation will be handled corporately.

PROCESS

5. When an employee becomes aware of an allegation of corruption, this person must immediately bring the allegation to his /her Director's attention, together with any supporting

evidence. The Director will then have the responsibility of informing the accountable Vice-President and the Manager, Security Services, in the case of allegations of criminal activity.

6. The Officer responsible for the project/program/region where the alleged incident took place will be tasked to gather all correspondence, financial information, internal and external audit reports relevant to the allegation.
7. Should the accountable Vice-President conclude, after consulting with Legal Services and Contracting Management Division, that the allegation is unfounded or not in the public interest to pursue, then no further action will be required.
8. On the other hand, if the accountable Vice-President concludes that there might be grounds for the allegation, all the information at hand must be transmitted to the President who in turn will inform the Minister.
9. The Director must ensure that Communications Branch is consulted to determine whether Questions and Answers (Q's and A's) are deemed to be required. Throughout the process, should the media ask an Agency officer for comments on an allegation of corruption, this officer must refer the call to Communications Branch who will follow-up with either the co-ordinator or spokesperson assigned to the case.
10. At the discretion of the President, a crisis committee may be put in place. The committee will be chaired by the President and will include the accountable Vice-President, the General Counsel of Legal Services, the Director General of the Performance Review Branch, the Director General of the Contracting Management Division and the Director General of the Communications Branch.
11. The responsibilities of the crisis committee are:
 - a. to decide on the course of action to be taken;
 - b. to name a delegated spokesperson and a co-ordinator;
 - c. to decide on the interface with the other ministries, aid organisations, and countries;
 - d. to prepare updates for the Minister on the issue; and
 - e. to ensure that an internal/external audit has been/will be done.
12. If the allegation has been substantiated and the entity has engaged in corruption, a committee, again chaired by the President, will decide on the corrective measures to be taken, depending on the nature and the degree of seriousness of the allegations. The members of this committee will be the same members as those forming the crisis committee.
13. In the end, an analysis of the issue should be prepared and placed on file. The analysis will include:
 - a. the events that occurred;

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- b. a summary of each contact with the media;
 - c. the findings of the committee; and
 - d. the corrective actions taken if the allegation was substantiated.

14. In certain circumstances, it may be appropriate for CIDA to offer co-operation and assistance to developing countries who undertake investigations of allegations of corruption of Canadian entities involved in development assistance. Any assistance must be in accordance with the requirements of the Privacy Act and the Access to Information Act. The accountable Vice-president is responsible for the approval of such assistance. All requests for such assistance should be referred to Legal Services.

(December 13, 1999)

Annex 7: Asian Development Bank Policy

Fraud and Corruption

1.06 It is the Bank's policy to require that borrowers (including beneficiaries of Bank loans), as well as bidders/suppliers/contractors under Bank-financed contracts, observe the highest standard of ethics during the procurement and execution of such contracts. In pursuance of this policy, the Bank:

- a. defines, for the purposes of this provision, the terms set forth below as follows:
 - i. "corrupt practice" means behavior on the part of officials in the public or private sectors by which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed, and it includes the offering, giving, receiving, or soliciting of anything of value to influence the action of any such official in the procurement process or in contract execution; and
 - ii. "fraudulent practice" means a misrepresentation of facts in order to influence a procurement process or the execution of a contract to the detriment of the borrower, and includes collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the borrower of the benefits of free and open competition;
- b. will reject a proposal for award if it determines that the bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question;
- c. will cancel the portion of the loan allocated to a contract for goods or works if it at any time determines that corrupt or fraudulent practices were engaged in by representatives of the borrower or of a beneficiary of the loan during the procurement or the execution of that contract, without the borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;
- d. will declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a Bank-financed contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract; and

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- e. will have the right to require that, in contracts financed by a Bank loan, a provision be included requiring suppliers and contractors to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank.
- 1.07 With the specific agreement of the Bank, a borrower may introduce, into bid forms for large contracts financed by the Bank, an undertaking of the bidder to observe, in competing for and executing a contract, the country's laws against fraud and corruption (including bribery), as listed in the bidding documents. A footnote shall also be inserted into documents where such a pledge has been inserted noting that it has been placed there at the request of the borrower.
- 1.08 When the contract is to be financed wholly or partly by the Bank, the contract documents shall include an undertaking by the contractor that no fees, gratuities, rebates, gifts, commissions or other payments, other than those shown in the bid, have been given or received in connection with the procurement process or in the contract execution.