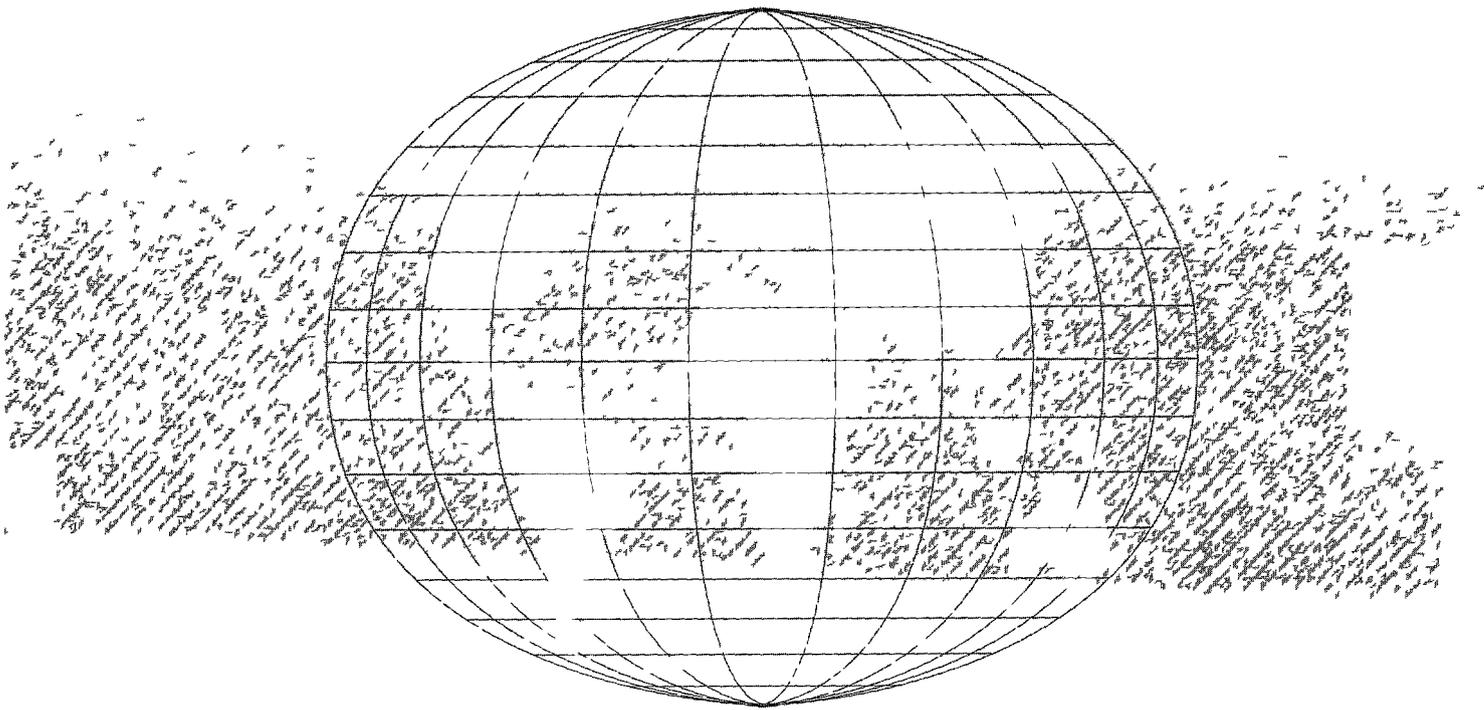


Report of Audit

Audit of the Status of USAID's Anti-Corruption Efforts in Assisted Countries

Report No. 9-000-98-002-P
September 1, 1998



IG/A/PA

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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SEP 01 1998

MEMORANDUM FOR Tom Fox, AA/PPC

FROM Everette B Orr, AIG/A *Everette B Orr*

SUBJECT Audit of the Status of USAID's Anti-Corruption Efforts in Assisted Countries (Audit Report No 9-000-98-002-P)

This audit report describes the status of USAID's anti-corruption efforts to date in assisted countries. In preparing this report, we considered your comments to our July 1998 draft report. The report contains one recommendation to assist the Agency in further developing its plan to effectively address corruption. The report also discusses certain "best" practices in some bureaus that the Agency as a whole or its bureaus may want to adopt.

Please provide us information within 30 days on any actions planned or taken to implement the recommendation. Your comments are discussed after the recommendation and are included in their entirety in Appendix II. I appreciate the continuing cooperation and courtesies extended to my staff.

Background

The international community is beginning to actively engage in designing and implementing anti-corruption programs in developing and transition countries. Although corruption involves both the public and private sectors, corruption is defined by the World Bank and most of the donor community as "the misuse of public office for private gain." Corruption is generally defined broadly and includes many kinds of behaviors, such as bribery, embezzlement of funds, diversion and extortion of food aid and other commodities, nepotism, and favoritism.

A number of surveys, compiled by developmental organizations such as the World Bank, have been conducted which conclude that corruption is a significant problem in every developing region of the world. In one survey (see chart below), corruption is identified

as the single greatest obstacle (amongst 15) to "doing business" in the Latin America and Caribbean, and Sub-Saharan Africa regions. Corruption is identified as the second greatest obstacle in the Middle East and North Africa region behind inadequate infrastructure, and is ranked as the third greatest obstacle in the Eastern Europe and the New Independent States region.

Ranking of Corruption as an Obstacle for Doing Business¹	
World Bank Geographic Regions	Corruption Ranking
Latin America and the Caribbean (LAC)	1st
Sub-Saharan Africa (AFR)	1st
Middle East and North Africa (ANE)	2nd
Commonwealth of Independent States (ENI)	3rd
Central and Eastern Europe (ENI)	3rd
South and Southeast Asia (ANE)	6th

Based in part on pressure from such sources as the Berlin-based anti-corruption lobby group known as "Transparency International" (TI) and worldwide corporate officials, the World Bank has now targeted anti-corruption as a major program. The World Bank, in coordination with the International Monetary Fund (IMF), is spearheading a drive to persuade industrialized countries to tackle corruption. To do this, the World Bank and the IMF are urging countries to tackle corruption by ending tax deductibility for bribes and criminalizing foreign corruption. The European Union, United Nations, Council of Europe, and the International Chamber of Commerce have also stepped up efforts to fight corruption.

¹ Businessmen were asked to rank 15 kinds of obstacles comparatively such as inadequate supply of infrastructure, tax regulation, policy instability, inflation, crime and theft, and terrorism. USAID geographic regions are abbreviated in parenthesis. The data was obtained from the World Bank, Policy Research Paper #1759, "Institutional Obstacles to Doing Business" (dated April 1997).

Although the involvement of the international organizations is vital in dealing effectively with the problem of global corruption, individual donor-aid strategies are equally essential in addressing this impediment to development. With increasing emphasis on international strategies, the donor community agrees that the time is appropriate for the international community and the donor agencies to implement effectively coordinated plans in addressing corrupt practices.

The United States Agency for International Development (USAID) recently began addressing the issue of corruption in a more visible and focussed way. Beginning in 1989, the LAC Bureau has been implementing a financial management program. The program is designed to improve transparency and accountability and includes some specific anti-corruption activities. As an example of LAC Bureau accomplishments, the Bureau sponsored the first Inter-American Conference on Problems of Fraud and Corruption in Government in 1989. Since then, the LAC Bureau has sponsored a series of seminars and conferences focussing on corruption throughout Latin America and the Caribbean.

All countries in the LAC region have embraced financial reforms except Cuba. These reforms are in process and include a strategic attack on endemic unaccountability, and lack of internal control and ethical actions, which continually undermine the faith of citizens in democratic government. The reforms intend to strengthen financial controls by integrating financial management systems, creating or strengthening auditor generals, and establishing a sound internal control environment and structure throughout the government.

More recently, USAID established the Center for Democracy and Governance (G/DG) within the Global Bureau and thus has become the primary impetus for USAID's concern and implementation of programs designed especially to combat corruption. The majority of the Agency's anti-corruption efforts come under the auspices of broader democracy and governance programming consisting of central, regional and bilateral programs in the rule of law, civil society, governance and political processes.

Audit Objective

The Inspector General's Performance Audits Division in Washington, D.C. conducted the audit to answer the following question:

- What is the status of USAID's anti-corruption efforts in assisted countries?

Appendix I describes the audit's scope and methodology.

Audit Discussion and Findings

USAID has recently taken positive steps to address corruption in assisted countries. For example, many of the Agency's programs contribute to the anti-corruption effort. Moreover, the Agency recently established an anti-corruption working group. In addition, some USAID bureaus and missions are beginning to implement specific anti-corruption activities. Within the Global Bureau, the Center for Democracy and Governance provides core operational support to Transparency International. The Europe and New Independent States (ENI) Bureau developed an anti-corruption strategy in December 1997 that, among other things, identifies program priority areas, and includes guidance to operating units on how to incorporate specific anti-corruption activities in their existing and new programs.

Even though the Agency has several programs to eliminate corruption, we believe USAID needs to develop a written policy on corruption to ensure that the Agency directly and effectively addresses corruption in its existing and new programs. Such policy should incorporate a shared vision among the different bureaus resulting in a better-coordinated anti-corruption effort within the Agency. The policy should (a) define what types of activities are considered anti-corruption activities and identify the priority program areas, (b) establish anti-corruption performance measures to assess the efficiency and effectiveness of these activities, and (c) outline and discuss the importance of strategy development and programming guidance at the bureau level and consider requiring a discussion of corruption in program design documents.

We also believe USAID needs a system for identifying obligations and expenditures of its anti-corruption activities. Such a system would provide accountability for funding and costs and would assist in reporting consistent information on the results of benefits on USAID's anti-corruption efforts. In addition, there are two specific "best practices" activities that the Agency or some bureaus may want to adopt as discussed below in the section on "Examples of Bureau Activities"

Agency-Wide Efforts

Agency's programs attempt to address many of the development and institutional issues regarding the complex problems surrounding corruption. These programs include economic restructuring, the rule of law, open and accountable government, free media, and civil society.

On December 17, 1997, the United States joined 33 other nations in signing the Anti-Bribery Convention Agreement (an international treaty banning the bribery of foreign government officials). The signing of this agreement by the Secretary of State is a major victory for U.S. efforts to reform international business and government practices where

bribery and corruption of public officials is accepted. Through a broad range of economic and democracy-enhancing programs, the U S Agency for International Development is working worldwide to increase awareness about the impact of corruption on foreign governments, civil society, and trade and commerce.

USAID plans to build on the Anti-Bribery Convention agreement, in cooperation with other members of the Organization for Economic Cooperation and Development, to enhance anti-corruption programs in targeted countries. USAID also plans to work closely with other multilateral development organizations, such as the International Monetary Fund, the World Bank, and the Inter-American Development Bank, which have recently adopted ambitious plans to eliminate corruption.

In December 1997 in Paris, the USAID Administrator encouraged the Organization of Economic Cooperation and Development and the Donor Aid Community to make anti-bribery and corruption a more visible element of the 21st century strategy. Further, he suggested that "technical assistance" should be used to help developing countries address problems of bribery and corruption.

To assist in coordinating the Agency's anti-corruption effort, an anti-corruption working group consisting of representatives from the various USAID bureaus was informally initiated in late 1997. This group meets monthly to exchange information and to discuss corruption issues. However, not all bureaus attend these meetings with the same degree of regularity. Also, the Bureau for Humanitarian Response (BHR) has not participated in these meetings. Because food aid and other relief commodities are susceptible to such corrupt practices as extortion and diversion, we believe BHR should be fully involved in the Agency's anti-corruption efforts. Recently, the coordinator of the working group extended an invitation to BHR to join the committee and participate in the monthly meetings.

Also, Global's Economic Growth sector has not fully participated in the working group. Economic activities such as customs, financial reform, and privatization are essential aspects of an effective anti-corruption strategy, therefore, representatives from the Economic Growth sector should participate in the working group.

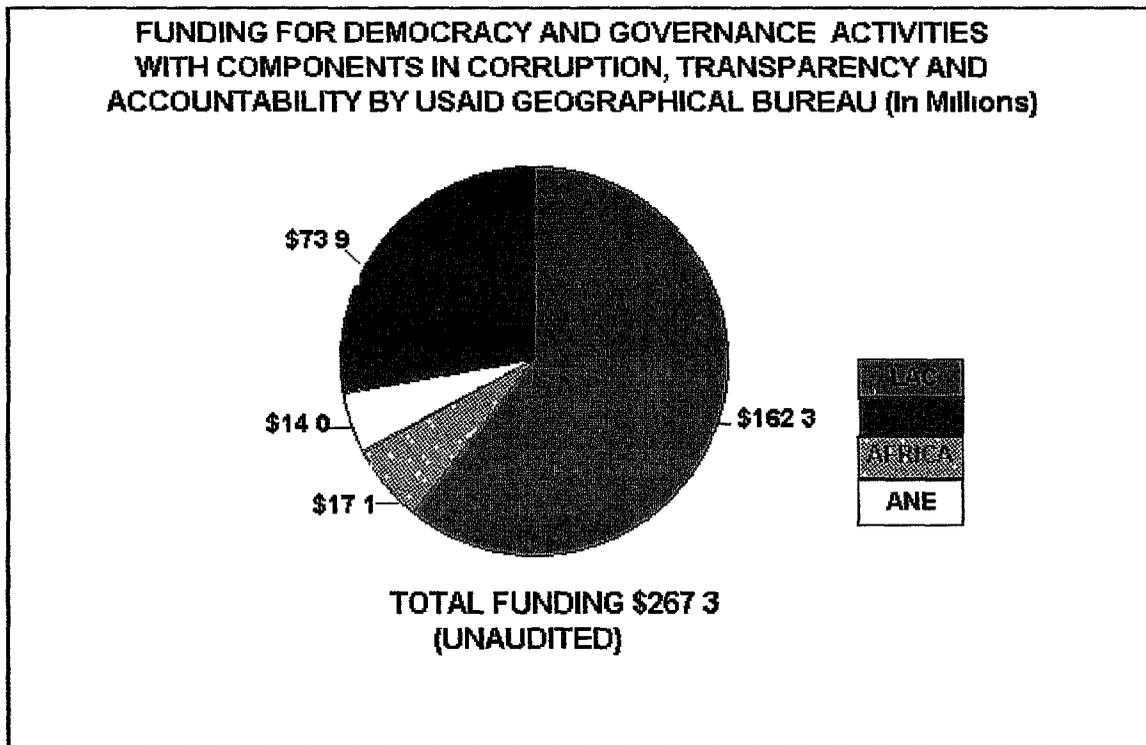
Efforts to Determine Anti-Corruption Funding

USAID and its bureaus cannot readily determine the amount of funding associated with its anti-corruption activities. This is compounded by a number of issues. First, numerous types of activities are undertaken to fight corruption either directly or indirectly. Second, USAID and its bureaus do not have a standard definition of what are considered anti-corruption activities. Third and most important, the Agency has not yet developed a coding system to identify anti-corruption activities in order to provide for financial

accounting. We believe priority should be given to financial identification of the Agency's anti-corruption activities.

Although there was no reliable existing financial data on USAID's anti-corruption expenditures, in March 1997, the Center for Democracy and Governance (G/DG) attempted to compile a list of active USAID democracy and governance activities with some components in corruption, transparency, and accountability by geographic region. Although the listing does not reflect activities initiated over the past year, it does represent relative funding allocations on democracy and governance activities at that time which incorporated anti-corruption activities.

The listing as reflected in the pie chart below includes a variety of governance, civil society, rule of law and political process activities totalling \$267.3 million. Many of these activities are not directly related to anti-corruption depending on how anti-corruption activities are defined. This emphasizes the need for a standard definition of what constitutes anti-corruption activities and the need to identify funding for those activities.



Examples of Bureau Activities

The following examples provided by bureau officials represent relevant anti-corruption activities and efforts which are currently underway

- The Global Bureau's Center for Democracy and Governance (G/DG) is planning to execute a \$2 million grant with Transparency International (T I) for a Special Integrity Improvement Program (SIIP) The SIIP will involve regional workshops and the creation of practical programs In addition, the Bureau has also provided (a) \$150,000 annually in core support funding to T I from 1994 to 1998, (b) \$200,000 to the Institutional Reform and the Informal Sector, and (c) \$120,000 to Development Alternatives, Inc for reviewing different approaches to fighting corruption The Global Bureau is also in the process of preparing anti-corruption programming guidance for USAID field missions to assist in addressing issues of corruption
- The Europe and the New Independent States (ENI) Bureau issued an anti-corruption strategy in December 1997 Only the ENI Bureau has developed a strategy under the guidance of a senior advisor who has worked extensively on democracy, governance and rule of law programs since 1993 The strategy includes international cooperation and partnerships with the World Bank and the OECD Moreover, the ENI Bureau is forming a donor consultative working group and an anti-corruption advisory committee to network more closely with the business community and the OECD
- The Latin America and the Caribbean (LAC) Bureau has a \$7.2 million America's Accountability and Anti-Corruption project aimed at increasing the accountability of public officials and exposing corrupt influences in the public and private sectors The project has a network of anti-corruption related NGOs for which training and information-sharing activities are provided
- The LAC Bureau established a Donor Consultative Group (DCG) which meets periodically with donors to assist the public sector improve its financial management in the various countries The DCG brings together representatives from five bilateral and seven multilateral donor agencies to coordinate donor-funded financial management and anti-corruption programs in Latin America and the Caribbean
- The BHR Bureau initiated and conducted a special review with assistance provided by OIG auditors of food aid commodity diversions perpetrated by military and civil officials in Sudan BHR developed a number of recommendations out of the exercise which can be applied to food aid programs in other countries
- The ANE Bureau set aside \$250,000 for anti-corruption activities for fiscal year 1998, however, no specific programming for the funds has been developed

- During a recent Anti-Corruption Working Group meeting, a sub-committee was established to focus on preparing an Agency policy paper
- The OIG has been supporting the capacity for some of the members of the International Organization of Supreme Audit Institutions (INTOSAI) to develop improved and more transparent accountability in countries where USAID programs are being implemented

Two of the above mentioned efforts deserve further explanation for consideration by other bureaus. ENI Bureau's anti-corruption strategy and the LAC Bureau's Donor Consultative Group represent what we consider to be positive accomplishments in confronting the subject of corruption in the Agency's developmental programs. Accordingly, other bureaus should examine and consider adopting these practices to the extent feasible.

First, ENI's strategy identifies, among other things, program priority areas, and includes guidance to its operating units on incorporating specific anti-corruption activities in their existing and new programs. This recently developed strategy in 1997 by the ENI Bureau came about as the international community finally began to address corruption seriously. As recently as five or six years ago, few people had the expertise to confront the topic. We believe the other bureaus could benefit from using ENI's strategy as a model and tailoring it to their individual needs. Accordingly, bureau-level strategies should be consistent with the Agency's anti-corruption policy recommended in this audit report.

Second, the LAC Bureau participates in the Donor Consultative Group's periodic meetings with representatives from various international and bilateral donors including the World Bank, United Nations Development Program, Inter-American Development Bank, International Monetary Fund and the Canadian mission to discuss and coordinate their activities with host governments, including anti-corruption activities. Because USAID cannot fight corruption alone, we believe the Agency as a whole or the other regional bureaus should consider having similar donor consultative groups. An effective strategy for addressing global corruption in developing nations requires a multi-pronged effort from the international community and donor agencies.

Conclusion

Although the Agency has been instituting anti-corruption activities in varying degrees within the bureaus, it only recently began addressing the issue of corruption in a more focused way. Generally, the ENI and LAC Bureaus are making a greater commitment than the AFR and ANE Bureaus. The BHR Bureau and Global's Economic Growth sector need to be integrated as players in the Agency's effort to combat corruption as well. Because corruption is a greater obstacle to doing business in some geographic regions than others, we believe the Agency should consider this in the strategy, design, and funding allocation for its anti-corruption activities.

To promote a better-coordinated effort within the Agency and the international community, we are recommending the following

Recommendation No 1 We recommend that the Bureau for Policy and Program Coordination, in coordination with the Bureau for Management, establish a timetable for developing an Agency-wide policy to unify and guide the Agency's anti-corruption effort. Such policy should (a) define what types of activities are considered anti-corruption activities and what are the priority program areas, (b) establish anti-corruption performance measures to assess the efficiency and effectiveness of these activities, (c) outline and discuss the importance of strategy development and programming guidance at the bureau level and consider requiring a discussion of corruption in program design documents, and (d) implement a system for identifying the obligations and expenditures of the Agency's anti-corruption activities

Management Comments and Our Evaluation

In responding to the draft audit report, USAID management recognized that the audit was especially useful because it highlighted the global concern that corruption undermines development, and it reinforced USAID's commitment to help developing countries build the capacity to eliminate the incidence of corruption. In management's opinion, the Inspector General's audit of USAID's anti-corruption activities will stimulate agency thinking on program priorities, program efficiency, and inter-agency coordination. Management has already started addressing some of the Inspector General's recommendations through an anti-corruption working group which meets monthly.

Management concurred with the recommendation with the exception of formalizing the already in-process Anti-Corruption Working Group. According to management, USAID addresses many of its operational responsibilities through informal working groups. This provides the flexibility to assign staff to high priority areas and to disband the group quickly once there is a satisfactory outcome. Management stated that it prefers an informal arrangement. In addition, management also stated that they agree with the Inspector General's concern that "all" USAID Bureaus should be part of the informal working group and therefore, management will ask all Bureaus to participate. After considering management's concern with establishing a formal working group, we decided to delete that from the report.

Based on management's response, a management decision has been made

SCOPE AND METHODOLOGY

Scope

The Inspector General's Performance Audits Division in Washington D C conducted the audit to answer the following question What is the status of USAID's anti-corruption efforts in assisted countries? The audit was performed in accordance with generally accepted government auditing standards and was conducted from April 1, 1998 through July 17, 1998

Methodology

To accomplish the audit objective, we first gained a knowledge of the anti-corruption environment by reviewing a variety of documents from international sources (e g World Bank, Transparency International, State Department) as considered necessary In addition, we attended several conferences and forums on anti-corruption We then interviewed relevant personnel from the various USAID bureaus and obtained documentation to determine what the Agency and bureaus were doing to fight corruption

"anti-corruption" activities

There are at least three goal areas - broad-based economic growth, democracy and good governance, and protecting the environment - where the implementation of our bilateral assistance programs remove specific constraints to development and, at the same time have the salutary impact of mitigating the harmful effects of corruption. These are sometimes called "anti-corruption" activities, although the real emphasis is on much broader objectives. For example, under these strategic objectives USAID will design activities to initiate economic policy reforms, strengthen the foundation for democracy, improve the transparency of public decisions, and enhance the financial integrity of public officials. These programs improve the performance and operations of government in a democratic society and also reduce the opportunities to use public office for private gain, steal state assets, offer bribes to influence decisions or regulatory actions, or divert state revenues. Calling these "anti-corruption" activities is a shorthand way of describing different types of institution building and policy reform initiatives.

We have established an informal group to address policy and program issues related to corruption. This informal group will determine the specific activities (under the various strategic objectives) that are associated with reform of the state or the strengthening of democratic institutions, and which if effective can reduce the incidence of corruption. We will include this information in our planned policy paper and program guidance.

Recommendation 2. Establish anti-corruption performance measures to assess the efficiency and effectiveness of these activities.

This is an extremely challenging recommendation. Our experience with the subject matter suggests that there are no straightforward measures of corruption. It may be possible to measure perceptions of corruption with an index, but we cannot say that corruption has been reduced by 10 percent etc. We could, for example, say that improvements in the training and pay of customs officials have lessened the opportunity for bribes. This reduces corruption. The working group also will examine this recommendation and attempt to describe the linkages between program accomplishments and reductions in corruption, taking into account the difficulties in designing unique performance indicators.

Recommendation 3. Outline and discuss the importance of strategy development and program guidance at the bureau level and consider requiring a discussion of corruption in program design documents.

We are in the process of developing a handbook on strategies to identify the conditions for corruption. This will provide a guide to Bureaus/missions for analyzing the incidence of corruption in particular situations and for designing action programs. For example, an objective may be to improve the



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JUL 15 1998

MEMORANDUM

TO IG/A, Richard Kocik
IG/A Whitney Glenn

FROM DAA/PPC, Larry Garber *LG*

SUBJECT IG Anti-Corruption Survey Recommendations

We appreciate the opportunity to comment on the proposed recommendations in the IG's draft survey of USAID's anti-corruption activities. The survey is especially useful because it highlights the global concern that corruption undermines development, and it reinforces USAID's commitment to help developing countries build the capacity to eliminate the incidence of corruption.

USAID is designing a framework, as are many other bilateral and multilateral donors, for addressing corruption in host countries. We also are working with NGOs as a way to implement specific country strategies. Corruption is a multi-dimensional problem and can permeate all levels of society. Thus, it is necessary to attack the problem on many fronts since no single donor has the resources to mount an all-out effort. It is a global battle that needs many allies.

The IG's survey of USAID's anti-corruption activities will stimulate agency thinking on program priorities, program efficiency, and inter-agency coordination. We already have started addressing some of the IG's recommendations through an anti-corruption working group which meets monthly. The following provides details on the group's activities and the actions they will take regarding the IG recommendations.

Recommendation 1 Define what types of activities are considered anti-corruption activities and what are the priority program areas.

USAID's strategic plan has seven broad goals. We design and implement a wide array of foreign assistance programs to achieve one or more of these goals independently or simultaneously. As a general rule, we do not have a specific set of programs called

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