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TAPEE

AN ANALYTICAL FRAMEWORK FOR COMBATING CORRUPTION & PROMOTING INTEGRITY IN THE EUROPE & EURASIA REGION

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USAID Europe and Eurasia Bureau
Anti-Corruption Working Group

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The Europe and Eurasia Bureau Anti-Corruption Working Group, Co-Chaired by the Bureau's Office of Democracy and Governance and Social Transition and its Office of Economic Growth, is solely responsible for the TAPEE analytical framework as presented in this paper.

The overall TAPEE framework represents the work product of the Europe and Eurasia Bureau Anti-Corruption Working Group. The energy, democratization, health, and education sector reports, and other annexes included in this paper, are the work product of individual members of the Anti-Corruption Working Group who assume responsibility for any errors or omissions.

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ABSTRACT

This analytic approach presents a framework for assessing and strengthening the anticorruption environment, beginning with an in-depth sector diagnosis of corrupt practices and corruption vulnerabilities. Intended to help USAID missions in the Europe and Eurasia region implement key recommendations of the USAID Anticorruption Strategy, TAPEE provides five diagnostic dimensions to consider when diagnosing corruption problems and selecting interventions. A series of annexes gives technical background and detailed discussion of four key sectors of the region.

KEY WORDS

Corruption, anticorruption, institutions, principal-agent theory, Europe, Eurasia, USAID, government integrity, governance, survey, assessment, institutional reform, sector reform, transition economies.

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FOREWORD

Corruption in its varied forms flourishes in institutional environments characterized by systemic weaknesses in five key areas: Transparency, Accountability, Prevention, Enforcement, and Education. Addressing these core areas, the multi-dimensional TAPEE framework aims at *strengthening the anticorruption environment* by assessing and controlling corrupt practices and related corruption vulnerabilities predominant in targeted sectors and institutions. Stated positively, the development goal of TAPEE is to promote an *enabling environment for integrity*,[1] as the antithesis of corruption.

As presented in this paper by the Europe and Eurasia Bureau Anti-Corruption Working Group, the TAPEE approach to anticorruption programming has a particular audience in mind: USAID missions in the Europe and Eurasia region charged with the responsibility of implementing key recommendations made in the *USAID Anticorruption Strategy* (January 2005).[2] As a regional bureau "next steps" companion to the agency-wide *Anticorruption Strategy*, TAPEE is offered as a tool to USAID mission personnel in post-communist Europe and Eurasia who are engaged in the design, implementation, and evaluation of anticorruption programs, broadly defined to include both explicit stand-alone anticorruption programs and anticorruption components integrated into other development programs.[3]

The TAPEE framework will support the work of mission personnel in virtually every sector: agriculture, economic policy and governance, trade and investment, private sector growth, financial sector development, energy, environment, infrastructure, democracy, rule of law, human rights, trafficking, conflict mitigation, humanitarian response, education, health, and other development programs. By using the TAPEE framework, strategic objective teams will better assure that interventions to combat corruption and promote integrity are integrated more effectively into existing and planned programs, regardless of their programmatic home within the mission.[4]

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[1] The TAPEE framework uses the holistic concept of "integrity" rather than "governance" to capture more explcitly the related dimensions of probity and ethical values (public, professional and societal). This use of integrity, broadly defined, is consistent with the expansive definition of "governance" given in *Governance Matters III* as "the traditions and institutions by which authority in a country is exercised" including "(1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them." *Governance Matters III: Governance Indicators for 1996-2002*, The World Bank (D. Kaufmann, A. Kraay, and M. Mastruzzi) (2003), p.2.

[2] Intended as a practical guide to implementation of key recommendations of the *USAID Anticorruption Strategy* (the agency's authoritative policy document), the TAPEE framework is a tool for strengthening the anticorruption environment, not a mandate. TAPEE imposes no new operational, reporting or other requirements on USAID missions in the Europe and Eurasia region.

[3] As used in TAPEE, "programs" includes "projects" and "activities" as those terms are commonly used within the USAID development community. A stand-alone anticorruption program is an explicit anticorruption program designed with the express purpose of controlling corruption as distinguished from other economic growth, democracy and governance, and social transition programs that may incorporate anticorruption features. See *USAID Anticorruption Strategy* (January 2005), Annex 2. USAID Anticorruption Programs.

[4] This feature of TAPEE supports implementation of USAID Anticorruption Strategy requirements that call for operating units to: "Incorporate anticorruption goals and activities across Agency work" (p. 23) and "Develop sector-specific strategies to reduce corruption and improve governance." (p. 24).

CHAPTER 1

INTRODUCTION

Systemic corruption in the post-communist countries of the Europe and Eurasia region is a cross-cutting *development* issue, a pernicious constraint adversely affecting full realization of economic growth, democracy and governance, and social transition development initiatives.[5] In many countries of the region, systemic corrupt practices — deeply entrenched in government, business, and society — threaten US and other efforts to promote economic prosperity, the rule of law, regional stability, and integration into the larger international community.[6]

Founded on the key themes of Transparency, Accountability, Prevention, Enforcement, and Education, TAPEE is an analytical framework for strengthening the anticorruption environment in the region.[7] Of practical import to all engaged in programming development assistance — regardless of sector, strategic objective or office — these five complementary and overlapping themes provide a framework for (1) assessing corruption vulnerabilities associated with corrupt practices predominant in sectors targeted for USAID development assistance, and (2) integrating anticorruption interventions into USAID economic growth, democracy and governance, and social transition programs that operate at the sector and institutional development level.

The starting point for the TAPEE framework is the USAID Anticorruption Strategy (January 2005). As a tool for implementation, TAPEE is intended to bolster its four core strategic recommendations: (i) to confront the dual challenges of grand and administrative corruption; (ii) to deploy Agency resources to fight corruption in strategic ways; (iii) to incorporate anticorruption goals and activities across Agency work; and (iv) to build the Agency's anticorruption knowledge.

This paper is structured in correspondence with the key recommendations of the USAID Anticorruption Strategy. The paper begins with the first recommendation, to disaggregate corruption by distinguishing between grand and administrative corruption. As discussed in the historical overview (Annex F), the endemic corruption of the former communist states of the region created conditions for the transition that undermined the development of rules-based governing institutions and open and competitive markets, allowing both grand

[5] Systemic corruption, as distinguished from individual corruption, is a *development* issue because it permeates an entire government, society, system, sector or governing institution. From a development perspective, systemic corruption refers primarily to organizational behavior, how governing institutions and governing personnel misuse entrusted authority by subverting the formal rules and structures that define their mission and that are intended to govern their operations. Individual corruption refers to isolated, sporadic corruption that is *ad hoc* and generally uncoordinated as compared to systemic corruption that involves patterns of coordinated transactions founded on dynamic political, economic and social relationships.

[6] Recognized as essential to the development of people, markets, and nations, combating corruption and promoting good governance serve US foreign policy objectives in the in the Europe and Eurasia region. See USAID Anticorruption Strategy (January 2005), Corruption, Development, and U.S. National Security, p. 1.

[7] See *USAID Anticorruption Strategy* (January 2005), Annex 2. USAID Anticorruption Programs, for an analysis of the inventory of USAID anticorruption programs categorized into two broad categories: (i) explicit anticorruption programs designed with the express intent of reducing corruption; and (ii) programs that strengthen the anticorruption environment, but designed primarily for broader or distinct development goals. Table 1 of Annex 2 of that report describes 21 program types drawn from the inventory of USAID anticorruption programs. Information from this agency-wide survey is available to authorized users of the internal USAID website at http://inside.usaid.gov/anticorruption.

and administrative corruption to flourish. Consistent with the second and third recommendations of the Anticorruption Strategy, the paper advocates a multi-sector approach to assessing and combating corruption and promoting integrity.

The core of the paper sets out the TAPEE framework in detail, discussing each of its five constituent elements in the context of specific corruption vulnerabilities encountered in the enabling environment. With a recap of key recommendations and an outline of next steps, the concluding section of the paper addresses how the TAPEE approach to anticorruption programming can build the Agency's anticorruption knowledge through assessments, evaluations of program effectiveness and impact, contributions to the Agency-wide community of practice, and mission-wide, regional, and Washington-based anticorruption training.

Annexes A through D illustrate the application of TAPEE to sectoral corruption issues, using examples drawn from the experience of the Europe and Eurasia Bureau. These sector papers (produced by representatives of USAID economic growth, democracy and governance, and social transition teams) identify corrupt practices typically found in the Europe and Eurasia region in the energy, democracy, health, and education sectors, and illustrate how specific TAPEE interventions might address these corrupt practices and corruption vulnerabilities and support systemic reforms to promote *integrity* within the sector.

Annex E reviews existing country-level measurements of corruption, including: Transparency International Corruption Perceptions Index; the World Bank Institute Control of Corruption indicators (adopted by the Millennium Challenge Corporation to select countries eligible for MCA assistance); and the Nations in Transit Corruption Ratings (used in the US interagency process for setting the timetable for phasing out development assistance in the Europe and Eurasia region). Annex G provides additional examples of corruption prevention programs.

MEASURING CORRUPTION

Aggregate indicators of corruption, generally expressed as single scores, provide a useful macroscopic overview, but they cannot provide the depth of information needed to inform USAID mission-specific strategic and programmatic decisions. These composite, country-wide ratings of corruption — such as Transparency International's CPI scores, Nations in Transit Corruption Ratings, and World Bank Institute Control of Corruption indicators — are of limited use in designing and evaluating USAID anticorruption programs at the project level.

Is Corruption Going Up or Down?

"More generally, the effort . . . to define trends in corruption through micro-level surveys across countries and over time suggests the complexity of the task of measuring corruption and the ever-shifting nature of the problem itself. *One cannot simply say that corruption is going up or down in individual countries, as we find a complex web of movements and mutations across different forms, features and dimensions of corruption.* We need to be cautious and modest and to constantly recognize the full complexity of the measurement effort."

Source: *Anticorruption in Transition 2, Corruption in Enterprise-State Interactions in Europe and Eurasia 1999-2002,* p. 50, The World Bank (2004).

The World Bank's regional anticorruption report (cited in the text box above) underlines the inherent difficulty of measuring changes in corruption patterns or corrupt practices. This difficulty is all the more pertinent within the relatively short timeframes of USAID programs.[8]

[8] The USAID Anticorruption Strategy observes that "attempts to reduce corruption are, necessarily, long term undertakings." p. 12, footnote 14. Within the span of a typical USAID project, it is impractical to quantify through credible techniques reductions in the incidence or severity of particular forms of corrupt practices attributable to

Developed for other purposes, composite ratings were never intended to be used as indicators to track progress or to monitor results of assistance programs.

Country-level indicators shed little light, for example, on a question such as, "What are the most prevalent and pernicious forms of corruption in the health sector in Albania?" or, "Has control of corruption improved in the energy sector in the Balkans since 1999?" Questions like these, with obvious strategic and programmatic implications, call for a detailed analytic response based on sectoral data.

Effective anticorruption programming thus requires reverse engineering: disaggregation of corruption along several dimensions.

The TAPEE framework presents a practical approach to overcoming a major limitation of country level measures of corruption. As noted in the *USAID Anticorruption Strategy*, data at the country level cannot be disaggregated by sector or regions within countries. Consequently, aggregate indicators may obscure gains made at sectoral or subnational levels. (See Annex E for a discussion of the major aggregate indicators of corruption.)

interventions implemented or supported by the project. Similarly, it is virtually impossible to quantify the number of corrupt practices prevented by such interventions.

Box 1.1. Measuring Perceptions of Corruption

The *USAID Anticorruption Strategy* notes that most "measures" of corruption actually measure *perceptions* of corruption, making it difficult to assess what real progress has been made:

> Changes in perception may as easily be driven by increased awareness and publicity about corruption as by corruption itself. Therefore, interpretation of perceptions data is ambiguous.

USAID Anticorruption Strategy (January 2005), p. 12, footnote 14

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CHAPTER 2

DEFINING & DISAGGREGATING CORRUPTION

The donor community lacks a generally accepted lexicon of corruption and anticorruption terminology.[9] The *USAID Anticorruption Strategy* defines corruption as "the abuse of entrusted authority for private gain."[10] Within this definition, it recognizes two types of public-sector corruption: high-level, or *grand corruption* and low-level, *administrative corruption*. The report notes that administrative corruption "is facilitated by and often linked to grand corruption."

In post-communist Europe and Eurasia, where high-level, mid-level, and low-level corrupt practices are frequently interrelated, low-level administrative corruption is often a *symptom* of high-level grand corruption. In a situation where grand corruption sustains and, in turn, benefits from lower-level administrative corruption, any attempt to address administrative corruption with strictly technocratic reforms is likely to yield limited results.

Defining, Analyzing, and Disaggregating Corruption

1. **Corruption may be defined as:**

   "the abuse of entrusted authority for private gain"

2. **Corruption is comprised by:**

   grand corruption + administrative corruption

3. **Corruption** (grand or administrative) **consists of corrupt practices:**
   - in specific sectors
   - with specific characteristics
   - based on specific vulnerabilities

DIAGNOSIS OF CORRUPT PRACTICES

The TAPEE approach begins with diagnosis. Successful anticorruption programming requires us to disaggregate corruption, to identify the inventory of *corrupt practices* that predominantly impact key sectors or institutions. To confront the anticorruption programming challenges posed by the composite and somewhat abstract category *corruption*, we need to think in terms of specific corrupt practices. Corruption can in fact be defined — that is, disaggregated — to include the array of corrupt practices that adversely affect development objectives.[11]

[9] USAID and other donors typically define anticorruption programs using examples rather than descriptions. USAID's *Strategic Management-Interim Guidance* (Oct. 13, 2004) describes USAID's anticorruption Program Component as follows: "28. **Promote and Support Anti-Corruption Reforms**: Promoting government institutions and policies that are transparent and accountable across all development sectors. Assistance and support is provided to independent audit agencies, anti-corruption commissions, procurement agencies, legislatures, line ministries, independent agencies, as well as civil society organizations, academia, press and the private sector. USAID focuses its effort on education and prevention in ways that support international conventions, such as the U.N. Convention Against Corruption, the OAS Anti-Corruption Convention, and the OECD Anti-Bribery Convention."

[10] USAID Anticorruption Strategy (January 2005), p. 8.

[11] Symbolically, $C = c_1 + c_2 + c_3 + \ldots + c_n$ where C stands for the universe of corrupt practices, and c_1 through c_n stand for its constituent elements, the predominant forms of corrupt practices in a given sector. As many as 20 forms of corrupt practices have been identified in the field of public procurement, for example. (These include, for example, bribes, kickbacks, extortion, bid rigging, self-dealing, leaking of bid information, exclusion of qualified bidders, unnecessary purchases, and petty cash fund abuse.)

One typology includes such broad categories as bribery, extortion, misappropriation, self-dealing, patronage, shirking, and illegal political contributions. The United Nations *Convention Against Corruption* includes more than a dozen corruption offenses.[12]

TAPEE, in concert with the *USAID Anticorruption Strategy*, also recognizes the *systemic* nature of corruption. Systemic corruption has a variety of forms, including "state capture,"[13] predatory states, other forms of grand corruption, and bureaucratic administrative corruption.

Critical to intervention efforts is a detailed understanding of how these diverse behaviors manifest themselves in actual political, economic and social relationships and real-world transactions. How are customs or tax revenues used to finance political parties? What are the mechanisms underlying exclusionary tactics, bid-rigging, kickbacks and over-invoicing in public procurement? If we approach corruption as a unitary phenomenon, or rely on over-broad typologies, we will learn little about the dynamics of the problem.

SYSTEMIC CORRUPTION IN THE EUROPE & EURASIA REGION

Under communist regimes, resources were allocated largely through political processes (as discussed in Annex F). This encouraged corruption in the form of gaining economic advantage through political and personal connections, in disregard of official rules.

Systemic corruption competes for political and economic space with rules-based governing institutions as well as with open and competitive markets. Systemic corruption, as a competing system for allocating public and private goods, is thus a *development issue* of the highest importance.

Effective anticorruption interventions must be based on a systematic understanding of the political, economic and social environment that enables corruption, rather than targeting the abuses of miscreant corrupt individuals. Interventions to alter the institutional landscape of the enabling environment for corruption in the region must address not only the political, economic and social structures of corruption inherited from the communist past, but also new patterns of corruption that have emerged during the transition. These include

- porous boundaries between the public and private sectors
- networks of illicit public-private relationships
- grey economies operating outside formal institutions and rules
- impediments to effective political and economic competition
- weak constraints on an overly intrusive state
- ineffective checks and balances (external and internal)

[12] The United Nations *Convention Against Corruption*, adopted by the General Assembly of the United Nations on October 31, 2003, views a comprehensive definition of corruption as neither necessary nor feasible. The new convention adopts a descriptive approach, covering various forms of corruption offenses in Chapter III ("Criminalization and Law Enforcement"), including (among others), bribery of national public officials, bribery of foreign public officials and officials of public international organizations, embezzlement, trading in influence, abuse of functions, bribery in the private sector, laundering of the proceeds of crime, obstruction of justice, and participation as an accomplice, assistant, or instigator in a corruption offense.

[13] State capture is a form of grand corruption in which key state institutions are "captured" by private interests to skew the policy-making process in favor of particular firms and render the operation of government non-transparent. Surveys of state capture include six types of corrupt practices: (1) payments to Parliamentarians to influence their votes; (2) payments to governmental officials to affect the content of government legislation; (3) payments to judges to affect the outcome of criminal cases; (4) payments to judges to affect the outcome of commercial cases; (5) payments to central bank officials to affect central bank policies and decisions; and (6) illegal contributions to political parties or election campaigns to affect the decisions of elected officials. Excluded from the scope of "state capture" are two other types of corrupt practices: political patronage (defined as public officials hiring their friends and relatives into official position); and bribes paid to public officials to avoid taxes and regulations (as the term is defined and measured by World Bank researchers). See *Anticorruption in Transition 2: Corruption in Enterprise-State Interactions 1999-2002* and its predecessor, *Anticorruption in Transition: A Contribution to the Policy Debate* (2000).

- underdeveloped and underperforming institutions
- bureaucracies mired by patronage
- political parties financed by bribes and the diversion of public funds
- parliaments that provide immunity for corruption-related offenses
- embedded economic and political incentives that fuel corrupt practices and undermine integrity

CHAPTER 3

THE TAPEE APPROACH

A multi-sectoral, integrated approach is needed to combat corruption and promote integrity. Because no sector supported by development assistance is untouched by corruption, the TAPEE approach (following the *USAID Anticorruption Strategy)* argues for combating corruption *within and across sectors*.

Broad awareness-raising programs, generic advocacy approaches, and national strategies to eradicate "corruption" are too diffuse to be effective. At the other extreme, prosecutorial approaches targeting specific individuals and transactions do little to alter the enabling environment for systemic corruption. More carefully formulated anticorruption programs will target, not corruption in general, but rather *specific corrupt practices and corruption vulnerabilities* that affect the quality of governing institutions. Similarly, systemic reforms that strengthen the anticorruption environment will foster robust institutions that embed public sector values and govern openly, fairly, and effectively within the rule of law.

To ensure strategic and effective use of development assistance resources, interventions must be grounded in a sound analysis of the dynamics, types, and locations of corrupt practices and corruption vulnerabilities within each sector. Other key questions for programmers include (1) the character of political and economic competition, and (2) a realistic assessment of opportunities for impact.

USAID Anticorruption Strategy

Develop sector-specific strategies to reduce corruption and improve governance

Each sector of the Agency must develop explicit anticorruption approaches to address the unique challenges of corruption. This . . . implies a proactive commitment to finding ways to reduce the impact of corruption throughout the sector.

USAID Anticorruption Strategy, p. 24.

Because rigorous diagnosis, sector by sector, should precede the formulation of anticorruption prescriptions, USAID missions need sectoral analyses that (1) shed light on the interests, incentives, and allegiances that underlie specific forms of *corrupt practices* predominant within sectors; and (2) point to *vulnerabilities* that foster the corrupt practices that are most deleterious to broader development objectives.

Where corruption is clearly going to compromise USAID's development objectives, operating units will be expected to analyze the challenge and develop strategies and programs to respond. Where corruption is identified as the central impediment to development or the driver of fragility, operating units will be expected to develop more robust approaches and integrate anticorruption approaches widely throughout their entire portfolios.

USAID Anticorruption Strategy (January 2005), p. 23

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IDENTIFYING CORRUPT PRACTICES & CORRUPTION VULNERABILITIES

The TAPEE framework deploys a "risk-based," sector-specific, development approach to strengthening the anticorruption environment, beginning with assessing predominant corrupt practices and the attendant vulnerabilities that explain and sustain their prevalence. The critical question underlying the approach is analytic rather than quantitative:

- ⇨ *What are the conditions in the institutional environment that allow particular forms of corruption to flourish?*

TAPEE posits that corrupt practices flourish when public and private sector institutions operate in enabling environments characterized by systemic weaknesses in five key institutional areas:

- ⇨ **Transparency**
- ⇨ **Accountability**
- ⇨ **Prevention**
- ⇨ **Enforcement**
- ⇨ **Education**

Properly understood and applied, the TAPEE approach can help produce a *risk profile* for a particular sector, indicating its degree of susceptibility to specific forms of corrupt practices. Corruption risk profiles for particular forms of corrupt practices will vary by sector and by institution. No standardized template can produce the tailored prescriptions that can be derived from in-depth, sector-specific diagnosis of the diverse array of corrupt practices and their related corruption vulnerabilities.[14]

When the five TAPEE factors are strong, they promote integrity and constrain corrupt practices in the institutional environment; when weak, they reveal an institutional environment plagued with significant corruption vulnerabilities. The TAPEE analysis of high corruption vulnerability (presented as a formula in Box 3.1) posits that high levels of corruption vulnerabilities will be associated with low levels of Transparency, Accountability, Prevention, Enforcement, and Education measures. The TAPEE objective is to replace such high risk profiles with lower risk levels.[15]

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[14] The *USAID Anticorruption Strategy* (January 2005) confirms that by "unbundling corruption" and targeting specific dimensions, "the measurement issues become more manageable, and multifaceted efforts to target a specific form of corruption become more manageable." p. 18.

[15] In symbolic terms, the objective is to implement tailored interventions that change the enabling environment from high risk, $T\downarrow + A\downarrow + P\downarrow + E\downarrow + E\downarrow \rightarrow CV\uparrow$, to relatively lower risk, $T\uparrow + A\uparrow + P\uparrow + E\uparrow + E\uparrow \rightarrow CV\downarrow$. (See Box 3.1.)

Box 3.1. TAPEE Formula for *High-Risk* Enabling Environment

Low TAPEE Factors contribute to *High* Corruption Vulnerabilities:

$$\mathbf{T\downarrow + A\downarrow + P\downarrow + E\downarrow + E\downarrow \rightarrow CV\uparrow}$$

TAPEE DIAGNOSIS

Careful diagnostic analysis of targeted sectors is essential to identify three key factors:

- the predominant types of *corrupt practices* at work, and their severity and impact
- the *systemic factors* — economic, political, and social — that drive these corruption patterns
- the attendant *vulnerabilities* that make certain sectors and institutions susceptible to specific corruption syndromes.

To map corruption vulnerabilities associated with particular forms of corrupt practices, the TAPEE approach includes a *baseline assessment* of each core TAPEE dimension (and its components). This assessment might, for example, reveal serious Transparency and Accountability deficits that need to be addressed in order to change the sector's "enabling environment" for the predominant forms of corrupt practices of interest. Properly understood and applied, a TAPEE assessment will assess the TAPEE factors not in the abstract, but rather in the context of the predominant types of *corrupt practices* at work, as well as the *systemic factors* — economic, political, and social — that drive these corruption patterns.

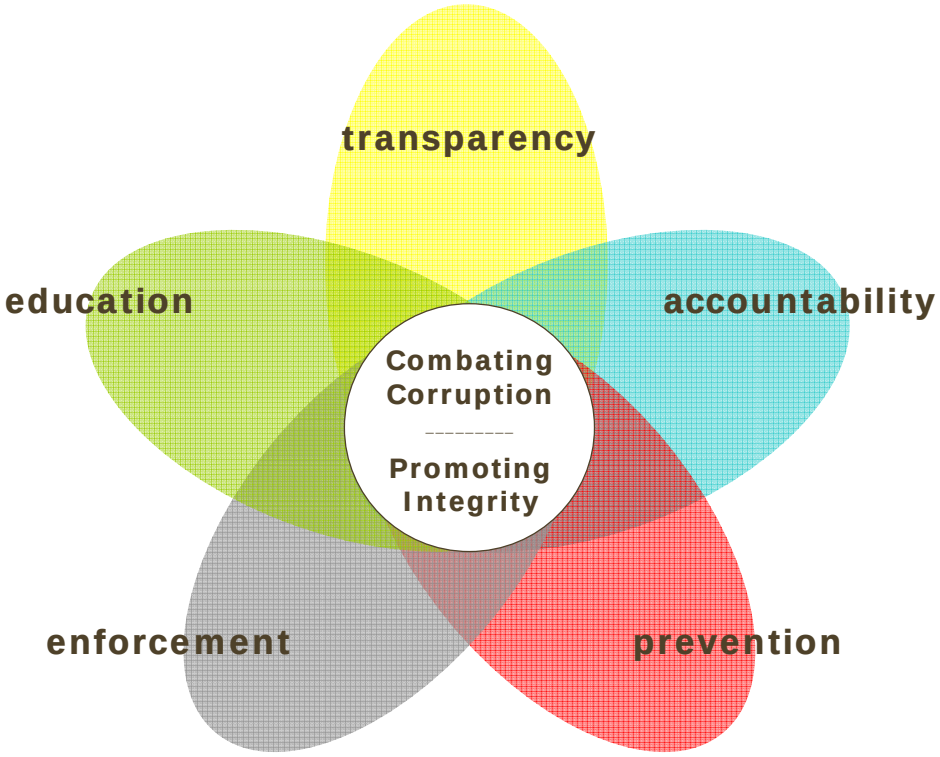
Corruption vulnerabilities can then be mapped onto the array of existing, interrelated corrupt practices in a particular sector or governing institution, creating a composite overview of the institutional environment enabling corruption.

In addressing targeted corrupt practices and related corruption vulnerabilities, the TAPEE approach calls for designing specific anticorruption interventions, tailored (and carefully sequenced) to remedy those vulnerabilities. TAPEE provides a *framework* rather than a recipe for meeting this challenge: a context-sensitive approach cannot provide a set of standard solutions or predetermined interventions.

Box 3.2. The TAPEE Approach

1. **Diagnosis**: Identify and assess —
   - predominant corrupt practices
   - systemic factors that drive corruption patterns
   - attendant corruption vulnerabilities
2. **Design**: identify specific, sequenced anticorruption interventions tailored to the existing context to address specific corrupt practices and associated corruption vulnerabilities.
3. **Implementation**: Help create an institutional environment that controls corruption vulnerabilities and is conducive to integrity.

Figure 1. TAPEE: Strengthening the Anticorruption Environment



The broad development objective is to **strengthen the anticorruption environment** by controlling corruption vulnerabilities; that is, to create an institutional environment that is conducive to integrity and hostile to those forms of corrupt practices that are of greatest concern from a USAID development perspective.

The chapters that follow provide definitions and illustrative interventions for each of the five key dimensions of TAPEE. These dimensions are not isolated: rather (as illustrated in Figure 1), they serve as *overlapping diagnostic lenses*, providing five interrelated perspectives on the enabling environment for corruption and integrity. Accordingly, as Annex G demonstrates, an illustrative intervention (described under one of the TAPEE headings) may relate to more than one TAPEE dimension.

USAID and its implementing partners – acting in concert with host country governments, nongovernmental organizations, other US government agencies, and international donors – can utilize the TAPEE framework to

- diagnose corruption vulnerabilities, associated with specific forms of corrupt practices, in sectors and institutions of greatest concern[1]
- design and implement appropriately prioritized interventions that enhance Transparency, Accountability, Prevention, Enforcement, and Education to reduce these corruption vulnerabilities and to control related corrupt practices

[1] "Where corruption is identified as the central impediment to development or the driver of fragility, operating units will be expected to develop more robust approaches and integrate anticorruption approaches widely throughout their entire portfolios." *USAID Anticorruption Strategy*, p. 23.

SECTOR EXAMPLES

Each sector of USAID programming can and should be analyzed, at the Mission level, using the five TAPEE perspectives to identify the corruption vulnerabilities that threaten to cripple both the sector and donor assistance activities. The sectors are briefly overviewed here. Annexes A through D provide more detailed examples drawn from USAID experience with energy, democracy, health, and education sector programs in the Europe and Eurasia region, with possible reform measures presented in each case.

The health sector is plagued by both grand and administrative corruption, reducing equitable access to health care, distorting efforts to allocate health resources efficiently, compromising the quality of care and patient outcomes (Box 3.3). Throughout the region, systemic corruption erodes public confidence in the health care system and increases mistrust of government institutions and officials. (The sector is discussed in greater detail in Annex C.)

Box 3.3. Overview of Corruption in the Health Sector

Predominant Corrupt Practices

Grand corruption. Firms and individuals may inappropriately profit through 1) influencing decisions regarding building, equipping, and supplying hospitals; 2) fraud in the procurement of pharmaceuticals, medical equipment and supplies; and 3) neglecting paid public employment for private practice.

Administrative corruption. Under-the-table payments, charged in addition to officially prescribed fees to supplement low wages, are pervasive throughout the region (usually exceeding 60%), and may be shared with co-workers and supervisors. They adversely affect the largest number of ordinary citizens, particularly the poor, and they contribute to cynicism and mistrust of public sector institutions.

Illustrative Corruption Vulnerabilities

- Excessive physical infrastructure and overcapacity, including overstaffing of physicians and nurses
- Declining revenues and expenditures for health care, resulting in large health systems with underpaid or unpaid health care workers and inadequate medical equipment, drugs and supplies

Illustrative TAPEE Interventions

Transparency: disseminate information on government health benefits; post fee schedules for services provided in health facilities

Accountability: create physician licensing and facility accreditation boards, as well as regulatory boards to monitor the operations of health insurance funds

Prevention: separate the purchaser of health care from the provider of health care; adopt case-based and capitation payment systems to make payment for services transparent and accountable; establish drug formularies to provide more affordable drugs

Enforcement: adopt and enforce patients' rights legislation; disseminate information about organizations that assist citizens to address grievances

Education: implement media campaigns to explain the rationale and benefits of health reform programs

Several studies establish a strong positive correlation between levels of corruption and performance of **the education sector**. Depending on the socio-economic and political context, corrupt practices in education may be more or less prevalent at different levels of the system. As discussed in Annex D, strengthening the anticorruption environment for education should aim at preventing opportunities for corruption, addressing rules, institutions, procedures and processes that promote greater transparency and accountability. A snapshot of the education sector follows (Box 3.4).

Box 3.4. Snapshot of Corruption in the Education Sector

Illustrative Corrupt Practices

- Embezzlement of public funds (leakage, 'ghost teachers')
- Bribes and kickbacks on school construction, supplies, textbook publishing contracts
- Selling/buying examination grades (particularly at upper secondary and tertiary levels), diplomas, accreditation, licensing, certification
- Favoritism and nepotism in hiring, promotion, salary bonuses, scholarships
- Diversion of community contributions for school upkeep

Illustrative Corruption Vulnerabilities

- Lack of broad agreement on what constitutes corrupt practices in the sector
- Job security, absence of appropriate legal statutes, and immunity from prosecution create structural conditions and incentives that promote spread of corrupt practices
- Weak commitment on the part of top leadership to address corruption
- Underpayment of personnel fosters corrupt practices

Illustrative TAPEE Interventions

- Develop public focus on corruption through a working group to include the international donor community, government officials, local and international NGOs, and community representatives (student organizations, professional associations).
- Develop national policies that clearly stipulate responsibilities for financing, management, administration, and planning at all levels of the education sector.
- Create a public expenditure tracking system.
- Develop ethical norms for selection and advancement of civil servants and transparent communication in the decision process.
- Develop and institutionalize professional (ethical) standards of behavior and link these with professional advancement.
- Develop clear guidelines for consequences of engaging in corrupt behavior
- Build management and administration capacity at central, regional and local levels of the education system.
- Establish an independent office of ombudsman and safe procedures for reporting corrupt practices at different levels of the system.
- Develop an independent national test for school leavers to ensure equitable access to higher education for different socio-economic and ethnic groups.
- Establish a watchdog entity to monitor reforms and practices (NGOs, community organizations).
- Involve parents, teachers and students in school-level management and oversight to promote transparency and accountability.

The energy sector may be the locus of the most pervasive issues of corruption, affecting the entire population of a country — including those living far outside the capital. In many former Soviet Union countries (and, to a lesser extent, in Southeast Europe) the power sector suffers from systemic corruption that contributes significantly to decline of the sector, reduced economic performance, and a poorer quality of life for all citizens. (See Annex A.)

Box 3.5. Snapshot of Corruption in the Energy Sector

Predominant Corrupt Practices

- Macro: Diversion of flow of funds and electricity; opaque electricity exports and imports
- Micro: Electricity metering and billing and collections abuses; capital and services procurement abuses

Illustrative Corruption Vulnerabilities

- Transparency: Data availability and reporting
- Accountability: Inadequate separation (boundaries) between government and utilities
- Prevention: Monopoly structure and lack of competition

Illustrative TAPEE Interventions

- Sound legal/regulatory framework including autonomous regulator
- Unbundled monopoly with experienced credible private sector participation
- Strong regulatory reporting, data transparency and monitoring
- National and regional competitive markets with transparent trading

In the area of **Democracy and Governance**, corruption distorts the governing process, impacts the development of democracy, and causes a general loss of confidence in the state and in democratic processes (Box 3.6). Conversely, strengthening democratic institutions and practices in the DG sector can provide leverage for controlling corruption in other USAID assistance sectors, such as economic growth, energy, health and education. USAID initiatives to develop and strengthen civil society, independent media, local governance, political processes, and the rule of law also serve to strengthen the anticorruption environment across USAID assistance sectors.

As in other sectors, interventions should be based on a solid assessment of the opportunities for impact, as well as the causes, costs, and incentives relating to corruption. As discussed in the "Overview of the Evolution of Corruption in the Europe and Eurasia Region" (Annex F), strong political will is essential for serious reform.

Table 3.1 outlines measures for each practice area in the sector that can help to reduce opportunities for corrupt practices and change incentives. (See Annex B for more detail.)

Box 3.6. Corruption in the DG Sector

Predominant Corrupt Practices

Civil Society. Harassment of NGOs by government; registration of businesses as NGOs (to evade taxes, or to establish a front for criminal activity); nontransparent project financial systems enabling embezzlement.

Independent Media. Withholding essential information from the public or publishing inaccurate information; government manipulation of the media (through threat of losing license and threat of prosecution under unclear libel laws and sanctions); low journalist salaries may foster bribe-taking or selling information.

Local Governance. Special licensing/permit/leasing favors to friends, family or allies; unfair or "fixed" procurement processes; providing government jobs to family or allies; extortion of private payments for municipal services (water, electricity).

Political Process. Abuse of state resources, including state-run media, to influence election results; committing election fraud to ensure political victory; seeking public office for immunity to criminal prosecution; accepting party financing from illegal sources.

Rule of Law. Political pressure (job security, career rewards or bribes) brought to bear on civil servants responsible for issuing permits, licenses, waivers and registrations; conflicting legal standards or lack of implementing regulations; false accusations of administrative and statutory offenses designed to extract bribes (e.g., by traffic police, tax inspectors); distortion of judicial processes through bribes, political pressure or favors (e.g., police investigations, prosecution decisions, adjudication of cases and enforcement of decisions); unfair selection/appointment of officials (police, prosecutors, judges); bribery in the educational and legislative systems.

Illustrative Corruption Vulnerabilities

The corrupt practices listed above highlight many *vulnerabilities* to corruption in the DG sector, including

- lack of checks and balances on government institutions
- political and social norms that tolerate politicians using public resources to strengthen support among powerful economic and political allies or to benefit friends and families
- low salaries that leave people open to bribery or dependent on access to special "benefits" of their jobs
- inadequate laws and/or traditions for protecting non-governmental entities such as NGOs and independent media

Table 3.1. TAPEE Factors in Democracy and Governance Programming Areas

TAPEE Factor	Rule of Law	Civil Service	Media	Civil Society	Elections
Transparency	Promote transparency in court operations • published decisions • media and public access to court proceedings • court monitoring by NGOs	Develop budget, capital investment and economic development processes based on public participation and public budget hearings Municipal public information centers and financial systems for • bill paying • land title registration • business licensing and registration	Support media to create accurate and responsible investigative media pieces Support legislation that protects media through clear, judicially appealable licensing standards	Build capacity of NGOs to comply with periodic reporting requirements	
Accountability	Create public service codes of ethics	Public procurement laws with mechanisms for external/independent audits and enforcement processes Administrative code provisions governing administrative processes and rights of appeal for: registration; licensing; permitting; rate setting; and determinations of social benefits	Train prosecutors and defense counsel to • protect media from arbitrary prosecution • prosecute violent crimes against media	Build capacity of governmental institutions responsible for overseeing and implementing NGO regulation	
Prevention	Simplify civil and criminal procedures to reduce opportunities for discretionary conduct	Promote merit-based selection of public sector employees	Promote ethics training and journalists' associations that put pressure on members to report honestly	Adopt clear, unambiguous standards that define the registration process and responsibilities of NGOs	Support fair election processes • electoral commissions • registered voter lists • ballot security • exit surveys • election monitoring • timely local announce-ment of results

TAPEE Factor	Rule of Law	Civil Service	Media	Civil Society	Elections
Enforcement		Implement *Freedom of Information Acts* with which each agency must comply Build government capacity to implement and enforce procurement laws Stronger administrative codes and administrative procedural codes	Encourage well-defined libel laws and appropriate sanctions		Promote campaign and party finance reform through laws requiring public disclosure of campaign and party financing information
Education	Increase public awareness of citizens' benefits and rights	Train prosecutors, investigators and judges	Assist media and NGOs to publicize and demonstrate the *costs* of corruption Train media officials in business development to promote independence	Support local demand for clean politics, politicians and political parties through assistance to NGOs for advocacy and civic education	

CHAPTER 4

THE TRANSPARENCY DIMENSION OF TAPEE

The Transparency dimension critically defines the enabling environment for corruption and integrity. (See footnote 1 for the TAPEE concept of integrity.) With all other factors and elements remaining unaltered, an environment characterized by relatively low Transparency is more vulnerable to corruption than one characterized by relatively high Transparency, and conversely, greater Transparency improves the enabling environment for integrity.

The specific forms, patterns, and drivers of corrupt practices in targeted sectors and governing institutions, as well as context-specific constraints and opportunities, should inform the choice and design of Transparency-enhancing interventions. Transparency will have specific meanings for each sector and governing institution: for example, Transparency gaps associated with the syndrome of corrupt practices and attendant vulnerabilities encountered in *public procurement* may differ materially from the Transparency deficits (and other TAPEE weaknesses) associated with corrupt practices in *tax administration*.

Transparency-enhancing interventions by themselves, however, will not be sufficient where other elements of TAPEE are weak. To alter the institutional environment enabling specific corrupt practices, a holistic approach is needed. Recalling the overlapping "lenses" of TAPEE, other TAPEE interventions will most likely be necessary to support Transparency improvements, just as Transparency improvements may be required to support other TAPEE factors.

By conducting "before and after" baseline assessments of Transparency gaps and deficits in the institutional environment, USAID can monitor progress at the project level in controlling specifically targeted corrupt practices (and their related vulnerabilities) susceptible to amelioration through Transparency-enhancing interventions.

The Dual Nature of Transparency

Transparency

Substantive Transparency
disclosure of material information

+

Procedural Transparency
open, participatory processes

THE DUAL NATURE OF TRANSPARENCY: SUBSTANTIVE AND PROCEDURAL

The TAPEE framework offers two complementary lenses for assessing the nature and degree of Transparency in the institutional environment. **Substantive Transparency** is concerned with the disclosure of "material information" by governing institutions; **Procedural Transparency** relates to "participation," the use of open, participatory processes by governing institutions. Together, these two lenses may be applied to assess Transparency gaps at the country, sector or governing institution level.

SUBSTANTIVE TRANSPARENCY

Principal-agent relationships are inevitably plagued by "information asymmetries": governing institutions and personnel (as managing "agents" holding entrusted

authority) typically control material information that public or private stakeholders (i.e., "principals" for whose benefit entrusted authority is held) have a right or need to know. "Substantive Transparency" deficiencies refer to these information gaps or deficits that separate both public and private governing institutions and their personnel from their stakeholders.[17]

Transparency-enhancing interventions narrow this information gap by providing stakeholder principals with information of importance to their interests. Transparency-enhancing interventions increase the flow of relevant information from governing institutions to stakeholders.

Whether in the private or public sector, disclosure of material information lies at the core of Substantive Transparency.[18] Moreover, Substantive Transparency is essential to the concept of *Accountability*, which includes the duty of governing institutions and personnel to disclose and report relevant information to their stakeholder principals.

PROCEDURAL TRANSPARENCY

"Procedural Transparency" calls for key decision-making *processes* to be open and participatory. In corporate organizations as well as in democratic forms of government, decision-making is delegated by principals to governing agents (individuals or institutions).[19] One consequence of delegation (in addition to the material information gaps addressed by Substantive Transparency) is that material decisions are made by governing institutions and personnel *without the participation of key stakeholders*. High "Procedural Transparency" connotes open and participatory processes in which principals, as stakeholders, have effective procedural rights that enable them to further their legitimate interests.

Key decisions made by governing institutions/personnel may of course be disclosed *after the fact*, through reporting mechanisms that satisfy "Substantive Transparency" requirements. Prudent principals, however, require more than after-the-fact notification. High "Procedural Transparency" means that governing institutions and governing personnel"

[17] From a principal-agent perspective, governing institutions as well as governing personnel are "agents" of the public—holders of "entrusted authority" received, directly or indirectly, through delegation from "principals." Delegation is a defining feature of every relationship in which one party, the principal, "entrusts" authority to another party, the agent, to carry out functions intended to benefit the interests of the principal. The literature on principal-agent theory sometimes mistakenly refers to corrupt public servants as corrupt *principals*, but they are more appropriately viewed as corrupt governing agents or sub-agents who abuse delegated authority entrusted to them.

[18] In the private sector, disclosure of material information — a pillar of corporate governance and International Financial Reporting Standards — is the foundation on which capital markets regimes are based. See the revised OECD *Principles of Corporate Governance* (2004), V. Transparency and Disclosure. In the public sector, international accounting standards require disclosure of material information to "demonstrate the accountability of the entity for the resources entrusted to it" by, among other things, providing "information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments." (*International Public Sector Accounting Standards, IPSAS* 1 – Presentation of Financial Statements.) For State-Owned Enterprises, see the OECD *Guidelines on the Corporate Governance of State-Owned Enterprises* (2005), V. Transparency and Disclosure.

[19] In the public sector, representative democracies consist of a "chain of delegation" running from principals to their governing agents: voters to their representatives in Parliament, from the Parliament to government (prime minister and ministers), from the government as a whole to single ministers, and from government to bureaucracy. Governing institutions include the entire array of public sector organizational units that make up the executive, legislative, and judicial branches of representative democracies. Governing personnel include public employees at all levels as well as elected and appointed public officials. In the private sector, the key principal-agent relationship is that between owners and management. Directors, officers, and managers of a business entity are governing personnel who hold entrusted authority, intended to be exercised for the exclusive benefit of the principals of the entity, namely, shareholders and other stakeholder constituencies (such as employees and creditors).

effectively invite the public in; low "Procedural Transparency exists when stakeholder constituencies are shut out of key decision-making processes. Low "Procedural Transparency" is characteristic of closed, paternalistic governing institutions and personnel, who view stakeholders as the passive objects of decisions made presumably for their benefit. Institutional environments characterized by high "Procedural Transparency" treat stakeholders instead as valued participants in key decision-making processes, as (for example) through "notice and comment" procedures, or open and participatory budget hearings.

ILLUSTRATIVE TRANSPARENCY-ENHANCING INTERVENTIONS

Transparency-enhancing interventions operate on two fronts.

- By increasing disclosure of and access to material information, they narrow the asymmetric information gaps that characterize governing institution/personnel-stakeholder relationships.
- By mandating open processes in which stakeholder principals actively participate, they help close the political space that separates governing institutions and personnel from their stakeholder principals.

This list of Transparency-enhancing interventions is intended to provide examples and stimulate thinking; it is not a complete menu of potential interventions. Identifying the most appropriate interventions to control specific corrupt practices and vulnerabilities will require assessment and judgment.

- **Assess and reduce opacity.** Identify the "information asymmetries" and remove the barriers to transparency that separate public sector governing institutions from stakeholders.
- **Increase "Substantive Transparency."** Institute improved disclosure, publication, and dissemination of material information by governing institutions. This would include laws, implementing regulations, official forms, fee schedules, processing times, organization charts, and contact information; the substantive content of administrative and judicial decisions; the procedures and standards employed in decision making; administrative and judicial appeal rights and procedures; national, regional and local, agency-specific budgets and financial statements (prepared in accordance with International Public Sector Accounting Standards); and awards of public contracts for goods, construction and services.
- **Improve "Procedural Transparency."** Institute more open and inclusive processes in governing institutions to provide stakeholder principals greater control over policies and laws, the allocation of public goods, and the expenditure of public funds. Examples include: legislative drafting and administrative rule-making processes; open committee meetings and hearings; regularized public hearings for budget meetings and actions to be taken by national and local government authorities and independent regulatory agencies; local government "town meetings" that invite citizens in to meet with and question public officials; and record-keeping requirements to document and support official decisions.
- **Support greater access to information.** Develop sector-specific as well as government-wide "Freedom of Information" and "sunshine in government" laws, carefully drafted so as to promote full compliance by governing institutions, to constrain exemptions from disclosure, and to ease the burden of utilization. Support e-government initiatives that facilitate ease of access to material information needed by citizens, businesses, NGOs, and other stakeholders.

- **Disclose serious Rule of Law divergences.** Assess and disclose discrepancies between the official body of laws and implementing regulations that govern institutions and the actual operations of governing institutions, particularly the prevalence of unofficial payments and the disregard of rules intended to enhance transparency and accountability and prevent corrupt practices.
- **Improve corporate "Substantive Transparency."** Improve financial transparency and disclosure of material information, thereby eliminating and reducing information asymmetries between managing "agents" (business managers, directors, and officers) and their "principals" (shareholders and other stakeholders). Examples would include: adoption and implementation of International Financial Reporting Standards and International Auditing Standards; adoption and implementation of the revised *OECD Principles of Corporate Governance* (2004) (particularly those pertaining to disclosure and transparency); and adoption and implementation of "anti-fraud" and "securities law" disclosure, financial reporting, and public filing requirements.
- **Improve corporate "Procedural Transparency."** Afford shareholders (particularly minority shareholders) and other principal stakeholders greater voice, oversight, and control through corporate governance and company law interventions. Examples would include: implementation of the revised *OECD Principles of Corporate Governance* (2004) (particularly those concerning the rights of shareholders, the equitable treatment of shareholders, and the role of stakeholders in corporate governance); improvements in general and transaction-specific voting rights; rules governing the conduct of and participation in meetings of shareholders; rights of shareholders to inspect and copy books and records; and enhanced public monitoring and oversight of company compliance with disclosure and reporting requirements.
- **Improve "Substantive Transparency" and "Procedural Transparency" in state-owned enterprises.** Promote the endorsement and use by state-owned enterprises of the *OECD Guidelines on the Corporate Governance of State-Owned Enterprises* (2005).

CHAPTER 5

THE ACCOUNTABILITY DIMENSION OF TAPEE

Accountability mechanisms or controls are typically associated with "checks and balances": principals (or designated third parties) with countervailing power are enabled to induce compliance, detect and report noncompliance, and impose sanctions when governing institutions and personnel fail in the performance of their obligations, particularly the duty to exercise entrusted authority properly.

DUAL ACCOUNTABILITY: HORIZONTAL AND VERTICAL

The complementary concepts of horizontal and vertical accountability provide for the most comprehensive system of "checks and balances." *Horizontal accountability* is exercised within and between government institutions, while *vertical accountability* is exercised by the public vis-à-vis government institutions and officials.

Horizontal accountability consists of the exercise of countervailing power by different branches and institutions of government checking and balancing the exercise of entrusted authority by other branches and institutions. It is exercised through a sweeping array of judicial, legislative and executive "control agencies": courts, magistrates, Parliamentary commissions, Supreme Audit Institutions, internal and external auditors, ombudsmen, anticorruption agencies, independent regulators, and other institutions with oversight authority. Effective horizontal accountability is the product of networks of complementary and supporting governing institutions, with countervailing power, committed to the rule of law.

Dual Accountability Mechanisms

Horizontal Accountability:

"checks and balances" *between* and *within* state agencies

Vertical Accountability:

"checks and balances" by societal actors *over* state agencies

Horizontal accountability relies on governing institutions that are authorized, willing, and able to take meaningful action in response to violations by governing institutions/personnel. Such actions may include oversight, public disclosure, investigations and hearings, reprimand, demotion (including reduction of compensation, budgets, and jurisdiction), removal from office (through elections, impeachment, or dismissal), fines, prosecution, and imprisonment.

Vertical accountability originates from actors outside the state, comprising checks and balances on state actors within all three branches of government and at national, regional, and local levels. Representative institutions of vertical accountability include the electorate (acting through free and fair elections), political parties, the media, NGOs (including trade unions, professional and business associations, and faith-based organizations), and international donors. Institutions of vertical accountability also influence horizontal accountability: directly, by demanding effective institutional checks and balances within the state; and indirectly, by strengthening such institutions as independent media, watchdog organizations, and influential think-tanks

DEFINING ACCOUNTABILITY

Principal-agent theory confirms that ethical governance requires institutions of horizontal and vertical accountability, to check and limit the use of entrusted authority by governing institutions and personnel. Effective political and economic competition contributes to both horizontal and vertical accountability.

Accountability (like the related concepts of "responsibility" and "answerability") refers to the fundamental duties that governing institutions/personnel owe to their intended beneficiaries. These obligations may be summarized by the overarching principle of governance, that governing institutions and governing personnel are required to exercise the authority entrusted to them exclusively for the benefit of their principals, in the manner contemplated by the principal-agent relationship. This principle requires subjugation of self-interest to the legitimate interests of the intended beneficiaries of the governing institutions. By definition, corruption — the abuse of entrusted authority for private gain of any kind — represents a breach of the fundamental duty of loyalty owed by governing agents to their principals.[20]

This broad obligation subsumes the following specific obligations of governing institutions/personnel:

- To respect the rule of law, i.e., to abide by the formal laws, implementing regulations, and procedures that define their mission, functions, roles, and responsibilities.
- To act in accordance with standards of ethical conduct that elevate the legitimate interests of stakeholders over the self-interests of their designated representatives, whether elected or appointed.
- To exercise the authority and manage the resources entrusted to governing institutions/personnel prudently and for the exclusive benefit of their intended beneficiaries.

Accountability requires Transparency, because answerability implies the requirement that governing institutions and governing personnel disclose relevant information, explain their actions, and render periodic accountings to the public whose interests they serve.

ILLUSTRATIVE ACCOUNTABILITY-ENHANCING INTERVENTIONS

- **Assess and strengthen horizontal accountability.** Support targeted state institutions to improve "checks and balances" (internal and external controls, monitoring and audits). Build judicial and legislative capacity to check and balance "power ministries" and other executive branch agencies.
- **Assess and strengthen vertical accountability.** Support an array of responsible civil society institutions with the capacity to influence and monitor the exercise of entrusted authority by governing institutions and personnel. Support related awareness raising and advocacy initiatives aimed at specific corrupt practices, corruption vulnerabilities, and integrity issues.
- **Improve governance and performance of supporting institutions.** Enhance the performance of executive branch registries, the legal profession, and NGOs through better measurement, benchmarking and reporting of accountability standards.
- **Strengthen public demand for and official awareness of accountability**. Emphasize the duty of governing

[20] From a principal-agent perspective, corruption represents subversion by governing institutions and personnel of the rules intended to govern the exercise of authority entrusted to them. It is a problem of out-of-control governing agents, institutional and individual, abusing entrusted authority for illicit political, economic and social (e.g. ethnic, familial) purposes to the detriment of the intended beneficiaries of the principal-agent relationship.

institutions and officials to account to their stakeholders. This includes accounting for the collection and use of public funds, the award of public contracts, the management and distribution of public goods, service delivery, compliance with formal legal frameworks and rules that define their mission and govern their operations, and adherence to applicable standards of ethical conduct.

- **Institutionalize standards of ethical conduct and discipline** for public sector institutions, civil servants, licensed professions and self-regulating organizations.
- **Provide capacity-building assistance** to ombudsman offices and legal aid clinics that represent citizen complaints vis-à-vis government offices.
- **Prevent and monitor conflicts of interest.** Adopt, implement and monitor conflict of interest laws and regulations, including mandatory filing of income and assets reports by elected and appointed public officials, disclosure of awards of public contracts, and auditing for conflict of interest and related-party transactions.

CHAPTER 6

THE PREVENTION DIMENSION OF TAPEE

Box 6.1. Key Themes of the Prevention Dimension of TAPEE

- Reduce corruption vulnerabilities
- Prevent opportunities for corruption through systemic reforms
- Embed incentives and values antithetical to corruption
- Support interventions that enhance Transparency and Accountability
- Promote competition and choice
- Control monopoly power, overregulation, and discretion

Like the set of Transparency and Accountability diagnostic lenses, the Prevention and Enforcement lenses of TAPEE provide two alternative diagnostic filters for examining the enabling environment for corruption and identifying anticorruption interventions.

Prevention is at the core of a development perspective to strengthening the anti-corruption environment; it comprises an array of measures aimed at preventing and reducing corruption vulnerabilities (or risk factors). The risk factors for corruption commonly reflect *misaligned incentives*, perversely structured inducements that can propel both governing institutions and governing personnel away from integrity and toward corruption.

PREVENTIVE MEASURES IN THE UN *CONVENTION AGAINST CORRUPTION*

The United Nations *Convention Against Corruption*, adopted by the General Assembly of the United Nations on October 31, 2003,[21] emphasizes that the first step towards tackling corruption is preventing it — explicitly recognizing that the problem of combating corruption extends beyond laws criminalizing specific conduct.

From this forward-looking perspective, campaigns to prosecute corrupt individuals, particularly those that target former officials for past offenses, will not eliminate corruption vulnerabilities.[22]

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[21] A number of countries in the Europe and Eurasia region are among the first group of signatories to the new convention: Albania, Bulgaria, Croatia, Hungary, Kyrgyzstan, Lithuania, Poland, Romania, Russian Federation, Serbia and Montenegro, Slovakia, and Ukraine, each signing the convention in December 2003. Azerbaijan and Belarus signed in 2004. The Czech Republic and Latvia signed in the first half of 2005. As of June 30, 2005, only four countries in the region had ratified the convention: Belarus, Croatia, Hungary, and Turkmenistan. As of August 1, 2005, the convention was not yet in force.

[22] In more advanced and balanced democracies, enforcement of criminal laws may serve as an effective preventive measure due to the deterrent effect of reasonably predictable, uniform, and fair enforcement. In the Europe and Eurasia region, however, selective criminal law enforcement has historically targeted political opponents and members of former regimes more often than incumbents. Consequently, from a development

Strengthening the anticorruption environment requires systemic reforms: a holistic combination of economic growth, democracy and governance, and social transition reform initiatives led by indigenous reformers supported by high-level diplomacy and development assistance. A development approach to Prevention embeds positive standards and eliminates negative factors: misaligned incentives, opportunities for corruption, human and institutional capacity constraints, ineffective checks and balances, and other vulnerabilities.

In affirming the primacy of Prevention, the UN *Convention* urges a broad range of measures designed for preventive action at the national level. Chapter II of the *Convention* dedicates ten separate articles to Preventive Measures, directed at both the public and private sectors. (These preventive measures are outlined in Annex G, with cross references to the TAPEE framework.)

PREVENTION APPROACHES

A development perspective to preventing corruption and promoting integrity employs several guiding principles derived from principal-agent theory.

Reduce the number of principal-agent relationships, through privatization, deregulation, and rightsizing of institutions. This approach decreases the number of "toll gates" and "toll collectors" that foreign and domestic businesses and ordinary citizens encounter in daily activities.

Select better governing personnel through free and fair elections and meritocracy processes, designed to reward governing agents who demonstrate public sector and professional values.

Align the interests of principals and governing institutions/personnel by eliminating perverse incentives and replacing them with appropriate ones (both positive and negative). Public sector governance in the Europe and Eurasia region suffers from misaligned incentives, often associated with bloated, politicized, and underpaid bureaucracies; porous boundaries between the public and private sectors; and substantial grey economies.

Circumscribe the authority and discretion of governing institutions and governing personnel: constrain the authority of the state; better define and protect property rights and contract rights; eliminate and simplify regulatory regimes; impose more transparent, rational, and objective standards and procedures.

Reduce the monopoly power of governing institutions and governing personnel through increased competition and choice. For example, permit businesses to register through one of several offices located throughout the country; or allow litigants to resolve claims through binding arbitration as well as through the court system.

Employ "Accountability" mechanisms that direct the behavior of governing institutions and governing personnel away from corrupt practices and toward desired outcomes.

Inculcate values that respect the proper use of entrusted authority and influence public and private sector behavior, in ways that incentives and controls alone cannot achieve.

ILLUSTRATIVE PREVENTION INTERVENTIONS

- **Prevent new opportunities for corruption:** in proposing legal, regulatory, or institutional changes, observe the principle, "First, do no harm."
- **Promote systemic reform of institutions** by introducing positive, "rules-based" models of institutional

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perspective, without systemic reforms and checks and balances in place, over-emphasis on prosecuting individuals is unlikely to yield preventive results comparable to those realizable in more advanced institutional environments.

and individual behavior for public officials, businesses, NGOs and ordinary citizens, to displace dys-functional, "relations-based" practices.

- **Realign incentives of public officials** with their principals through such interventions as meritocratic civil service and fiscal reforms. The objective is to select (and retain) better agents, and to supplant existing patron-client relationships founded on bribes, unofficial payments, and trading of benefits.
- **Reduce over-regulation** by simplifying regulatory regimes, eliminating unilateral decision-making, promoting competition and choice, and limiting discretion of governing institutions and governing personnel.
- **Replace subjective, ambiguous, and complex laws** and regulations with unambiguous, objective standards and mandatory rules. Sacrifice a measure of flexibility in favor of bright-line simplicity and uniformity of application; publish fine criteria; and eliminate disproportionate sanctions for minor non-compliance.
- **Establish clear roles and responsibilities** for governing institutions and personnel within a sector. Establish separate functions and streamlined authorities, and rationalize jurisdictional boundaries and administrative and judicial review of decisions.
- **Prioritize and implement anticorruption preventive measures** such as those directed by the UN *Convention Against Corruption* and those suggested by the OECD survey of prevention measures. (See Annex G.)[23]

This list of preventive measures is sweeping, especially as it incorporates also those found in Annex G and in the sector reports (Annexes A-D). Selecting and designing preventive measures will require careful attention to the specific context of patterns of corruption, vulnerabilities, constraints, and opportunities. As with other TAPEE interventions, identifying the most appropriate combination and sequence of preventive interventions, in a specific sectoral context, will require assessment and judgment.

[23] In 1999, the Organization for Economic Cooperation and Development published. the results of its survey of measures used in 15 countries to prevent public sector corruption, *Public Sector Corruption: An International Survey of Prevention Measures*. Countries surveyed were Belgium, Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Mexico, Poland, Spain, Sweden, and Switzerland. These preventive measures are outlined in Annex G, with cross references to the attributes of the TAPEE framework. Annex G also cross-references the Preventive Measures of the UN *Convention Against Corruption* in a similar fashion.

CHAPTER 7

THE ENFORCEMENT DIMENSION OF TAPEE

As the counterpart to Prevention, Enforcement includes the broad range of rational standards and incentives that promote compliance with the spirit and the letter of legal, regulatory, and administrative frameworks. Effective Enforcement reinforces behavior in both the public and private sectors that comports with values underlying the rule of law and integrity.

USAID's Role in US Anticorruption Efforts

> Corruption programs can be broadly divided into "prevention" and "enforcement." USAID generally concentrates on prevention and on the administrative, audit, oversight, and civil aspects of enforcement, by providing technical assistance to countries to address the causes of corruption and modify behaviors and incentives in the future.

USAID Anticorruption Strategy (Jan. 2005), p. 9.

ESTABLISHING STANDARDS

Enforcement extends beyond the formal criminal law framework to include standard-setting and compliance dimensions. A development approach to Enforcement addresses the universe of "standards" conducive to integrity, and their accompanying incentives. Standards are understood to include:

- official legal frameworks (the Council of Europe *Criminal Law Convention on Corruption*, Council of Europe *Civil Law Convention on Corruption*, OECD *Anti-Bribery Convention*, United Nations *Convention Against Corruption*, and national implementing and supplementary legislation)
- formal enabling legislation, organizational charters, by-laws, policies, regulations, and rules that define and govern the mission, functions, jurisdiction, authority, and responsibilities of governing institutions
- formal codes and standards of ethical conduct for governing institutions and personnel
- the wide array of professional, sectoral, industry, and other standards, principles, best practices, guidelines, codes and model laws developed and promoted by international and regional bodies (e.g., Basel Committee on Banking Supervision, Financial Action Task Force on Money Laundering, International Accounting Standards Board, International Auditing and Assurance Standards Board, IMF, World Bank, EBRD, International Organization of Securities Commissions, OECD, UNCITRAL, WHO, ILO, ISO, etc.)

Effective Enforcement requires strong public and private institutions, able to develop and apply standards and incentives that induce compliance. It also requires that associated legal and administrative sanctions be rational and proportionate.

Public sector institutions include:

- internal and external auditors and inspection agencies
- executive branch administrative law institutions
- legislative oversight
- an independent and professional judiciary
- police and prosecutorial functions
- independent regulatory agencies

- civil service commissions; and ombudsman offices

Private sector actors include:

- credible professional organizations (in law, accounting, education, and medicine), capable of standard setting, monitoring and compliance
- civil society watchdogs and responsible media
- private citizens who file and prosecute complaints through available channels
- contractors and suppliers who monitor the award of public contracts and protest improper decisions

ALIGNING INCENTIVES

A development perspective to Enforcement must also address structural reforms and incentives. Heading the list are *civil service reforms*, including positive incentives as well as clear, graduated sanctions for violations (ranging from fines and other penalties to dismissal). Key positive incentives would comprise: selection and promotion based on merit; adequate wages; retirement benefits; and protection against arbitrary actions.

Effective anticorruption programming in the Europe and Eurasia region calls for moving beyond a criminal law framework to embrace a broader development perspective that concentrates on structural reforms. A narrow Enforcement perspective, limited to targeting miscreant individuals, will not yield the broader and deeper anticorruption and integrity results that an institutional development perspective promises.

Across all sectors, economic growth, democracy and governance, and social transition, USAID development assistance supports the creation and development of governing institutions that —

- respect the rule of law, i.e., abide by the formal laws, implementing regulations, and procedures that define their mission, functions, roles, and responsibilities;
- perform in accordance with standards of ethical conduct that elevate the legitimate interests of stakeholders over the self-interests of governing personnel;
- exercise the authority and manage the resources entrusted to them prudently and for the exclusive benefit of their intended beneficiaries;
- practice Transparency and respect Accountability by operating openly, disclosing relevant information, and rendering periodic accountings to the public whose interests they serve.

From a development perspective, Enforcement should create incentives (positive as well as negative) that induce improved organizational performance. This includes sanctioning governing *institutions* for malfeasance and substandard performance.

In the accepted usage of the donor community, "public sector corruption" and "crime" are not synonymous. Controlling systemic corruption in public sector institutions is an institutional development problem, not simply a matter of combating such criminal activities as illegal drug markets, trafficking in persons, terrorist financing, and organized crime. While budgetary assistance for criminal law enforcement appropriately targets these areas, scarce resources for development assistance are better spent on the development aspects of anticorruption reform that can alter the institutional enabling environment for corruption and promote integrity in both the public and private sectors.

ILLUSTRATIVE ENFORCEMENT INTERVENTIONS

As Enforcement is an essential aspect of Accountability, the following list of Enforcement Interventions should be considered in tandem with the Accountability-enhancing interventions suggested in chapter 5. (Many of these illustrative interventions could be included under more than one category.)

- **Promote more effective implementation and enforcement** by simplifying and

clarifying legal and regulatory frameworks, and closing gaps that invite abuse of power and discretion.

- **Continue judicial reform initiatives** aimed at increasing transparency and accountability and enhancing the independence of the judiciary. In the economic sphere, design and implement interventions to improve the swift and fair enforcement of property and contract rights.
- **Assist enactment and implementation of national-level reforms** already committed to under international anticorruption agreements, including the UN Convention *Against Corruption*, Council of Europe *Civil and Criminal Law Conventions on Corruption*, OECD *Anti-Bribery Convention*, and *Stability Pact Anti-Corruption Initiative for South Eastern Europe.*
- **Provide clear definition of authorities** of independent regulatory bodies in such areas as banking, securities, and energy, with clear specification of functions and jurisdictional relationships with judicial and general executive branch bodies.
- **Provide capacity building** to develop more technically competent adjudicatory personnel within the executive branch, independent regulatory bodies, and judiciaries.
- **Strengthen bodies that investigate and prosecute corruption** by introducing structural changes, rules, and safeguards that promote impartial investigation and prosecution, and guard against manipulation by officials for improper political and economic purposes.
- **Institutionalize professional standards**, with authorized bodies, sanctions, and investigation and decision-making processes, especially for codes of ethics applicable to executive, parliamentary, judicial, and regulatory body personnel.
- **Establish effective channels** for reporting suspected instances of corruption and protecting whistleblowers.
- **Promote incentives and mechanisms that foster compliance**, self-enforcement, and extra-judicial solutions. Representative examples include: long-term business relationships founded on mutual trust; integrity compacts among members of an industry or group with common interests (e.g., government contractors); industry groups that can reward members through preferred status and recognition and that can sanction them through censure and exclusion; accountable self-regulatory organizations; and private dispute resolution alternatives such as mediation, arbitration, and the use of non-judicial administrative dispute resolution fora (e.g., “bid protest” systems for the award of government contracts).
- **Change institutional incentives and behavior** by rewarding public institutions of integrity and those genuinely committed to implementing needed reforms.
- **Change the cost/benefit ratios of public and private sector institutions and personnel** by making corrupt practices more risky and costly. Through Transparency-enhancing and Accountability-enhancing interventions, increase the probability of detection and reporting of substandard performance and illicit transactions. Use incentives to deter fraud, waste and abuse and to reward high performance. Increase the certainty of imposition of rational, proportionate sanctions, including the suspension of development assistance.

CHAPTER 8

THE EDUCATION DIMENSION OF TAPEE

AWARENESS, ADVOCACY, AND VALUES

Education in the TAPEE context comprises the components of **awareness**, **advocacy**, and **values**.

The Education Dimension of TAPEE:
Three Components

Awareness — Advocacy — Values

Awareness interventions strive to create broader recognition of the nature, prevalence, and adverse consequences of corrupt practices, as well as the opportunities for change, the constraints to be addressed, the resources required, and the progress already made. A key objective in awareness initiatives is to advance from general surveys and unitary indicators to diagnostic approaches that disaggregate corruption into corrupt practices and corruption vulnerabilities, sector by sector.

To move beyond the limitations of diffuse anticorruption campaigns, *advocacy initiatives* will address specific forms of corrupt practices and corruption vulnerabilities, by promoting coalitions of empowered stakeholders who will benefit directly from needed reforms. Advocacy includes monitoring and reporting progress in implementing specific, prioritized reforms linked to milestones and timetables.

> "Successful reform is dependent upon an established foundation of values -- values which are the bedrock for creating and sustaining democracy, values which insist on an equitable and fair market economy, values which guarantee human rights and religious freedom, and values which can overcome the irrational passions, hatred and bitterness which ignite and fuel conflict."
>
> Dr. Kent R. Hill, USAID Administrator for Europe and Eurasia, *Europe and Eurasia Vision* (2005)

The *values dimension* of Education fosters universal, professional, and cultural values that are incompatible with corruption. Deeply instilled values (a public sector ethos, principles-based professional values, and societal values antithetical to corruption) can promote integrity in ways not reached by structural incentives and constraints alone. Training, mentoring, and educational experiences such as exchange programs can nurture public sector and professional values that help to restore confidence and lost trust. Values-based initiatives also strengthen the social capital that underlies responsible collective citizen interaction — and supplants complicity, acquiescence and "looking the other way."

Interventions that address values can be made at several levels:

- **at the policy level**, through public declarations (e.g., universal rights, equal justice for all, non-discrimination, right to self-determination through free and open elections)
- **at the level of public sector institutions and personnel**, through leadership and example, demonstrating loyalty to the rule of law and the interests of the public and demonstrating Accountability to stakeholders
- **at the level of private sector institutions and personnel**, by ensuring compliance with applicable laws and

regulations; demonstrating integrity in transactions with the public sector; and practicing good corporate governance

- **at the professional level**, through the promotion of professional standards and ethical values in such professions as education, health, law, accounting, and public contracting
- **at the societal level**, by fostering character education in schools, strengthening community spirit and building social capital

Box 8.1. A Public Sector USAID Education Initiative:
Promoting Integrity in University Examinations

USAID/Tbilisi assisted the Ministry of Education to introduce national university entrance exams, by supporting an extensive press and outreach campaign that focused on positive anticorruption messages. In July 2005, 36,000 students sat for the new university entrance examinations. All students took a general skills test and could elect to take additional subject tests.

These tests are seen widely as a major step in combating corruption in the Georgian university system, involving a number of innovative features.

- A sophisticated and successful IT system helped speed registration and protected the identity of test takers, adding greatly to the security of the tests.
- Each testing center was equipped with computers and television monitors for each group of 15 test takers. In an extraordinary step toward transparency, the Ministry of Education made monitors available *outside* each test center which showed pictures from the surveillance cameras on a continuous basis. Parents could observe that their children taking the exam were being well treated, and that no cheating was taking place.
- Transparency International Georgia, with monitors at all fourteen examination centers, proposed the testing procedure as a "model for reform of the civil service and other professional spheres."
- An extensive Transparency International survey indicated that 80% of students, 79% of teachers, and 96% of administrators felt confident that this process will eliminate corruption in university admissions.

ILLUSTRATIVE EDUCATION INTERVENTIONS

- **Heighten awareness of stakeholders and the public** regarding the extent, forms, causes, and adverse consequences of corrupt practices within specific sectors and key institutions, as well as the benefits of specific reforms and opportunities for change.
- **Promote participation of key stakeholders and the public** in developing, advocating, and monitoring sectoral and institutional reform agendas.
- **Support think tanks, policy institutes and partnerships** to produce high-quality research on the patterns and costs of corrupt practices within specific sectors and institutions, including (a) analysis of the vulnerabilities that enable grand and administrative corruption and (b) benchmarking sectoral and institutional performance against international standards, best practices, and regional performance.
- **Support public-interest organizations and initiatives** that provide public instruction regarding freedom of information laws and procedures.

- **Promote plain language guides for business and individuals** regarding legal standards and rights (for, e.g., taxation, licenses, registration, customs, and public procurement).
- **Promote competent and responsible media coverage** of specific reforms, individual rights, and benefits of reforms.
- **Employ educational, training, and related interventions** designed to promote public sector values, professional values, and societal values. Examples include: democratic values education; street law education by law students in secondary schools; character development in primary schools; and extracurricular projects that demonstrate how free markets benefit from ethical business principles.
- **Utilize third party measures of corruption** to increase awareness, mobilize support for action, and inform the assessment process. Relevant materials include: World Bank Institute Control of Corruption indicators and the Transparency International Corruption Perceptions Index (and underlying surveys and polls); regional reports and surveys such as Freedom House Nations in Transit Corruption Ratings and related country reports, Anticorruption in Transition 2 and BEEPS; and country- and sector-specific surveys and reports produced by local NGOs and think-tanks.
- **Use quantitative and qualitative micro-analytic techniques** to assess and map the forms, dynamics, and extent of corrupt practices and their related corruption vulnerabilities. Pertinent insights include: who benefits (loses) from sector-specific corrupt practices; the location and extent of political will for reforms; the political, technical and financial constraints that must be overcome to implement reforms; and likely entry points and levers for supporting needed changes.

CHAPTER 9

CONCLUSION

> Corruption touches every area of development, and USAID analysis and response must be equally broad.
>
> *USAID Anticorruption Strategy* (January 2005), p. 16.

KEY ATTRIBUTES OF THE TAPEE FRAMEWORK

- **Corruption is a cross-cutting *development* issue** in the Europe and Eurasia region, affecting full realization of economic growth, democracy and governance, and social transition development objectives. Systemic corruption respects no sectoral boundaries.
- **Founded on the key themes of Transparency, Accountability, Prevention, Enforcement, and Education,** TAPEE is an analytical framework for *strengthening the anticorruption environment* within and across economic growth, democracy and governance, and social transition sectors.
- **TAPEE incorporates a *holistic institutional development* approach** to combating grand and administrative corruption (controlling the negative) and promoting integrity (embedding the positive).
- **The development goal of TAPEE is to promote an enabling environment for "integrity,"** the combination of good governance, probity and ethical values that provide the antithesis to corruption. Efforts to punish corrupt personal behavior will be ineffective if unaccompanied by development assistance that fosters institutions and systems of integrity.
- **By incorporating five dimensions into its development approach to strengthening the anticorruption environment,** TAPEE frees anticorruption programming from the limitations of any single perspective or emphasis.
- **TAPEE advocates a sectoral approach to controlling corruption and promoting integrity.** This includes designing and implementing sector- and institution-specific interventions founded on diagnosis of predominant corrupt practices and corruption vulnerabilities within and across sectors. Properly understood and applied, TAPEE's sectoral approach and common frame of reference can help USAID missions with key mainstreaming goals of the *USAID Anticorruption Strategy*: to confront the dual challenges of grand and administrative corruption, to incorporate anticorruption goals and activities within and across strategic objectives, and to deploy resources in strategic ways to combat corruption and promote integrity.
- **The TAPEE approach begins with diagnosis,** disaggregating corruption into an array of predominant "corrupt practices" that adversely affect realization of development objectives within USAID economic growth, democracy and governance, and social transition assistance sectors. Corrupt

practices include all forms of corruption encountered, whether denominated as grand corruption or administrative corruption.

- **TAPEE employs a "risk-based" development approach: strengthening the anticorruption environment by assessing and controlling *vulnerabilities* to corruption.** Corruption vulnerabilities are those "risk factors" within the institutional environment that enable or facilitate particular forms of corrupt practices to develop and flourish.
- **TAPEE offers a practical, operational approach to anticorruption measurement issues at the programmatic level.** TAPEE bypasses the inherent difficulties of measuring (directly or indirectly) changes in the incidence of corruption within the relatively short timeframes of typical USAID programs, by asking instead, *"Under what conditions in the institutional environment does corruption flourish?"* TAPEE identifies these conditions as "corruption vulnerabilities," or risk factors.
- **TAPEE posits that corruption flourishes in enabling environments characterized by systemic weaknesses** in TAPEE's five crucial institutional areas: Transparency, Accountability, Prevention, Enforcement, and Education. Gaps or deficiencies in each of these key areas and improvements can be assessed and measured over time.
- **TAPEE is an analytical tool, not a menu of interventions.** Properly understood and applied, TAPEE can facilitate the design and selection of interventions intended to control specific corrupt practices and corruption vulnerabilities. TAPEE provides a framework for classifying and understanding interventions along five dimensions. Interventions must be carefully designed, based on a sound understanding of corrupt practices, corruption vulnerabilities, the political-economy context, and opportunities and constraints, including the extent and nature of political will.[24]
- **The TAPEE framework may be used to help establish a "community of practice"** as contemplated by the *USAID Anticorruption Strategy*. TAPEE provides a common frame of reference, key concepts, and vocabulary to facilitate cross-sectoral discussions, training and mainstreaming of anticorruption within and across USAID strategic objectives. Properly understood and applied, TAPEE can contribute to building a mission's and the Agency's anticorruption knowledge.
- **TAPEE, a Europe and Eurasia Bureau companion to the USAID Anticorruption Strategy, represents one available analytical framework;** it does not presume to replace other policy and guidance documents or other approaches to understanding and combating corruption.
- **As an anticorruption *tool*, not a mandate,** the TAPEE framework imposes no new reporting requirements on USAID missions.

NEXT STEPS IN USING TAPEE TO HELP IMPLEMENT THE *USAID ANTICORRUPTION STRATEGY*

The TAPEE framework is of practical import to all engaged in programming development assistance — regardless of sector, strategic objective or office. Combating corruption and promoting integrity in the Europe and Eurasia region will require the

[24] See Annex F, Overview of the Evolution of Corruption in the Europe and Eurasia Region, for a discussion of the need for political will and indigenous commitment, resources and solutions.

commitment and engagement of economic growth, democracy and governance, social transition, and program office teams, led and supported by senior management. Collectively, mission personnel must translate the message that corruption is a cross-cutting development issue into the work of strategic objective teams in every area.

> "With the approval of this strategy, it is my expectation that all members of the USAID community will join me in implementing the steps necessary for the Agency to play a leading role in advancing the fight against corruption and building good governance to achieve a more stable, prosperous, and democratic world."
>
> Andrew S. Natsios, Administrator, U.S. Agency for International Development, *USAID Anticorruption Strategy (January 2005)*, Foreword, p. v.

Mainstreaming anticorruption means that USAID missions will take organizational and operational steps to implement all four broad actions of the *USAID Anticorruption Strategy*:

1. Confront the dual challenges of grand and administrative corruption.
2. Deploy Agency resources to fight corruption in strategic ways.
3. Incorporate anticorruption goals and activities across Agency work.
4. Build the Agency's anticorruption knowledge.

Mainstreaming anticorruption begins with mission management instilling the message that the mission will take concrete steps to implement each of these key recommendations. Senior management will commit to playing a key role in diplomacy, high-level policy messages, and coordination across the country team and with other donors. Additionally, management will ensure that the mission organizes itself internally to ensure mainstreaming of anticorruption within and across sectors and offices, thereby creating a true mission-wide "community of practice."

The test of whether anticorruption is mainstreamed within a mission is whether the effects of anticorruption strategy can be detected at each critical stage of the USAID Acquisition and Assistance cycle.

Applicable to all activities, regardless of originating office, mainstreaming implies that opportunities for strengthening the anticorruption environment will be explicitly considered throughout the cycle of what field missions actually do.

Mainstreaming extends downstream from USAID country strategy statements, to include *explicit consideration* of how to incorporate actions to strengthen the anticorruption environment in all economic growth, democracy and governance, and social transition activities — not only in those stand-alone anticorruption programs that a democracy office may choose to support. Mainstreaming considerations will influence all of the following mission activities:

- sector assessments (e.g. agriculture, SME, competitiveness, financial, trade, democracy/rule of law, education, health, energy, infrastructure, conflict, gender, etc.)
- designs and approval of new activities (economic growth, democracy and governance, and social transition — not just stand-alone anticorruption activities)
- implementation (e.g. contractor and grantee workplans, regardless of sector)

- portfolio reviews (that ask how and to what extent each activity expressly integrates an anticorruption perspective and strengthens the anticorruption environment)
- modifications of existing activities (that present opportunities to expressly incorporate an anticorruption perspective)
- project deliverables (e.g., sector specific training, technical assistance, conferences, workshops, and reports all present opportunities for integrating an anticorruption perspective and building a mission's and the Agency's anticorruption knowledge)
- evaluations (that assess how and to what extent anticorruption was explicitly considered and integrated into the activity and how well project results strengthened the anticorruption environment)

Mainstreaming is a tall order. The *USAID Anticorruption Strategy* charts a bold and challenging course for how the Agency thinks about and responds to the critical development challenge that corruption poses. The Europe and Eurasia Bureau, working under the aegis of the Anticorruption Strategy Implementation Steering Committee (chartered to serve as the policy-making and coordinating body for strategy implementation), will reach out to assist missions mainstreaming anticorruption. Technical assistance, development and dissemination of tools, and participation in training exercises are available.

With the mainstreaming goals of the USAID Anticorruption Strategy in mind, the Anti-Corruption Working Group of the Europe and Eurasia Bureau offers *TAPEE, An Analytical Framework for Combating Corruption & Promoting Integrity in the Europe & Eurasia Region.*

ANNEX A

ENERGY SECTOR CORRUPTION

INTRODUCTION: THE PROBLEM

The power sector, a complete government ministerial monopoly preceding 1990, is moving toward a mixture of *monopoly* (with independent regulation) combined with *competition* where possible (including on a regional basis). This reflects the physical characteristics of power systems: whereas transmission and distribution systems are "natural monopolies," generation as well as wholesale and retail sale of electricity can be competitive under the proper conditions. As described below, the incomplete reforms provide substantial discretion, and hence opportunity for corruption.

Probably in no other single sector does corruption reach and affect every person in the country (and in particular those outside the capital) as it does in the power sector. In many former Soviet Union countries (and to a lesser extent in Southeast Europe) the power sector suffers from systemic corruption that contributes significantly and directly to decline of the sector, reduced economic performance, and a poorer quality of life for all citizens. In combating corruption systemically, countries and donors who “follow the money” to the largest problems must invariably end up addressing the energy sector.

Lenin’s remark that socialism plus electricity equals communism accurately reflected the critical role the power system played in the communist governments. It was a primary tool to address political and social issues, with minimal concern for economic and environmental consequences. Power sector employees were (and remain) among the highest paid in the country, giving rise to significant resistance to the reform process.

The conditions in which energy-related corruption thrives are:

- Predominant government ownership and interference from both central and local governments in commercial operations
- Non-payment, barter and offsets result in cash payments of 10-50% of electricity delivered in some countries
- Inadequate working capital with little or no maintenance and investment leads to decapitalization and system deterioration
- Inadequate metering and management enhance opportunity for corruption and reduce risk of exposure.
- Incomplete utility institutional reform provides opportunity for misdirection of funds and electricity

It is important to note that progress has been made in power sector reforms and consequently in reducing corruption. Unbundling the monopolies and introducing international commercially-oriented privatization has had a positive impact. The efforts of the independent energy regulators to establish public participation processes and transparent regulatory reporting requirements are an important step.

HOW SIGNIFICANT IS ENERGY SECTOR CORRUPTION?

The size of the power (and gas) systems gives the energy sector a huge and concentrated opaque flow of commodities and revenues, particularly in the former Soviet Union countries. The corrupt diversion of both the electricity itself and the payments stream is substantial and is one of the most significant tools for corrupt purposes. The linkage of power system corruption to government officials and

political parties undermines the democratic reform process at national and local levels.

Corruption occurs at several points. Estimates of corruption are very limited and sometimes fragmentary, but estimates of theft and other corruption range from 15-30% of total electricity sales in some countries.

The following are estimated figures for annual energy transactions for selected countries:

Ukraine	$7.5 Billion
Moldova	$250 Million
Georgia	$300 Million
Armenia	$225 Million
Kazakhsta	$2.5 Billion
Bulgaria	$1 Billion
Romania	$2.5 Billion
Kyrgyzsta	$325 Million

HOW DOES CORRUPTION OCCUR?

The corruption varies and can be wide and deep in many countries. It occurs at a "macro" (or "wholesale") level and at a "micro" (or "retail" level). It affects national and local political behavior, the energy system itself and the full range of customers — from individual households, state enterprises and agriculture, and new businesses.

At the macro level, corruption occurs through the following tactics:

1. Interference in the flow of funds/barter/offsets. The central control of the flow of funds moving among the distribution, generation, and transmission companies can result in administrative misallocation of funds.

2. Manipulation of the flow and accounting of electricity to favored customers. The support for privatization extends only to distribution and generation companies. Government control of the transmission system, with opaque control, accounting and reporting, provides opportunity for diversion of electricity to non-paying and politically favored customers.

3. Opaque uneconomic energy export-import arrangements. The process for importing electricity and natural gas is too often subject to opaque arrangements among governments, traders and energy company officials with little or no accountability, transparency or audit.

An example was the Bulgarian government gas import contract with Russia. The contract, with little or no public oversight, resulted in an adverse situation for Bulgaria that would not have occurred with competition, regulatory oversight and transparency. South East Europe electricity trading has also drawn the scrutiny of reformers, auditors and investigators.

4. Central Government interference in the work of the independent energy regulators. Twenty E&E countries have established separate energy regulators — many with sound legal frameworks — allowing significant autonomy, authority and appropriate accountability. After initial successes on transparent tariff reforms and issuance of long-term licenses, the regulators have been under increasing pressure to give back authority over tariffs and other decision-making to old-line ministries that may have short-term political and corrupt interests. Regulators will face continued opposition as they push ahead on regulatory reporting and rules on transparency of financial and operational data.

At the micro level, corruption occurs through such tactics as:

1. Day to day abuse of metering, collections, and billing arrangements by both consumers and local distributors. The antiquated organizational structure of some government-owned distribution companies facilitates corruption by allowing meter readers to prepare and even collect bills in some cases, providing opportunity for both company and customer to collude.

2. Substituting "flexible" barter for cash. Barter has displaced cash in transactions among companies, allowing corrupt markups in barter values.

3. Refusal to cut off non-paying customers and failure to collect during elections. The political intervention of ministers and regional and municipal officials is widespread. Some have passed laws and decrees prohibiting cutoffs of electricity for non-payment, and directly intervene to keep electricity flowing to bankrupt state enterprises, profit-making private enterprises, and their own municipal facilities. Jailing of a Ukrainian electricity distribution company director was widely recognized as retaliation for his efforts to follow a national order to cut off non-payers. Collections during the months preceding the 2000 Ukrainian presidential elections went steadily down, a trend acknowledged as related to political manipulation.

WHO BENEFITS? WHO SUFFERS?

Political and energy sector corruption are closely linked. Mandating free electricity for dinosaur state enterprises is one example. The import of fuel and electricity through opaque government or "private" brokers has produced controversy as well as a buildup of international debt. (The amount is disputed: the Government of Ukraine and head of the Ukraine Gas Company could not agree whether the Ukraine debt to Russia Gazprom was $1.5 billion or $2 billion.) Politicians are frequently linked directly to corrupt practices: the most prominent example is former Prime Minister Lazarenko of Ukraine and the questionable gas licenses importing over $3 billion of Russian natural gas. (Lazarenko awaits sentencing in San Francisco.)

Municipal corruption is widespread, as municipal officials abuse their power by coercing (and jailing) energy company officials who periodically try to cut off non-payers — including the municipality. This enables officials to continue avoiding hard budget decisions and reform. Through 2003, Georgia regional and municipal officials benefited substantially from abuse of the distribution companies and collections process. Some Bosnia and Herzegovina municipalities received 10% "refund" from the utilities — ostensibly to be used for low income households.

The economic impact has three serious ramifications: (1) discouraging foreign investment; (2) serious consequences for balance of payments — particularly for gas importing countries (Ukraine, Moldova, Armenia, Georgia, Kyrgyzstan, Romania and Bulgaria); and (3) significant budgetary impact at the national and local level. In addition to these three macroeconomic factors is the systemic disinvestment in the energy sector and the direct decline of the quality of service.

The social consequences are serious. The impact of deteriorating utility infrastructure on everyday life, including the availability of water and heat, permeates all of the former Soviet Union. Similar problems are emerging in South East Europe. The credibility of reformers deteriorates, as people cannot get reliable access to electricity, heat, gas and water.

REMEDIES

Experience indicates that reforms flow and ebb, affected by such factors as the presence of a champion, the coalescence of reform interests in the country, macroeconomic conditions, and the degree of engagement of the international financial institutions (IFIs) and USAID. In most countries there are diverse interests regarding the energy sector. Reform pressure has frequently come from economic entities (i.e., Ministries of Economy or Finance) reacting to the negative economic and budgetary impacts of ongoing corruption — against the interests of corrupt Ministries of Energy.

The steps needed to break the cycle of corruption and decline include the following; all will require support by reformers as well as the IFIs and donors.

- Establish a clear, sound legal framework and an autonomous, transparent and accountable regulatory body with

sufficient authority, including for monitoring and transparent reporting.

- Unbundle the power system into multiple entities: a transmission company; and multiple distribution and generation companies (with transparent commercial practices).
- Establish new decentralized electricity market arrangements, including competition and direct decentralized payments between distribution and generation companies through credible commercial banks.
- Implement international strategic privatization instead of "local" privatization, through mass privatization or limited share issuance.
- Reform opaque international electricity trading and introduce regional competition.

This set of actions will create the conditions to reduce corruption opportunities, with less discretion and more accountability through transparency. It will decentralize the system with effective monitoring, eliminate improper access to most of the flow of funds, and inhibit political interference in the process. Strategic privatization attracts international utility investors who have experience and incentives to operate utilities on a commercial basis for the long term. The regulatory framework is designed to minimize traditional political manipulation from the ministries over regulatory matters, to minimize the regulator's involvement in the power sector operations, and to maintain adequate oversight and transparent regulatory decision-making procedures that include public participation.

Energy sector reform, though essential, is not by itself sufficient to assure long-term sustainable reform. A host of contributing problems — abuses in tax collection and government auditing/prosecutorial bodies, judicial malfeasance, corrupt banking practices, municipal fiscal problems, and an inadequate social safety net — have all undermined the path to power sector reform. Intervention design will need to take into account the many adverse linkages external to the power sector that can impede reforms.

WHAT ARE THE IMPLICATIONS FOR SECTOR CORRUPTION STRATEGY?

USAID has considerable comparative advantage: investment and institutional knowledge of energy sector conditions, and an established path of progress. The USAID (and World Bank and EBRD) power sector reform work, currently underway, is designed to make significant inroads into the pattern of corruption; nevertheless, there remain areas of activity that merit more intense attention and resources.

PROGRAMMATIC APPROACHES TO REDUCING CORRUPTION

1. **Assess power reform** process and assistance, with close examination of impacts on transparency, accountability and access to flow of electricity and funds.
2. **Maintain close cooperation** with IFIs to assure conditionality leverage that supports reformers in country.
3. **Examine negative external linkages** that hamper the power reform process by providing unnecessary access and discretion to electricity flows and funds. Examples include:
   - Corrupt judiciary practices
   - Arbitrary tax collection behavior or bad policies with disproportionate impact on the sector
   - Bank corruption
   - Inadequate social safety net
   - Municipal governance non-performance on infrastructure and municipal budget
4. **Identify all avenues for enhancing Transparency**, such as:
   - Strengthening regulatory reporting requirements and monitoring

- Transparency in procedures and availability of information
- Improving accounting in power companies, with open reporting requirements and international audits
- Placing electricity market operations in separate transparent organizations, including credible commercial banks for transparent financial management of funds;
- Establishing electricity market monitoring capability, simultaneous with the introduction of competition
- Developing codes of ethics and income disclosure requirements

5. **Increase competition** by opening countries to regional electricity competition, trade and transit, bringing more competition to small national electricity markets, as well as providing benchmarking opportunities to measure performance (and corruption).
   - Provide independent energy regulators access to international practices.
6. **Increase capacity** of "watchdogs" over sector behavior.
   - Improve the capacity of the media and politicians to understand elements of reform and how corruption occurs and impedes reform.
   - Strengthen NGOs' ability to understand reforms, to identify wrong paths and corruption, and to participate in the regulatory process.

ANNEX B

CORRUPTION IN DEMOCRATIZATION

INTRODUCTION

Under the theme of democracy and governance, USAID provides assistance to support the development of political process, civil society, independent media, rule of law and local governments in the decentralization process.

Corruption distorts the governing process. Corrupt government officials do not represent the interests of the nation or serve citizens, but respond to the personal interests of a few. Public resources and assets reward and subsidize families and allies of powerful individuals. The most visible result of corruption in governance is that government officials at state and local levels act out of personal, financial and power interests, rather than in accordance with applicable standards.

Perhaps the most important consequence of accountable and transparent governance is that ordinary people lose interest in politics, fail to provide a check on the actions of governmental institutions, and relate to the state in deeply familiar, non-participatory or subversive ways. Administrative corruption becomes common: citizens must comply with payments to low-level officials in order to secure such services as registrations, licenses, admission to educational institutions and health care.

Elections that are not free and fair perpetuate corruption, as does the practice of awarding government positions to allies, as a base for continuing patronage and bribery practices. Corrupt practices that implicate civil society organizations and members of the media damage the evolution of these institutions and diminish the role they can play in creating effective fora to identify corrupt practices.

Corruption's beneficiaries. The primary beneficiaries of corruption in the public sector and the DG subsectors are politicians and public employees who obtain illicit payments or benefits for providing public services. Public sector corruption may be centralized (originating and directed from the top of institutions) or decentralized (originating with lower level officials who see rent-seeking opportunities). Payment streams may be shared up or down within departments. Private entrepreneurs and other members of the elite also profit in this environment. Political figures at the highest level benefit by strengthening their support among powerful political and economic interests.

Corruption's victims. The losses for the ordinary citizen are enormous. Elections that are not free and fair due to corruption weaken the legitimacy of the state. Corruption inhibits the development of executive, legislative and judicial institutions — and the predictable rules and practices these institutions should provide to support democratic and economic growth. Corruption distorts the incentives for government officials to provide quality public services. Citizens are required to pay amounts in excess of statutory fees. Those who do not pay a bribe may not receive the service or may receive it on a much delayed basis; those who do pay a bribe may (or may not) secure benefits not available to others, or sooner than others. The diversion of governmental assets reduces government's ability to conduct basic operations and provide basic government services in every sector, from the municipal to the national level. The reputations of those public officials that do not engage in the informal rules may be injured due to 'guilt by association.'

Incentives and obstacles to change. Personal enrichment and power fuel and maintain the status quo. In this region, the circle is difficult to break because the short-term benefits of engaging in corrupt practices frequently outweigh the longer-term benefits of macro-level democratic and economic growth and development. Those with power to effect positive changes are often the main beneficiaries of corrupt systems, and may actively use their influence to thwart real implementation of new laws and systems that would level the playing field. Those with less power may feel compelled to engage in corrupt practices to secure needed rights and benefits for their families or businesses. They may also fear physical, occupational, financial or other retaliation as a consequence of asserting their rights or blowing the whistle on specific instances of corrupt practices.

Strategic responses, incentives and reforms. Anticorruption activities in the democracy sector should support the country's democracy strategy, by supporting integrity in those institutions and processes identified as the essential intermediate results of the democracy strategy. A rigorous corruption assessment will also help inform priority anticorruption interventions, by analyzing the most serious forms and patterns of corruption that affect democracy and governance (including a stakeholder analysis of who benefits and loses from those specific practices).

Strengthening democratic institutions and practices, and enlisting these institutions in anticorruption interventions, can provide leverage for reducing corruption in economic, energy and social transition economic sectors. Democracy assistance is particularly critical to reducing corruption across sectors because democratization focuses on strengthening the *vertical accountability* of elected officials to citizens and the *horizontal checks and balances* among institutions of government. Initiatives that bring together government actors and processes (such as local government hearings) with citizen participation and media coverage (for monitoring and/or citizen education) can be particularly effective in increasing transparency and accountability and identifying reforms to reduce corruption.

The discussion below highlights common manifestations of corruption in several subsectors, along with the specific incentives that perpetuate corrupt practices and suggested donor activities that might break this cycle. Common themes across subsectors include: reducing discretion; increasing transparency and accountability; improving enforcement; and increasing public awareness and participation. In the absence of strong political will for reform by those with political power, there is no magic recipe for creating dramatic positive changes in the short term. Nevertheless, the concrete measures discussed below are intended to reduce opportunities for corrupt practices (e.g., by carefully drafted laws) and to change incentives, including by strengthening the enforcement of laws and increasing transparency.

SUBSECTOR OVERVIEW

POLITICAL PROCESS, CIVIL SOCIETY AND MEDIA

Political Process. The main incentives for corruption in political processes are the personal enrichment and power benefits that flow to those in elected and appointed offices. In the case of a state "captured" by elites, the driving incentive is the ability of private interests to obtain assets, sweetened deals and special rights or licenses from elected officials. Consequently, the most important reforms are those that will realign the interests of elected officials and other public servants to act for the benefit the public they technically represent. These reforms include (1) limiting the discretion of elected officials; (2) increasing transparency; and (3) revoking the broad criminal immunity that provides a common incentive to run for political office. Technical solutions that may constrain state capture include: enforceable campaign and party

finance reforms that limit contributions by donors; reforms that limit the discretion of elected officials; and transparency reforms that limit the practical ability of officials to provide assets, rights and licenses to private interests on a non-competitive basis.

Precisely because those who have the power to support and implement change in captured states are frequently the main beneficiaries of this corruption, technical assistance solutions alone cannot be expected to effect significant short-term change. Those with power are likely to resist implementing significant reforms that would constrain executive branch discretion and power, such as the reform of executive branch bureaucracies with a competitive merit based civil service system.

Elections. Demand for clean elections has been mobilized in all E&E countries and has resulted in substantially fair elections in most Eastern European countries, although electoral fraud is still a common feature of the elections in many Eurasia countries. Reforms and practices that support free and fair elections, and increased political competition on substantive party platforms, can assist in breaking the incentive cycle by establishing the power of the ballot box. Parallel vote counting, public opinion surveys prior to elections, and exit surveys may make fraudulent electoral tabulations easier to identify objectively.

Indicative Donor Activities

- Support indigenous demand for clean politics, politicians and political parties, through assistance to NGO advocacy and civic education efforts
- Support aspects of campaign and party finance reform, including implementation, monitoring and enforcement of public disclosure laws
- Provide technical assistance to support fair election processes, including: composition and operations of electoral commissions; registered voters lists; ballot security; election monitoring; exit surveys; timely announcements of results at precinct levels; and public awareness of election code rights
- Implement competitive merit-based civil service systems, to supplant patronage systems and provide greater job security
- Develop public service codes of ethics (and related oversight processes)
- Assist with drafting, implementing and monitoring enforceable laws requiring regular financial disclosure filings by public officials
- Establish hotlines and other mechanisms for citizens to file complaints regarding improper actions by government officials, including requests for bribes
- Establish and implement competitive public procurement reform
- Support ratification of international anticorruption conventions with peer review mechanisms, including the OECD Criminal Law Convention on Corruption
- Provide technical assistance to media to support accurate and responsible investigative reporting

Civil Society. Corruption affects the development of civil society in two principal ways. (1) NGOs are often subject to harassment by governmental officials charged with registering NGOs and collecting taxes from NGOs — either at the administrative level (by an individual official seeking supplementary income), or as a government tactic to curtail the activities of NGOs that are perceived as being troublesome. (2) Within E&E civil society, NGO registration is often abused, both by businesses masquerading as NGOs in order to take illegal advantage of tax and other benefits, and by criminal organizations using NGOs as fronts for money laundering and other illegal activities.

Increased transparency and accountability within both civil society and government structures can help reduce both kinds of corruption. Transparency and accountability

within relevant government institutions will help ensure that the powers of public office are not abused to control civil society organizations. Transparency within the civil service sector will ensure that both government institutions and the public have the ability to monitor the activities of NGOs for abuses of their status.

Indicative Donor Activities

- Promote the adoption of clear, unambiguous standards that define the registration process, responsibilities of NGOs and specific government oversight rights.
- Build the capacity of NGOs to comply with periodic reporting requirements and to prepare accurate financial statements
- Build the capacity of governmental institutions responsible for overseeing NGO regulation, reviewing periodic filings, and certifying NGO eligibility for benefits
- Increase transparent processes and decision-making within the governmental bodies that are typically involved in corruption and harassment against NGOs
- Train prosecutors, investigator and judges regarding harassment and corruption in the NGO sector

Media. Corruption in the media involves, not public abuse of office, but the actions of private individuals with the power to withhold essential information from the public or to publish inaccurate information, often in response to powerful external influences. Such corruption is a misuse of the media's powerful role of gatekeeper of public information and constitutes a serious impediment to the development of democratic society.

Two principal mechanisms create the perverse incentives that distort honest media coverage:

- In the absence of appropriate legislative protections, **officials may abuse their authority over the media** by threatening to: arbitrarily revoke a television station's license; tax newspapers for vague violations of unclear rules; subject journalists and media outlets to libel prosecution (abetted by vague libel laws and unclear punishments).
- Media are vulnerable to corruption when it appears more advantageous to sell their information **than to report accurately**. Journalists often are paid very little, leaving them open to bribery; and media owners themselves may believe that the long-term profitability of an honest media outlet is outweighed by the short-term economic returns of selling their information.

Remedies to these problems require a comprehensive approach, as a range of different actors are involved, with different responsibilities and opportunities — and thus with distinct vulnerabilities to corruption.

Indicative Donor Activities:

- Support legislation to establish clear standards for issuing and revoking licenses
- Encourage well-defined libel laws and appropriate sanctions
- Train prosecutors and defense counsel (1) to be alert to arbitrary prosecution of the media by government authorities and (2) to investigate and prosecute violent crimes against journalists and media owners
- Support economic incentives that encourage accurate reporting rather than selling information
- Train industry officials in business development and advertising
- Promote ethics training and journalists' associations that pressure members to report honestly

RULE OF LAW

The rule of law is adversely impacted by corruption in every department, as detailed below. The most significant areas are

1. Selection of judges, prosecutors, and other officials of the legal system, where corruption leads to further erosion of the system and impairs checks and balances (particularly in the case of prosecutors and senior members of the judiciary)
2. Court systems, including abuse of prosecutorial discretion and issuing of judicial decisions
3. Administrative application of the laws/regulations, subject to bribery and political pressure
4. Legislators, who may facilitate unpublicized enactment of privileged and special-interest legislation

Executive branch/public administration decisions. Executive branch and administrative agency personnel may be politically pressured, rewarded or bribed to influence actions, including issuing permits, licenses, waivers, and registrations. Such corrupt practices are facilitated by legal standards that are mutually conflicting, overly detailed, or too vague or incomplete. Public officials (such as traffic police and tax inspectors) may make or threaten false accusations of administrative and statutory offenses in order to extract bribes.

Court systems. Prosecution, investigation, adjudication, and enforcement decisions are distorted by patronage networks, political pressure, and bribery. Pressure may continue at the appellate level, including efforts to ensure that unconstitutional or improperly passed laws are not overturned by courts. Private lawyers may facilitate corruption by delivering bribes to influence court, administrative agency decisions, and executive actions.

Selection of officials. Appointments of police, prosecutors, and judges may be tailored to protect allies and friends, to preserve political power, or to secure bribes.

Legal education. Bribery is resorted to for law school admissions, to secure passing grades and scholarships, and to graduate. In addition, the selection of deans is sometimes the result of corrupt manipulation.

Legislative process. Legislators and executive branch officials are bribed with financial or political rewards, either to pass favorable legislation or to water down or kill unfavorable legislation. Examples include: the financial disclosure provisions in proposed anticorruption laws, neutralized to protect high-level government officials; special privilege bills to grant individuals or corporations special import and tax privileges.

In addition to the widespread financial, career and political incentives that perpetuate corruption in the region, several **particular incentives to corruption** influence rule of law processes and actors.

- Judges, who are poorly paid (particularly at the lower levels), often depend on regional and municipal officials to provide them housing, cars and other benefits.
- Court rules or procedures may allow the chief judge to allocate case assignments rather than utilizing a random case assignment process, creating additional opportunity to influence the resolution of cases.
- In countries where the power ministries, including the ministry of interior and the procurator general's office, are resistant to reforms, they may exert substantial pressure on the application of criminal law and civil law, including prosecution and investigation decisions.

Corrupt practices within rule of law flourish in part because they occur outside of the public eye. It is difficult to know whether a particular questionable judicial result was due to pressure placed on judge by police or a prosecutor, whether the judge demanded a bribe, or whether a bribe was initiated by a party with an interest in the case. Accordingly, in addition to reducing opportunities for corruption within the legal framework, USAID can **support disincentives for corruption** by increasing

transparency in the administrative and judicial processes.

Breaking the incentive cycle is difficult and will require local champions, as well as broad coordination of efforts.

- In several countries in the region, some high-level judges have emerged who have expressed concern about the reputation of the judicial process and their profession, and who have acted as leaders in identifying and pursuing reforms.
- The disincentive for foreign direct investment that one finds in a compromised judicial sector may create a catalyst for support by high-level political leaders for certain reforms supportive of the rule of law.

Recognizing the powerful roles of prosecutorial and interior/police forces, USAID and the other USG departments involved in assistance to the procuracy and police must collaborate to ensure that their efforts are mutually consistent and that they serve to reduce rather than facilitate corrupt legal and judicial practices.

Indicative Donor Activities

- Promote more objective, merit-based, transparent selection of judges.
- Establish clear and transparent standards for judicial promotions, discipline and re-assignment; structure Supreme Judicial Councils and other bodies and processes to eliminate disproportionate executive branch influence in judicial promotion and discipline.
- Enact and implement stronger administrative codes (e.g., requiring the public promulgation of agency rules).
- Enact and implement administrative procedural codes that give parties the right to appeal agency abuses of discretion, both within agencies and to the judicial branch.
- Enact and implement judicially enforceable freedom of information provisions applicable to operations of every government agency.
- Reform and simplify civil and criminal procedures (as well as substantive civil laws) to reduce opportunities for discretionary conduct.
- Develop improved case management practices, including random case assignments and clear rules for handling case files and materials.
- Promote increased transparency in court operations, including: clear standards for the evidentiary record of a case; requirements that judges write decisions setting forth the factual findings and legal basis for their ruling; publication of decisions; media and public access to court proceedings; and court monitoring by NGO's.
- Develop judicial and lawyer ethical standards, as well as processes for oversight and enforcement of these standards.
- Increase public awareness of practical benefits and rights under laws and regulations.

Merely improving the selection process for judges is not sufficient, as USAID has learned: backsliding may occur due to the unchanged incentives for corruption (e.g., executive branch influence, and insufficient funding for judicial salaries and court operations). Related measures must be adopted in tandem, such as the publication of decisions, to improve the accountability of judges and to provide an improved basis for appeal; and the adoption and implementation of administrative procedure codes by each ministry and department, to curb abuses of office.

LOCAL GOVERNMENT

While each country of the region has distinct local government characteristics, corruption in the local government sector is most notable in four areas: the procurement process, employment practices, misuse of local government assets, and the provision of municipal services (such as water, electricity and construction).

- Local officials award contracts or licenses to friends or political allies (with or without kickbacks).
- Local government staff-level jobs are filled with family and political allies.
- Local government rents or leases government space (from commercial space to local market stalls) at low rates to friends or family or to generate under-the-table payments.
- Fee collectors use their position to extort unauthorized payments from citizens.

Corruption at the local government level results in wasted resources, inefficiencies and diminished citizen satisfaction with government.

In the short run, however, both individuals and businesses have incentives to engage in corruption. If paying a bribe is cheaper than paying the official costs for taxes and license — or if withholding it invites risk of being shut down — then a business will likely pay the bribe. If the risk of suffering negative consequences is low, a public employee may extort money from citizens as a condition of providing running water. If procurement laws are not enforced, then a mayor can award a major sanitation contract to his brother-in-law regardless of his qualifications to perform the services. The losers, clearly, are the consumers of public services and the public at large. If, due to diversion of payments, local government is unable to recover the cost of services provided through its formal budget, maintaining or expanding services will become more difficult.

Establishing public procurement laws has been a good first step in many countries of the region, but these are often complicated and unevenly implemented and enforced. Local governments that want to use the laws may not know how. Reform is further complicated by public acceptance of corruption as a legitimate means of getting one's slice of the pie. Increasing transparency, enforcement and education are indispensable tools to address corruption in local government.

Indicative Donor Activities:

- Build local government capacity to implement and enforce procurement laws.
- Introduce and implement budget, capital investment and economic development processes that require public participation and public budget hearings.
- Encourage media and advocacy NGO's to publicize and demonstrate the costs of corruption.
- Put in place public information centers and financial management systems for bill paying, land title registration, business licensing and registration, and other public services.

ANNEX C

CORRUPTION IN THE HEALTH SECTOR

THE PROBLEM

The health sectors of the E&E region are characterized by excessive physical infrastructure and overcapacity, including overstaffing of physicians and nurses. As revenues have declined in much of the region over the past decade, health expenditures have also fallen, resulting in large health systems with underpaid or unpaid doctors and inadequate medical equipment, drugs and supplies. These conditions have created an environment conducive for corruption—a problem common to nations worldwide in varying forms.

USAID defines corruption as "the abuse of entrusted authority for private gain." The definition modifies the definition used by Transparency International, "the abuse of public office for private gain," to include private sector as well as public sector corruption. Health sector corruption falls into two broad categories of corrupt practices: administrative corruption and grand corruption; the former is driven mainly by survival, the latter more by greed.

Administrative corruption derives largely from (1) the inadequate reimbursement of medical costs from governments and health insurance funds to providers and (2) the low salaries paid to health professionals, who find it necessary to accept informal under-the-table payments to supplement their meager incomes. This is the most pervasive form of corruption in the health sector and affects the largest number of people. The frequencies of informal payments exceed 60% in most NIS countries for which data is available, reaching 91% in Armenia. Such payments are reported for most Eastern European countries. (World Bank, 2000 "Who is Paying for Health Care in Eastern Europe and Central Asia?" Maureen Lewis, Human Development Sector Unit, Washington, DC.)

Corruption may seem too harsh a term to describe the informal payments that thousands of E&E health providers ask of their patients to supplement their inadequate salaries. One might view these under-the-table payments as more a reflection of the region's inefficient and inequitable payment systems than of "corrupt" providers. From this perspective, one might prefer to think in terms of improving the "transparency" and "accountability" of the payment systems than of "combating corruption." Nonetheless, when these payments represent more than a modest "tip" but a financial hardship on the poor, they become problematical; and they fit the strict definition of corruption.

Grand corruption is driven more by greed and takes many forms.

- profit-seeking in decisions regarding the construction, rehabilitation, equipping, or supplying of hospitals
- fraud in the procurement of pharmaceuticals, medical equipment and supplies
- absenteeism from public job to engage in private practice
- advising patients to undergo abortions and other unnecessary procedures because physicians can charge more for them
- fraudulent coding of surgical operations to obtain higher reimbursements from social insurance funds

(See Box C.1 for additional examples.) The magnitude of grand corruption is difficult to measure, as there are no records of

transactions or pricing and little is discussed openly.

Health sector corruption impedes the transition to more democratic, market-oriented societies by reducing equitable access to health care, distorting efforts to more efficiently allocate health resources, compromising quality of care and patient outcomes, and eroding public confidence in the health system. To the extent that it reduces the productivity of the labor force and erodes the faith of citizens in democratic processes, health sector corruption undermines the economic and democracy goals of transition.

Box C.1. Examples of Corrupt Practices in the Health Sector

- Government officials purchase but do not deliver medical equipment, supplies, and drugs.
- Public health workers use public facilities or services for private practice use.
- Government officials manipulate contract awards to favor specific suppliers.
- Government forgoes World Bank funding to avoid its strict pharmaceutical procurement rules.
- Pharmaceutical suppliers oversupply certain drugs because government purchasers received special commissions for their purchases.
- Pharmaceutical suppliers collude: prices of pharmaceutical products exceed a fair price.
- Corrupt individuals "skim off" public money for private use by charging prices for procured drugs far greater that the value of the drug.
- Entrepreneurs manufacture and sell counterfeit medicines —an activity in which organized crime often plays a key role.
- Municipal government purchases drugs from a local private pharmacy at excessive prices.
- Government officials destroy imported supplies of drugs to maintain demand and prices for domestically produced pharmaceuticals.
- The physician ordering costly HIV/AIDS for a hospital falsifies the distribution records, returns the drugs to the supplier, and the supplier sells the same drugs again to the hospital.
- Physicians direct patients to particular pharmacies, for a small commission.
- Physicians give patients false diagnoses, along with an endless list of medications that must be purchased from a recommended pharmacy.
- Vendors push purchases of expensive machinery, information technology and laboratory equipment, using bribes, discounts, and donation to lock in the hospital to future, much larger purchases from the same company or brand.
- Medical personnel require bribes to provide routine daily care for immobile hospital patients.
- Doctors supply fraudulent certificates for absence from work and for disability benefits.

WHO BENEFITS? WHO SUFFERS?

Key beneficiaries include health providers receiving under-the-table payments, fraudulent suppliers of drugs and other health commodities, and government officials engaged in the sorts of grand-scale corruption described above.

The poor suffer the most from administrative corruption. They represent the majority of people paying under-the-table for health services. Although sometimes

described as "petty," the amount paid represents a significant portion of their income relative to higher income groups and the impact is enormous, forcing the poor in many cases to borrow from relatives and friends, sell their assets, or forgo treatment. The inability to purchase health care often translates into death, disease, pain and disability.

The poor suffer the most from grand-scale corruption as well. Because of leakage, the government does not get the facilities, drugs, equipment, and supplies that it would otherwise receive. These shortages induce administrative corruption. Ultimately, both forms of corruption inhibit development of the nation, constrain government efforts to achieve its objectives, increase the debt of the country, and make the country poorer.

INCENTIVES FOR CORRUPTION

The incentives for corruption in the health sector are strong, and none of the countries in the E&E region have addressed corruption aggressively. Many believe that health care providers are paid so little that nothing should be done about under-the-table payments. There is particular resistance to addressing this issue among health providers because such income is not taxed. Other factors contributing to corruption include:

- the legacy of Soviet rule that produced deeply ingrained coping behaviors and tolerance of corrupt practices
- weak financial accounting and reporting, especially of costing of medical diagnoses and treatments in health facilities
- absence of established treatment guidelines and drug formularies
- lack of access to information on patients' rights and obligations
- weak political will and enforcement of laws and regulations against corruption
- non-prosecution of offenders

Incentives for corruption in drug and commodity procurement are particularly noteworthy. The World Health Organization reports that public spending on pharmaceuticals in developing countries represents the largest health expenditure, after staff salaries. This is characteristic of most E&E transitional counties as well. Incentives for corrupt behavior are high: pharmaceutical purchasing typically involves large amounts of money; it involves substantial information asymmetries; and public official salaries are usually so modest that risking punishment for private gain has low costs. Drug tenders are governed by "local rules," and tenders are often so obscure that no one knows what was exactly purchased, for how much, and from whom.

Also noteworthy are the incentives for corruption that may arise with the spread of TB and HIV/AIDS in the region. As governments and donors increase resources to contain the spread of these diseases, E&E countries may experience the governance problems experienced by most African countries that have scaled up resources to address their HIV/AIDS epidemics. Such corruption is most entrenched in procurement mechanisms, but is also found on a smaller-scale in distribution systems. An international conference on scaling up the HIV/AIDS response to Africa concluded that scaling-up will fail unless governments are held accountable for eradicating corruption.

REMEDIES

Corruption is unlikely ever to be eliminated, but anticorruption efforts can aim to minimize it — to turn it from a *low-risk and high-return* activity into a *high-risk and low-return* activity. A holistic strategy incorporates the five dimensions of TAPEE: Transparency, Accountability, Prevention, Education, and Enforcement.

TAPEE INTERVENTIONS

Transparency interventions would include

- assisting citizens, professional associations, and non-governmental organizations to advocate for better health services
- disseminating information on government health benefits
- public announcements of major procurements of drugs, medical supplies, commodities and construction projects

- transparent data and procedures at the hospital level for the responsible stewardship of funds
- public posting of fee schedules for services provided in health facilities
- publication of national health accounts data

Accountability interventions would include

- establishing self-governing professional associations such as Colleges of Physicians, Hospital Associations, and Family Group Practice Associations
- creating accreditation and licensing boards
- adopting evidence-based clinical and drug prescribing practices
- separating the purchaser and provider health care functions
- establishing drug formularies and essential drug lists
- establishing community health advisory boards and patient satisfaction surveys

Prevention interventions would include

- case-based and capitation payment systems to eliminate under-the-table payment for services
- establishing evidenced-based treatment standards to ensure patients receive quality services
- establishing drug formularies to allow patients to receive more affordable drugs

Education interventions would include

- media campaigns to explain the rationale and benefits of health reform programs
- media coverage of corrupt acts and their impact
- public notices of organizations which assist citizens in addressing grievances with health care providers

Enforcement interventions would include

- establishing (or reforming) a licensing board to certify the quality of physician services
- a self-regulating accreditation board to ensure quality health facility services
- a regulatory board to monitor the operations of health insurance funds
- passage and enforcement of patients' rights legislation

This paper recommends that USAID develop and disseminate more rigorous guidance to tailor the TAPEE methodology for specific application to the health sector, as outlined in the following sections.

SPECIFIC CHALLENGES

Illicit payments

Unofficial payments must be outlawed and made into official co-payments to ensure adequate coverage and a fair price for health care expenses. With additional funds resulting from more transparent transactions in the system, health care providers could be paid a fairer wage. The fairer wage would in turn help address the issue of the lost potential revenues to the tax base and the health care system.

For pharmaceutical purchases made with donor's money, the donor may require transparency as a precondition. Donors can unite to insist on transparent procurement practices and to disseminate information pertaining to the reforms.

More generally:

- Public leaders must be clear — across all sectors — that side payments and other off-budget exchanges between public employees and citizens are unacceptable and not to be tolerated.
- Existing public health systems are bloated and inefficient; downsizing, with clear linkages between policy, programs, and budgets, is essential.
- Governments need to be aware that comprehensive, free services cannot persist in a budget-constrained environment.

- Health systems require basic oversight and accountability for all providers, and swift punishment for transgressors.
- Private alternatives need to be allowed, and promoted, for those who choose to use them.

Public health epidemics

If the region continues to witness the upsurge in TB and HIV/AIDS epidemics, and if corruption worsens in the procurement and distribution of life-saving treatments, a human rights-based initiative may be one possible remedy. Corruption related to the procurement and distribution of drugs and other health commodities can be linked causally to illness and deaths of significant numbers of the population when infectious diseases grow out of control. This approach would entail:

1. collecting evidence to document the drug and commodity crisis and related government corruption
2. creating a mechanism to disseminate these findings widely to government agencies, civil society organizations, human rights organizations, media, donors and other key stakeholders
3. linking with existing initiatives, such as the Medecins San Frontieres (MSF) Expanding Access to Essential Drugs Global Campaign, to increase public awareness and to seek action to address the corruption

Another approach for addressing drug and commodity corruption under these crisis conditions would be the establishment of a *Drug and Commodity Transparency Program*. Such a program would:

1. Establish an E&E-designed framework for monitoring and evaluating corruption and develop a survey methodology.
2. Support the implementation of "Drug and Commodities Sector Corruption Review Surveys" throughout the region.
3. Create a mechanism to publish and disseminate results widely to governments, civil society organizations, human rights organizations, media, donors and all other key stakeholders.
4. Hold governments accountable for unethical and illegal corruption, at all political fora.
5. Promote multilateral and bilateral interventions to withhold external financial assistance (grants and loans) to Governments that do not demonstrate results towards eradicating corruption in the drug and commodities sector.
6. Assess the impact of pharmaceutical company practices on country-level drug pricing and distribution, as a cofactor in drug corruption.

USAID INITIATIVES COMBATING HEALTH SECTOR CORRUPTION

Illustrative USAID activities that have addressed corruption include:

- the adoption of a fixed amount per person (capitation) payment to health providers for delivering primary health care services in Kyrgyzstan
- a case-based cost reimbursement system to improve the transparency of hospital financing in Romania
- a posted fee schedule for women's health services in Albania
- a more transparent TB drug procurement process, using a Standard Bidding Document, in Kazakhstan
- a model of internal control procedures for the collection, recording and accounting of cash for user fees in Albania

Box C.2 provides details on these activities.

PROPOSED INITIATIVES

The E&E Bureau can do much more to attack corruption in the health sector. While most of the ideas presented below require additional funding, they may also suggest to Missions ways they can modify ongoing activities within their existing resources to better address corruption issues.

Box C.2. Examples of E&E Mission Anticorruption Activities

- The Women's Wellness Center in Tirana, Albania, supported through USAID's cooperative agreement with the American International Health Alliance (AIHA), posts health services fees in the Center's reception area so the pricing structure is transparent. Patient satisfaction surveys reveal that patients are pleased with the payment system, as they are not expected to make the under-the-table payment that has been the tradition in Albania. (The Healthy Communities/Women's Wellness partnership in Romania has also adopted this system.)
- The Health Insurance Fund in Kyrgyzstan collects fixed premium payments and pays providers a fixed amount per person (capitation) for delivering primary health care services. The system is more transparent than the earlier system that was based largely on under-the-table payments to providers. (Similar approaches are being promoted in Kazakhstan, Uzbekistan, and Armenia.)
- USAID/Romania supported a major reform of the hospital cost reimbursement system to improve the efficiency and transparency of hospital financing. Under the current Soviet-based system, budgetary allocations to hospitals were made on the basis of historical budgets linked to the number of hospital beds and number of services. The new system is based on service demand, defined in terms of specific diagnosis-related groups (DRGs) and accurate cost accounting for each DRG. The improved accountability precludes present opportunities for corruption. (USAID/CAR is also assisting Kyrgyzstan to implement a DRG-like system.)
- USAID/Romania was successful in persuading Romania to adopt the World Health Organization international coding system (ICD-10) to define diseases. This was a requirement for the Mission support of the DRG project described above. Its adoption will contribute to more transparent reporting of diseases, which will facilitate implementation of the DRG project and permit more reliable international comparisons. (Georgia and Central Asian countries area are also adopting this classification system.)
- In 1998 Kazakhstan held its first national TB drug tender. Tender documents were insufficiently detailed, the estimation of drug needs was performed improperly, and the tender decision and award process was not clear and open. USAID/CAR assisted the Kazakhstan Ministry of Health and the National TB Tender Committee to make the procurement process more transparent. This included a workshop to explain competitive procurement techniques and the components of effective tender documents, and help to structure and refine the TB tender documents for the 1999 procurement. The latter included the development of a Standard Bidding Document, which now provides explicit supplier instructions and clear drug specifications.

A. Health Sector Anticorruption Strategy

The E&E Health Team and DG Team could jointly undertake a study to better understand how corruption occurs in the health sector, its impact, and how USAID can tailor the TAPEE methodology to more effectively analyze and confront it. (Box C.3 illustrates a proposal for such a study.)

B. National Health Accounts

National Health Accounts help improve the transparency of health expenditures in the health system and can play an important role in Mission anticorruption initiatives. NHA allow decision makers to understand how health resources are used in a health care system, to review allocation patterns, to assess the efficiency and equity of current resource use, and to evaluate the impact of health care reform. NHA are particularly useful in revealing the extent of out-of-pocket expenditures, which are often much greater than governments realize.

C. CEE and NIS Regional Anticorruption Workshops

The E&E Bureau could support a series of CEE and NIS regional anticorruption workshops in public health, to raise public awareness of the issue and disseminate the findings and recommendations of the proposed Bureau study.

D. Guide to Corruption in Drug Procurement

Drug procurement is a major breeding ground for corruption in the health sector. The guide would describe in simple words

the signs and features of corrupt practices (e.g., selection by brand name, short tender notices, gaps in drug policies, and advertising) and how to confront them.

E. Essential Drug Lists and VEN Analysis

Encourage the adoption of Essential Drug Lists, to limit choices in procurement to the most appropriate drugs relative to the country's most pressing needs. VEN analysis categorizes drugs into Vital, Essential and Non-Essential (VEN) categories. Often, costly Non-Essential drugs comprise a large portion of the national drug bill. Not allowing reimbursement for these drugs can stem the practice of over-prescribing them.

Box C.3. E&E/DGST Proposal:
Confronting Corruption in the Health Sector

Objective: To better understand how corruption occurs in the health sector, its impact, and how USAID can tailor the TAPEE (Transparency, Accountability, Prevention, Education, and Enforcement) methodology to more effectively analyze and confront it.

Justification: The E&E Bureau has recognized for many years the prevalence and depth of corruption in the region and recently completed a Bureau strategy that addresses the issue. It is often reported that the health sector is the most corrupt sector in the country. Health sector corruption is most commonly found in the under-the-table payments that patients pay health providers. This and other corrupt practices reduce equitable access to health care, distort efforts to more efficiently allocate health resources, and erode public confidence in the health system.

Despite the seriousness of the problem, the E&E Bureau knows little about how corruption occurs in the health sectors of the region, the full magnitude of its impact, and even less about how to confront it. DGST requested USAID's Center for Development Information and Evaluation to undertake a literature search on the subject but little information was found. E&E Missions address corruption in the context of improving the transparency and accountability of health care financing systems and improving the accuracy of statistical reporting--see attachment, but do not target corruption in a more explicit or strategic way.

E&E Health Team would undertake the proposed study in collaboration with DG and would build strong linkages between the Bureau's democracy and social strategic objectives. It would test directly our health programming assumptions with the view to improving the effectiveness with which they address corruption issues. Although corruption has been prevalent in the region for decades, this is an emerging issue in the sense that the Bureau is now addressing it in a much more conscious and determined way than we have in the past. The study would be multi-country to the extent that it would aim to examine health sector corruption in at least three different country settings—see below.

Proposed Methodology: The study would produce an annotated review of the literature done on health sector corruption in the region; interview organizations that implement anticorruption programs in the region; make site visits to identify how corruption occurs in three countries representing different stages of development; assess the impact of corruption on health services and its costs to society; and produce guidelines based on the TAPEE methodology to assist Missions in more effectively analyzing and confronting it.

F. Collaboration with Transaction International National Chapters

E&E Missions can collaborate with National Chapters of Transaction International to exchange information and identify ways in which they can work together on national corruption issues that are particularly relevant to the health sector.

G. Detailed examples of E&E Initiatives

Two proposals developed for the E&E region are presented in more detail. Box C.3 (above) describes a regional health sector initiative. Box C.4 (below) describes a USAID/Romania initiative, which, though unfunded, provides an example of how an anticorruption initiative might be structured for the health sector.

Box C.4. USAID/Romania Concept Paper:
Addressing Corruption in the Delivery of Health Services

Background. In many regional economies, gifts to health care providers to ensure better or faster services is now usually expected. Such gifts might involve token gestures, but more often (especially for surgical procedures) substantial payments are involved. Patients may forego treatment because they cannot pay.

Such informal payments undermine incentives to eliminate waste; they encourage behaviors such as over-hospitalization, over-use of health services, etc. Though the practice is illegal in most Central and Eastern European countries, there is no enforcement. These informal payments disproportionately impact the poor.

A network of health management professionals from Poland, the Czech Republic, Hungary, and Romania recently met several times to study the issue. Preliminary data indicate that 55% of Romanians reported having to pay additional money for necessary health services that are a part of their guaranteed "free" services; figures for Poland were higher. (It is estimated that these statistics are under-reported.)

None of the countries in the E&E region have addressed informal payments aggressively. Many believe that health care providers are paid so little that nothing should be done about informal payments. However, transparent and adequate financing of health services require that these unofficial payments to individual providers be outlawed, and probably made into official co-payments to ensure adequate coverage and a fair price for health care expenses. With additional funds resulting from more transparent transactions in the system, health care providers could be paid a fairer wage.

Proposed Project. The project would include the network mentioned above (Poland, Czech Republic, Hungary, and Romania), plus Bulgaria. The approach would be two-pronged: (1) to develop public awareness and citizen enforcement mechanisms so those entitled to services without "gratuities" to the provider actually receive them, and (2) to develop templates for how to convert informal payments into official co-payments to reach a reasonable price for services.

Components of this anticorruption project would include:

- Workshops, a website, and information systems to develop the methodology, share successes and failures, and to hone a template for the successful elimination of informal payments;
- A more comprehensive assessment/analysis of the extent of informal payments, public and provider attitudes, and how they limit public access to health services, especially the poor;
- Focus group discussions with the public, also possibly using "town hall meeting" approaches;
- A public awareness campaign, using lessons learned in the region about effective techniques;
- Development of mechanisms to support consumer rights, e.g., hotlines, complaint procedures;
- Pilots of innovative approaches to eliminate informal payments in a limited number of service delivery sites (hospitals, clinics, laboratories, etc.);
- Implementation of elements of the plan developed under the first bullet; e.g., change in enforcement tactics and/or new legislation to enable sanctions and permit alternatives
- A temporary fund to pilot provider rewards, to be supplanted with incentives from official revenue in year two of the project;

Approach. To ensure a comprehensive approach, maximum impact, and feasible strategies for full implementation, a high visibility Commission would include representatives from the respective Ministries of Finance, Ministries of Health, and national health insurance providers, NGOs and advocacy groups, physicians, nurses, hospitals, and the general public. The broad visibility and representation on the Commission would help assure government, provider, and public acceptance of innovations. The project would strive to build on previous relevant experiences in the region, including communications projects.

Mechanism. A US organization with experience in the region would be chosen to partner with the CEE-based Network to provide technical assistance, rigor, and the tenacity required to address this significant challenge. Romania would take the project lead, working closely with USAID/W Health Reform Office.

Anticipated Impact. Important expected outcomes include: (1) a regional Network and high level Commission with broad representation to focus on the issue; (2) baseline and follow-up information quantifying the impact of informal payments on access, cost, and quality of health care; (3) novel approaches and legislative changes to address the challenges of the informal payment system that have been piloted and adjusted; (4) a strategy and implementation plan. The program would improve access for the most vulnerable; offer more transparent financing and hence more "rational" use; eliminate financial incentives that drive inappropriate use of health services; generate additional tax revenue; and benefit health care facilities with a potential infusion of new revenue from co-payments.

ANNEX D

CORRUPTION IN EDUCATION

INTRODUCTION

Corrupt practices in the education sector should be viewed as part of the overall corruption phenomenon, because educational corruption develops and functions within the same system of incentives and disincentives as corrupt practices in the public sector or in business. Corruption is universal and has both a demand and a supply side. While specific forms of corruption may vary from society to society, it is useful to draw a distinction between corruption that is systemic in nature and/or pervasive, and the more episodic forms of the practice.

Routinely, discussions of corruption are structured around analysis of what is referred to as 'grand' or 'petty' corruption. The former refers to large amounts of money and usually involves senior officials in the political arena or private and public sectors, or some combination of both. The latter, refers to small (or smaller) amounts and occurs at an individual level. While the above distinction certainly has merit, one should not conclude that 'petty' corruption is less important — or that its effects are less pronounced. The effects of 'grand' corruption are felt by the entire system and, in most cases, are relatively equally distributed among the service recipients — in the case of education, the students and parents. In contrast, the effects of 'petty' corruption are felt very differently by the various societal sectors. If the person affected is poor, the amount involved in the 'petty' corruption may have serious negative consequences on the overall quality of life. This is particularly the case when such practices have become pervasive in nature.

In its analysis of corruption, Transparency International employs two additional distinctions or separate categories of administrative corruption – those activities that occur 'according to the rule' and those 'against the rule.' In the first instance, an official receives a private gain for something that he/she is required to do by law for free; in the second instance, the bribe is given for obtaining illegal services. These two types of corruption can occur at all levels of the government hierarchy and range in scale from 'grand' to 'petty.'

CORRUPTION IN THE EUROPE AND EURASIA REGION.

According to Transparency International Corruption Perception Index 2004, half of the countries in the region score at level one and two of the ten-point scale, where 0 designates very corrupt and 10 very clean. Only two countries, Slovenia and Estonia, have passed the middle bar; six have a score of four; five are at three; and the remaining thirteen have a score of two. Only Azerbaijan has a lower score at 1.9. The most corrupt countries are Azerbaijan, Georgia, Tajikistan and Turkmenistan (2.0). Given the perception of pervasiveness of corruption, as evidenced by the low scores, it is logical to assume that the education sector, which in most countries is one of the largest public service sectors, would be significantly affected by corruption. While the Transparency International Global Corruption Barometer 2004 looks at corruption in different sectors, the designation is provided in a comparative form – namely, sectors that are the first choice for elimination of corruption. The scoring range for the education sector is between 2.8% for Croatia and 9.4% for Macedonia (eight countries in the E&E region were scored). The most immediate need to address corruption was reserved for political parties, courts, and police

(household surveys were conducted in Bosnia, Bulgaria, Croatia, Georgia, Macedonia, Poland, Romania, and Russia).

While there is no separate corruption in education index, several studies have established a strong positive correlation between levels of corruption and performance of the education system. The education sector is one of the sectors suffering most when a country is corrupt. Research confirms that more corrupt countries choose to spend less on education, which, in turn, necessitates, or at least encourages creating other venues to supplement education financing. The studies further suggest that illegal payments for school entrance and other hidden costs help explain dropout rates and low school enrollment rates in developing countries. Similarly, countries that score high on fighting corruption also tend to have high enrollment rates and tend to have lower student dropout rates (CORIS, www.corisweb.org).

While the various corruption indexes provide an indication of the scope and pervasiveness of the problem, it is worth emphasizing that the indicators measure perception as opposed to experience and/or incidence of corruption. At the same time, whether corruption is real or perceived may make little difference in terms of the damage to social cohesion and the overall well-being of society. For better or worse, perceptions are the defining framework of reality.

Public opinion polls in post-Communist countries show that the general public, as well as the domestic and foreign business community, not only believe that official corruption is widespread but also report having had direct experience with it. According to the Fund Indem study carried out in Russia, perhaps the most significant difference between 'communist' and 'post-communist' corruption is that during the latter period the rules of corrupt practices have become more explicit, better regulated, and stable. Bureaucrats, businessmen (and women) and ordinary people know how much to pay for what services and to whom (61 percent of the polled). And only two percent of those who admitted to giving a bribe were dissatisfied with the results.

- Two-thirds of those polled in Russia between 1999-2000 (N=2500), assumed that corruption is a 'normal part of everyday life' and that people have become accustomed to bribing officials — half of those polled have paid at least one bribe (Fund Indem study; the results were published in *Diagnostika: Rossiiskaia korruptsia*, Moscow 2002).
- In Belarus, 60 percent of young people expressed readiness to give a bribe, and 50 percent to receive it (*Olia Yatskevich, Corruption in Belarus; 10th International Anti-Corruption Conference*).

According to various accounts, corruption is not only becoming more pervasive (or is perceived so) in several of the E&E countries, but is increasingly viewed as an acceptable (or accepted) social phenomenon. While a majority still condemns it on moral grounds, many will endorse it (or succumb to it) in everyday life — as 'a necessary evil' that can help to solve various everyday problems.

- In Estonia and the Czech Republic, 87 percent and 75 percent of population, respectively, believe that corruption represents a big threat to their societies *(Askold Krushelnycky, East: Corruption Takes Varied Forms*, http://www.rfefl.org/nca/features/2000/09/F.RU.000901130409.html).
- In Russia, the number of people who consider corruption a major social problem has declined, from forty percent in 1997 to twenty three percent in 2001-2002 (*VTSIOM, Monitoring obshchestvennogo mnenia, 1994-2002)*.
- According to a study by Interlegal-Kazakhstan Foundation that documented the presence of corruption in Kazakhstan's universities, many consider corruption in higher education as a normal practice. The study also

underscored a much more worrisome trend among the university administrators, teachers, and students, who appear to be rather indifferent to this problem (*Gulmira Arabayeva).*

- Russia has piloted a national entrance test for university admissions in part as an attempt to address corrupt university admission practices within the existing system. According to some estimates, Russian families pay about $300 million annually to ensure university acceptance and another $700 million once students are enrolled. A former deputy prime minister put the amount spent on academic bribes at between two and five billion dollars a year (Philip G. Altbach, International Higher Education, Winter 2005).
- At the School of Dental Medicine in Zagreb, one student exposed the various corrupt practices and pressed charges in court. His disclosures drew wide attention, not because of the exposed corruption, but reflecting amazement that anyone could still find the issue of corruption in education disturbing enough to act against it (*Corruption in Education, AIM Zagreb, 011/28/00*, www.aimpress.org).

However, in other countries in the region, perception of corruption significantly diverges from personal experiences.

- A survey of public perception of corruption conducted by Lubljana University and released in December 2003, noted a great discrepancy between the reported perception and personal experience with corruption. While 60 percent of all respondents noted that corruption is a big problem in Slovenia, 95 percent of respondents said that they have 'never' had a personal experience with corruption. (*Nations in Transit 2004*, Slovenia country report.)

CORRUPTION IN EDUCATION.

The definition of corruption in education fits within the broader parameters of defining corruption as 'use (abuse) of public office (authority) for personal gain.' The UNESCO's International Institute for Educational Planning has modified the definition of corruption to better reflect the specificity of the education sector. The proposed definition is ***'the systematic use of public office for private benefit whose impact is significant on access, quality or equity in education'*** (IIEP 2002).

In many of the countries in the region, the past several years have witnessed a much broader and a more frank discussion of corruption in education and its cost to society. However, presence of corruption in the education sector is not a new phenomenon that has sprung up as a result of the disintegration of the communist system. The system of patronage in the education sector, particularly at the tertiary level, was well established in the Soviet Union and the satellite countries, but it was a rather opaque process that many acknowledged but few openly discussed. At the same time, various sources have noted that the post-Soviet transition period has been characterized by an increasing incidence (or a perception) of corruption in the education sector.

Calculating objective estimates of corruption in the education sector is difficult, not only because those involved in such transactions are reluctant to talk about it, but also because there exists considerable disagreement about what constitutes corrupt practices in the sector. It is not unusual to encounter situations where bribes are offered (and accepted) for performing legal (lawful) activities that under ordinary circumstances should have been performed free of charge, as well as for performing services that are against the law. While both practices are illegal and should be classified as corruption, significant portions of population in the countries in the E&E region seem to acquiesce in such practices, regarding them as currently justifiable: in the case of the former practice, because the services sought are not illegal; and in the case of the latter, because it is

perceived that this is the only option available to achieve desired results.

The overall economic decline experienced by the countries in the region (albeit with various severity) contributed not only to deterioration of the education systems, as evidenced by various statistical data, but also provided increased opportunities and/or lower opportunity costs for engaging in corrupt practices. The steady decline of GDP during the 1990s resulted in a drastic reduction of financial resources channeled to the education sector. The sector was ill-prepared to cope with the dropping government financing and, consequently, falling teacher salaries. In order to compensate for these inequities, Ministry of Education (MOE) officials, as well as university administrators, professors, regional managerial staff, school directors and teachers were forced to seek other opportunities to supplement their incomes. In many of the E&E countries, teachers are the lowest-paid professional category and their salaries fall considerably below the minimum subsistence basket. While this state of affairs provides few incentives for the most qualified teachers to remain in the profession, it has created very strong incentives for those who remain to seek opportunities to augment their incomes either by working at multiple jobs (and thus devoting less time to teaching) or by soliciting bribes. In addition to any individual opportunity for corruption, the education systems in the region are characterized by inefficient management systems that have become a central point of discussion among the educational reformers.

In an effort to rationalize the system, many countries have implemented administrative reforms that led to decentralization of responsibility for support of education in the regional to regional self-governing bodies. This reform involved budget transfers from central to regional administrative bodies for teacher salaries and, in some cases, for special school development projects. In most cases, however, the local authorities were tasked with the responsibility to secure financial resources for maintaining school infrastructure, in-service teacher training, and material development. In many cases, this policy has led to further regional differentiation in education capacity, because some of the regions did not have the required local resource base from which to derive additional funding.

Several studies have linked decentralization reforms with increase in corruption in the education sector, because it has provided additional points of entrance for corrupt practices. Other studies, on the other hand, have argued that decentralization has reduced opportunities for corruption by expanding and sharing responsibilities and competences to local communities, and establishing new mechanisms of regulation. Given the centrality of the decentralization reform in the region, the connection with corruption represents an important issue deserving further study.

FORMS OF CORRUPTION

Corrupt practices in the education sector include the following categories: bribes and payoffs, embezzlement, criteria bypass, academic fraud, unethical individual behavior, favoritism, nepotism, and trading influence. (See Table D.1.)

Corruption in the education sector can be found at all levels. Depending on the socio-economic and political situation in a given country, the pervasiveness of corruption will vary at different levels of the education system. Some types of corrupt behaviors found in the education sector are not unique to the sector but follow the logic and opportunity/costs calculation of any business or bureaucracy. All areas in the field of planning and management can potentially be affected by corrupt practices.

However, the opportunities for corruption within each of these areas vary, with different actors, different frequency, and different degrees of impact.

Table D.1. Typology of corrupt practices in areas of planning and management.
(Source: *Ethics and Corruption*, IIEP 2002, p. 20)

Areas of planning and management	Corrupt practices	Elements of education system most affected
Building of schools	Non-transparent tendering Embezzlement School mapping	Access Equity
Recruitment, promotion and appointment of teachers	Favoritism Nepotism Bribes and pay-offs	Quality
Conduct of teachers	'Ghost teachers' Bribes and pay-offs (grades, exams, entrance, etc)	Access Quality Equity Ethics
Supply and distribution of equipment, food, textbooks	Non-transparent tendering Embezzlement Bypassing of criteria	Equity
Allocation of specific allowances (fellowships, subsidies, compensation)	Favoritism Nepotism Bribes and pay-offs Bypassing of criteria	Access Equity
Examinations and diplomas, accreditation, licensing, certification	Selling of information Favoritism Nepotism Bribes and pay-offs Academic fraud	Equity Ethics Quality

The list below gives the most commonly encountered corrupt practices at the various levels within the education system, followed by some illustrative examples.

- **Ministry of Education**: diverting funds from government accounts; diverting funds from international assistance projects; bribes/kickbacks on construction, supply, publishing contracts; favoritism in appointments and promotion decisions at different levels (ministry, region, school).
- **Region/District levels**: diversion of state-appropriated school supplies to market; overlooking school violations (by inspectors); favoritism in appointment and/or promotion decisions (school directors, teachers).

- **School level**: diversion of central MOE school funds (by director/principal); diversion of funds in revolving textbook funds; diversion of community contributions; favoritism in employment/promotion decisions.
- **Classroom/teacher level**: offering private tutoring to one's own students (creating necessity for it); selling grades and test scores; grade-to-grade promotion; diverting school supplies and textbook to market.
- **University level**: selling entrance exams; selling course and exam grades; corrupt systems of accreditation (new degree programs, connection between licensing and certification, and accreditation (see Center for Quality Assurance in International Education, www.inqaahe.nl) - particularly in professional schools.

Illustrative examples of corrupt activities in the education sector.

- **Monopoly on textbook publishing**. In many countries, textbook publishing industry is rife with examples of corruption. The new Textbook Act in Croatia provides a good example. Under the provisions of the act, the Ministry of Education is to retain its determining role in the bidding and subsequent publishing of new primary and secondary school textbooks. While the establishment of standards and issues of compliance with the school curriculum are overseen by an outside seven-member Textbook Council appointed by the MOE and chosen among prominent experts in the field of education, the Ministry, de facto, acts as a provider of administrative services to the Council and, thus, retains the monopoly on textbook publication policy. The Council replaces the former numerous membership of the Textbook Department at the MOE, recruited on recommendations of professional institutions, from faculty departments of scientific institutes. (Corruption in Education, AIM Zagreb).
- **Absence of clear and fair hiring practices and oversight**. In Slovakia, schools are legal entities (all high schools and some elementary schools) and as such are considered official employers of the teaching and administrative staff. The school principal has a mandate to decide about the structure of the workforce, without any oversight from other bodies. Such a position provides for numerous opportunities of favoritism in hiring.[25]
- **Enrollment and graduation**. In several countries, at the high school level, corruption comes into play at the time of enrollment and completion; in both cases, the principal has considerable flexibility to admit additional students (the difference between the admission quota for each school and the maximum number that can be admitted).
- **Requirement to purchase textbooks written by teachers or those that come with 'an incentive package' from the publisher.** Under new educational reforms in Poland, teachers are now able to select their textbooks and teaching materials from a broad list approved by the Ministry of Education. The intention of the law was to decentralize the decision-making and to provide wide choice of educational aids. The result, at times, has been the opposite – textbook publishers have began to solicit teachers directly (offering gifts) for choosing specific textbooks to be used in their classrooms.
- Another common example of corrupt practices involves university professors suggesting (if not requiring) that students obtain their textbooks; failure to comply, inevitably leads to lower

[25] Faces of Corruption in Slovakia, 10th International Anti-Corruption Conference.

grades while those who have purchased the book have bought some measure of professors good will and predisposition to assign a higher grade during the exam.[26]

- **University entrance exams**. **In Russia**, according to the Indem study, 14.7 percent of those polled gave bribes to secure acceptance to a university, and 37.4 percent have hired special tutors or attended special preparatory courses. [27] While in the western context students routinely engage in such activities, in the E&E region — with a system of university admissions which includes oral exams — tutors often have access to the members of the examination committees and are able to ensure that their clients receive preferential treatment. **In Georgia**, university admissions are considered perhaps the most corrupt area within the higher education. Some estimates suggest that the majority of available slots are actually sold, and anecdotal reports state the price for university admissions to range from $200 to $10,000, depending on the prestige of the university (average monthly salary in 2004 was $50).[28]
- **Frequency of bribes**. According to a survey conduced in 2001 by the Student Union of Belgrade University, 70 percent of the 6000 polled think that student rights are broken every day and 57.2 percent were at least once asked for money.[29] A study of corruption in Kazakhstan's universities conducted by the Parliament's Department of Information Analysis, estimates that one-third of all full-time students acknowledged giving bribes on regular basis and every tenth student said s/he advanced in their studies only through paying bribes.[30]
- **Buying dissertations**. A paradoxical situation developed in Georgia, a country of five million, where amid decreasing birth rates, the number of individuals with a Ph.D. degree is higher than ten years ago. This situation is due, for the most part, to the fact that students who are not able to write their own dissertations or the civil servants who need the degree for professional advancement, can now hire university professors to write doctorates for them. With salaries between $20 and $50 per month, the university professors consider such assignments a lucrative opportunity to supplement their incomes.[31] The result is that such practices lead to graduates who do not have the required qualifications commensurate with their academic standing.
- **Tutoring one's students**. In an attempt to supplement their meager salaries, many teachers, especially in secondary schools, have resorted to offering tutorial services to their own students. Such tutoring, while unethical, in some cases is actually designed to improve the student's knowledge. In many cases, however, this activity is a form of a tax – parents pay so that their child would not be exposed to prejudicial treatment in school. Those parents who have the financial means often employ an outside tutor, in addition to paying for the in-class tutorial services. (This and the following two points are based on personal interviews.)

[26] Corruption in Education, AIM Zagreb

[27] Vladimir Rimskii, unpublished communication.

[28] Natia Janashia, International Higher Education, no 34, Winter 2004.

[29] Jana Savic, Corruption in Serbian Universities – Reflection of a society in deep crisis; 10th International Anti-Corruption Conference.

[30] Kathleen Moore, Central Asia: Buying Ignorance – Corruption in Education Widespread, Corrosive, RFL/RL July 7, 2004.

[31] Jean-Christophe Peuch, unpublished communication.

- **Collecting funds from parents**. Most schools in the former Soviet Union collect money from parents in order to keep up school facilities. While this practice does not constitute corruption, very frequently — especially in schools without strong parent committees — at least a portion of the collected funds is diverted to the principal and/or local education authorities.
- **Compulsory subscriptions to newspapers and journals**. In Uzbekistan, schools routinely receive a subscription quota for newspapers or journals from the local offices of the Ministry of Education. In some cases, these publications are not the ones that would be most useful for the teachers or the students.

CONSEQUENCES OF CORRUPTION

Corruption in the education sector affects not only the end users (students) but the entire society. In terms of the sheer number of people affected by corruption (and its consequences), education is probably the worst-hit sector. Corrupt practices undermine social and, by extension, national cohesion, because they inhibit equitable access to education by those who cannot afford the bribes, as well as economic growth, because the education institutions do not impart relevant knowledge and skills to their graduates.

Entrenchment of corrupt practices at the institutions of higher education leads to deterioration of the country's political and economic elites that, in turn, jeopardizes the overall prospect of economic development and political stability. There has been a general agreement among scholars and practitioners alike that during the past decade the overall quality of higher education in the E&E region has drastically declined. This trend has been particularly visible in the countries of the former Soviet Union. A brief posted on the website of the European Training Foundation (a European Union agency specializing in education assistance to developing countries) reads, "Corruption [in Georgia] threatens to strangle efforts to improve opportunities, standards, and training in higher education."

> In Georgia, only 3% of the graduates of the most prestigious university, the Tbilisi State University, have been able to find a job in the first year after graduation. Several experts agree that in addition to the difficult economic situation, corruption is one of the main reasons why Georgian university graduates cannot compete even on the local job market. According to one member of a recently established student committee at the Tbilisi State University, only 15 to 20 percent of students who enter TSU do not pay bribes. While such claims are difficult to confirm, other experts corroborate such claims. (Jean-Christophe Peuch, RFL/RL 11/10/02.)

It is difficult to assess which corrupt practices have the most damaging effect on education and, consequently, on the country's development. While several studies have addressed various aspects of corruption in education, the empirical evidence is still very limited. Future research is needed to address perceptions and knowledge about the nature, dynamic, and effects of corruption.

Reduced spending on public education as a result of corrupt practices (as well as other inefficiencies) decreases the country's growth potential, because it has a negative impact on formation of human capital. The impacts include:

- **Loss (deterioration) of quality of education.** The importance of education for economic development is generally recognized. Corruption impacts human resources (and economic development) also because the lack of viable educaional and economic opportunities can lead to significant out-migration of the

younger generation, in search of better opportunities for both education and employment.

- **Financial loss,** In most countries, the education sector represents one of the largest, if not the largest, components of public expenditure. Given the sheer size of the educational budget and the number of actors involved in educational activities, the opportunities for leakage and misuse of funds represent a serious concern.
- **Social inequality. C**orruption promotes social inequality and impairs social cohesion, because the poorer sections of society, which can least afford it, bear the greatest burden of corrupt practices.
- **Ethical loss.** In a society where dishonesty and corruption are rewarded, the ethical cost of corruption in education is higher than for any other public service, because the younger generation will develop cynicism and discouragement that translate into lack of trust in government, and hence lack of civic and political participation.

According to Nicholas Benett, an education specialist with more than 40 years of experience working in the developing world, corruption among teachers is the most serious form of vice in modern society, because teachers, as mentors, play such an important part in molding children's perceptions and values. Corruption in

education has a very demoralizing effect on the young generation: devaluing individual achievement in favor of money — and the personal and family connections that have become a much more important determinant of success in professional life. By exerting a direct impact on the mentality and ethical values of the students, corruption influences their future attitude toward their responsibilities as citizens.

> In Uzbekistan, corruption in the education sector is so widespread that there are no incentives to attempt reforms. If professors at universities try to enforce stricter academic standards, the Ministry of Education could bring charges against them because the students in question have paid their tuition and, according to the existing rules, a university does not have the right to kick them out. (Bruce Pannier, Central Asia: Buying Ignorance – Corruption Touches Many Different Lives, RFE/RL, July 7, 2004.)

> An Uzbek elementary school teacher acknowledges and bemoans the difference between the current students and those who attended school 20 years earlier. According to her, at present, ninety percent of students rely on their parents' money or lucky circumstances; only ten percent rely on their knowledge. (Kathleen Moore, Central Asia: Buying Ignorance – Corruption in Education Widespread, Corrosive, RFL/RL July 7, 2004.)

OBSTACLES TO FIGHTING CORRUPTION

Lack of broad agreement on what constitutes corrupt practices in the education sector presents a formidable challenge to developing effective counter-strategies.

While agreeing on a definition of corruption is not easy, identifying and understanding the multi-faceted dimensions of corruption is essential for devising effective interventions to combat it. Corruption is a two-way transaction (supply and demand) and for any measure to be effective, it must address both sides of the equation.

An initial obstacle to reform is widespread societal acquiescence to giving bribes, and unwillingness to change the rules of the game — because both sides (those who offer and those who receive bribes) benefit from the practice.

Low salaries, job security, absence of appropriate legal statutes, and immunity

from prosecution have created structural conditions and incentives that not only allow but promote the spread of corrupt practices in the education sector. In most countries in the region, teachers make up the largest single segment of civil service; while they have low (or very low) salaries, they often enjoy nearly total job protection under government statues. In some cases, the existing statues may be so vague that prosecution of corrupt practices is not feasible. In this context, the practice of taking bribes has become so widespread that those teachers determined not to engage in such activities find it very difficult to withstand the pressure and even retaliation from their colleagues, as well as the pressure from families of the students.

- In Poland, teachers are not considered to be "public persons" and therefore, according to Polish law, they cannot be prosecuted for accepting bribes. This revision of the penal code was adopted to align Polish law with EU norms, under which the definition of "public person" includes only the higher-level civil servants and politicians. Consequently, the following paradox has emerged: teachers in Poland cannot

  be prosecuted for taking bribes because bribing teachers is not considered a crime! (Teresa Ogrodzinska, Director, Polish Children's and Youth Foundation; 10th International Anti-Corruption Conference, October 7-11, 2001, Prague.)

Prevailing cultural norms regarding the prestige of free versus paid education also contribute to growth of corrupt practices. The case of Georgia provides an interesting paradox:

- Under the Georgian university system, students who receive the highest scores on their admission exams receive free university education. The students who receive lower scores have to pay for their education. In an attempt to get admitted with a high enough grade to qualify for free tuition, an applicant may pay as much as $20,000 in bribes, an amount that certainly would more than cover the costs of paid education even in a private institution. However, the prevailing cultural legacy from the Soviet times is that those who have to pay for education *openly* are considered to be less talented, and private universities are considered to be less prestigious. As a result, parents are in fact paying for substandard education. (Jean-Christophe Peuch, unplublished communication.)

MEASURES TO MITIGATE CORRUPTION

The general approach to combat corruption must include activities that promote mass awareness of the consequences of corruption in education, both for individuals and for the nation, and the importance of transparency and accountability in education management and finances at all levels of the education system. Approaches to prevent corruption should aim at reducing opportunities for corruption and address rules, institutions, procedures and processes such as:

- delineation of roles and responsibilities
- delegation of authority to managers, bodies and committees
- state-of-the-art rules and regulations for decision making
- ethical norms in selection and posting of civil servants
- transparency and communication in the decision process
- effective legal and judicial framework and institutions
- internal and external capacities for audit and control
- linking evaluation of activities, processes and performance to reward structures (IIEP, 2002, p. 99)

The experience of agencies dealing with addressing corruption in the public sector suggests that adopting an integrated

approach represents the most effective way to achieve sustainable results. Such an approach would involve a number of elements:

- **Legal-judiciary reforms** aimed at reducing opportunities for corruption by simplifying and streamlining administrative rules and procedures in the education field
- **Administrative and civil service reform** that would provide definition of standards (teachers' codes of practice), improve transparency, implement objective recruitment and promotion processes, and review system of incentives
- **Reform of public expenditure** and financial management of education
- **Societal reforms** to bring about a change in attitudes (through civic advocacy, campaigns, and education on ethics) and to mobilize political will (through investigative journalism, pressure groups, and public campaigns)

Commitment of top leadership to address corruption is central to any anticorruption strategy. But even when such commitment exists, promoting and implementing anticorruption practices may prove a dangerous undertaking, both politically and personally, since these practices undermine the existing opportunities for profit. In addition to supporting anticorruption practices, the leadership has to have control over the enforcement mechanisms, that may be themselves inadequate or absent. As a result, at the lower levels of management/-bureaucracy, those who might be inclined to avoid corrupt practices often end up either taking part or acquiescing, because of peer pressure or fear of losing their jobs. Even under the best of circumstances, introducing new codes of conduct and reducing corrupt practices is a long-term and incremental process.

Changing the incentive system that promotes corruption is a very difficult undertaking, particularly in the situation that the whole profession is underpaid. However, increasing salaries, while certainly a necessary step, will not by itself resolve the dilemma. At best, it might somewhat diminish the incentives for corruption. Additional steps should include addressing professionalism and ethical codes of behavior both among the teachers and education management staff, establishing professional associations, supporting student anticorruption movements, and strengthening and empowering student governments.

Introducing standardized testing (entrance exams) would be a step toward ensuring a more equitable access to education, particularly at a tertiary level. However, this would address only one aspect of the existing problem. First of all, many universities in the E&E region are much more specialized than their western counterparts and, consequently, require very specialized entrance exams. A general overhaul of the admissions system would be required to make the process more uniform and would, most likely, be met with considerable opposition from the universities who would see this as an attempt at curtailing their power base. Secondly, the existing university entrance exams (in whatever form) are not designed to test the student's mastery of subject matter covered in high schools but rather of the knowledge determined to be necessary to continue with university education. This discrepancy creates a need for additional tutoring and provides numerous opportunities for corruption.

Available experience with **community mobilization and involvement with school activities** (PTAs, school advisory boards) suggests that such practices help to lower the incidence of corruption at the local level by increasing accountability of local officials.

Establishing a national working group or task force, to include international donors, NGOs, representatives of relevant ministries, professional associations, student

organizations, and other community groups, would elevate the issue of corruption in education to a national policy dialogue and begin to build a broad-based constituency for change.

E&E interventions in the education sector that address corruption.

Comprehensive reform of the education system in Georgia (2005). The General Education Decentralization and Accreditation (GEDA) project is a three-year, $12 million activity designed to assist the Ministry of Education and Science (MES) of Georgia with the decentralization and accreditation components of the general and higher education system reform programs. GEDA will support the efforts of the MES to develop a national strategy, action plan, and procedural framework for decentralization and accreditation, followed by assistance in the implementation of specific activities to further the agenda of the new laws on general and higher education. The project will be implemented in two phases. In the first phase, USAID-funded technical advisors will assist the MES to develop and approve action plans for decentralizing its education system, including the required budget allocations, and will help the MES and a newly formed national accreditation institute to develop standards, accreditation criteria, and procedures for accrediting secondary schools, vocational and higher education institutions. Upon completion of this effort, technical assistance at the regional level will help to implement the general education reform program in 12 regions throughout Georgia. GEDA will assist the MES to establish and equip 100 Regional Resource Centers (RRC) over the three-year period of project duration. Trainings to 500 employees of RRCs will be undertaken as well.

Capacity building within the MES at the central and regional levels, including on-the-job training, workshops, and the development of training plans and modules, is an integral part of the project. Likewise, capacity building for the accreditation institute will be undertaken in the second phase of the project.

Basic Education Sector Strengthening. This is the regional education initiative launched in 2003 in Central Asia – Kyrgyzstan, Tajikistan, and Uzbekistan, with a smaller starter program in Turkmenistan, aimed at improving the quality of basic education. Basic Education implementers work with community groups to pilot mechanisms that will build the capacity of parent groups to oversee the use of extra-budgetary funds collected by schools to supplement educational budgets. This activity will decrease the possibility that funds might be diverted for personal gain of school principals or regional MOE authorities.

The project addresses 5 areas: (1) improving in-service teacher education; (2) developing, disseminating, and promoting curricula that emphasize learning skills; (3) increasing parent and community involvement in school activities; (4) strengthening institutional, management, and technical capacity at national, regional, and local levels of education administration; and (5) improving school infrastructure.

Points 3 and 4 indirectly address issues of corruption; these activities will include, among others, developing written documents clarifying roles and responsibilities of school organizations (staffing, transparent procedures, reports on school financial management); providing assistance to MOE to develop more transparent procedures for budgeting and finance; and decentralizing school administration. If these activities are successful, they will help reduce corruption by making it more difficult to demand/offer bribes, making school administrators more accountable to the community, and perhaps sparking public discussion of corruption.

Community Action Investment Program (CAIP). This program is part of a regional conflict prevention strategy, with 5 grants in Central Asia, affecting 56 communities in 3 countries (25 in Tajikistan, 10 in

Turkmenistan, 21 in Uzbekistan). CAIP encourages broad-based community involvement in small-scale community infrastructure projects, such as construction, refurbishing and re-equipping schools, recreation facilities, youth and community centers, health clinics and small sanitation systems. While the stated objective of the program is to mitigate conflict by involving communities in solving local problems and improving quality of life, these activities will also build local government capacity to respond to citizen needs and will foster government-citizen partnerships. In other words, they will promote awareness, transparency and accountability.

US-Macedonia Linkage Program with the South East European University (SEEU). SEEU is a new trilingual, multi-ethnic international university, opened in November 2001 in Tetovo, Macedonia. It is sponsored and financed in part by USAID, member countries of the Organization for Security and Cooperation in Europe (OSCE), and the Open Society Institute; it is the first official university in Macedonia to offer courses in Albanian and English. The main objectives of the university are to establish quality academic programs that meet international standards and to increase access to higher education for the Albanian minority of Macedonia. SEEU has an International Board that serves a governing agency for the university. The project aims to establish a western-style university, not only in terms of curriculum but also from the standpoint of financial management, administration, and student recruitment. Universities in the EE region are known for high incidence of corruption in admissions, selling test grades, and diplomas. SEEU will establish procedures and standards to support equitable access to education for all students.

American University of Central Asia (AUCA) in Kyrgyzstan. Formerly the American University of Kyrgyzstan, the university was founded in 1997 (with roots going back to 1993, to the Kyrgyz-American School of the Kyrgyz National University). AUCA has built a strong reputation for academic success based on a liberal arts approach to university education. USAID and the Open Society Institute have established an endowment fund for the university.

National Scholarship Test of the Kyrgyz Republic. Funded through EdNet project and carried out by the American Councils for International Education since 2002, this project established an independent testing body, separate from the Ministry of Education and similar in composition to ETS, to develop and administer university entrance exams in Kyrgyzstan. Currently, the university admissions process and scholarship allocation procedures are often subjective and fraught with corruption. As a result, access to higher education is often denied to talented students who do not have the financial means to pay the required bribes. The project was constructed to offer equal access to the test for all and to ensure transparency of the process from start to finish. The exam is available in three languages, depending on student's ethnicity – Kyrgyz, Russian, and Uzbek. The test has resulted in increased numbers of disadvantaged rural students gaining scholarships, owing in part to centralized testing procedures. USAID will provide small subsidies for the test in 2005 and 2006, though the test is already largely self-sustaining through student test fees. The test also provides an incentive for students and teachers to focus more on problem-solving and critical thinking, since it is modeled on the SAT rather than on traditional entrance exams (CARs) which reward recall of facts.

Creating Codes of Ethics (EdNet Project). The 2003 Annual Conference held a session on "Creating Codes of Ethics" that focused on administrators and built on the earlier roundtable "Ethics in Business and Economics." **The topics** covered were: Role of Code of Ethics in University Activity; Ethical Aspects of Higher School Management; Presenting the Code of Ethics of American University in Central Asia; Presenting the Code of Ethics of

Technological University of Tajikistan: Experience of Writing and Recommendations for Rectors; Presenting the Code of Ethics of the International Business School (Tashkent). The Codes were developed by Central Asians with guidance from the Ed.Net staff.

Teaching Ethics (**EdNet Project**). At the Annual Conference in Tashkent (2003), a breakout session was devoted to Teaching Ethics. Building from the March 2002 conference and followed up by another round table in October 2002 on Ethics and Values in Tashkent, this session focused on inspiring faculty members to begin thinking about ethics and values and, more importantly, developing courses. The subjects covered were; Experience of Developing a New Course, "Corruption in Oil-Producing Countries"; Presentation and Analysis of Ethics Situations; Recommendations to Faculty on Incorporating these Situations into University Curricula; Case Study on Teaching Ethics; and Analysis and Recommendations for Including Similar Management Cases in University Courses.

The conference in Bishkek, in April 2002, had two Plenary sessions aimed at corruption. The first, "Ethics in Business and Economics: Challenges for Higher Education," summarized the Almaty March 2002 conference (attended by over 200 faculty, administrators and ministry officials). The other plenary session was entitled "Anticorruption Ethics: Challenges for Teaching and Evaluation of Effectiveness."

The Ed.Net Project has distributed over 500 CD ROMs on ethics and values in higher education, together with collateral materials from the conferences and roundtables.

Accreditation. In 2001, Ed.Net Project held a conference in Bishkek that addressed issues of accreditation. The conference was attended by the then-President of ACCSB. The subject of accreditation was continued at subsequent conferences. Ed.Net also sponsors CAMAN (Central Asia Foundation for Management Development) that is attempting to be the accrediting agency in Central Asia, modeled after the Eastern European models of accreditation.

Board of Trustees. Ed.Net Project assisted in drafting the new Education Law in Kyrgyzstan which allowed for the appointment of Boards of Trustees. While the results so far have been more modest than anticipated, two boards have been established.

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ANNEX E

COUNTRY-LEVEL MEASUREMENTS OF CORRUPTION

A MULTI-DIMENSIONAL PHENOMENON

The difficulties of measuring the nature and prevalence of the complex behaviors labeled "corruption" are widely acknowledged, especially by the designers of country-level scores, indices, and other quantitative measures of corruption. The *users* of such indicators, however, tend to ignore the conceptual and empirical limitations of these tools: the caveats that may be found in technical footnotes and methodological annexes rarely receive mention in the executive summaries, abstracts, and presentations prepared for non-statisticians.

Regrettably, the appeal of all-purpose scores and clear country rankings often results in the misinterpretation of quantitative information, prepared for specific purposes but applied over-broadly. In policy discussions, charts and graphs may take on an aura of credibility, precision, and certainty that exceeds their explanatory or predictive power.

Rather than recapitulate the detailed critiques of the more widely known surveys and indices of corruption, this discussion offers five broad observations.

First, corruption is seldom assessed or scored as a *multi-dimensional* phenomenon. Measurements tend to look at a single dimension (e.g., bribery) or at best a few dimensions in select sectors (e.g., the frequency or level of informal payments made by businesses in select categories of common transactions). A theoretical consensus regarding what ought to be measured is often compromised by the limitation of what can be measured efficiently, often through questionnaires. Whereas unofficial payments, for example, can be readily assessed, the more hidden aspects of corruption tend to be overlooked (embedded patronage networks, trading in influence, illegal financing of political parties, etc.).

Second, expert opinion results are combined with survey results of perceptions and experience to derive a single score for each country. Aggregation is useful, but unitary scores mask important differences within countries and sectors. Effective anticorruption programming — whether at the strategic or project level — requires analysis of specific sectors and institutions.

Third, surveys of corruption are better at quantifying "perceptions" of corruption (however defined) than they are in measuring actual "experience" with corruption. The two may differ substantially. In Slovenia, for example — arguably the region's "least corrupt" country, based on TI and NIT ratings — perceptions of widespread corruption experienced by "others" far exceed personal experience with corruption (Box E.1). Surveys designed to measure actual experience with corruption may combine direct with indirect indicators: respondents may be asked about others' experience with corruption, in addition to their own first-hand experience (which they may be unwilling to disclose).

Box E.1. Corruption in Slovenia: Perceptions vs. Experience

In December 2003, Ljubljana University released its annual survey of public perceptions of corruption. More than 60 percent of all respondents said that corruption is a "big" problem in Slovenia. Only five percent said it is a "small" problem. When respondents were asked if they had had personal experience with corruption, 95% of all respondents said that they themselves have ***"never"*** had personal experience with corruption.

Source: Nations in Transit 2004, *Slovenia Country Report,* "Corruption."

Fourth, the quality of survey instruments varies substantially. Responses to a few questions may be used as rough proxies to represent complex conceptual phenomena. Empirical data labels may not correspond well to underlying theoretical concepts. Complex concepts — trading in influence, patronage networks, or the capture of economic activity by predatory public officials — are very inadequately represented in the answers of small numbers of respondents to a few multiple-choice questions. These hurdles explain why surveys tend to measure relatively simple forms of corruption and to treat them as isolated acts, divorced from their economic, political, and social context.

Fifth, cross-country comparisons of country level trends are inherently problematic. Varying sources of information, sample design, and survey questions used to arrive at single scores taint comparability over time. Yearly "bottom-line" corruption scores may be the product of changing methodologies, notwithstanding the unchanging rubric used to report results.

THREE COUNTRY-LEVEL MEASUREMENTS OF CORRUPTION

The most widely used corruption indices are: (1) Transparency International's *Corruption Perceptions Index* — the most widely known index of perceptions of corruption; (2) Freedom House's *Nations in Transit* "expert" ratings of "corruption" (used by the Europe and Eurasia Bureau and by the Coordinator's office in the Department of State, in their multiple-indicator-based process to monitor country progress and to inform decisions related to "phase-out" of SEED and FSA development assistance in the Europe and Eurasia region); and (3) the World Bank Institute's Governance Matters Indicator, "Control of Corruption" (used by the Millennium Challenge Corporation in its multiple-indicator based process to select "eligible" countries from its larger list of "candidate" countries).

TRANSPARENCY INTERNATIONAL *CORRUPTION PERCEPTIONS INDEX*

Transparency International has published its annual *Corruptions Perceptions Index* (CPI) since 1995, providing data on perceptions of corruption within countries. The CPI is a composite index based on surveys undertaken by others. For 2004, the CPI draws on 18 sources of information from 12 independent institutions about perceptions of corruption in 146 countries.

Since fundamental changes in the levels of corruption in a country evolve only slowly, TI opted to base its CPI on a three-year rolling average. The CPI 2004 is based on surveys provided between 2002 and 2004. (The 12 institutions that provided data for the CPI 2004 include: Columbia University; Economist Intelligence Unit; Freedom House; Information International; International Institute for Management Development; a multilateral development bank; Merchant International Group; Political and Economic Risk Consultancy; Transparency International/Gallup International; World Bank/European Bank for Reconstruction and Development; World

To be clear, the CPI was not designed to provide for comparisons over time, since each year the surveys included in the index vary.

"Frequently Asked Questions About the TI CPI 2004,"
Transparency International, www.transparency.org.

Economic Forum; and World Markets Research Centre.)

To understand what influences a country's TI score, one must analyze the underlying surveys and the methodologies employed to determine what they assess and measure. For example, to gain insight into what drives Albania's 2004 CPI score of 2.5, one should mine the information found in the surveys and expert assessments from which it is derived: (a) *Business Environment and Enterprise Performance Survey (BEEPS) (2002)*, World Bank and the EBRD; (b) *Nations in Transit 2004*, Freedom House, www.freedomhouse.hu; (c) *Survey 2002*, A Multilateral Development Bank (if available); and (4) *Risk Ratings 2004*, World Markets Research Centre, www.wmrc.com.

Box E.2. Transparency International *Corruption Perceptions Index*

All countries in the CPI receive scores between 0 (very corrupt) and 10 (highly clean). A score of 5 marks the dividing line between countries with unquestionably high corruption (CPI below 5) and those with less perceived levels of corruption (CPI above 5). Only two USAID post-presence countries are above the 5.0 threshold, Estonia (6.0.) and Slovenia (6.0). Just over half of the 27 EE Region countries listed in Table E.1 fall into Transparency International's "rampant corruption" group of countries.

Transparency International CPI scores are "averages," the mean of standardized scores assigned to the underlying sources; therefore, TI provides users with the Confidence Range indicating the range of possible values of the CPI score: The Confidence Range reflects how a country's score may vary, depending on measurement precision. In the case of Belarus, for example (CPI 3.3), the range is rather wide, from 1.9 to 4.8, as compared with 3.1 to 3.9 for Poland (CPI 3.5). (See Table E.1)

For a variety of reasons, TI CPI scores for any particular country are generally resistant to significant change over short periods of time. The explanation from Transparency International (Box E.3) gives two reasons why CPI scores are not designed to track yearly progress at the USAID project level.

Box E.3. The Difficulty of Improving Transparency International *Corruption Perceptions Index* Scores in the Short-Term

Why isn't there a greater change in a country's score, given the strength of (or lack of) anticorruption reform, or given recent exposure of corruption scandals? It is often difficult to improve a CPI score over a short time period, such as one or two years. The CPI is based on data from the past three years . . . . This means that a change in perceptions of corruption would only emerge in the index over longer periods of time. In addition, in those cases where government and/or others have made substantial efforts to combat corruption, with demonstrable results, and where there is no improvement in a CPI score, there is the possibility that these efforts – however successful – have not been adequately communicated.

Frequently Asked Questions about the TI CPI 2004, Transparency International,
www.transparency.org.

Table E.1.					
Transparency International Corruption Perceptions Index					
	EE Country	**2004 CPI Score**	**Surveys Used**	**Confidence Range**	**1999 CPI Score**
1	Estonia	6.0	12	5.6 - 6.6	5.7
2	Slovenia	6.0	12	5.6 - 6.7	6.0
3	Hungary	4.8	12	4.6 - 5.0	5.2
4	Lithuania	4.6	9	4.0 - 5.4	3.8
5	Czech Republic	4.2	11	3.7 - 4.9	4.6
6	Bulgaria	4.1	10	3.7 - 4.6	3.3
7	Latvia	4.0	8	3.8 - 4.3	3.4
8	Slovak Republic	3.7	11	2.9 - 4.7	3.7
9	Croatia	3.5	9	3.3 - 3.8	2.7
10	Poland	3.5	13	3.1 - 3.9	4.2
11	Belarus	3.3	5	1.9 - 4.8	3.4
12	Armenia	3.1	5	2.4 - 3.7	2.5
13	Bosnia-Herzegovina	3.1	7	2.7 - 3.5	x
14	Romania	2.9	12	2.5 - 3.4	3.3
15	Russia	2.8	15	2.5 - 3.1	2.4
16	Macedonia	2.7	7	2.3 - 3.2	x
17	Serbia & Montenegro	2.7	7	2.3 - 3.0	2.0
18	Albania	2.5	4	2.0 - 3.0	2.3
19	Moldova	2.3	5	2.0 - 2.8	2.6
20	Uzbekistan	2.3	6	2.1 - 2.4	1.8
21	Kazakhstan	2.2	7	1.8 - 2.7	2.3
22	Kyrgyz Republic	2.2	5	2.0 - 2.5	2.2
23	Ukraine	2.2	10	2.2 - 2.4	2.6
24	Georgia	2.0	7	1.6 - 2.3	2.3
25	Tajikistan	2.0	4	1.7 - 2.4	x
26	Turkmenistan	2.0	3	1.6 - 2.3	x
27	Azerbaijan	1.9	7	1.8 - 2.0	1.7

0 = Perceived as Most Corrupt; 10 = Perceived as Least Corrupt
x = Not Rated

NATIONS IN TRANSIT CORRUPTION RATINGS

Nations in Transit, published by Freedom House, measures progress and setbacks in "Democratization" and "Rule of Law" in all 27 countries of Central and Eastern Europe and the former Soviet Union. Two complementary types of information are provided: qualitative reports and quantitative ratings. *Qualitative country reports* in essay format provide a broad analysis of the progress of democratic change, as assessed by individual authors, who also participate (with a panel of academic advisers) in assigning *numerical ratings* in two broad categories, Democratization and Rule of Law, based on a scale of 1 to 7 (most to least democratic). Numerical ratings are also provided in six sub-categories: four under Democratization (Electoral Process, Civil Society, Independent Media, and Governance); and two under the Rule of Law (Constitutional, Legislative and Judicial Framework, and Corruption). Final editorial authority for the ratings rests with Freedom House. It is rare for the Corruption Rating for any country to fluctuate by more

than a quarter or perhaps half a point in a single year.

Nations in Transit Corruption Ratings are based on perceptions of seven factors (positive and negative): the implementation of anticorruption initiatives; freedom from excessive bureaucratic regulations and other controls that increase opportunities for corruption; public perceptions of corruption; the business interests of top policy makers; laws on financial disclosure and conflict of interest; audit and investigative rules for executive and legislative bodies; protections for whistleblowers, anticorruption activists, and others who report corruption; and the media's coverage of corruption. To assist its regional experts in preparing their country reports, Freedom House provides a checklist related to these topics. (See Box E.4.)

Box E.4. Freedom House *Nations in Transit* Checklist of Questions for Assessing Anticorruption

Freedom House provides the authors of its country reports with Ratings Guidelines for its 1 to 7 ratings scale, plus a checklist of corruption-related questions. This checklist may prove useful in other contexts associated with USAID anticorruption programming. For example, it can be used to inform the scope of general background questions to be included in a USAID mission's assessment of corruption. Sector-specific assessments, in particular, will require supplementary questions and adaptation of these more general ones.

a. Are significant limitations enforced on the participation of government officials in economic life? What are the legal and ethical standards and boundaries between public and private sector activity? Are they observed in practice? Do top policy makers (the president, ministers, vice ministers, top court justices, and heads of agencies and commissions) have direct ties to businesses?

b. Are there laws requiring financial disclosure and disallowing conflict of interest? Are such laws enforced?

c. Have publicized anticorruption cases been pursued? To what conclusion? Are there laws against racketeering?

d. Do executive and legislative bodies operate under audit and investigative rules?

e. What major anticorruption initiatives have been implemented?

f. How often are anticorruption laws and decrees adopted?

g. Have leading government officials at the national and local levels been investigated and prosecuted in the past year? Have such prosecutions been conducted without prejudice, or have they targeted political opponents?

h. Does the country suffer from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?

i. What is the magnitude of official corruption in the civil service? Must an average citizen pay a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests—for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?

j. Have surveys of the perception of public sector corruption been conducted with the support of reputable monitoring organizations? What are the principal findings and year-to year trends? Do trends suggest growing public intolerance of official corruption as measured in polls?

k. Are there effective anticorruption public education efforts?

l. How do major corruption-ranking organizations like Transparency International rate this country?

Freedom House, *Nations in Transit 2003*, Democratization in East Central Europe and Eurasia.

A theoretically perfect *Nations in Transit* Corruption Ratings score of 1.0 requires evidence of both "best practices" and appropriate policies that adhere to the rule of law. For 2005, no SEED or FSA country achieved a score in the laudable 1.0 to 1.75 range. Slovenia's 2005 score of 2.0 (the leading score, unchanged since 1999) reflects both policies and "most practices" (but not "best practices") that adhere to the rule of law.

The individual Corruption Ratings scores for five of eight USAID post-presence countries, now members of the EU, show no change from 2004 to 2005. Lithuania's score ticked up a quarter of a point to 3.75, its 1999/2000 level. Slovakia's score improved marginally by a quarter of a point decreasing from 3.25 to 3.00, reflecting improvement over its 1999/2000 score of 3.75. On the other hand, Poland experienced a disappointing increase in its score from 2.50 to 3.00, indicating backsliding of three quarters of a point since 1999/2000 when it scored 2.25, close to Slovenia (2.00).

In the Balkans, Bosnia, Bulgaria and Romania each registered a nominal quarter of a point change in the right direction from 2004 to 2005. No other Balkan country saw its score change for better or worse in the 2005 NIT Corruption Ratings.

Of 12 FSA countries, only three show any change, with nominal quarter-point changes (in the wrong direction) for Belarus (5.75 to 6.00) and Turkmenistan (6.25 to 6.50). Georgia experienced a nominal quarter point improvement to 5.75, still three-quarters of a point worse than its 1999/2000 high corruption score of 5.00. (See Table E.2.)

For 2005, the median Corruption Ratings score for USAID's eight post-presence countries is 3.0 (unchanged from 2004), representing "many policies" and "many practices" (not "most practices" or "best practices") that adhere to the rule of law. The median Corruption Ratings score of 5.0 for the Balkans (unchanged over the last three years and only a quarter of a point since 1999/2000) indicates that practice diverges substantially from formal policy frameworks: "many policies" do adhere to the rule of law, but absent "many practices" that implement the policies; hence, the all too prevalent "implementation / enforcement" gap.

For 2005, USAID's 12 FSA countries have a median Corruption Ratings score of 6.0 (unchanged since 1999/2000). This score indicates "some policies" that adhere to the rule of law, but the absence of "most practices" necessary for the rule of law; a score of 7.0 indicates the absence of both policies and practices that adhere to the rule of law. For 2005, Kazakhstan and Turkmenistan had the Europe and Eurasia's worst Corruption Ratings score: 6.5.

As the transition process progresses, reform efforts are tempted to reach first for the low-hanging fruit, "absence of policies that adhere to the rule of law." Improvements in *Nations in Transit* Corruption Ratings based primarily, if not exclusively, on filling such policy gaps should be viewed skeptically. Corrupt elites may succumb to international pressure to sign on to conventions and pass laws and regulations while retaining control of the informal enabling environment for corruption in which the formal rules get trumped.

Lack of regional progress reflected in these general indicators should not be interpreted as evidence that anticorruption assistance projects have not had positive impact. These indicators are not designed to capture incremental steps in combating corruption, including sector-specific progress (building institutions of integrity, altering incentives and reducing opportunities for corruption, and supporting pro-reform stakeholders). Measuring sectoral progress and project impact in anticorruption require more detailed quantitative and qualitative instruments.

Table E.2

Freedom House "Nations in Transit" Corruption Ratings

	EE Country/ Entity	2005 Score	2004 Score	1999 - 2000 Score
	New EU Members			
1	Slovenia	2.00	2.00	2.00
2	Estonia	2.50	2.50	3.25
4	Hungary	2.75	2.75	2.50
3	Poland	3.00	2.50	2.25
5	Slovak Republic	3.00	3.25	3.75
6	Czech Republic	3.50	3.50	3.25
7	Latvia	3.50	3.50	3.50
8	Lithuania	3.75	3.50	3.75
	Balkans			
9	Bulgaria	4.00	4.25	4.75
10	Romania	4.25	4.50	4.25
11	Croatia	4.75	4.75	5.25
12	Bosnia-Herzegovina	4.50	4.75	6.00
13	Macedonia	5.00	5.00	5.00
	[Yugoslavia]		n/a	6.25
14	Serbia	5.00	5.00	n/a
15	Montenegro	5.25	5.25	n/a
16	Albania	5.25	5.25	6.00
17	Kosovo	6.00	6.00	n/a
	Non Baltic - Former Soviet States			
16	Armenia	5.75	5.75	5.75
17	Russia	5.75	5.75	6.25
18	Ukraine	5.75	5.75	6.00
19	Georgia	5.75	6.00	5.00
20	Belarus	6.00	5.75	5.25
21	Kyrgyz Republic	6.00	6.00	6.00
22	Uzbekistan	6.00	6.00	6.00
23	Moldova	6.25	6.25	6.00
24	Azerbaijan	6.25	6.25	6.00
25	Tajikistan	6.25	6.25	6.00
26	Turkmenistan	6.50	6.25	6.00
27	Kazakhstan	6.50	6.50	6.00

1 = Highest Level of Control of Corruption
7 = Lowest Level of Control of Corruption

MILLENNIUM CHALLENGE CORPORATION — CONTROL OF CORRUPTION

Control of corruption has taken on added significance in the development community, with the establishment of the Millennium Challenge Corporation (MCC) in 2004 and, in particular, the MCC's use of the World Bank Institute's "Control of Corruption" indicator in its multiple-indicator process for selecting eligible countries for Millennium Challenge Account assistance.

MCA Eligible Countries Selected for FY 04 and FY 05

In May 2004, the MCC's Board of Directors selected from its list of 63 "candidate countries" the first 16 countries eligible to apply for MCA assistance using funds appropriated in FY 04 (see Table E.3). In

November 2004, the MCC Board selected 16 countries as eligible for assistance using FY 05 funding. These included 15 of the countries eligible to apply for FY 04 funding, as well as one new addition, Morocco. (Cape Verde is an "eligible country" for FY 04 funding purposes, but not for FY 05.)

Table E.3			
Countries Eligible to Apply for Millennium Challenge Account Assistance FY 2004			
1. Armenia	5. Cape Verde	9. Madagascar	13. Nicaragua
2. Georgia	6. Ghana	10. Mali	14. Senegal
3. Benin	7. Honduras	11. Mongolia	15. Sri Lanka
4. Bolivia	8. Lesotho	12. Mozambique	16. Vanuatu

Two candidate countries from the Europe and Eurasia region, Armenia and Georgia, were selected as eligible countries in this first round. Six Europe and Eurasia region candidate countries failed to make the cut: Albania and Bosnia and Herzegovina from the SEED region, and Azerbaijan, Kyrgyz Republic, Moldova, and Tajikistan from the FSA region.

For FY 06, the MCC Board of Directors, in late July 2005, identified 69 candidate countries in the "low income" category and 29 candidate countries in the "lower middle income" category. From its list of candidate countries, the MCC Board expects to select FY 06 eligible countries in November 2005 based on their relative performance in ruling justly, investing in people, and encouraging economic freedom.

For FY 06, countries are "low income" candidates for the MCA if they have a per capita income equal to or less than $1575 and are not prohibited from receiving United States economic assistance under the Foreign Assistance Act of 1961 or any other provision of law. The eight "low income" candidate countries for FY 06 from the Europe and Eurasia region are: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, and Ukraine.

MCC legislation allows for consideration of a new category in FY 06 for MCA assistance — "lower middle income" countries. Countries are candidates for the "lower middle income" category if they have a per capita income between $1575 and $3255 and are not prohibited from receiving United States economic assistance under the Foreign Assistance Act of 1961 or any other provision of law. The six "lower middle income" candidate countries from the Europe and Eurasia region are: Albania, Belarus, Bulgaria, Kazakhstan, Macedonia, and Romania.

In its report to Congress on candidate countries, the MCC also identified Bosnia and Herzegovina, Serbia and Montenegro, and Uzbekistan as countries that would be candidate countries but for statutory provisions that prohibit them from receiving U.S. economic assistance.

16 Eligibility Indicators

Selection as an eligible country is based on a country's overall performance in relation to three broad policy categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. The MCC Board relied on 16 publicly available indicators to assess policy performance as the predominant basis for determining which countries would be eligible to apply for FY 04 and FY 05 assistance. Table E.4 lists the indicators and identifies their sources.

Table E.4		
Millennium Challenge Account: Indicators and Sources		
Ruling Justly	**Encouraging Economic Freedom**	**Investing in People**
1. Civil Liberties *Source: Freedom House*	1. Country Credit Rating *Source: Institutional Investor Magazine*	1. Public Expenditures on Health as Percent of GDP *Source: National Governments*
2. Political Rights *Source: Freedom House*	2. 1-Year Consumer Price Inflation *Source: Multiple*	2. Immunization Rates: DPT3 and Measles *Source: The World Health Organization WHO*
3. Voice and Accountability *Source: World Bank Institute, Governance Matters III Database*	3. Fiscal Policy *Source: National Governments*	3. Public Primary Education Spending as Percent of GDP *Source: National Governments*
4. Government Effectiveness *Source: World Bank Institute, Governance Matters III*	4. Trade Policy *Source: The Heritage Foundation of Economic Freedom*	4. Primary Education Completion Rate *Source: World Bank and UNESCO*
5. Rule of Law *Source: World Bank Institute, Governance Matters III*	5. Regulatory Quality *Source: World Bank Institute, Governance Matters III*	
6. Control of Corruption *Source: World Bank Institute, Governance Matters III*	6. Days to Start a Business *Source: World Bank*	

Ten of the first 16 eligible countries, Armenia included, were selected because they (i) performed above the median in relation to their peers on at least half of the indicators in each of the three policy categories, (ii) **performed above the median on the Control of Corruption indicator,** and (iii) did not perform substantially below average on any indicator, and supplemental information available to the Board supported their selection.[32]

Although the Control of Corruption indicator has special status in the selection process, three of the first 16 countries — Georgia, Bolivia, and Mozambique — were determined by the Board to be eligible despite the fact that they were at or below the median on the Control of Corruption indicator, thus failing the Control of Corruption criterion. The Board reported to Congress that it nevertheless made a positive eligibility determination on these countries in light of notable actions taken by their governments and positive trends contained

[32] In making its determination of eligibility with respect to a particular candidate country, the MCC Board of Directors considers whether the country performs both (a) above the median in relation to its peers on at least half of the indicators in each of the three policy categories *and* (b) above the median on the Control of Corruption indicator. The Control of Corruption indicator is thus given special importance. (The inflation indicator also has special status: a candidate country needs to have an inflation rate under 20%.)

in supplemental information available to the Board.

While the indicators methodology is the predominant basis for determining which countries will be eligible for MCA assistance, the Board may and does take into account other relevant information where appropriate: trends and recent events since the indicators were published; quantitative and qualitative information to determine whether a country performed satisfactorily in relation to peers in a given category; and other factors, including a country's commitment to economic policies that promote private sector growth and the sustainable management of natural resources, and rights of people with disabilities.

In the case of Georgia, though it is at or below the median on more than half of the "Ruling Justly" categories (including the Control of Corruption indicator), the Board also weighed the substantial progress made in just three months by the newly elected Georgian government: creating an anticorruption bureau, a new bureau to investigate and prosecute corruption cases, and a single treasury account for all government revenue to ensure transparency and accountability; and revamping procurement legislation to ensure an open and competitive process.

Table E.5 summarizes the Control of Corruption scores for all 16 eligible countries for FY 04, 13 of which were above the median on the Control of Corruption indicator for candidate countries. In addition to Armenia and Georgia, it also includes Control of Corruption scores for the other six candidate countries from the Europe and Eurasia region, each of which (with the exception of Bosnia and Herzegovina) failed the Control of Corruption test. Bosnia and Herzegovina passed all categories except Ruling Justly, where it passed Control of Corruption and Voice and Accountability but failed Government Effectiveness and Rule of Law (with indicators just below the median) and Political Rights and Civil Liberties (at the median).

The standard deviations shown in Table E.5 demonstrate that using the median as the basis for a rigid "in-or-out" rule for MCA purposes runs the risk of misclassifying some countries. World Bank Institute researchers explain that, for a large intermediate range of countries, it is impossible to determine with accuracy whether they belong in the top half or the bottom half of the sample. In the opinion of several experts, using a *range* is far more appropriate than using the median as a bright line test.

Table E.5

16 MCA Eligible Countries for FY 2004

Europe and Europe Region Candidate Countries

Control of Corruption Indicators for 2002

Point Estimate and Percentile Rank

Source: World Bank Institute

MCA Eligible Country	EE Region Candidate Country		Point Estimate (-2.5 to +2.5) Point Estimate	Percentile Rank (0 to 100) Percentile Rank	Standard Deviation	Control of Corruption Above Median Pass	Below Median Fail
1		Cape Verde	0.33	66.0	0.30	√	
2		Madagascar	0.14	61.9	0.27	√	
3		Sri Lanka	-0.14	54.6	0.16	√	
4		Mongolia	-0.14	54.1	0.25	√	
5		Senegal	-0.17	53.1	0.18	√	
6		Lesotho	-0.28	48.5	0.24	√	
7		Mali	-0.32	46.4	0.24	√	
8		Ghana	-0.40	42.8	0.16	√	
9		Vanuatu	-0.44	40.2	0.44	√	
10		Nicaragua	-0.44	39.7	0.18	√	
No	1	Bosnia	-0.60	34.5	0.17	√	
11		Benin	-0.61	34.0	0.27	√	
12	2	Armenia	-0.72	30.4	0.16	√	
13		Honduras	-0.78	27.3	0.16	√	
14		Bolivia	-0.82	25.3	0.16		x
No	3	Kyrgyz Rep.	-0.84	23.7	0.16		x
No	4	Albania	-0.85	23.2	0.18		x
No	5	Moldova	-0.89	21.6	0.14		x
15		Mozambique	-1.01	14.9	0.21		x
16	6	Georgia	-1.03	12.4	0.16		x
No	7	Tajikistan	-1.07	10.3	0.17		x
No	8	Azerbaijan	-1.07	9.8	0.14		x

Implications for USAID Anticorruption Programming

The MCC plans to fully fund multi-year Compacts, at a level that would make MCC one of the largest donors in each country. The demand for MCA funding is high, and the promise of MCA participation is having a marked, positive impact on candidate countries. Many countries not selected in the initial rounds are seeking to improve data availability and are demonstrating increasing interest in assistance targeted at improving policy performance in order to qualify for MCA assistance.

> In "threshold countries," USAID will be the lead implementer in an MCC-financed program to help improve performance on key indicators that caused these countries to miss MCA eligibility. If control of corruption is one of these missed hurdles, then USAID may have an active, important role to play in these environments.
>
> *USAID Anticorruption Strategy (January 2005)*, p. 22.

MCC Threshold Program and the Role of USAID

The MCC established the Threshold Program in 2004 as an added incentive for candidate countries that are on the "threshold" of MCA eligibility for Compacts, meaning that although they have not yet qualified for MCA assistance, they have demonstrated a significant commitment to undertaking the reforms necessary to improve policy performance and eventually qualify for MCA assistance. The program is designed to help these countries address the specific policy weaknesses indicated by the country's scores on the sixteen policy indicators that are central to the MCA eligibility criteria and methodology.

The MCC Board of Directors invited one Europe and Eurasia region country, Albania, to apply for FY 2004 MCC Threshold Program assistance, along with six other countries (East Timor, Kenya, Sao Tome and Principe, Tanzania, Uganda, and Yemen). Six additional countries (Burkina Faso, Guyana, Malawi, Paraguay, Philippines, and Zambia) have been invited to participate in the Threshold Program for FY 05. The MCC Board of Directors selected the 13 countries based on their demonstrated commitment to meet the MCA eligibility criteria, including improvement of their scores on the sixteen policy indicators.

The MCC Board favored countries that had to improve upon no more than two indicators to qualify cleanly under the MCA eligibility criteria: i.e., with such improvements the country would score above the median on half of the indicators in each policy category, above the median on the Control of Corruption indicator, and not substantially below the median on any indicator. In addition, the Board reviewed whether countries that passed this screen also demonstrated a commitment to undertake policy reforms that would result in improvements in deficient MCC policy indicators.

USAID has primary responsibility for overseeing implementation of Threshold Country Plans. The primary means to improve country performance on the policy indicators that are central to the MCA eligibility criteria is to carry out policy reforms and institutional changes in those areas in which the country failed to meet the criteria. Assistance funded under the Threshold Program is intended to help countries make these changes.

USAID will work with each Threshold Country to consider the full range of potential implementing partners for the Threshold Country Plan, including local, U.S. and other international firms, NGOs, and other U.S. Government agencies and international organizations. USAID will monitor country performance and, in coordination with MCC, evaluate progress.

> USAID should be prepared to conduct vulnerability assessments to identify the potential weak points in each country's readiness for MCA assistance if the MCC requests it. USAID should similarly be ready to deliver technical assistance in areas such as concurrent audit, citizen oversight, and fraud awareness training, and to recommend diplomatic interventions.
>
> *USAID Anticorruption Strategy (January 2005)*, p. 22.

Other U.S. agencies and departments may play an implementation role as well.

As with the core MCA program, being declared eligible for Threshold Program assistance does not guarantee that a country will in fact receive such assistance. There is no guarantee that a Threshold Country Plan will be approved and funded. Only proposals from countries demonstrating a meaningful reform commitment and a high likelihood of successful implementation will be selected for Threshold assistance. Further, participation in the Threshold Program does not guarantee future selection for the MCA. Qualifying for the MCA will continue to depend on a country's performance on the MCA selection criteria.

Change will not be easy, and it will take time for improvements to be reflected in a country's indicator scores, particularly Control of Corruption. Improving performance will require strong political commitment and leadership over a sustained period of time, as well as development assistance.

Control of corruption is a necessary and critically important feature of assistance to eligible and threshold countries. Eligible countries have been cautioned to maintain their performance on the selection indicators in order to preserve their status as MCA eligible. Candidate countries need all the help they are willing and able to absorb in order to clear the Control of Corruption threshold. Moreover, since the Control of Corruption threshold is relatively low, barely clearing this low hurdle does not indicate that corruption is under control. Transparency International and Nations in Transit scores for all MCC eligible countries suggest otherwise.

> Countries that qualify as eligible for assistance under the MCA will have passed the core requirement on corruption, but this does not mean that they are, in any way, corruption free. In fact, they still face important ongoing governance challenges and may have particular vulnerabilities relative to MCA funding.
>
> *USAID Anticorruption Strategy (January 2005)*, p. 22.

Diagnosing Corruption: Disaggregating the Control of Corruption Indicator

The Control of Corruption indicator, one of six aggregate governance indicators constructed by World Bank Institute researchers, measures perceptions of corruption based on surveys and polls that assess specific aspects of the problem: the frequency of "additional payments to get things done"; the effects of corruption on the business environment; "grand corruption" in the political arena; and the tendency of elite firms to engage in "state capture." To construct the Control of Corruption indicator, researchers aggregate individual measures taken from a variety of sources (international organizations, political and business risk-rating agencies, think tanks, and non-governmental organizations). Due to the smoothing effect of aggregation, rich detail provided by the underlying sources becomes obscured in the macro-level result: a composite, single score indicator.

Control of corruption is a critically important aspect of assistance to countries maintaining or seeking MCA eligible status. USAID personnel engaged in strengthening

the anticorruption environment must not only have an appreciation of the Control of Corruption indicator as a measurement tool for MCC purposes, but also develop a deeper understanding of the factors that influence the underlying surveys and polls on which the Control of Corruption indicators are based.

To understand what drives the influential Control of Corruption, country-level indicator, the TAPEE analytical framework calls for reverse engineering, that is, disaggregation. USAID Washington and mission personnel interested in deepening the Agency's anticorruption knowledge are advised to examine the underlying sources of information on which the composite Control of Corruption indicator is founded. This process begins with analyzing the sector specific content of the underlying surveys and polls, paying particular attention to the types of corrupt practices excluded as well as those included, and with respect to the latter, noting the proxies used for measurement purposes.

Table E.6 shows that, for the eight MCA candidate countries for FY 04 from the Europe and Eurasia region, the Control of Corruption indicator results are based on data derived from up to nine different sources. Table E.7 summarizes the general subject matter of these sources. (It is beyond the scope of this paper to discuss country specific survey and poll results.)

Table E.7 summarizes the subject matter and scope of the nine surveys and polls (identified in Table E.6), used to construct 2002 Control of Corruption indicators for FY 04 MCA candidate countries in the Europe and Eurasia Region.

Table E.6

Europe and Eurasia Region MCA Candidate Countries
World Bank Institute Control of Corruption Indicator 2002
Number and Sources of Surveys / Polls Aggregated

		1	2	3	4	5	6	7	8
	MCA Candidate Country	Bosnia	Armenia	Kyrgyz Rep.	Albania	Moldova	Georgia	Tajikistan	Azerbaijan
2002	Control of Corruption Estimate (-2.5 to + 2.5)	-0.60	-0.72	-0.84	-0.85	-0.89	-1.03	-1.07	-1.07
2002	Control of Corruption Percentile Rank (0-100)	34.5	30.4	23.7	23.2	21.6	12.4	10.3	9.8
	Standard Deviation	0.17	0.16	0.16	0.18	0.14	0.16	0.17	0.14
	Sources and Publications for 2002:								
1	World Bank								
	Business Enterprise Environment Survey	x	x	x	x	x	x	x	x
2	World Bank								
	Country Policy and Institutional Assessments	x	x	x	x	x	x	x	x
3	Global Insight's DRI McGraw-Hill								
	Country Risk Review	x	x	x	x	x	x	x	x
4	Freedom House								
	Nations in Transit	x	x	x	x	x	x	x	x
5	Political Risk Services								
	International Country Risk Guide		x		x	x			x
6	Business Environment Risk Intelligence								
	Qualitative Risk Measure in Foreign Lending		x	x		x	x		x
7	World Markets Research Center								
	World Markets Online	x	x	x	x	x	x	x	x
8	Columbia University								
	State Capacity Project	x		x			x	x	x
9	Economist Intelligence Unit								
	Country Risk Service					x			x

Table E.7. Sources for Control of Corruption Indicators	
1	**World Bank and EBRD** **Business Environment and Enterprise Performance Survey (BEEPS)** The Business Environment and Enterprise Performance Survey (BEEPS) was developed jointly by the World Bank and the European Bank for Reconstruction and Development. In its first round conducted in 1999-2000, it surveyed over 4,000 firms in 22 transition countries that examined a wide range of interactions between firms and the state. In its second round conducted in 2002, the survey covered over 2,100 firms in 27 countries.
2	**World Bank** **The Country Policy and Institutional Assessment (CPIA)** The Country Policy and Institutional Assessment (CPIA) annually assesses the quality of IBRD and IDA borrowers' policy and institutional performance in areas relevant to economic growth and poverty reduction. Country assessments began in the World Bank in the late 1970s to help guide the allocation of lending resources. The methodology has evolved over time, reflecting lessons learned and mirroring the evolution of the development paradigm. While in earlier years assessments related mainly to macroeconomic policies, they now include other factors relevant to poverty reduction, such as social inclusion, equity and governance. The CPIA consists of 20 equally weighted criteria representing the policy dimensions of an effective poverty reduction and growth strategy. The criteria are grouped in four clusters. Cluster A, Economic Management, covers economic policies. Cluster B, Structural Policies, covers a broad range of structural policies: trade policies, financial depth, market competition, and environmental sustainability. Cluster C, Policies for Social Inclusion and Equity, addresses social equity and broad-based growth, and aims to capture the extent to which a country's policies and institutions ensure that the benefits of growth are widespread, contribute to the accumulation of social capital, and direct public programs to poor people and reduce their vulnerability to various kinds of shocks. Cluster D, Public Sector Management and Institutions, aims to capture key aspects of good governance, a vital element in both sustained growth and poverty alleviation. For each of the 20 criteria, countries are assessed on a scale of 1 (low) to 6 (high). The ratings assess the quality of the country's current policies and institutions, which are the main determinants of the present prospects for aid effectiveness. The rating assigned for each criterion reflects a variety of indicators, observations, and judgments: ratings are based on country knowledge obtained from country dialogue and the Country Assistance Strategy (CAS) process, the available body of economic and sector work (ESW), project preparation and supervision, and project and CAS monitoring and evaluation.
3	**Global Insight's DRI/McGraw-Hill** DRI is an economic consulting and information company which provides data, analysis, forecasts and expert advice to strategic planners, business and financial analysts, and policy makers. It was founded in 1973 and is based in the United States. In 1996, DRI launched the Country Risk Review (CRR), a quarterly publication providing country risk assessments to international investors. A first draft of the risk ratings in this publication are produced by country analysts, who then submit their preliminary assessment to regional review committees charged with analyzing and challenging these assessment. The global risk service committee evaluates the reviewed assessments to ensure quality and cross-country consistency. The country analysts then produce the final country risk review. The CRR assesses the relationship between country risk and its effects on the profitability of investments. For each country, DRI identifies a number of "potential sources of risk", specifies measurable "risk events", measures how probable those risk events are, and assesses the severity of impact that each outcome would have. Based on these considerations, DRI produces a risk score for each country. The CRR identifies a total of 33 "immediate risk events" and 18 "secondary risk events" for 111 developed and developing countries. Immediate risk events are classified into policy risks (tax, and non-tax), and outcome risks (price, and non-price).

Table E.7. Sources for Control of Corruption Indicators	
3 cont.	Secondary risk events are classified into domestic political risks, external political risks, and economic risks. For each risk event, DRI produces a short-run and a long-run risk rating. These ratings provide subjective estimates of the likelihood that a particular risk event will occur within one and five years respectively. DRI follows a methodology to ensure that the five-year forecasts are consistent with the short-term forecasts. Although these indicators nominally measure the likelihood of future changes in governance concepts, in practice the long-run ratings provide good measures of the current levels of governance.
4	**Freedom House** **Nations in Transit** Freedom House is a non-governmental organization which promotes democratic values around the world. Freedom House was established in 1941 and is headquartered in New York City. "Nations in Transit" was launched in 1995 and covers 28 post-communist countries. Freedom House develops its assessments using a team of academic advisors, in-house experts, published resources, and local correspondents, including human rights activists, journalists, editors and political figures. Freedom House staff also conduct regular fact-finding missions to countries being assessed. An academic advisory board provides input to the project in general. Freedom House Nations in Transit publication evaluates the progress in democratic and economic reform in post-communist countries. Country surveys are written by Freedom House staff or consultants and are reviewed by academics and senior Freedom House staff. Each report is divided into nine sections, ranging from the political process to progress in price liberalization. For each section, a preliminary rating is based on a checklist of issues. The academic oversight board establishes the final ratings by consensus following extensive discussions and debate, which are reviewed by the Freedom House rating committee.
5	**Political Risk Services** **International Country Risk Guide (ICRG)** The PRS group is an affiliate of Investment Business with Knowledge (IBC), a United States-based corporation providing up-to-date country information for international business. PRS was founded in 1980 and is headquartered in Syracuse, New York. Since 1982, PRS produces the International Country Risk Guide (ICRG), which provides assessments of a political, economic and financial risks in a large number of developed and developing countries. These assessments are based on the analysis of a worldwide network of experts, and are subject to a peer review process at subject and regional levels to ensure the coherence and comparability across countries. The ICRG assesses three major categories of risk: political (with 12 components), financial (5 components) and economic (6 components). The World Bank Institute researchers use components of the Political Risk Index, which report subjective assessments of the factors influencing the business environment in a particular country.
6	**Business Environment Risk Intelligence (BERI S.A.)** **Quantitative Risk Measure in Foreign Lending (QLM)** BERI S.A. is a private source of analysis and forecasts of the business environment in developed and developing countries. The firm was founded in 1966 and is headquartered in Geneva, Switzerland. The QLM is a set of indicators which measures the qualitative risk factors in credit exposure in 115 countries using a scale from 0 (high risk) to 100 (low risk). BERI monitors 50 countries three times per year, assessing 57 criteria separated into three indices. The Political Risk Index (PRI) assesses sociopolitical conditions in a country. Diplomats and political scientists rate the present condition of eight causes and two symptoms of political risk, using a scale from 7 (no problem) to 0 (prohibitive problem). The Operation Risk Index (ORI) identifies major bottlenecks for business development, rating 15 criteria on a scale of 0 (unacceptable conditions) to 4 (superior conditions). The R factor assesses a country's willingness to allow foreign companies to convert and repatriate profits and to import components, equipment and raw materials. It is composed of 4 sub-indices, one of which assesses the quality of legal framework in terms of statutory laws and actual practice.

Table E.7. Sources for Control of Corruption Indicators	
7	**World Markets Research Center** **World Markets Online** World Markets Online (WMO) is an online subscription service, updated daily, which provides analysis of the conditions and risks for businesses worldwide. Established in 1996, the World Markets Research Centre is based in London and employs over 190 permanent staff. World Markets Online has developed a risk rating system to enable its clients to compare and contrast the investment climate in 186 countries around the world. For WMO the principal quality their risk measures endeavor to measure is stability, which they believe businesses need most of all to be able to make secure investments and plan ahead. In addition to stability, WMO believes that businesses also need the right conditions in place; governments must ensure the right policies and safeguards to allow businesses to operate effectively. A country with a high risk rating by WMO is a country where businesses face continual threats to their operations, either from direct physical intervention, or because of the poor conditions and stability in the country concerned. The system rates the quality of conditions and level of stability encountered by investors in each country in terms of political, economic, legal, tax, operational and security environment. Drawing on a worldwide network of information gatherers and analysts, World Markets Research Centre generates a comprehensive range of in-depth country, sector and market services. The process by which the risks are assessed consists firstly of WMO analysts' own experience of the country's conditions. Daily stories highlight countries' changing conditions and constantly inform the risk rating levels. In addition to the in-house analysts' own consensus, World Markets Online also draws upon the expertise and impressions of those working in the field through a wide network of stringers and informal contacts which allows them to access information only available locally as well as to case studies of individual investor's experience. Regular meetings of all the analysts across the regional desks ensure that their ratings are fully comparable globally, and that the factors used for assessment are consistent.
8	**Columbia University State Failure Task Force** **State Capacity Survey** In 1999 the State Failure Task Force decided to experiment with a new way to measure state capacity that relied on a survey of country experts. Under the direction of Marc Levy of the CIESIN at Columbia University, a survey instrument was developed and tested, resulting in a set of 31 multiple-choice questions and three open-ended questions. The survey asks questions in five broad categories: political context, state legitimacy, human resources and organizations, institutions, and overall capacity. Data were obtained on 108 and 98 countries from assessments completed by 164 experts during 2000 and 2002, respectively.
9	**The Economist Intelligence Unit** **Country Risk Service** The Economist Intelligence Unit is a for-profit organization producing analysis and forecasts of the political, economic and business environment in more than 180 countries. The EIU was founded in 1949 and is based in London. In 1997, the EIU launched two quarterly publications which contain some governance measures: The Country Risk Service, and the Country Forecasts. The assessments in these publications are based on regular contributions from a global network of more than 500 information-gatherers. A panel of regional experts checks the accuracy, consistency and impartiality of these assessments. World Bank Institute databases utilize data based on the individual subcomponents of these country risk ratings.

OTHER INDICATORS: DISAGGREGATING INDICES OF CORRUPTION

Effective anticorruption programming requires disaggregation of corruption along several dimensions. A variety of household and business surveys are available to aid in this task. Tables E.8 and E.9 present results of two illustrative surveys, one of business executives and the other of households. Note that the perceptions of the two groups differ significantly regarding problematic sectors and priorities for reform.

Table E.8. Survey of Business Executives: Ranking the Five Most Problematic of 14 Factors for Doing Business in Five Europe and Eurasia Region Countries

FACTOR	Macedonia	Russia	Ukraine	Bulgaria	Romania
Corruption	**1**	**2**	**3**	**3**	**3**
Inefficient bureaucracy	**2**	**4**	**5**	**4**	**5**
Access to financing	**3**	**3**	**4**	**1**	**2**
Tax rates	**4**	**5**	**2**	**5**	**4**
Political instability	**5**				
Poor work ethic	6				
Crime and theft	7				
Tax regulations	8	**1**	**1**	**2**	**1**
Government instability/coups	9				
Inadequate educated workforce	10				
Inadequate infrastructure	11				
Restrictive labor regulations	12				
Foreign currency regulations	13				
Inflation	14				

Source: World Economics Forum, Executive Opinion Survey (2003), *The Global Competitiveness Report 2003-2004.*

Note: From a list of 14 factors, respondents were asked to select the five most problematic factors for doing business in the country and to rank them from 1 to 5 (most to least problematic).

A World Bank report provides this summation of the complexity of the task of measuring corruption:

"We find a complex web of movements and mutations across different forms, features and dimensions of corruption. **We need to be cautious and modest and to constantly recognize the full complexity of the measurement effort**."

Anticorruption in Transition 2, Corruption in Enterprise-State Interactions in Europe & Eurasia 1999-2002, p. 50, The World Bank (2004).

Table E.9.

Transparency International Global Corruption Barometer 2003

Household Survey

Sectors Designated as First Choice Selections for Elimination of Corruption

	Political Parties	Courts	Police	Medical Services	Education System	Business Licensing	Customs	Tax Revenue	Private Sector	Utilities (Telphone, etc,)	Immigration Passports
EE Country	%	%	%	%	%	%	%	%	%	%	%
Bosnia	**24.2**	**17.0**	4.8	**20.4**	6.6	14.5	4.2	3.5	1.7	2.4	0.3
Bulgaria	**20.2**	**19.8**	4.1	14.3	4.8	9.9	**16.5**	2.7	1.8	3.3	0.9
Croatia	**18.6**	**21.6**	4.9	**22.5**	2.8	12.9	0.4	2.5	3.4	4.2	1.9
Georgia	12.4	**18.1**	13.4	**19.7**	6.0	4.8	8.2	6.0	0.4	4.5	0.9
Macedonia	**28.2**	**15.4**	2.8	8.5	9.4	8.5	**17.9**	3.3	0.6	2.7	0.9
Poland	**27.2**	**15.4**	11.1	**21.6**	5.0	5.8	2.2	4.5	1.8	3.5	0.7
Romania	**24.3**	**20.2**	6.4	12.6	2.9	**15.1**	2.7	9.3	1.9	1.6	1.2
Russian Fed.	**24.5**	10.9	**17.9**	**15.3**	8.8	5.3	1.1	4.2	0.4	8.3	2.0
Eight Comparison Countries											
Finland	38.0	27.7	4.2	6.1	1.3	9.5	0.7	3.9	3.1	1.6	3.6
Turkey	42.5	6.6	6.2	7.3	11.7	7.1	3.4	4.8	1.5	5.1	0.8
Mexico	19.9	6.6	36.5	3.5	8.7	2.9	3.3	6.1	0.8	9.0	1.4
Sweden	19.3	16.2	9.7	12.8	1.7	8.2	2.4	6.3	7.5	2.9	11.6
Hong Kong	15.4	8.9	35.4	3.3	3.9	1.7	5.4	5.0	12.1	4.8	1.3
Canada	39.7	8.3	5.7	9.7	6.5	3.2	1.8	5.7	4.4	2.3	8.8
Ireland	38.3	8.8	10.3	13.4	3.7	3.9	0.8	10.7	2.7	0.8	5.1
USA	39.1	9.1	7.2	10.1	8.6	3.4	1.1	3.8	4.4	1.6	8.3
Overall (44 Countries)	**29.7**	**13.7**	**11.5**	**8.4**	**7.5**	**7.0**	**4.2**	**5.2**	**3.1**	**4.1**	**3.3**

ANNEX F

OVERVIEW OF THE EVOLUTION OF CORRUPTION IN THE EUROPE & EURASIA REGION

> "Today, corruption is no longer a taboo subject. And more importantly, we can't ignore it because development cannot thrive in a corrupt environment. An international consensus has emerged that corruption and poor governance fuel state failure, deter foreign investment, and cripple economic growth and development."
>
> Andrew S. Natsios, Administrator, U.S. Agency for International Development, *USAID Anticorruption Strategy* (January 2005), Foreword, p. v.

Corruption was endemic in and continues to plague the former communist states of USAID's Europe and Eurasia region. After more than a decade into a difficult and uneven transition, corruption has emerged as a key development issue constraining the economic, political, and social development of too many post-communist states in the region.

Left unchecked, endemic corruption has the ability not only to check further development in every sector supported by USAID programming, but also to reverse critical gains already made. Deeply entrenched corruption at all levels of government, business, and society in many SEED and FSA countries threatens US and European interests in promoting regional stability, the rule of law, and integration into the larger international community and global marketplace.

THE LEGACY OF COMMUNISM

In many ways, corruption – in all its forms – is similar wherever it occurs. Patterns and causes would be recognizable to any global actor. None is so unique to post-communist Europe or Eurasia as to be geographically sui generis. Still, there are some historical elements, peculiar to the political, social, and historical environment in the region that make post-communist corruption path-dependent, resilient, and more apt to recede incrementally rather than exponentially within the limited timeframes of donor assistance. The region's communist past both explains and influences much of the systemic corruption found today.

> Unique to the Europe and Eurasia region is the perverse legacy of half a century of communism. This legacy continues to sustain and exacerbate the ingrained patterns of corruption of the pre-communist period.

Corruption has many faces and serves many functions and interests, not explained fully or easily by unrestrained greed.

- As a social and economic coping mechanism, corruption provides individuals and businesses access to scarce resources, and a modicum of certainty, in environments unrestrained by formal rules of governance.
- As a public financing technique of first or last resort, corruption finances underfunded, over-staffed, and inefficient public institutions. It also finances political parties and individual politicians.

> "The fact is that Romania's corruption is as much a matter of underdevelopment as it is a holdover from the Communist era. This rural post-Communist society has yet to become fully modernized, and its administration has never reached the impartiality, impersonality, and fairness that characterize modern bureaucracies."
>
> Alina Mungiu-Pippidi, Director of the Romanian Academic Society, Freedom House *Nations in Transit 2004*, Country Report, Romania.

- As a means of "ordering" political relationships and institutions, corruption is a powerful control mechanism. Dispensing lucrative ministerial positions, public contracts, low-wage jobs, and formal and informal perquisites has political as well economic dimensions. As the enemy of formality, corruption ameliorates the intended effects of formal restraints on the state that may be unpopular with those who prefer unbounded power.
- As an alternative to competition, corruption holds the appeal of rewarding those who may not fare well under open and competitive political and economic systems.
- As a social capital phenomenon, corruption creates, consolidates, and reinforces informal social networks that depend on reciprocity and some level of trust among its members.

In all societies, formal and informal systems and networks co-exist, sometimes in harmony, sometimes not. Post-communist corruption is in some ways an understandable response to, if not an entirely predictable outcome of, the uneven evolution and development of economic growth, democracy and governance, and social transition institutions and systems. Where weak and ineffective formal institutions, networks, and rules fail of their essential purpose, robust informal ones — often but not always corrupt — crowd out the weak, filling the vacuum. The Europe and Eurasia region needs not only formal institutions and rules that work better, but also informal networks with shared values that support rather than undermine the intended purposes of formal structures.

> "The superimposition of Communism on traditional rural societies led to a culture of privilege governed more by unwritten rules than by formal ones. As other forms of social stratification have been annihilated by the Communist regime, status — or the relative distance of an individual from the groups or networks holding power — is still the determining factor in the Romanian social hierarchy. Corruption in Romania is still grounded in the social structure of a country with almost no middle class and networks of individuals with disproportionate influence."
>
> Alina Mungiu-Pippidi, Director of the Romanian Academic Society, Freedom House *Nations in Transit 2004*, Country Report, Romania.

Unique to the Europe and Eurasia region is the perverse legacy of half a century of communism. This legacy continues to sustain and exacerbate the ingrained patterns of corruption of the pre-communist period. Communist regimes obliterated or eroded distinctions between the public and the private, between what belonged to the state and what belonged to individuals or groups, and between the political and the economic.

If politics is the authoritative allocation of resources by political decisions rather than by market forces, then the communist states of Europe and Eurasia allocated resources almost entirely through political processes. Consequently, political and intertwined social networks became the critical vectors through which prized resources were distributed. If everything was political, everything depended on whom you knew and the status of your networks. Connections and loyalty were the common

currency of life. If you had connections and something of political, economic, or social value to exchange, you got what you needed. Without connections and reciprocity, you got almost nothing. So energy was devoted to the cultivation of political and social capital, making and sustaining connections. Epitomized by persistent shortages of basic goods and services, this environment created huge state bureaucracies that could only be described as Kafkaesque. Individuals and organizations and public officials survived in this environment – and an elite few flourished – mainly by avoiding, evading, and subverting the official rules of the game; in a word, corruption.

Patrimonialism – the personal and then organizational but always symbiotic relation between patrons and their clients – was the real calculus of politics in communist Europe and Eurasia. Patrimonialism, communist style, was based not as much on kinship or geography, as in Latin America, Asia or Africa, but on the party and its array of interconnected political, economic, and social organizations. And, unlike Latin America, Asia, or Africa, this party apparatus was not merely pervasive; it was also ubiquitous. The party, the apparat, looked out for its own, the apparatchiks. In return, the apparatchiks provided loyalty and service to the apparat. Because the party enjoyed a monopoly of political and economic power, essential personal connections were organized bureaucratically, primarily through the party bureaucracy and its mechanisms. Consequently, political connections and attendant social networks enjoyed a virtual monopoly over the official means of allocating resources. Subversion of the official rules for political, economic, and social purposes – corruption, in short – was the name of the game.

Under communism, corruption was the predictable result of perverse incentive systems that rewarded overt loyalty to the regime and party, and mastery of the art of the covert quid pro quo. In this calculus of success, merit, economy, efficiency, and effectiveness in performance mattered little or were measured politically. As a former USAID mission director once noted, corruption in the communist system was rooted in a “paradox of both shortages and excesses.” In the communist world, corruption was a symptom and the predictable outcome of upside-down incentive structures created by a political-economic system plagued with shortages of basic goods and services, excesses of bureaucracy, and opaque resource allocation mechanisms founded on party ties and patronage networks. Shortages of every-day goods and services existed side-by-side with a self-defeating system of bureaucratic excesses, overlapping systems of broad authority, wide discretion, no transparency and distorted accountability, all bound together with generous amounts of red tape. Taken together, those shortages, excesses, and allocation mechanisms turned societal values on their head. The only "victory" for the average citizen, whether in Albania or Azerbaijan, lay in "beating" the system of shortages and excesses by paying a bribe or exchanging a favor to achieve the far more important goal of sheltering one’s family and friends from deprivation and abuse. For the privileged few, gaining power and discretion over scare resources and applying the art of corruption became the vehicle to wealth, status, and success.

Unfortunately, the collapse of communist regimes did not spell the end of informal networks, patrimonialism, and corruption. Quite the contrary, the collapse reinforced the old patterns, clothing them in new attire. Indeed, if anything, the transition offered new opportunities which enriched the old elites beyond their communist dreams. When the first attempts at dismantling the communist state came to Central and Eastern Europe after 1989, they proceeded without much attention to the perverse, upside-down incentive systems that communism had created. In many former communist states, these perverse incentive systems survive, if not intact, then well

mutated to fit the transition, rewarding short-term rent-seeking while discouraging longer-term institutional reform. After the collapse of the old order, but before the rule of law, effective markets, and well-governed public and private sector institutions could be established, the old networks, kept open through their former communist ties and patterns, transformed themselves into opaque and guarded mechanisms that kept the transition economy running, albeit inefficiently and sluggishly. Necessarily rapid, — but often insufficient, uncoordinated, myopic, and sometimes flawed — reform initiatives did not foresee that post-communist opportunists in positions of authority with unbounded control over the disposition of scarce tangible and intangible assets would be as effective at subverting the new official rules of the game as they were at undermining the old ones.

THE EVOLUTION OF PERVERSE PUBLIC-PRIVATE RELATIONSHIPS

"Perverse, symbiotic relationships between the public and private sectors are all too common in post-communist Europe and Eurasia. Even where they exist in form, legal boundaries between the public and private sectors . . . are, in substance, permeable and indistinct, nearly meaningless in the worst cases."

In the absence of fair and uniformly applied rules and robust public and private sector institutions, privatization and other transition "reforms" gave new life to the old communist patronage networks, further entrenching many of the old nomenklatura with the additional guarantees of personal ownership. With the advent of privatization and "free" markets, powerful elites all too often used their political positions and economic ties to privatize the state's more valuable assets into the hands of old or new cronies. In turn, the captive or capturing owners and managers gave their political patrons or their designees part of the action either directly or indirectly, through covert reciprocal alliances, political contributions, and by exercising favoritism (or its opposite). In the name of capitalism and democracy, old and newly aligned economic, political, and social elites reinforced their ties creating neo-patrimonialism of the first order.

During the transition, hybrid economies, rather than truly open and competitive ones, took root and grew in a murky gray arena dominated by covert public-private alliances. Without clear boundaries separating the public from the private, the state either became increasingly "captured" by the private sector, or in reverse, increasingly embedded itself in the private sector to safeguard its patronage and crony networks. In certain countries, arguably, state actors turned into economic parasites, simply living off the 'host' private sector, instead of supporting competitive, vibrant markets. In some cases, political elites "franchised" not only lucrative government offices such as customs and tax administration, but also significant sectors of the economy such as imports and distribution of oil, vehicles, pharmaceuticals, and energy. Just as wealth may be used to gain public office in Western democracies ("wealth chasing power"), public office may be used to garner wealth in post-communist Europe and Eurasia ("power chasing wealth").

Where economic opportunities are opening up more rapidly than political ones, ambitious people will pursue *power through wealth* . . . .Alternatively, where political opportunities are relatively more plentiful than economic prospects, elites may purse *wealth through power*.

USAID Anticorruption Strategy (January 2005), p. 14.

"State capture in Albania is a two-way process. On the one hand, powerful businesses control politicians and affect the legislative process. On the other hand, politicians and government officials own businesses or TV outlets and use the state to their own benefit, creating and sustaining monopolies and anticompetitive practices."

Blendi Kajsiu, Coordinator Parliamentary Outreach Project, Lecturer, Faculty of Social Sciences, University of Tirana, *Freedom House Nations in Transit 2004*.

"Almost all politicians participate in the economic life of the country, investing corrupt money into local businesses. The law prohibits such activities for members of Parliament, yet the practice is widespread throughout the legislature. There is no public disclosure of the incomes and assets of politicians."

Svante E. Cornell, Executive Director, and Fariz Ismailzade, Azerbaijan Bureau Director, Cornell Caspian Consulting, LLC, Freedom House, *Nations in Transit 2004*, Country Report, Azerbaijan.

"Armenia's legislative framework . . . places few limitations on the participation of government in economic life and enables officials at all levels to develop extensive business interests. Moreover, parliamentary deputies enjoy immunity from prosecution, leading many wealthy businessmen to stand for election."

Anna Walker, Commonwealth of Independent States Analyst, Economic Intelligence Unit, London, Freedom House *Nations in Transit 2004*, Country Report, Armenia.

Perverse, symbiotic relationships between the public and private sectors are common in post-communist Europe and Eurasia. Typically, the parties to these alliances are indigenous rather than the product of foreign direct investment. Even where they exist in form, legal boundaries between the public and private sectors meant to safeguard the public trust and rationalize economic activity are, in substance, permeable and indistinct, nearly meaningless in the worst cases. Potential entrants into "off-limits" markets are blocked by patronage arrangements between the state and a new "private" sector dominated by favored oligarchs. Entrepreneurs otherwise inclined to honesty in business transactions find themselves pushed toward the shadow economy not only because of irrational rules, unsound fiscal policies, and tax administrations that punish the compliant, but also by the paradoxical situation of an ineffective state exerting its regulatory power and discretion to create and maintain economic playing fields tilted to favor cronies in semi-legitimate parastatal, quasi-private, firms. Corrupt practices in the region do not so much augment the new economy as they safeguard political and economic power in the hands of a favored few, promoting short-term gains at the expense of longer-term development needs.

SYSTEMIC CORRUPTION IN THE EUROPE & EURASIA REGION

Throughout much of the region, particularly in the former Soviet Union, citizens and businesses are unable to obtain (at all or in timely fashion) basic services and rights, without engaging in an illicit exchange — whether the payment is in money, employment, favors, or simply a bottle of cognac. (The boundary between a licit "gift" and an illicit "bribe" is a question for others to debate.)

In post-communist Europe and Eurasia, the abuse of entrusted authority by managers of privatized entities and by managers of state owned enterprises constitutes corruption of the same ilk as the abuse of public office by public officials. Whether the mis-governance is corporate or public, invariably one finds governing personnel ("agents") in positions of authority with power over other people's resources, reaping short-term benefits at the expense of the intended beneficiaries ("principals") of the organizations they manage.

Corruption in Russia: "Kickback Culture is a Way of Life"

"Greasing palms is an unavoidable element of business life in Russia that shows no signs of disappearing," according to a January 2004 report in The Moscow Times. The author observes that despite government pledges to combat corruption and clamp down on kickbacks, "bribes are still an essential tool in business and everyday life." Paying inducements is as necessary as ever. Businesspeople claim that that "the time-honored culture of bribery still goes to the top of state organizations and much of the private sector." Some estimates put the volume of bribery "on a par with the federal budget."

Small-businesses rate bribery as one of the main factors stifling their growth. The request for bribes is often direct. An entrepreneur who tried to start a new business in the Volga region fell prey to a common scam. The bank agreed to give him a loan with the proviso that it be secured by the local administration. The administration agreed to the deal, but with the stipulation that 20 percent of the loan be paid to a senior official.

A British expatriate in the logistics business reports that "bribery at Moscow customs is still rife from top to bottom." He said as much as 50 percent of all cargo coming to Moscow by air, road, or rail enters through tax evasion. It can be a simple matter of $50 to get your customs entry processed quickly, or you can be talking thousands of dollars for importing cargoes without having to pay full import tax and duty. Instead of paying tax and duty of about $25,000 on a shipment worth $100,000, you can pay only $5,000 to have your cargo cleared and receive supporting documentation to prove that it has been imported legally. This scam "goes right to the top of customs," according to the informant who notes for the record that "each shift is on the take and a percentage of what they make goes to the top, so it's not in anyone's interest at customs to stop it."

"Davaite reshim problemu po-drugomu" (Let's solve the problem another way) has long been a common phrase in everyday life. This may help to explain why many expatriates take a resigned approach to the issue of "paying sweeteners." "Bribery is certainly negative for the development of Russia," says one, "but on the other hand you can easily solve problems this way."

Source: "Kickback Culture is a Way of Life," Patrick Gill, *The Moscow Times,* January 28, 2004.

Where systemic corruption is deeply entrenched in Eurasia and parts of the Balkans — as compared with the progress made in USAID post-presence countries — the new "private" sector invokes memories of the lawlessness of the old Wild West. Under the worst circumstances, official rules matter little, contracts are broken with impunity, property rights are insecure, and managers abuse their positions for private gain. Post-privatization asset stripping is a fine art. Ownership stakes and creditors' rights are eroded and ignored. Specially created shells receive transfers of corporate assets.

"Corruption is a complex issue in Kyrgyzstan. It has cultural dimensions with blurry lines between traditional Oriental hospitality and gift giving and illegal extortions. Another dimension is patronage networking (with deep roots in Soviet bureaucratic traditions) that makes bribery a norm in exchange for appointments and promotions."

Rafis Abrazov, Adjunct Lecturer, Harriman Institute/School of International and Public Affairs, Columbia University, Freedom *House Nations in Transit 2004*, Country Report, Kyrgyzstan

Bankruptcy proceedings neither reorganize troubled businesses nor produce meaningful returns for creditors. Conflicts of interest lead not to recusal but to prized related-party transactions, not an inconsiderable number of which depend on covert ties to public sector officials. With corporate mis-governance trumping transparency and accountability, foreign and domestic lenders, shareholders, employees, and public stakeholders find themselves uninformed, misinformed, outmaneuvered, and defrauded. Ensuing commercial disputes are resolved not on the basis of application of the law to the facts, but "extra-judicially." Where perverse public-private relationships dominate, what happens covertly outside of court trumps the persuasive power of the evidence presented inside.

"Uzbek citizens report that routine acts such as entering university, being admitted to the hospital, having a telephone installed, obtaining a business license, and applying for a passport or other official document are all subject to requests for bribes."

Gregory Gleason, Professor of Political Science and Public Administration, University of New Mexico, Freedom House *Nations in Transit 2004*, Country Report, Uzbekistan.

"The situation [corruption among the tax authorities] is exacerbated by the absence of an independent judiciary. As a result, businesses with political connections have an advantage over those without, while judges are reported to be susceptible to bribery in exchange for a favorable ruling in disputes."

Anna Walker, Commonwealth of Independent States Analyst, Economic Intelligence Unit, London, Freedom House *Nations in Transit 2004*, Country Report, Armenia.

As well as well the appetite for personal, familial, and ethnic enrichment, the desire to attain and maintain public office and political power and control are motives for corruption. Unchecked power and discretion fuel and accelerate it. Because public officials and private sector managers with the power to effect positive changes are not infrequently the main beneficiaries of corruption, these influential stakeholders are inclined to use their positions of entrusted authority to thwart reforms that would level the playing field. The more recent history of the transition has been one in which corrupt political elites may offer donors and the public token *de jure* elimination of unofficial, corrupt practices, and even national anticorruption strategies accom-panied by all the right words. But corruption's winners — and those who owe their allegiance to its direct beneficiaries — have little stomach or capacity for genuine implementation of policies and practices that curtail the not insubstantial benefits derived from misuse of entrusted authority for illicit economic, political, and social purposes. The primary dilemma faced by corruption's often diffuse "losers" is that the adoption, implementation, and non-discriminatory enforcement of fair, rational, and uniform rules hold little appeal for corruption's "winners."

Those with little power to effect fundamental change in how institutions operate may engage in corrupt practices with influential governing personnel simply because they have or see no viable alternative to secure public services and benefits for their families and businesses. For many small- and medium-size enterprises unable to compete effectively on tilted economic playing fields, corruption may be employed as a strategic choice to ameliorate the effects of weak property and contract rights, to gain access to needed licenses, permits, and business opportunities, and to achieve some degree of certainty as well as space in an opaque and unpredictable environment infused with real and perceived Draconian sanctions, some legal, some not.

When confronted with powerful, unaccountable, and corrupt governing

personnel, the result of asserting one's rights or blowing the whistle on specific instances of corruption may result not in redress of wrongs, but in occupational, financial, physical, or other retaliation or disadvantage. For all too many individuals and businesses, combating corruption — or even refraining from engaging in it — is perceived as too costly or even futile, especially where corruption is (correctly) viewed as a top-down problem that works its way down and through weak institutions.

> "Ukrainian mass media are full of stories of corruption, but media outlets are used first and foremost by the oligarchs as weapons against the opposition. As a result most Ukrainian citizens consider corruption a fact of life and express little willingness to fight it."
>
> Olexiy Haran, Director of the School for Policy Analysis, and Rostyslav Pavlendo, Director of Programs, University of Kyiv-Mohyla Academy, Freedom *House Nations in Transit 2004*, Country Report, Ukraine.

> "When corruption begins at the top, it is difficult to argue that fighting petty bureaucratic corruption is a worthy goal or even feasible in an environment of growing cynicism."
>
> Alina Mungiu-Pippidi, Director of the Romanian Academic Society, Freedom House *Nations in Transit 2004*, Country Report, Romania.

Low wages found at the bottom of organizational pyramids help sustain the illicit flows of tributaries that merge at much higher levels. Low wages are as much an effect or symptom of high-level, grand corruption as they are a driver of low-level, administrative corruption.

When corruption presents itself, allegiance to others — whether economic, political, familial, ethnic, or other — may call for looking the other way, a choice all too often made by governing personnel whether or not they benefit directly and personally from corrupt transactions. Systemic corruption flourishes for reasons that extend beyond the direct economic benefits obtained through simple, bilateral quid pro quo exchanges between bribe givers and bribe takers. Understanding the diverse reasons why many senior and mid-level officials "look the other way" (when often underpaid subordinates seek, accept, collect and share unofficial payments) is key to understanding systemic corruption in post-communist Europe and Eurasia.

Where systemic corruption prevails, merely seeking to detect, weed out, and punish pockets of corrupt individuals will not the cure the disease, especially when the primary targets are displaced officials associated with former regimes, political opponents, or out-of-favor colleagues. Attacking miscreant opponents may serve a useful purpose, but not necessarily a deterrent one. Moreover, there is little evidence that this tactic is a primary mover or indicator of systemic reform. Prosecutions of the old guard, particularly opponents of the new guard, provide few clues about either the direction or rate of change in the quality of institutions. From a development perspective, persistently "corrupt institutions" present a deeper problem than the temporary presence or absence of particular wrongdoers who pass though their portals. And by "corrupt institutions" we mean ones that operate outside of their official rules to the detriment of their intended beneficiaries in order to further illicit economic, political, or social interests that range from franchising the economy to illegal financing of political parties to ethnic discrimination and retaliation.

IMPLICATIONS FOR SUCCESSFUL USAID PROGRAMMING

ADDRESS ILLICIT PUBLIC-PRIVATE RELATIONSHIPS

Effective anticorruption interventions in post-communist Europe and Eurasia must get at illicit public-private relationships, the weak institutions these alliances infect and undermine, and the perverse incentives that give rise to and explain the allegiances and patterns of corrupt transactions that link the networks of key players. At the core of the most serious forms of corruption in Europe and Eurasia, conflicts of interests will be found, permeating porous boundaries between the public and private sectors. Whether engaged in by high- or low-level public officials or private sector actors, corruption seldom is isolated from informal systems and opaque networks that evade and subvert the official rules. In this sense, post-communist corruption in Europe and Eurasia is far more systemic than it is random or individualistic.

Ideally, anticorruption interventions aimed at increasing political competition and administrative accountability should lead to the selection and retention of elected and appointed governing personnel who are willing and compelled to separate and subordinate their own economic, political, and social interests to the rule of law and the common interests of the intended beneficiaries of the organizations they manage and operate. Values, incentives, controls, and supporting institutions that invoke compliance with rational, official rules that work in practice are needed far more today in the Europe and Eurasia region than ever more laws on the books. Filling gaps in legal frameworks is not unimportant, but far more emphasis needs to be placed on creating and strengthening open, competitive, and transparent operational environments that provide licit and effective alternatives to corrupt practices.

ADDRESS INSTITUTIONAL WEAKNESSES WITHIN AND ACROSS SECTORS

In post-communist Europe and Eurasia, systemic corruption is an institutional development issue, not merely a criminal law enforcement one. Throughout the region, weak institutions abound in economic growth, democracy and governance, and social transition sectors — pre-existing ones marred by their communist pasts, fragile new ones born in the transition. Many suffer from lack of resources and capacity. For understandable reasons, in too short supply are sufficient numbers of senior level, mid-level, and lower-level governing personnel imbued with the incentives and blessed with the resources to instill, spread and sustain an indefatigable public sector ethos, one that makes public service a public trust in practice as well as in theory.

> "The deepest structural reason for corruption in Georgia is believed to be the general weakness of state institutions. The result is a government that depends on the balance of different interest groups. These groups include bureaucratic patronage networks (regional or based in the capital), corporations, business groups, and family networks.
>
> Ghia Nodia, Caucasus Institute for Peace, Democracy and Development (Tbilisi, Georgia), Freedom House *Nations in Transit 2004*, Country Report, Georgia.

To subordinate illicit economic, political, and social interests to the public interest requires not only deeply ingrained public sector values, but also a supportive environment and external as well as internal allies. Informal networks, corrupt and otherwise, flourish when formal institutions and rules fail of their essential purpose. While the goal is to strengthen formal institutions bound by rational rules, the goal is not to eliminate all informal networks, but to transform them in ways that support, rather than subvert, the formal institutions and rules associated with representative

democracy, the rule of law, and good governance.

Major challenges for anticorruption programs lie in creating the conditions necessary for reform; supporting the formation and sustainability of alliances of stakeholders with an interest in driving and implementing specific reforms; and constructing new public and private incentive systems, ones that promote transparency and accountability of institutions and their governing personnel. Formulating, and embedding deeply into organizational cultures and institutional structures, values and alternative incentive systems that promote the rule of law and good governance may never come easily, but will definitely have more long-term impact than exhortations and resources aimed at miscreant individuals. Programs will be ineffective if they merely ferret out corrupt individuals who will soon be replaced, without creating organizations and systems of integrity to displace their corrupt and dysfunctional opposites. Corruption is an institutional development problem; therefore, institutional reforms are the bedrock of solutions.

Lasting institutional development occurs incrementally, seldom dramatically. Taking on this daunting, but not insurmountable, development challenge requires concerted action over time in all sectors supported by USAID: economic growth, democracy and governance, and social transition. The notion that any single USAID assistance sector, or criminal law enforcement alone, can meet the challenges of grand and administrative corruption in the Europe and Eurasia region does not withstand informed scrutiny.

STRENGTHENING THE ANTICORRUPTION ENVIRONMENT REQUIRES SELECTIVITY, INFORMED CHOICE

At the programmatic level, effective anticorruption programming calls for selectivity, informed choice. The body politic suffers from an array of corruption ills for which there is no single antidote. The process of treatment begins with macro and micro analyses, particularly at the sector and sub-sector levels, of the variety of corrupt practices and corruption vulnerabilities found under the canopy of corruption. Because sound diagnosis should precede prescription in development as well as medicine, better problem identification should precede programmatic choices about which corruption ills to take on and which to leave to others or for another day.

Successful anticorruption programming is about the art of the possible. Informed choices require confronting at the outset the limitations of donor assistance rationed out within tight project timeframes that plead for highly visible and quantifiable short-term "results," "success stories," "lessons learned," and replicable models. To ensure commitment and continuation of resources, the demands of external evaluators for demonstrable results must be satisfied.

In a region characterized by graduation strategies and phase-outs of assistance, USAID must make difficult decisions not only about what needs to be accomplished to combat corruption and promote integrity effectively, but what can be accomplished within the time USAID has remaining as a donor, whether the period is ten years or more or less than five. Not every corruption ill that exists, no matter how well understood, lends itself to cure or mitigation through short-term development assistance provided through third parties.

Even where political will exists to address corruption forthrightly, any attempt to use USAID instruments of assistance (namely, contracts, grants, and cooperative agreements) to tackle specific corruption problems must come to terms at the outset with the limitations of our influence, tools, and likely successes. USAID is a provider of technical assistance to governmental and non-governmental organizations working indirectly through third party contractors and grantees.

Informed choice based on experience should dampen enthusiasm for national anticorruption strategies and overly broad public awareness campaigns aimed at "eradication of the disease of corruption." Political officials who prefer rhetoric and resolutions over implementation and results may espouse at conferences and high-level meetings national programs, international conventions, and even domestic legal texts that combat all corruption on paper. Comfortable with admitting that corruption exists somewhere else in the country, beneficiaries of the status quo understandably prefer words over treatments that begin with unwelcome and painful structural reforms in their own sector, ministry, agency, or department.

Diffuse public awareness campaigns aimed at eradicating corruption in general (as distinguished from specific corrupt practices and corruption vulnerabilities) fall outside the scope of approaches likely to produce demonstrable results. As public discussions about the existence and level of corruption remain locked in the cosmos, experience and theory coalesce to warn that the cosmetic of rhetoric will overshadow grounded concrete actions. By purporting to take on everything under the banner of eradicating corruption, no single corruption ill gets ameliorated, pervasive corruption vulnerabilities go unabated, cynicism and mistrust increase.

More tightly formulated programs likely to produce demonstrable results will aim at controlling specific corrupt practices and corruption vulnerabilities and improving defined aspects of governance in targeted sectors and institutions. This approach may include, for example, limiting the number of potential grabbing hands involved in the issues of licenses and permits, or changing the manner in which local government entities expend public funds and award contracts, or improving service delivery. Allegiance to the principle of selectivity may suggest that anticorruption programming success lies in identifying and controlling specific risk factors in a particular sector or institution. As the TAPEE framework suggests, identifying and remedying Substantive and Procedural Transparency gaps and Horizontal and Vertical Accountability deficiencies fall squarely within the ambit of strengthening the anticorruption environment. In the battle against corruption, selectivity and informed choice call for an arsenal of precision rifles aimed at specific targets. Blunderbusses aimed at all corruption scatter scarce resources.

SET REASONABLE EXPECTATIONS FOR PROJECT RESULTS

Anticorruption programming calls for reasonable expectations, on the part of those who fund, design, implement, support and evaluate projects. Early in the transition, as the international donor community marshaled resources to respond to communism's collapse and speed the transition, few policy discussions framed corruption by its underlying development challenges. Donors assumed that a few years of training and technical assistance to help privatize state property and open the governance process would enable newly independent states to transition relatively quickly from communism to legal, economic, and social systems approximating Western Europe. The political will for genuine reform was taken for granted, and few thought through the kinds of multi-faceted problems such an enormous transition might encounter.

After more than a decade into that transition, donors had to reassess their views about its ease and their success. Most now acknowledge that the transition is far more difficult, particularly in the former Soviet Union and much of the Balkans, and will take far more time and resources than assumed in the early years. Early on, few observers understood well the subtle ways in which remnants of the old system, supposedly to be ushered out with the planned reforms, would be able to bury their tentacles deep into the new political economy, mutate, and thrive through the illicit networks we call corruption.

The inherent nature of the transition itself, with reforms incomplete and institutions weak, provides fertile ground for a diversity of corrupt practices and a plethora of corruption vulnerabilities. Notwithstanding notable donor-supported accomplishments in the region, particularly in the Northern Tier countries, institutional imperfections and imbalances in nearly all sectors present vulnerabilities for a variety of corrupt practices. To the extent the transition process matures and achieves its intended sectoral and institutional reforms, opportunities for many forms of corruption should correspondingly decrease. That is the good news.

Donor assistance, however, must recognize full well that systemic corruption is deeply entrenched in many post-communist states in the region. Notwithstanding public professions of opposition to corruption and promulgation of laws, decrees, and high sounding pronouncements aimed to assuage external observers, governing personnel who benefit from corruption do so handsomely. All too often corruption's beneficiaries hold key positions of political and economic power and influence. In short, governing agents who are in the strongest position to control or reduce corruption may be its chief beneficiaries or otherwise benefit from the status quo.

As an agency that expects and demands demonstrable results in its programs, USAID should tackle those corrupt practices, corruption vulnerabilities, and governance problems that can be addressed effectively within a field of battle defined by limited resources and timeframes and not inconsiderable constraints, including the inherent difficulties of defining and measuring "anticorruption" success or impact. Highly successful projects may achieve demonstrable success, particularly at subnational, sectoral, or institutional levels. This means that USAID must dispel the notion that development assistance holds the potential to improve aggregate, country-level measures of corruption over the relatively short-term lives of typical assistance projects.

Transparency International CPI scores, Nations in Transit Corruption Ratings, and World Bank Institute Control of Corruption indicators are not designed to capture and report the results of particular projects of limited scope and duration. As the USAID Anticorruption Strategy (January 2005) observes, perceptions of how well countries have controlled corruption change little over time.

Eliminating corruption vulnerabilities, controlling specific corrupt practices, accelerating institutional reform, and influencing public and private sector values may never satisfy the demand from some quarters for a get tough, prosecute the bad actors approach to combating corruption. The message that combating corruption and promoting integrity are long-term development issues embedded in and not severable from other economic growth, democracy and governance, and social transition reforms can be a hard sell — especially when what is wanted are highly visible, easily understandable, quick fixes that demonstrate that corruption has been brought under control.

In this environment, defining success and measuring impact at the project level require the use of sectoral and institutional yardsticks, not country level ones. As the USAID Anticorruption Strategy and the TAPEE analytic framework suggest, by unbundling corruption into specific corrupt practices and corruption vulnerabilities, sector by sector, the measurement issues become more manageable, as do specific sets of interventions intended to address these practices and vulnerabilities and otherwise promote integrity.

THE NEED FOR INDIGENOUS POLITICAL WILL, RESOURCES AND SOLUTIONS

To combat corruption and promote integrity effectively, there is no substitute for indigenous political will, indigenous resources, indigenous solutions. Donors who

offer assistance programs must recognize that the best efforts from the outside are no substitute for efforts from within. In post-communist Europe and Eurasia, each country in the region has primary responsibility for controlling corruption within and across its borders. No donor serves as the corruption czar of any post-communist state. Donors do not elect or appoint key governing personnel who manage and operate the institutions in which corruption occurs and corruption vulnerabilities prevail.

> "Our programs work best when complemented by high-level diplomacy and local ownership."
>
> Andrew S. Natsios, Administrator, U.S. Agency for International Development, *USAID Anticorruption Strategy* (January 2005), Foreword, p. v.

At the programmatic level, the role for USAID and other donors is to partner with host country actors already engaged in their own genuine anticorruption efforts that have some track record or high probability of identifiable success. This excludes top-down, government-led "paper chases," whose primary products are resolutions, pronouncements, and unwieldy strategies unaccompanied by resolve, resources, and results. Measurable progress and well-defined success call for substantial and sustained commitment of local resources and personnel charged with implementing fundamental changes, monitoring progress, and reporting results. Through targeted, complementary and supplementary assistance and cooperative interaction, USAID can play a key role in helping host country actors mobilize and leverage their own domestic resources in the battle against corruption. Ambassadors and USAID mission directors can and should both lead and support diplomacy initiatives that bring pressure to bear on governments to address particular governance problems and corruption vulnerabilities found under the cover of corruption.

In the absence of genuine political will to control corruption, the impact of USAID anticorruption assistance is necessarily limited. In such cases, the most effective role for USAID is one that supports effective and realizable demand for reform, supported by sound analysis of predominant corrupt practices and corruption vulnerabilities, vigilant oversight, and responsible reporting. A key challenge for USAID anticorruption programs is how best to facilitate the formation and strengthening of broad-based, but highly focused, coalitions for reform, ones with long-term vested interests in solving practical, real world governance problems, controlling specific corrupt practices, reducing corruption vulnerabilities, and changing the economic, political, and social drivers of corruption.

Still, as the interests of entrenched elites in the fruits of corruption are substantial, their opposition to reform can be proportionately robust. Where corruption is deeply entrenched and where those who benefit from it are in positions of power and have little or no incentive to change their behavior, outside assistance can deliver no quick cure or silver bullet.

Even where the environment for reform appears hostile, political will is neither static nor monolithic. It resides in several loci, not all of which are found in the public sector.

Political will varies by degree, moving back and forth along a continuum based on a variety of economic, political, and social influences. Political will is contextual. Inertia and resistance to reform may vary by type of corruption, by its locus, by who benefits from specific corrupt practices and who loses, and by the perceived risks associated with implementing reforms including the timing of when costs will be incurred and benefits realized.

Corrupt elites have much in common, no doubt, but the market for corruption is dynamic. Demand and supply relationships change in tandem with economic, political, and social allegiances. The array of allegiances that shape, use, and facilitate corruption react to external and internal shocks as well as incentives. The apparent absence of political will one day may be affected by a change in circumstances the next. Reformers do emerge in hostile environments and do gain footholds that can develop into strongholds. Moreover, influential governing personnel in particular sectors, sub-sectors, or institutions may favor some level of reform in certain areas even as they oppose reform in other areas. A highly corrupt sector that drains too much public revenue may lead less than pristine governing personnel in other sectors to support limited reforms. In post-communist Europe and Eurasia, potential allies in the battle against corruption in specific sectors or institutions may don both white and black hats, depending on the dynamics of the situation, including what is at stake. The dynamic calculus of political will and corruption gives rise to opportunities as well as constraints. Donors need to find and fuel the fissures, garner support for reforms where they can, and buttress the reformers.

> Corruption touches every area of development, and USAID analysis and response must be equally broad.
>
> *USAID Anticorruption Strategy* (January 2005), p. 16.

CONCLUSION

Combating corruption and promoting integrity in the Europe and Eurasia region will require the commitment and engagement of economic growth, democracy and governance, social transition, and program office teams, led and supported by senior management. Collectively, mission personnel must translate the message that corruption is a cross-cutting development issue into the reality of what strategic objective teams do at the activity level. This includes all acquisition and assistance activities: assessments, designs, implementation, portfolio reviews, modifications, and evaluations. Mission strategy statements alone will not suffice to mainstream anticorruption efforts across sectors. For these reasons, the Anti-Corruption Working Group of the Europe and Eurasia Bureau offers the TAPEE framework for combating corruption and promoting integrity. The TAPEE approach to strengthening the anticorruption environment directs attention and resources to specific, manageable problems of corruption and governance. This includes an emphasis on the positive: targeting aspects of governance that promote integrity in the Europe and Eurasia region, as well as controlling the negative: predominant corrupt practices and corruption vulnerabilities that impact broader economic growth, democracy and governance, and social transition development objectives.

ANNEX G

CORRUPTION PREVENTION

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Summary of Chapter II **Preventive Measures** **10 Articles** **Articles 5 - 14**	**Requirements / Recommendations** **State Parties "shall" or "shall endeavour" to adopt, establish, promote, or apply — or "shall consider"— "as or where appropriate" — "when applicable" — "as may be necessary"— "in accordance with the fundamental principles of its legal system or domestic law" — "within its means" the following Preventive Measures**	Transparency Accountability Prevention Enforcement Education
Article 5 **Preventive Anti-Corruption** **Policies and Practices**	1. Develop and implement or maintain effective, coordinated policies that: ▪ promote the participation of society ▪ reflect the principles of the rule of law ▪ reflect proper management of public affairs and public property ▪ reflect integrity, transparency, and accountability 2. Endeavour to establish and promote effective practices aimed at the prevention of corruption 3. Endeavour to periodically evaluate relevant legal instruments and administrative procedures, with a view to determining their adequacy to prevent and fight corruption	Accountability (Vertical) Accountability Accountability Accountability Education (values), Transparency, Accountability Prevention Enforcement, Prevention

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 5 (Cont.)	4. Collaborate, as appropriate, with other State Parties and with relevant international and regional organizations in promoting and developing Article 5 measures including participation in international programmes and projects aimed at the prevention of corruption	Prevention
Article 6 **Preventive Anti-Corruption Body or Bodies**	1. Ensure the existence of a body or bodies that prevent corruption by such means as ▪ implementing the policies referred to in Article 5 ▪ overseeing and coordinating the implementation of Article 5 policies ▪ increasing and disseminating knowledge about the prevention of corruption	Prevention, Enforcement Accountability (Horizontal) Education
	2. Grant the anti-corruption body or bodies the necessary independence to carry out its or their functions effectively and free from any undue influence.	Accountability (Horizontal)
	▪ Provide the necessary material resources and specialized staff, as well as the training that the staff may require to carry out its functions	Accountability (Horizontal) Education
	3. Inform the UN Secretary-General of the name and address of the authority or authorities that may assist other State Parties in developing and implementing specific measures for the prevention of corruption	Education

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 7 **Public Sector**	1. Endeavour, where appropriate, to adopt, maintain, and strengthen systems for the recruitment, hiring, retention, promotion, and retirement of civil servants and, where appropriate, other non-elected public officials that:	Prevention
	▪ are based on principles of efficiency, transparency, and objective criteria such as merit, equity, aptitude	Accountability Transparency
	▪ include adequate procedures for the selection and training of individuals for public positions considered especially vulnerable to corruption and the rotation, where appropriate, of such individuals to other positions	Prevention Accountability (Horizontal)
	▪ promote adequate remuneration and equitable pay scales, taking into account the level of economic development of the State Party	Prevention
	▪ promote education and training programmes to enable them to meet the requirements for the correct, honourable, and proper performance of public functions and that provide them with specialized and appropriate training to enhance their awareness of the risks of corruption inherent in the performance of their functions (including programmes that make reference to codes or standards of conduct)	Education (Awareness and Values) Prevention
	2. Consider adopting appropriate legislative and administrative measures to prescribe criteria concerning candidature for and election to public office	Transparency
	3. Consider adopting appropriate legislative and administrative measures to enhance transparency in the funding of candidates for elected public office and, where applicable, the funding of political parties	Transparency, Accountability
	4. Endeavour to adopt, maintain, and strengthen systems that promote transparency and prevent conflict of interests	Education (Values)

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 8 **Codes of Conduct** **for Public Officials**	1. Promote integrity, honesty, and responsibility among its public officials 2. Endeavor to apply codes or standards of conduct for the correct, honourable, and proper performance of public functions 3. Take note of the relevant initiatives of regional, interregional, and multilateral organizations (such as the International Code of Conduct for Public Officials contained in the annex to General Assembly resolution 51/59 of 12 December 1996) 4. Consider establishing measures and systems to facilitate the reporting by public officials of acts of corruption to public authorities, when such acts come to their notice in the performance of their functions 5. Endeavour, where appropriate, to establish measures and systems requiring public officials to make declarations to appropriate authorities regarding their outside activities, employment, investments, assets, and substantial gifts or benefits from which a conflict of interest may result with respect to their functions as public officials 6. Consider taking disciplinary or other measures against public officials who violate the codes or standards established in accordance with Article 8	Education (Values) Accountability Education (Values) Enforcement Education (Values) Accountability (Horizontal) Enforcement Transparency, Accountability Enforcement
Article 9 **Public Procurement** **and Management of Public Finances**	1. Take the necessary steps to establish appropriate systems of procurement based on transparency, competition, and objective criteria in decision-making, that are effective in preventing corruption. Such procurement systems — which may take into account appropriate threshold values in their application — shall address:	Prevention Transparency

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 9 (Cont.) **Public Procurement** **and Management of Public Finances**	▪ The public distribution of information relating to procurement procedures and contracts, including information on invitations to tender and relevant or pertinent information on the award of contracts, allowing potential tenderers sufficient time to prepare and submit their offers	Transparency
	▪ The establishment, in advance, of conditions for participation, including selection and award criteria and tendering rules, and their publication	Transparency
	▪ The use of objective and predetermined criteria for public procurement decisions, in order to facilitate the subsequent verification of the correct application of the rules or procedures	Accountability Accountability (Vertical)
	▪ An effective system of domestic review, including an effective system of appeal, to ensure legal recourse and remedies in the event that the rules or procedures established are not followed	Accountability (Horizontal) Enforcement
	▪ Measures, where appropriate, to regulate matters regarding personnel responsible for procurement, such as declaration of interest in particular public procurements, screening procedures, and training requirements	Prevention Transparency Accountability Education
	2. Take appropriate measures to promote transparency and accountability in the management of public finances. Such measures shall encompass:	
	▪ Procedures for the adoption of the national budget	Transparency (Procedural)
	▪ Timely reporting on revenue and expenditure	Transparency (Substantive)
	▪ A system of accounting and auditing standards and related oversight	Accountability (Horizontal)
	▪ Effective and efficient systems or risk management and internal control	Prevention
	▪ Corrective action, where appropriate, in the case of failure to comply with the requirements established in this article related to the management of public finances	Accountability (Horizontal) Enforcement Prevention

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 9 (Cont.) **Public Procurement** **and Management of Public Finances**	3. Take such civil and administrative measures as may be necessary to preserve the integrity of accounting books, records, financial statements, or other documents related to public expenditure and revenue and to prevent the falsification of such documents	Transparency Accountability (Horizontal)
Article 10 **Public Reporting**	1. Take measures, where appropriate, as may be necessary to enhance transparency in its public administration, including with regard to its organization, functioning, and decision-making processes. Such measures may include: ▪ adopting procedures or regulations allowing members of the general public to obtain, where appropriate, information on the organization, functioning, and decision-making processes of its public administration and, with due regard for the protection of privacy and personal data, on decisions and legal acts that concern members of the public ▪ simplifying administrative procedures, where appropriate, in order to facilitate public access to the competent decision-making authorities ▪ publishing information, which may include periodic reports on the risks of corruption in its public administration	Transparency Transparency (Procedural) Transparency (Procedural) Transparency (Substantive)
Article 11 **Measures Relating to the Judiciary** **and Prosecution Services**	1. Without prejudice to judicial independence, take measures to strengthen integrity and to prevent opportunities for corruption among members of the judiciary. Such measures may include rules with respect to the conduct of members of the judiciary 2. Introduce and apply within the prosecution service (in those States Parties where it does not form part of the judiciary and enjoys independence similar to that of the judicial services) measures to the same effect as those taken with respect to the judiciary pursuant to Article 1	Prevention Accountability Education (Values) Prevention Accountability Education (Values)

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 12 **Private Sector**	1. Take measures to prevent corruption involving the private sector, enhance accounting and auditing standards in the private sector and, where appropriate, provide effective, proportionate, and dissuasive civil, administrative, or civil penalties for failure to comply with such measures	Prevention Transparency (Substantive) Enforcement
	2. Measures to include these ends may include:	
	▪ promoting cooperation between law enforcement agencies and relevant private entities	Enforcement
	▪ promoting the development of standards and procedures designed to safeguard the integrity of relevant private entities, including codes of conduct for the correct, honourable, and proper performance of the activities of business and of all relevant professions and the prevention of conflicts of interest, and for the promotion of good commercial practices among businesses and in the contractual relations of businesses with the State	Accountability Education (Values)
	▪ promoting transparency among private entities, including, where appropriate, measures regarding the identity of legal and natural persons involved in the establishment and management of corporate entities	Transparency (Substantive)
	▪ preventing the misuse of procedures regulating private entities, including procedures regarding subsidies and licenses granted by public authorities for commercial activities	Prevention
	▪ preventing conflicts of interest by imposing restrictions, as appropriate and for a reasonable period of time, on the professional activities of former public officials or on the employment of public officials by the private sector after their resignation or retirement, where such activities or employment relate directly to the functions held or supervised by those public officials during their tenure	Prevention Accountability

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 12 (cont'd) **Private Sector**	▪ ensuring that private enterprises, taking into account their structure and size, have sufficient internal auditing controls to assist in preventing and detecting acts of corruption and that the accounts and required financial statements of such private enterprises are subject to appropriate auditing and certification procedures	Prevention Transparency Accountability
	3. Take measures, as may be necessary — in accordance with its laws and regulations regarding the maintenance of books and records, financial statement disclosures, and accounting and auditing standards — to prohibit the following acts carried out for the purpose of committing any of the offenses established in accordance with the Convention: ▪ The establishment of off-the-books accounts ▪ The making of off-the-books or inadequately identified expenditures ▪ The recording of non-existent expenditure ▪ The entry of liabilities with incorrect identification of their objects ▪ The use of false documents ▪ The intentional destruction of bookkeeping documents earlier than foreseen by the law	Enforcement Accountability Transparency (Substantive)
	4. Disallow the tax deductibility of expenses that constitute bribes and, where appropriate, other expenses incurred in furtherance or corrupt conduct	Prevention Enforcement
Article 13 **Participation of Society**	1. Take appropriate measures — within its means — to promote the active participation of individuals and groups outside the public sector — such as civil society, non-governmental organizations and community-based organizations — in the prevention of and fight against corruption and to raise public awareness regarding the existence, causes, and gravity of and the threat posed by corruption. This participation should be strengthened by such measures as:	Accountability (Vertical) Education (Awareness)

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 13 (Cont.) **Participation of Society**	▪ enhancing the transparency of and promoting the contribution of the public to decision-making processes	Transparency (Procedural) Accountability (Vertical)
	▪ ensuring that the public has effective access to information	Transparency (Procedural) Transparency (Substantive)
	▪ undertaking public information activities that contribute to non-tolerance of corruption, as well as public education programs, including school and university curricula	Education (Awareness) Education (Values)
	▪ respecting, promoting, and protecting the freedom to seek, receive, publish, and disseminate information concerning corruption *Caveat: The UN Convention states that such freedom may be subject to certain restrictions, but the restrictions shall only be such as are provided by law and are necessary (i) for respect of the rights or reputations of others; or (ii) for the protection of national security or "ordre public" or of public health or morals.*	Accountability (Vertical) Education (Awareness) Transparency
	2. Take appropriate measures to ensure that the relevant anti-corruption bodies are known to the public and shall provide access to such bodies, where appropriate, for the reporting, including anonymously, of any incidents that may be considered to constitute an offense established in accordance with the Convention	Transparency (Substantive) Transparency (Procedural) Accountability (Vertical)
Article 14 **Measures to Prevent** **Money Laundering**	1. Each State Party shall: (a) Institute a comprehensive domestic and supervisory regime for banks and non-bank financial institutions (including natural or legal persons that provide formal or informal services for the transmission of money or value and, where appropriate, other bodies particularly susceptible to money-laundering, within its competence) — in order to deter and detect all forms of money-laundering — which shall emphasize requirements for customer and, where appropriate, beneficial owner identification, record-keeping, and the reporting of suspicious transactions	Prevention Enforcement

Table G.1. Preventive Measures **Chapter II, UN Convention Against Corruption**		**Principal / Overlapping T—A—P—E—E Attributes**
Article 14 (cont.) **Measures to Prevent** **Money Laundering**	(b) Ensure that administrative, regulatory, law enforcement, and other authorities dedicated to combating money-laundering (including, where appropriate under domestic law, judicial authorities) have the ability to cooperate and exchange information at the national and international levels within the conditions prescribed by its domestic law ▪ To that end, consider the establishment of a financial intelligence unit to serve as a national centre for the collection, analysis, and dissemination of information regarding potential money-laundering	Accountability (Vertical) Accountability (Horizontal)
	2. Consider implementing feasible measures to detect and monitor the movement of cash and appropriate negotiable instruments across their borders, subject to safeguards to ensure proper use of information and without impeding in any way the movement of legitimate capital. ▪ Such measures may include a requirement that individuals and businesses report the cross-border transfer of substantial quantities of cash and appropriate negotiable instruments	Enforcement Accountability (Vertical) Accountability (Horizontal)
	3. Consider implementing appropriate and feasible measures to require financials institutions, including money remitters: ▪ to include on forms for the electronic transfer of funds and related messages accurate and meaningful information on the originator ▪ to maintain such information throughout the payment chain ▪ to apply enhanced scrutiny to transfers of funds that do not contain complete information on the originator	Enforcement Accountability (Vertical) Accountability (Horizontal)
	4. Use as a guideline the relevant initiatives of regional, international, and multilateral organizations against money-laundering	Enforcement
	5. Endeavour to develop and promote global, regional, subregional, and bi-lateral cooperation among judicial, law enforcement, and financial regulatory authorities in order to combat money-laundering	Enforcement

Table G.2. Corruption Prevention Measures from OECD Survey
"What anti-corruption mechanisms exist for the public sector in your country?"

Illustrative responses: complementary and overlapping mechanisms		Principal / Overlapping T—A—P—E—E Attributes
I.	**Transparency mechanisms**	**Transparency, Prevention**
a.	Publication of regular reports by public institutions on budgets and performance	Transparency (Substantive) Accountability
b.	Disclosure of political party funding (e.g. contributions and election expenditures)	Transparency (Substantive)
c.	Right of public access to information (e.g. Freedom of Information acts and rights)	Transparency (Substantive) Transparency (Procedural)
d.	Legal requirements that reasons be given for administrative decisions	Transparency (Substantive) Accountability
e.	Requirement that public institutions disclose policies, procedures, and other material information (e.g. legal frameworks, implementing regulations, standard forms and instructions, fee schedules, processing times, office hours, organization charts, contact information, how to file complaints and appeal decisions)	Transparency (Substantive) Transparency (Procedural)
f.	Declarations of financial assets, income, and interests of public officials	Transparency (Substantive)
g.	Requirements and procedures for reporting of potential conflicts of interest	Transparency (Substantive) Accountability (Horizontal)
h.	Disclosure of the results of external and internal audits, inspections, and analyzes performed by SAIs, internal control inspectorates, and others	Transparency (Substantive) Accountability (Horizontal)
i.	Transparent, open, and competitive systems for recruiting public employees (e.g posting job vacancy notices in the press, competitive examinations, and interviews)	Prevention Transparency (Substantive)
j.	Transparency and standardization in public procurement	Transparency (Substantive) Transparency (Procedural) Accountability (Horizontal)

Table G.2. Corruption Prevention Measures from OECD Survey
"What anti-corruption mechanisms exist for the public sector in your country?"

Illustrative responses: complementary and overlapping mechanisms		Principal / Overlapping T—A—P—E—E Attributes
II.	**Oversight by the legislature or parliament**	Accountability
a.	Direct oversight	Accountability (Horizontal)
b.	Scrutiny committees	Accountability (Horizontal)
III.	**Oversight by Supreme Audit Institutions (SAIs) (Supreme Financial Audit Authorities)**	Accountability
a.	National or State Audit Office	Accountability (Horizontal)
b.	Court of Auditors / State Audit Court	Accountability (Horizontal)
c.	Comptroller and Auditor General	Accountability (Horizontal)
d.	Board of Audit	Accountability (Horizontal)
e.	Supreme Chamber of Control	Accountability (Horizontal)
IV.	**Financial management controls intended to prevent or deter corrupt practices**	Prevention, Accountability
a.	Financial management authorities and ordinances	Prevention Accountability (Horizontal)
b.	Internal financial controls	Prevention, Accountability
c.	Internal financial inspectorates, auditing, and reporting	Accountability (Horizontal) Transparency
d.	Financial risk analyzes	Prevention
e.	External audit institutions, controls, and reporting	Accountability (Horizontal) Transparency
f.	Public procurement procedures and controls (ex ante and ex post)	Prevention, Transparency, Accountability (Horizontal)
V.	**Human resource management procedures intended to prevent corruption**	Prevention, Education
a.	Standardized recruitment and selection of officials (e.g. open and competitive systems based on merit)	Prevention, Transparency

Table G.2. Corruption Prevention Measures from OECD Survey *"What anti-corruption mechanisms exist for the public sector in your country?"*		
Illustrative responses: complementary and overlapping mechanisms		**Principal / Overlapping T—A—P—E—E Attributes**
b.	Enhancing the responsibility and quality of senior managers	Prevention, Education
c.	Processes for preventing or detecting conflicts of interests (including declarations of interest and employment restrictions)	Accountability (Horizontal)
d.	Redeployment and rotation of personnel	Prevention
e.	Training and certification of competencies (e.g. auditing, procurement)	Prevention, Education
f.	Codes of conduct and related ethics advice and training	Prevention, Education (Values)
g.	Disciplinary action up to and including dismissal	Enforcement
VI.	**Organizational management policies, systems, and controls intended to minimize opportunities for corrupt practices**	Prevention
a.	Deregulation and reduction of scope of government intervention	Prevention
b.	Elimination of unnecessary/unduly complex /burdensome/ inefficient/ unpredictable administrative procedures (e.g. programs to cut "red tape" and eliminate "bottlenecks")	Prevention
c.	Elimination of structural problems and administrative dysfunctions (e.g. irrational, disproportionate, and unpredictable fines and penalties; duplicative and conflicting regulatory processes; unbounded monopoly power and discretion in administrative decision making)	Prevention
d.	Improved work practices and procedures (e.g. separation of key functions and decisions, written policies and procedures, position descriptions, and supervision and reporting relationships)	Prevention
e.	Departments of control and supervision; inspectorates and audit powers	Accountability (Horizontal)
f.	Duty requiring subordinates who discover corrupt practices to report them	Accountability (Horizontal)
g.	Disciplinary procedures for improper conduct (up to and including dismissal and disqualification from public employment)	Enforcement, Prevention

Table G.2. Corruption Prevention Measures from OECD Survey
"What anti-corruption mechanisms exist for the public sector in your country?"

Illustrative responses: complementary and overlapping mechanisms		Principal / Overlapping T—A—P—E—E Attributes
VII.	**Investigation systems or bodies with powers to investigate corruption and citizen complaints**	Enforcement Accountability
a.	Specialized corruption investigation units and commissions of inquiry	Enforcement
b.	Law enforcement authorities (police, prosecutors, courts)	Enforcement
c.	Audit chambers, courts, and independent bodies external to ministries	Accountability (Horizontal)
d.	Public procurement committees, commissions, and offices	Accountability (Horizontal)
e.	Public procurement challenge and review mechanisms for contract awards (e.g. administrative complaints and appeals, bid protests, arbitration)	Enforcement Accountability (Vertical)
f.	Public Offices Commission (violations of ethical standards of conduct)	Accountability (Horizontal)
g.	Ombudsmen, Public Grievances Commission, People's Defender	Accountability (Horizontal)
h.	Supreme Audit Institutions (SAIs)	Accountability (Horizontal)
i.	Citizen complaint mechanism (e.g. telephone "hot lines" for reporting corrupt actions of public officials)	Accountability (Vertical)
VIII.	**Bodies to enforce sanctions and prosecute corrupt activity**	Enforcement
a.	General system of police, prosecutors, and courts	Enforcement
b.	Specialized corruption offenses units within police and judicial structures	Enforcement
c.	Special organized crime units	Enforcement
d.	Public administration processes (imposition of administrative sanctions)	Enforcement
e.	Non-criminal law proceedings (e.g. administrative procedures, hearings, appeals, fines, and penalties)	Enforcement Accountability (Horizontal)
f.	Citizen initiated administrative and legal proceedings (e.g. administrative law rights and appeals; "private attorney general" suits)	Enforcement Accountability (Vertical)

Table G.2. Corruption Prevention Measures from OECD Survey *"What anti-corruption mechanisms exist for the public sector in your country?"*		
Illustrative responses: complementary and overlapping mechanisms		**Principal / Overlapping T—A—P—E—E Attributes**
IX.	**Legislation, implementing regulations, and other legal requirements proscribing corrupt activities and establishing sanctions**	Enforcement, Prevention
a.	Bribery (active and passive) — however defined	Enforcement, Prevention
b.	Maladministration; abuse of authority; abuse of public office; abuse of public facilities; abuse of public finances	Enforcement, Prevention
c.	Unauthorized use of confidential government information	Enforcement, Prevention
d.	Trading in influence; exercising influence in return for inducements	Enforcement, Prevention
e.	Electoral fraud or interference	Enforcement, Prevention
f.	Restrictions on employment of public officials outside the public sector subsequent to, or concurrently with, public employment	Enforcement, Prevention
g.	Making or giving false statements to mislead officials	Enforcement, Prevention
h.	Illicit enrichment	Enforcement, Prevention
i.	Interfering with or impeding public procurement or other public process	Enforcement, Prevention
j.	Taking reprisals against a person who reports misconduct in the public interest	Enforcement, Prevention
k.	Deserting office	Enforcement, Prevention
l.	Causing discredit to the public service	Enforcement, Prevention
X.	**Guidance and training for public officials**	Education, Prevention
a.	Codes of conduct, standards of expected behavior, and statements of general duties, obligations, and values of public office	Prevention, Education (Values)
b.	Primary legislation and secondary regulations and policies on conflict of interests, receiving gifts, concurrent office holding, and financial and political activity	Prevention, Education (Values)
c.	Central or other designated contact agency or personnel for provision of guidance and advice on specific ethical issues (e.g., conflicts of interest)	Education (Values)

Table G.2. Corruption Prevention Measures from OECD Survey *"What anti-corruption mechanisms exist for the public sector in your country?"*		
Illustrative responses: complementary and overlapping mechanisms		**Principal / Overlapping T—A—P—E—E Attributes**
d.	Raising awareness and reinforcement of public sector ethos and values (e.g., ethics awareness training and socialization)	Education (Values)
e.	Standardized induction training and continuing training on ethics and values	Education (Values)
f.	Municipal and county councils ethics committees	Prevention, Education
g.	Rules and procedures for public procurement and related training programs	Education (Values), Prevention
XI.	**New measures being considered or implemented**	
a.	Increased transparency and public exposure (e.g. assets registers, declaration systems, register of corrupt firms, register of political lobbyists)	Transparency, Accountability
b.	Review of high risk areas vulnerable to corruption	Prevention
c.	Improved organizational effectiveness and performance (e.g., open and transparent service delivery, delivery of quality services, more transparent and effective public expenditure and human resources management, more effective use of IT, and citizen evaluation of conduct of public servants and quality of service delivery)	Accountability, Prevention
d.	Regulatory reform, deregulation, and simplifying administrative systems (e.g., cutting back "red tape" and eliminating "bottlenecks")	Prevention
e.	Civil Service reform legislation and implementation (e.g., organizational changes, selection of personnel, basic and further training, improved compensation and benefits)	Prevention
f.	Amendments to Administrative Procedures Acts aimed at making administrative actions more transparent, uniform, predictable, and accountable	Transparency, Accountability, Enforcement
g.	Regulation of financing of political parties	Transparency, Prevention
h.	Registration and control of lobbying	Transparency, Prevention
i.	Improved collection of revenues (tax and customs duties)	Accountability, Enforcement

Table G.2. Corruption Prevention Measures from OECD Survey
"What anti-corruption mechanisms exist for the public sector in your country?"

Illustrative responses: complementary and overlapping mechanisms		Principal / Overlapping T—A—P—E—E Attributes
j.	Improved public procurement regimes (legal provisions, practices, controls, compliance, and enforcement)	Transparency, Accountability, Prevention, Enforcement
k.	Internal monitoring committees, internal controls, and audits (internal and external)	Accountability, Prevention
l.	Enhanced availability of "whistleblowing" for public servants and citizens (e.g designated agency points of contact and "hot lines")	Accountability
m.	Enhancing or establishing criminal and administrative offences, penalties, and sanctions (e.g. tightening rules on conflicts of interest, acceptance of gifts, disciplinary actions)	Enforcement
n.	Implementing international conventions through domestic legislation	Enforcement
o.	Introduction or enhancement of investigatory and enforcement powers of specialist bodies	Enforcement, Accountability
p.	Raising awareness of the risks of corruption via management training	Prevention
q.	Restating public sector values (e.g. Ethics in Public Service acts)	Education, Prevention
r.	Inculcating public service values throughout the public administration	Education, Prevention
s.	Integrating ethical values into management	Education, Prevention
t.	Increased guidance and training for public officials on standards of conduct	Education, Prevention

Source of data: *Public Sector Corruption: An International Survey of Prevention Measures*, OECD (1999). Countries surveyed (15): Belgium, Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Mexico, Poland, Spain, Sweden, Switzerland.

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