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# **USAID Anti-Corruption Interventions in Economic Growth**

Lessons learned for the Design of Future Projects

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## **DISCLAIMER**

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# 1. Introduction

USAID's anti-corruption strategy published in 2005 concluded that widespread corruption is harming the economic performance of many developing and transitioning economies. About 87 percent of USAID's anti-corruption and governance activities are concentrated in the USG foreign assistance categories of 'economic growth' and 'democracy and governance.' The purpose of this report is to (1) inform USAID's Bureau of Economic Growth Agriculture and Trade (EGAT) of typical economic growth activities containing elements that have been, or are projected to be, effective in reducing corruption in developing and transition countries; and (2) provide USAID Missions, partners, and other interested parties with examples of tools from such activities that are expected to have a *measurable impact* in reducing corruption.

Nathan Associates Inc. and its subcontractor Management Systems International Inc. (MSI)<sup>1</sup> tested<sup>2</sup> the following four interventions that were expected to have such an impact:

- Ukraine business regulatory reform and USAID | BIZPRO
- Energy Reform through the Rural Electrification Board in Bangladesh
- Customs Reform in the Philippines
- Modernization of the Land Property Registry in El Salvador.

Initial lessons learned were described in case studies then broadened and sharpened during roundtable discussions in Washington DC on May 19, 2006.

Section 2 of this report discusses the case study selection, testing, and validation methodology and problems the study team encountered in selection, testing, and validation. Section 3 summarizes each case study and lessons and recommendations derived from each. Section 4 elaborates on cross-cutting themes that arose from the case studies and elaborates on points made at the May 19 roundtable.

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<sup>1</sup> The following individuals authored this report: Alexander Greenbaum, Thomas Timberg, Bert Spector, Jorge Daly, and Bruce Bolnick.

<sup>2</sup> Due to the limited data availability in each case study, tests of statistical significance were not attempted.

## 2. Methodology

This section describes how the study team selected interventions for study, how it studied the effect of the interventions on corruption, and summarizes problems encountered in undertaking this task order.

### SELECTION OF FOUR INTERVENTIONS

The study team first reviewed USAID projects and project elements to produce a long list of interventions that might be suitable for further study. The team did not limit itself to interventions or elements explicitly focused on anticorruption or economic governance. Major search sources were USAID's 2001, 2002, and 2003 inventories of projects reporting anti-corruption elements; EGAT's compilation of microeconomic reform projects; and SEGIR task orders under Privatization, Evaluation, Macroeconomics, and GBTI. The team also reviewed interventions known to individual team members.

The team then narrowed the number of interventions on the basis of three criteria:

1. **Plausibility.** Was it plausible that the intervention led to a reduction in corruption—defined as the use of public office or authority for private gain—either in a particular sector or for the economy overall?
2. **Measurability.** Would the team be able to produce some hard before-and-after indications of whether the intervention had reduced corruption?
3. **Wide applicability.** Was the intervention general enough that lessons learned from it would apply to future USAID projects?

In addition, the team reviewed project documentation and contacted persons involved in the projects to determine whether suppositions about the impact of USAID's anticorruption efforts were correct. The team tried to ensure that projects were representative of regions (i.e., Asia and the Near East, Latin America and the Caribbean, Africa and Central and Eastern Europe), subject matters (e.g. tax/customs/public expenditure, business regulation, public services), and intervention types (e.g., improving efficiency, reducing opportunities for corruption, increasing incentives for honesty, increasing transparency to reduce possibilities of corruption).

As a result, four economic growth interventions were selected for full study: Ukraine business Regulatory Reform and USAID | BIZPRO; Energy Reform through the Rural Electrification Board in Bangladesh; Customs Reform in the Philippines; and Modernization of the Land Property Registry in El Salvador.



## **DETERMINING EFFECTIVENESS OF INTERVENTIONS**

To test the impact of the interventions on corruption, the team used its expertise and relevant literature to develop hypotheses, for each case study (outlined in the case studies summaries in Section 3).

To test hypotheses, the team drew on primary and secondary quantitative and qualitative data.

Quantitative data included data from

- Surveys conducted during the intervention, conducted by other entities that could help the team ascertain the impact of the intervention, and (in Bangladesh and Philippines) conducted directly by the team;
- Institutional financial records; and
- Empirical analyses of key process indicators.

Qualitative data included

- Project documentation;
- Interviews of USAID mission personnel, contractors, local counterparts, and informed sources; and
- Focus groups.

Given the desire for measurable results, the team tested the hypotheses using quantitative data when possible, reserving qualitative data to provide a context for the results. Where little or no quantitative data were available testing relied almost entirely on qualitative data. The team then derived lessons and recommendations for the design and execution of other interventions in economic growth that will help reduce corruption. Discussions at the roundtable broadened and sharpened those lessons and recommendations.

The four interventions provide interesting illustrations of effective and ineffective anti-corruption initiatives, but since each case study dealt with a single country caution is called for in applying lessons to the same sector in other countries. In addition, the success of anti-corruption initiatives depends to some degree on a country's level of development and its political economy.

## **PROBLEMS ENCOUNTERED**

In undertaking the Task Order, the team encountered problems arising from political sensitivities and in obtaining quantitative data.

Corruption is always a politically sensitive issue, but corruption in economic governance is particularly sensitive when negotiations involving it and related issues are underway. Such negotiations often involve other donors as well as USAID and host governments. In addition, concerns for privacy limit what can be disclosed about investigations when allegations are particular. In several instances, the study team had to phrase and schedule initial research and final studies carefully to avoid compromising privacy and confidentiality or undermining policy dialogue between USAID and the host government. It was often difficult to secure full

cooperation of all parties and considerable energy was expended convincing parties that studies were intended not to hurt but to help them.

In addition, none of the interventions were initially conceived as anti-corruption efforts, so the impact on corruption was often not monitored. It was particularly difficult to obtain quantitative data, and most data were collected after the interventions had been completed. In addition, outside of Eastern Europe and the former Soviet Union, there has been a paucity of studies asking for measurable details of corruption (amounts, frequency). Though the situation is changing, the lack of quantitative studies led to a paucity of quantitative data in the sector, to supplement information collected concerning the specific project intervention.

# 3. Case Studies and Lessons Learned

This section summarizes the case studies of the four selected interventions and lessons learned for the design of future economic growth activities that aim to curb or eliminate corruption. The interventions are presented in the order they were undertaken.

## REDUCING ADMINISTRATIVE CORRUPTION IN UKRAINE: REGULATORY REFORM USAID | BIZPRO

Administrative corruption, particularly in business regulation, is severe in Ukraine. By the mid-1990s, the government understood that its efforts to accelerate economic development, eliminate corruption, and create a prosperous society would not succeed without regulatory reform. USAID began a series of interventions to assist Ukraine with reform.

### Intervention and Results

USAID | BIZPRO, a recent intervention that has built on the results and experience of previous projects, supported public-private groups in selected localities that identified, drafted, and oversaw the passage of regulatory reforms. In each locality, USAID chose an implementing partner, typically a business association, to provide the assistance, and an independent organization to do pre- and post-reform studies. From 2002–2005, the public-private groups proposed 865 local regulatory changes (see sidebar); 431 were enacted and 233 were on the way to enactment:

The study team for this Task Order reviewed 15 of the 167 baselines and follow-up impact surveys conducted in connection with these regulatory changes. The surveys show evidence of impact and reduction in corruption.

The team concentrated on four reforms in three cities in two oblasts (provincial government units). The hypothesis examined in this case study is that public-private dialogue groups on the local level, if endowed with sufficient resources, technical and financial, can reduce administrative corruption

Type of Reform	No. of Regulatory Changes
Entrepreneurship development	127
Market place rules	58
Regulatory policy	127
Business registration	34
Local taxes and fees	101
Communal property access	119
Land use rules	89
Permits	179
Transport	32
TOTAL	865

*SOURCE: USAID | BIZPRO Project Office*

as part of the general process of regulatory reform. The results of our case study showed that indeed in the cities evaluated, the time required for certain procedures declined by 5 to 10 days—a 23 to 64 percent reduction. Official costs declined by \$3 to \$10 for individuals—a 46 to 77 percent reduction and declined much more for companies. Bribes declined by as much as \$30—a 74 percent reduction, and the incidence of bribery, when recorded, declined by even more. BIZPRO data for the eight cities where it assisted with business registration reform shows that time taken to register declined by 10 days—a 46 to 48 percent reduction, official costs by \$20 to \$30—a 31 to 56 percent reduction, and the number of people paying bribes by 10 to 30 percent.

BIZPRO's regulatory reform element succeeded in reducing corruption even in comparison with a simultaneous countrywide effort supported by the national government. This relative success is rooted in the enthusiastic local governments that volunteered for the project and the greater technical assistance and material support provided to them. A large number of informed observers confirmed this. Unfortunately, pre- and post-reform studies were not combined with control group studies for areas outside of the BIZPRO target areas, so no data exist by which to assess the impact of BIZPRO's approach versus standard government approaches. As more data become available, even from BIZPRO, further analysis may be possible.

Not all studies, such as those by the IFC conducted in the same geographical areas where BIZPRO worked, show the same positive results. This should not be surprising, however, because a few isolated regulatory reforms should not be expected to cause a radical change in the general business environment, and because whatever dynamic will arise from BIZPRO has not yet had time to work itself out. Moreover, within a typical municipality many local officials received substantial illicit income from the status quo and—in the absence of strong countervailing effort from the business community and key officials, such as the elected mayor—some municipalities resisted the streamlined regulatory procedures.

In sum, corruption declined because of administrative simplification and increased business mobilization in the affected areas. Tellingly, the national government relied on BIZPRO's experience and experts in developing and implementing the Law on Fundamentals of the State Regulatory Policy in the Sphere of Economic Activity enacted in January 2004.

## Lessons Learned

Lessons from USAID | BIZPRO that can be of value for future interventions are as follows:

1. Coordinate local with national efforts. BIZPRO worked locally but its impact was felt nationally. It made use of national support, including technical assistance on legal and economic policy and the national regulatory reform program. As with other projects elsewhere, interventions to curb administrative corruption require that good local technical fixes occur in the context of a supportive and protective policies. Otherwise, progress will not be sustainable.
2. Choose target areas carefully to ensure willing partners and transparent implementation.
3. Local public-private dialogue groups can be effective agents of regulatory reform. It is too early to say, however, which combination of inputs and partners is most effective.

4. Incentives and support in the form of technical assistance leads to improved rates of success. This seems to be the general lesson of the comparison with the government's nationwide effort.
5. Supplying technical expertise in regulation and regulatory analysis is useful. Such expertise was legally required in Ukraine but is probably useful everywhere.
6. Explicit analysis of corruption's impact can also be useful (this too was required by Ukrainian law).
7. Empirical baseline and follow-up studies make it possible to validate regulatory reforms and their impact on corruption, but control group studies are required for full validation.
8. Applying what is learned from previous regulatory reform projects, as was done in Ukraine by USAID and the Ukraine government, will boost project impact.

## Recommendations

1. Provide local public-private dialogue groups with technical and material resources. Technical support may be more critical than material support, as parallel experiences in Russia—in which material support was not provided and yet corruption declined—make clear. Success following on this recommendation depends very much on a supportive national policy and legal environment.<sup>3</sup> Just as the regulatory policy environment and local and national political economy differs significantly in neighboring countries like Ukraine, Russia and Moldova, it might be assumed to vary more elsewhere.
2. Connect local with national efforts and have a continuous interaction between the two.
3. Validate regulatory reform and anti-corruption efforts with baseline and follow-up studies. Studies are not necessary for every effort, but should be combined with control studies, most easily performed through the use of other anti-corruption activity studies in the same area, to show differential impacts. Such studies will permit the cost-benefit analysis necessary to determine whether regulatory reform through public-private dialogue groups is a worthwhile expenditure of donor money. Even if local dialogue turns out to be valuable in some countries, a broader set of studies will be needed to see if this is so everywhere.
4. Just as Ukraine BIZPRO built on the lessons of previous regulatory reform projects, other USAID projects should be conceived of as part of a chain of interventions.

## INTEGRITY IN BANGLADESH RURAL ELECTRICITY DISTRIBUTION

Electric power distribution is important for economic growth and a frequent target of USAID intervention. But corruption often compromises distribution systems, as evidenced by large, non-technical losses and nonpayment of bills, as well as by theft of equipment and electricity.

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<sup>3</sup> The same USAID Mission judged that such an environment did not exist in Moldova.

## Intervention and Results

Until recently, the main electric power distribution companies in Bangladesh were the Power Development Board (PDB), the Dhaka Electric Supply Administration (DESA), and the 70 rural electrification cooperatives operated under the direction of the Rural Electrification Board (REB)<sup>4</sup>. USAID provided the REB major assistance at its creation and has been one of its main supporters through a succession of technical assistance contracts with the National Rural Electric Cooperatives Association of the United States. The team investigated the reasons why the REB's system of cooperatives has been able to maintain a high level of integrity even as other power distribution systems and many other public institutions have not. They hypothesized that reduced levels of corruption would be observed in REB areas and that they would be heavily attributable to administrative procedures and environmental factors.

System loss and efficiency in bill collection, reflecting power theft and noncollection of bills, are indicators of corruption. By those measures, REB is far less corrupt than PDB or DESA. During the 1986–1990 period, PDB's total system loss was 37–41 percent; throughout its history, REB's has hovered at 15–16 percent. PDB's and DESA's indicators have improved, not the least because they have copied elements of REB's system, and REB has taken over hundreds of thousands of clients from the other distributors, in districts where performance has been subsequently raised to REB norms.

The reasons for REB's better performance arise from

- Systems and procedures that prevent power theft, secure collections, and help with power distribution efficiency; and
- Environmental factors that protect these procedures and systems from political interference that could undermine their effectiveness.

REB uses clearly documented systems for meter reading and bill collection and disconnects clients who do not pay their bills. System integrity is maintained through an automated accounting system and through multiple cross checks and rotations of employees in certain functions (meter reading and billing assistance) where vulnerability remains. If someone steals, the theft is immediately apparent through the accounting and reporting system. This is less true in the other power distribution systems in which inaccurate meter reading is pervasive and cross checks sometimes lacking. REB also has financial incentives for all employees to secure a high level of collection and for cross checkers to act with integrity. Further, REB penalizes all nearby users when power equipment is stolen, so the neighborhood incentive to denounce those who steal is strong and effective.

A number of environmental factors have protected REB's systems and procedures. First, REB has maintained its autonomy. A law prohibiting unions in cooperatives in rural electrification, has prevented well-connected unions from protecting corrupt staff and practices. High-level political intervention has also halted attempts to unionize. Moreover, the requirement that the

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<sup>4</sup> More recently, part of DESA was split from the main company to create the Dhaka Electric Supply Company (DESCO).

cooperatives' officers eschew partisan politics has helped insulate rural electrification from the country's overall political process. Second, as a new establishment, REB did not inherit the traditions and habits of earlier electric power distribution systems. Third, REB has a strong corporate culture of integrity instilled by training, tradition, and specific procedures. Fourth, the success of the rural electrification system has attracted the attention of donors, who carefully watch decisions and exert pressure when corruption erupts. Finally, REB has had a succession of strong, independent chairmen who for the most part have defended its integrity.

These factors, combined with a financially sustainable rate policy, have resulted in a sustainable electric power distribution system in Bangladesh in regions served by REB's cooperatives. The system is so strong that in areas transferred from PDB and DESA to REB the indicators of system loss and machinery theft converge on REB norms within three years.

## Lessons Learned

Lessons from this case study that can be of value for possible interventions are as follows:

1. Tight collection and monitoring systems with frequent cross checks and strong incentives for efficient metering and collection can guard against corruption in electric power distribution systems—as well as other public utility distribution systems, such as water and gas.
2. Though particulars of the systems and procedures in the REB may not be universally applicable, in the REB's case these included frequent rotation of those connected with meter reading and double checking of their readings by bill collectors. They also include computer crosschecks on billing and payment patterns and positive incentives for employees for billing and collection; and negative incentives for customers for power theft. In all cases, it involved transparent recording and publication of billings and collections, strict sanctions against under billing and underpayment, and the availability of appeal mechanisms.
3. In a country with a high level of corruption these systems require strong external protection. They must have autonomy to be insulated from the general political and bureaucratic system and be held accountable for financial performance. Some protection can be secured by specific legal measures, such as prohibiting unions among cooperative employees and prohibiting cooperative officers from engaging in partisan politics.
4. Protective measures themselves require strong support from higher levels of government. Thus administrative and grand corruption are closely connected—and while technical fixes to eliminate administrative corruption can work in the short run, in the long run they need high-level support. Of course, high-level support for the elimination of administrative corruption in one or more particular sectors is not equivalent to the elimination of all grand corruption in a country. In fact, in circumstances of state capture, it is possible to have a state that is run with little corruption for the benefit of the people who head it.
5. At higher levels donor pressure can be important in protecting the technical systems that prevent administrative corruption. This is a judgment of the expatriate members of the case study team, with which some of the Bangladeshi members were not in agreement. The judgment was supported by the bulk of donor representatives interviewed.

6. The cooperative's structure provides for both autonomy and accountability to clients and should be an important aid in maintaining the systems' overall autonomy, though most informants did not emphasize this.

## Recommendations

Bangladesh's high general level of corruption and high level of dependence on foreign assistance condition the applicability of lessons drawn from its experience with power distribution. Nonetheless, many lessons can be widely applied. Further, the world is full of corrupt and aid-dependent governance systems for which Bangladesh, and the REB experience in particular, may be instructive. The recommendations made by the case study are:

1. Encourage technical assistance for metering, billing, and other operational aspects of electric power and other public utility distribution systems because of its impact on corruption.
2. Ensure that electric power and other public utility distribution systems incorporate crosschecks and incentives so that they will work.
3. Secure the autonomy and commercial accountability of the power distribution systems in order to protect technical systems. This may include specific legal and regulatory provisions barring partisan politicians and tackling corruption within union bodies, exemptions from normal bureaucratic procedures, and the selection and support of strong, independent leaders.
4. Secure autonomy by seeking the protection of higher political authorities and donors.
5. Secure accountability by requiring transparency and careful accounting and financial sustainability.

Whether the cooperative form itself is particularly suitable as a way of securing institutional autonomy is a subject on which the present case study cannot be dispositive. A broader study of cooperative, privatized, autonomous and non-autonomous utility distribution systems would be needed to answer that question.

## CUSTOMS REFORM IN THE PHILIPPINES

For more than 30 years, commissioners of the Philippines Bureau of Customs (BOC) have acknowledged sustained and widespread corruption. The Bureau has conducted modernization and anti-corruption programs continuously since 1972 to improve cargo clearance and tax collection, and to reduce opportunities for corruption. During 1998-2004, the USAID-sponsored Economic Growth Technical Assistance (EGTA) program provided support to one of these modernization programs.

## Intervention and Results

The EGTA program targeted three reforms in the BOC: implementation of a transaction value methodology for assessment, development of a Super Green Lane, and initiation of post-entry audits. EGTA objectives were to strengthen the Bureau's operations by helping it implement the Customs Valuation Act and several executive orders; the project was *not* charged with explicit anticorruption goals. But was corruption reduction an ancillary outcome of these reforms?



A World Bank-supported project conducted between 1992 and 1998 installed a major IT system for customs processing that targeted many early stages of shipment clearance. Bringing these customs procedures into the automated operating system reduced red tape and importers' processing times. While quantitative data indicate explicit improvements in efficiency and effectiveness, the impact of the IT system on corruption is implicit, based on the assumption that simpler transactions, fewer face-to-face interactions, and less bureaucratic discretion reduces opportunities for corruption.

The Nathan-MSI study of the subsequent USAID project examined whether the reforms supported by EGTA (largely in the later stages of shipment clearance—assessment and audit) had led to (a) faster clearance times, (b) higher tax collections, and (c) lower levels of corruption.

The case study reviews evidence that average customs clearance times unfortunately have increased somewhat since the newer reforms have been in place – as customs officials moved a higher percentage of shipments from a faster lane to a slower one. However, importers' clearance times still seem to be better than they were prior to automation reforms conducted between 1992 and 1998.

Analysis completed within the project indicated that tax collections increased 2.6 percent in the first two years after the newest reforms. However, these increases may be an artifact of higher exchange rates. Thus, the statistics indicate mixed results; it may still be too soon to determine if the positive or negative trends will become dominant.

As for anti-corruption outcomes, both perceptual and experiential measures indicate that the newest reforms have had little, if any, effect on the generally increasing trend of corruption in the BOC. Based on our newly conducted survey in 2005, twenty four percent of Bureau clients believe that corrupt practices have either stayed the same or increased over the past five years. Twenty three percent of firms report that Customs officials have demanded unofficial payments or gifts. Indeed, firms claim high levels of unofficial practices in the very domains where EGTA interventions were implemented—45 percent of firms indicated that they experienced more or the same amount of unofficial practices since the transaction valuation regime was established; 93 percent indicated that they have been asked for bribes *during* the post-entry audit process some or most of the time; and 74 percent accredited to the Super Green Lane have had to pay unofficial fees during clearance processing.

The EGTA reforms were well-conceived and the project team provided strong support to the BOC. Moreover, the legal and procedural frameworks for the reforms were in accord with world standards for modern customs operations. Yet trader efficiency was not improved, revenue- and cost-effectiveness improvements were minor, and anti-corruption outcomes appear to have failed entirely.

A large part of the problem lies with the bureau's management or lack thereof. Customs has suffered from extensive turnover in leadership, going through four commissioners in the past seven years. And while high-level commitment to reforms has been sincere, it has not always endured across administrations or reached very deeply into the management structure. The absence of clear and sustained leadership has not curbed low-level corruption; newly installed

managers have been preoccupied with revenue generation at the expense of trade facilitation, modernization, and anticorruption initiatives (Parayno 2004). Middle managers and lower level officials appear to have complied only minimally with changed procedures and found opportunities to use loopholes and circumvent the intent of the reform programs. The insider culture of corruption has persisted despite external programs to curb and eliminate it.

Those factors contrast with the situation that the World Bank found in the BOC during 1992-1998, when strong leadership from the head of customs and higher political leaders was evident. Duran and Sokol (2005) concluded that “decisive factors in the success of [that] reform ... included strong top-level political backing; strong, able and sustained operational leadership; ownership of the reform by the head of customs; and support that included some funding by private sector users of customs services.”

Another major element of the problem is the client base. Importers and brokers are naturally intent on pushing their shipments through cargo clearance by any means. Interviews and survey data suggest that they are as complicit in corrupt transactions as bureau personnel are. Reforms, even those that aim to reduce business problems with BOC over the long term, are viewed as temporary barriers to the immediate goal of getting shipments cleared.

## Lessons Learned

What can this experience teach us about customs reforms in the Philippines and elsewhere? First, to succeed programs require strong management supervision and strictly enforced control mechanisms. Second, new procedures need to be stated clearly and transmitted to customs officials at all levels; they need to be institutionalized, firmly embedded, and well understood by all parties. Third, and most important, all parties—including clients—need to understand that they will not be able to conduct corrupt business with impunity. They need to believe that circumventing reforms and resorting to corrupt transactions to get things accomplished carries real risks.<sup>5</sup>

What practical steps can be taken? At a minimum,

- Manage and monitor personnel strictly,
- Impose time limits for accomplishing basic clearance steps,
- Have managers conduct random checks of personnel and procedures,
- Impose sanctions to show that abuse will not be tolerated,
- Provide training needs on a continuous basis to compensate for personnel turnover and changing procedures,
- Have managers re-target the Bureau’s goals to ensure greater incentive for trade facilitation and less for tax collection, and

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<sup>5</sup> An inventory of administrative, criminal and Ombudsman cases filed against BOC personnel from 2001 to 2005 identify 151 cases of which 6 personnel were exonerated, 28 had their cases dismissed, 4 received warnings, 5 received reprimands, 30 were suspended, 11 were fired, and 67 were still pending decision.

- Improve certification for brokers and importer agents, including an enforceable code of conduct, through industry associations.

The numerous attempts at customs reform in the Philippines demonstrate how difficult it is to transform organizations that have institutionalized rent-seeking and that lack incentives for desirable behavior or penalties for undesirable behavior. Corruption in many customs organizations around the world has become the norm. Despite many reform initiatives, these relatively closed semi-autonomous entities resist change. Political patronage flourishes, excessive bureaucratic discretion is rampant, large illicit rewards accrue to officials, abuse is lightly penalized, and behavior is poorly monitored.

Procedural changes alone are insufficient to generate short-term much less long-term effects. Sustained change in behavior requires strict management, monitoring, enforcement, and sanctions. Though lacking quantitative measurements, similar customs modernization in Bolivia, Peru, Mozambique, Morocco, Turkey, Uganda and Ghana have had some success in controlling corruption (Lanyi *et al* 2000; de Wulf and Sokol 2005). In these cases, the statistics show that processing times go down and revenues go up immediately after the reforms are implemented. Moreover, these customs bureaus report *assumed* reductions in corruption that are byproducts of fewer face-to-face interactions between officials and businesses and fewer opportunities for official discretion due to the reforms. If the assumptions are correct, the difference between success and failure is a matter of

- A strong political commitment by customs management to enforce reforms strictly.
- Implementation of reliable control systems for detection and punishment of corruption.
- Clear, predictable, and harsh disciplinary responses to abuses.

Overall, effective reforms can be realized only if there is strong political will at the highest levels, and an uncompromising apolitical commissioner who has unqualified support and a free hand in changing the bureaucracy.

## Recommendations

The recommendations made by the case study are as follows:

1. Be prepared to give revenue a lower priority during the reform period, and make wholesale, not piecemeal, changes. Personnel will have to be replaced and systems and procedures tightened, automated, and strictly monitored.
2. Recognize that rents will not be relinquished easily and may have to be compensated for since vested interests will try to preserve the status quo. A customs bureau must be insulated from political interference or depoliticized, with political connections severed and incentives for political corruption removed. Only under these conditions can other measures addressing bureaucratic corruption (e.g., better pay, hiring and performance standards, and strict accountability for all) succeed.
3. View importers and brokers as essential elements in reform. They must become partners with the customs administration to make sure that reforms are carried out as intended. In addition, accountability and control mechanisms must keep importers and brokers in line with anti-corruption objectives. Professional associations need to adopt and enforce codes of conduct.

- All parties involved in customs transactions—whether in the public or private sector—must know that they cannot act with impunity. Only then will customs reforms and anti-corruption measures have a chance to work.
4. Avoid frequent turnover in commissioners, which can cause any reform program to lose focus and commitment.
  5. Assure middle managers that top managers want the reforms to succeed. Middle managers must be given the training and resources to make reforms happen, and must know that circumvention of reforms, as well as blatantly corrupt practices, will result in predictable, swift, and harsh disciplinary action.
  6. Provide continuous training in procedures and automation reforms to counter natural turnover and staff rotation.

## **MODERNIZATION OF LAND PROPERTY REGISTRY IN EL SALVADOR**

A land registry is essential for creating and protecting the property rights of both small and large land owners. One aspect of special importance is that it protects small proprietors who would otherwise be excluded from access to credit and mobility of their assets within the economic order.

### **Intervention and Results**

El Salvador began modernizing its land registry system in the early 1990s. The Centro Nacional de Registros (CNR) was established in 1994 and resulted from the consolidation of two registries—the Registro de la Propiedad Raíz e Hipotecas (RPRH) and the Registro Social de Inmuebles (RSI). CNR abides by the bylaws of the National Budget, but enjoys financial autonomy and operates in a commercial fashion. No legal framework adequately regulates its operations.

Established in 1886, the RPRH was to “inscribe and publicize rights and interests in real property by recording transactions that involve the creation, transfer, modification or cancellation of rights.” In the early 1990s, it had 600 employees and operated through a central office in San Salvador and nine regional offices, each with departments that dealt with “sorting, administration, document reception, copying, microfilming, legal cadastre, records office, binding, document archives, folio archives, indexing and certifications.”<sup>6</sup> The registry was bureaucratic, and anecdotal evidence indicates that operations were rife with petty corruption, manifest in bribes collected to speed up registration, tear up folios, eliminate liens wrongfully, and the like. In the mid-1990s, 150 employees were dismissed with no visible impact on staff morale or productivity. Before the RPRH was incorporated into the CNR, registration was done manually. Not

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<sup>6</sup> Trackman *et al* 1999

surprisingly, the process would “typically take between 2 months for error-free applications and 2 years for complex applications requiring corrections.”<sup>7</sup>

The RSI was established in 1991 with the backing of government and donors, which had concluded that the RPRH was ineffectual<sup>8</sup>. It was part of the RPRH, but had powers to function independently, including to establish its own regulations and procedures—in effect a parallel registry. Originally, it “was endowed with the authority to register ownership and other interests pertaining to all land development projects carried out in the public interest – i.e., any project that directly or indirectly benefits low income families” (Trackman *et al* 1999). Before long, it was allowed to handle registrations of property not related to that social interest. Thus, it was endowed with the same attributes as the RPRH—that is, with authority to “inscribe any existing right or interest that pertains to real property under its jurisdiction, including ownership, mortgages, liens, foreclosures or seizures, receiverships, servitudes, usufructs, inheritances, trusts, sales, or leases, as well as any transfer, modification, or cancellation of such rights”(Trackman *et al* 1999).

Although the RPRH maintained final authority over registrations, RSI processed registration cases then sent them to the RPRH for essentially automatic approval. Gradually, the old registry was forced to automate its own systems, a process that culminated in the creation of the modernized registry, the CNR, which embraced automation. That RSI made an important difference is beyond doubt: it was designed as a modern, completely computerized registry with all the advantages associated with this system. Because RSI was conceived as a mechanism for incorporating the unregistered properties of the underprivileged, it helped owners prepare documents for registration. It did not suffer from public perceptions of corruption that plagued the operations and tainted the image of the RPRH.

RSI’s success was tied to USAID interventions. First, USAID provided timely technical assistance to the Instituto Libertad y Progreso (ILP), the government entity entrusted with the assistance to the Ministry of Justice in the development, installation, and administration of the RSI. Second, two projects—the PTT (Programa de Transferencia de Tierras) and the PROSEGUIR (Programa de Seguridad Jurídica Rural)—funded the salaries of skilled, competent, highly motivated professionals who simplified registration and nurtured demand for land registration, which ultimately led to the installation of a more efficient automated registration system in the RSI.<sup>9</sup> At the same time, The World Bank provided technical assistance to the CNR, including the financing and installation of state-of-the-art technologies now used in cadastral tasks and property registration.

These interventions improved the efficiency of land administration in El Salvador. As suggested, the participatory approach that USAID supported in PTT and PROSEGUIR corrected abuses that

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<sup>7</sup> Ibid.

<sup>8</sup> USAID provided technical assistance to the Instituto Libertad y Progreso which in turn established RSI.

<sup>9</sup> Through PTT, USAID contributed more than \$60 million to land reform that gave titles to approximately 36,000 new landowners.

had tainted land titling in the early years of land reform. This healthy development has been buttressed by the modernization of the CNR. Here, donor intervention in El Salvador has been of critical importance because it applied valuable lessons from projects implemented elsewhere. These lessons are not limited to diminishing corruption, but include improvements in the efficiency and quality of property registration services. In fact, El Salvador's registry modernization is considered a model of how to improve cadastre and registration systems to make property rights more secure. According to some experts, the country is in an elite league of successful reformers.<sup>10</sup>

To evaluate the impact of donor interventions, the following hypotheses were examined:

- The introduction of the RSI led to the simplification of bureaucratic procedures for property registration in the CNR. Automated and streamlined procedures introduced by skilled and highly motivated professionals reduced petty corruption among employees tasked with registration services. We might expect the same to be true in other countries.
- The CNR has become a more efficient registry but is not yet accessible to many potential users, especially low-income rural people. If the costs of a modernized registry are fully charged to users, the charges may be high enough to exclude many such low-income people. This is a problem because land registries are not only a private good for landowners, but a public good, a part of the economy's legal and regulatory framework.

The results of the case team's inquiries in the field can be summarized in the following findings and conclusions:

1. Because the CNR operates with automated and streamlined procedures, it is a more efficient registry than the RPRH.
2. In general, the CNR has stamped out the petty corruption that tainted the old registry.
3. Because no legal framework regulates the operations of the CNR, the significant gains that have been obtained in the fight against petty corruption may not be sustainable.
4. The CNR is a financially self-sustaining institution, but many landowners, especially those who eke out a living in the informal economy, are excluded from the registry because they cannot afford the registration fees. The CNR does not seek to facilitate access to the registry by the low-income landowners.

## Lessons Learned

Lessons from this case study that can be of value for possible interventions are as follows:

1. The overhaul of public registries, including the introduction of simplified, automated procedures that make services efficient, helps stamp out petty corruption. It is more effective to target nimble public agencies (as opposed to the public registry) or nongovernmental

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<sup>10</sup> See

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/ELSALVADOREXTN/0,,contentMDK:20156013~menuPK:448812~pagePK:141137~piPK:217854~theSitePK:295244,00.html>

organizations using pilot programs. USAID interventions can be of substantial benefit if pilots are conceived of as incubators of positive changes that then spread through a benign process.

2. Interventions aimed at modernizing land property registries must weigh the benefits of facilitating access to the registry by low-income people. Failure to facilitate such access weakens title-to-market linkages and, ultimately, hampers inclusive economic growth. A public registry that ignores the problem of exclusion cannot make a lasting contribution to economic development, no matter how efficiently it is run or how free it is of petty corruption.
3. When public registries are not adequately regulated, significant gains in the fight against petty corruption are not likely to be sustainable, grand corruption can emerge more easily, and problems of exclusion can be exacerbated.

## **Recommendations**

The case study makes the following recommendations:

1. Land title registration projects should be preceded by an evaluation of the property registry that detects strengths and weaknesses, measures baseline conditions, and that recommends administrative reforms that safeguard the transparency of procedures. The evaluations must include surveys of user satisfaction conducted before and after the introduction of reforms. Such surveys can include questions on corrupt practices.
2. Before implementing land registry modernization projects, donors should provide technical assistance to governments to enact a property registration law and a regulatory framework for registry operations.
3. If improved social equity is a leading goal of the intervention, donors should require land registry modernization projects to carefully balance the objective of transforming the institution into an efficiently run, transparent organization, with that of ensuring maximum access to the registry by low-income people.





## 4. Cross-cutting Themes

Reforms that promote economic growth and improve economic governance can curb corruption, and anti-corruption drives can contribute significantly to economic development. Thus, anti-corruption deserves to be a cross-cutting theme in economic growth programs, and many economic growth interventions should adopt anti-corruption results indicators. Moreover, as international development professionals, we need to understand not just *how* economic growth interventions curb corruption, but also *under what conditions* the interventions are successful and sustainable in this respect.

General lessons for the design of economic growth interventions that can also curb corruption gave rise to the following broad themes in the case studies and roundtable discussions:

- Economic growth projects and programs must systematically measure the prevalence and costs of corruption. Allocating a small portion of any intervention's budget to independent baseline data collection and follow-on data monitoring will help project managers identify the most important points of intervention, and help USAID, other donors, and governments, learn from their own and others' experience and design more effective activities.
- Strong leadership in the host organization is essential to the success of economic growth activities but is a precarious basis for sustainability. Deeper institutional reforms and stronger implementation and enforcement of such reforms are critical to ensuring that the fight for integrity outlasts individual leaders.
- The private sector can be vital in promoting and facilitating reforms that curb corruption. The private sector can be agents of change and help donors prioritize activities. More fundamentally, private sector interest groups can help to transform the political dynamics in favor of more serious attention to the costs of corruption. At the same time, many in the business community are partners in corrupt practices. Therefore, project designers must identify and mobilize coalitions for reform from within the business community, rather than expecting all business leaders to be agents of progress.
- Technical fixes, such as new information technology systems, new procedures, and staff retraining, are essential in strengthening controls, reducing discretion, and enhancing transparency, all of which are critical in the fight against corruption. But technical fixes are far from sufficient. In the absence of strong leadership and a culture of integrity, these tools often yield only temporary gains, as corrupt practices soon shift into new and perhaps more subtle niches.

- Incentives are important in curbing corruption. Government agents, like anyone else, respond to incentives. Hence, incentives that invite or support the abuse of public authority for private gain must be changed. Incentives are influenced by rules of conduct, rewards for integrity, effective penalties for malfeasance, and systems for detecting abusive practices. Equally important are measures that increase transparency and public awareness to alter the political climate of tolerance for corruption.
- Anti-corruption interventions often suffer from inadequate cooperation between those working from a governance perspective and those working from an economics perspective. The effectiveness of anti-corruption interventions can and should benefit from increased collaboration between the two groups.

During the roundtable, other observations for the creation of effective programs were brought to light:

- Studying programs that do not reduce corruption can be as revealing as studying those that do. Both offer lessons that can enhance the anti-corruption impact of future economic growth programs.
- In many cases the gaps between legal reforms that should narrow the avenues for corruption and implementation of the reforms are often glaring. In the case of the Philippines, for instance, the legal framework for reforms exist but the effective implementation of the reforms are lacking. In El Salvador, on the other hand, effective implementation has taken place before a clear legal reforms have been developed – a foundation that could cause problems in the future. Though the impacts of such gaps vary, care should be taken to try and synchronize legal and implementation reforms.
- Political sensitivities must be taken into account when designing anti-corruption interventions. Failure to do so can worsen or increase problems.
- Disseminating data and information on government performance and practices that foster corruption to the public is just as important, if not more important, than donor access to such information.
- In some countries, unions protect workers who are accused of corruption and prevent the application of sanctions. Since the right to form a union is a basic right under international conventions, the question arises as to how unions can be mobilized to combat rather than abet corruption.
- Even if anti-corruption reforms are isolated in a sea of corrupt practices, they can have a high payoff. Still, programs with important anti-corruption elements should be designed, where possible, with a view to “integrity linkages,” so that anti-corruption impacts can have broader applicability.
- Though indirect indicators of corruption (e.g., decline in the number of procedures to start a business) can be useful proxies for progress in reducing corruption, this does not always hold true—see the discussion of customs reform in the Philippines in Section 3. Thus, it is preferable for programs to include provisions for direct measurement of the prevalence and cost of corruption.

- The discussion of corruption in customs noted self-assessment tools for customs organizations. Such tools may be a very useful in getting organizations to reform themselves, rather than trying to impose solutions from outside.
- In countries with extremely low pay for civil servants, civil service reform is a necessary, but not sufficient condition for success in fighting corruption. Low-pay civil servants often argue that they cannot afford to live on wages alone.
- Similarly, an organization is likely to have greater accountability and integrity if it is financially sustainable. Movement away from this inevitably leads to abuses of the system.
- As technical safeguards in the fight against corruption, new procedures and staff training are not one-time events. Procedures must be continually monitored to see if they need to be updated and staff training must be ongoing.
- The design of economic growth programs must take into account the impact of participation costs in excluding the less well off from the economic opportunities sought by these programs. This point is best illustrated by the case study of El Salvador's modernization of its land property registry in Section 3.

This project provided insight into how to evaluate the impact of donors' economic growth interventions on corruption. It also described impediments to evaluation—such as donors' reluctance to use limited resources for such evaluations. Evaluation costs, however, are usually small and evaluations are the best way to determine whether an intervention has achieved its objectives. This important work needs to be undertaken on a systematic basis.



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