
❑ CORRUPTION: A PERSISTENT DEVELOPMENT CHALLENGE

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The United States, while spearheading the campaign by the Organization for Economic Cooperation and Development to criminalize bribery by multinational companies, is working with developing countries to lessen the opportunities for government officials to extract bribes. The U.S. Agency for International Development (USAID) is the prime government agent in this effort. Brian Atwood gives an overview of the policies and programs his agency has undertaken to discourage corruption.

Worldwide economic conditions in 1998 show that the path to sustained economic growth has taken some unexpected detours. Even the largest and most powerful nations are not sheltered from the economic and political meltdowns happening elsewhere. The economies of virtually all nations are closely linked through electronic commerce, the Internet, and the free flow of international capital. However, the freedoms of the global economy also have an ominous downside if misused.

The recent turmoil in global markets, with its widespread economic and social fallout, will test the commitment of developing countries to free market economies and democratic government. Many of these countries are experiencing severe economic downturns and social disruptions. One contributing factor, perhaps, is the lack of institutional safeguards to protect their economies. Lacking the framework for good governance and the rule of law, and troubled with inadequate regulation of banks, unsound investment decisions, questionable evaluation of risks, nontransparent accounting procedures, and limited openness in government, opportunities for crony capitalism and corruption often surface in developing countries. While economies were booming, these seemed to be ancillary issues. However, they deter economic growth and social progress.

THE FALLOUT FROM CORRUPTION

In recent years, corruption has had devastating impacts in such countries as Nigeria, Indonesia, and Russia by corroding their economic and political systems. Not

surprisingly, these countries fall at the bottom (most corrupt) of Transparency International's 1998 Corruption Perceptions Index, with ranks of 81, 80, and 76, respectively, out of 85 countries.

In Nigeria, the late General Sani Abacha and his cronies siphoned billions of dollars out of the oil industry, which is the country's primary source of wealth and accounts for 80 percent of government revenue. Diversion of funds from state coffers led to a marked deterioration in infrastructure and social services and a near-collapse of state-owned oil refineries. The country's per capita income, which was as high as \$800 in the 1980s, has now dropped below \$300. As this oil-rich country faced a fuel shortage and depression, the government resorted to ever greater repression to stay ensconced in its position of advantage. Only the untimely death of Abacha has provided a possible opening for political and economic reform.

Another well-known example of government corruption that undermined the national economy is in Indonesia, where state banks channeled money to projects involving former President Suharto's family and friends. In the 1990s, banks allowed arrears on loan repayments to mount unchecked and circumvented rules to prevent excessive foreign-currency borrowing. Consequently, when the value of the rupiah fell in 1997, the whole financial system began to collapse. Bankruptcies and massive layoffs have returned as many as half of Indonesia's 200 million people to poverty.

Russia provides a third notable example of corruption damaging political and economic development. In Russia, corruption linking an oligarchy of financial-industrial groups with government officials has distorted privatization, undermined economic reform, deterred trade and investment, and eroded public confidence in state institutions. The weak state of the economy, combined with the recent financial crisis, has given a substantial political boost to former communists and other opponents of reform.

SOME POSITIVE STEPS

Despite this sobering picture, many countries are attacking the underlying problems that give rise to corruption. In Africa, for example, major anti-corruption conferences have been held within the last 18 months in Ethiopia, Mozambique, and Ghana. These conferences provided a forum for African leaders to develop innovative strategies to fight corruption, to exchange information with other countries from around the world, and to inform the international community about the steps they need to take to reduce corruption.

Parallel to these Africa-wide initiatives, several African countries have moved from rhetoric to action in addressing corruption. In Botswana, the Directorate on Corruption and Economic Crime is a model for anti-corruption institutions, with more than 4,200 corruption cases handled since 1994. In Uganda, the constitution established an Office of the Inspector General, which has a broad mandate and specific powers to address corruption and which is required to submit periodic reports to parliament.

There is a growing consensus among the developed and developing countries alike that the fight against corruption advances their national and economic interests. At recent summits of the G-7 leaders and at meetings of development ministers, communiqués unambiguously condemn corruption for weakening the global trading system, impeding sustainable economic development, and stifling the functioning of democratic institutions. Combating corruption is now one of the highest priorities on the agenda of both international development agencies and lending organizations.

The United States, through its international affairs agencies, is committed to combating corrupt business practices and improving the poor functioning of institutions that allow corruption to flourish. Bribery is a barrier to trade that hurts U.S. commercial interests and undermines the U.S. objective of promoting democracy and economic development in developing countries. In addition, the prevalence of corruption inhibits our ability to foster the reconstruction of economies where there are important foreign policy interests.

USAID'S RESPONSE

As a development agency, USAID has a major interest in seeing that bribery does not become commonplace.

Consequently, USAID has identified anti-corruption — which is a key element in the Clinton administration's strategy to fight international crime — as a priority in its development agenda. To borrow a phrase, “all international crime is local.” Thus, any long-term solution to the problem of international crime, including corruption, must rely ultimately on strengthening government institutions, engaging civil society, and establishing the rule of law in individual countries. To succeed, the fight against corruption cannot be a short-term, technocratic affair but must involve the public in a long-term, sustained campaign.

USAID is designing a framework, in close consultation with other bilateral and multilateral donors, for addressing corruption and other forms of criminal activity. This framework is based on many of the lessons we have learned from working with developing countries during the past 35 years. These include, most notably, a recognition that political instability, weak public institutions, and poor economic management create an environment in which widespread corruption and certain types of criminal activities flourish, and that these consequences, in turn, undermine economic growth, increase the potential for state failure, and feed the activities of organized crime.

Some of the major USAID activities include:

- **Raising awareness about the costs of corruption.** Efforts to raise awareness about the costs of corruption and to mobilize the political will for fighting it are central components of USAID's program activities. USAID supports efforts to publicize procedures and rights, conduct corruption perception surveys, sponsor integrity workshops, foster anti-corruption nongovernmental organizations, promote civic monitoring, provide training in investigative journalism, promote private sector efforts to prevent corruption, and advocate international cooperation and conventions.
- **Promoting good governance.** USAID works to improve transparency and oversight in government through activities such as integrated financial management systems and training and technical assistance for audit institutions and anti-corruption agencies. USAID also seeks to realign incentives to government officials through ethics codes and financial disclosure requirements.
- **Strengthening the justice sector.** Corruption flourishes

where institutions in the justice sector — including the judiciary, prosecutors, police investigators, and the private bar — are weak and incapable of investigating and prosecuting criminal activity. To strengthen these systems, USAID programs support drafting new criminal and anti-corruption laws, training prosecutors and judges, and improving court administration to prevent tampering with records and reduce delays in hearing cases.

- **Reducing the government's control over the economy.** Governments exert significant control over the economy through state-owned enterprises, licenses, tariffs, quotas, exchange rate restrictions, subsidies, public procurement, and provision of government services. Often such controls create opportunities for abuse and impede economic growth. USAID works to reduce these opportunities through deregulation, delicensing, privatization, and competitive procurement.

SPECIFIC USAID INITIATIVES

In the past year, USAID has taken a number of steps to promote anti-corruption efforts. Washington-based officers have convened an anti-corruption working group that meets monthly to exchange information and coordinate work across bureaus. Given the cross-sectoral nature of corruption, both economics and democracy officers participate in the group. A subcommittee of the working group is developing policy guidance on anti-corruption activities for USAID. This fall, the agency's Center for Democracy and Governance completed a *USAID Handbook on Fighting Corruption*, which is available by e-mail at docorder@dec.cdie.org or by fax at (703) 351-4039.

USAID is also supporting anti-corruption efforts through a grant to Transparency International (TI). This grant provides \$2 million for intensive anti-corruption work in nine countries and for regional lessons-learned workshops. The country programs will start with an integrity workshop to foster group diagnosis of corruption problems and development of an action plan to fight them. Countries targeted in this grant are Bangladesh, Benin, Bulgaria, Colombia, the Dominican Republic, Ghana, Mozambique, the Philippines, and Ukraine. USAID is also contracting with the Center for Institutional Reform and the Informal Sector (at the University of Maryland) to develop four case studies of successful anti-corruption interventions to feed into regional workshops that TI will organize.

USAID regional bureaus also have developed a number of anti-corruption initiatives. The Latin American and Caribbean Bureau has initiated an assessment of its Regional Financial Management Improvement Project II, which has used \$7 million over five years to improve governmental accountability and financial management and plans to issue a follow-on contract in 1999. The project hosts a donor consultative group, publishes a monthly newsletter entitled *Accountability/Anti-corruption*, sponsors regional teleconferences called *Respondacon*, and provides technical assistance. Similarly, the Eastern Europe/Newly Independent States Bureau has established an anti-corruption working group, developed an anti-corruption strategy, and set aside \$900,000 over two years to establish a donor consultative group, support training workshops, assist assessment and strategy design exercises, develop a newsletter, and write reports and program materials. The Asia/Near East Bureau has set aside \$200,000 for an assessment and development of a regional anti-corruption strategy.

In addition, USAID is co-sponsoring anti-corruption workshops with the Organization for Economic Cooperation and Development to follow up on and broaden discussion of the its anti-bribery convention signed in December 1997. And the agency's Global Bureau is co-sponsoring an international conference on the role of the private sector in fighting corruption to be held in Washington, D.C., in February 1999.

USAID's Inspector General has also furthered anti-corruption efforts through its work with Supreme Audit Institutions (SAIs) in developing countries. These SAIs are national auditing agencies similar in many respects to the U.S. General Accounting Office. Although SAIs can constitute a country's first line of defense in combating fraud, waste, mismanagement, and corruption, in many countries they lack the resources and expertise to fill this crucial role. To help fill this gap, the Inspector General's office has provided basic training to SAI staff in countries receiving USAID development assistance.

THE DEVELOPMENT CHALLENGE

Corruption is a global problem. The industrialized countries are certainly not immune from corrupt practices, and all have a responsibility to be part of the solution. However, corruption appears to exact a higher toll in developing countries and transition economies because they can least afford the consequences. Corruption prevents many countries from addressing

their most serious development challenges, deters foreign and domestic investment, undermines confidence in public institutions, and exacerbates budgetary problems by depriving governments of significant customs and tax revenues.

The recent upheaval in financial markets and in developing country economies underscores the importance of transparency in public institutions and public decisions. USAID programming to further sustainable development and foreign policy objectives supports a wide array of activities to combat the root causes of corruption.

By supporting such efforts, countries become better trading partners with the United States and can attract foreign investment. Also, one of the United States' key foreign policy interests is the promotion of democratic development around the world; by supporting programs to combat corruption, developing country governments gain greater legitimacy and are better able to promote political stability and economic development. And they become better development partners as well as countries in which long-term sustainable development can be achieved. □