



Building Public Integrity through Positive Incentives: MCC's Role in the Fight against Corruption

Foreign aid alone will not rescue the developing world from grinding poverty. Assistance is transformational only when countries promote good governance, invest in the health and education of their people, and expand opportunities for entrepreneurship and private-sector growth. As corruption undermines every aspect of sustainable development, none of these crucial underpinnings can be achieved without a foundation and culture of public integrity. Building on the lessons learned by others over more than 20 years, MCC has made fighting corruption one of its core priorities.

Corruption increases poverty by slowing economic growth, skewing government spending toward the rich and well-connected, concentrating public investment in unproductive projects, promoting a more regressive tax system, siphoning funds from essential public services, and adding a higher level of risk to the investment decisions of low-income individuals.

Corruption slows growth by increasing costs, lowering productivity, discouraging investment, reducing confidence in public institutions, limiting the development of small and medium-sized enterprises, weakening systems of public financial management and undermining investments in health and education.

Creating Positive Incentives for Change

MCC's mission is to reduce poverty through the promotion of sustainable economic growth; therefore fighting corruption is one of its highest priorities. Corruption is the single most important determinant to access hundreds of millions of dollars in MCC grant assistance and partnership with MCC.

The Millennium Challenge Corporation is a U.S. Government corporation designed to work with some of the poorest countries in the world. Established in January 2004, MCC's mission is to reduce poverty through the promotion of sustainable economic growth. Before a country can become eligible to receive assistance, MCC looks at their performance on 16 independent and transparent policy indicators. Countries that perform well on the indicators may be considered eligible for Compact Assistance.



"Corruption is an enemy of development and prosperity. It robs the people, especially the poor, of their rights to economic well-being by diverting resources away from economics and social development.

*—Goodall Gondwe
Finance Minister
of Malawi*

Threshold Programs Poised to Make a Lasting Difference

Albania



MCC's Threshold program is curbing the discretionary power of government officials by slashing the red tape associated with registering a business and paying taxes. The government also plans to ramp up significantly the number of public procurements completed electronically and to reduce the overall cost of governmental procurements by 20 percent. Additionally, Albania plans to adopt a series of reforms to reduce from 60 to 30 percent of GDP the size of the informal economy.

The Philippines



Deterrence requires sending a signal that the existing culture of impunity will no longer be tolerated. As such, the Government the Philippines is using its \$21 million Threshold program to step up enforcement efforts. The government is seeking to increase significantly the corruption conviction rate, the number of cases successfully mediated in the Ombudsman's Public Assistance Office, the number of tax evasion cases filed, the number of smuggling cases filed, and the number of individual and corporate tax returns filed. President Arroyo has demonstrated commitment to these reforms by matching MCC funds with an additional \$19 million of Philippine government funding dedicated to fighting corruption.



Tanzania

In order to detect and deter bribery in public contract awards, Tanzania is increasing the number of local governments using public expenditure tracking systems from 12 to 60. The government will also conduct procurement, contract and performance audits on as many as 31 ministries and 123 local government authorities. Additionally, Tanzania is reducing the backlog of pending corruption cases to ensure violators who are caught are brought to trial in a timely manner.

Countries are responding to MCC's competitive selection process by passing stronger anticorruption laws, strengthening oversight institutions, opening up the public policy-making process to greater scrutiny and increasing corruption-related investigations and prosecutions. More than a dozen countries have established ministerial committees and presidential commissions to develop, implement, and track reform efforts that address the MCC selection criteria. Countries treat MCC-eligibility status as a "badge of honor" that sends an important policy signal to the international donor community and private investors.

Accelerating Efforts of Reform-Minded Governments

In addition to using Compact eligibility as a positive incentive for reform, MCC is also helping countries root out corruption through "Threshold" programs. Threshold grants are for countries that are not eligible for a Compact but have demonstrated their commitment to improving performance on MCC policy indicators. They are designed to accelerate

and scale-up a country's ongoing reform efforts and increase its prospects of fully qualifying for Compact assistance.

MCC has approved anticorruption assistance programs totaling more than \$220 million with a number of countries, including Moldova, Paraguay, Albania, Indonesia, Zambia, Kenya and Uganda. These programs focus on reforming tax administration, customs administration, public financial management and business licensing, and

Five core principles to fighting public corruption

The Best Offense is a Good Defense

A key to prevention is reducing the monopoly and discretionary power of government officials. MCC works with countries to target the root causes of corruption instead of just the symptoms. Preventive reforms include simplifying and lowering tariffs and tax rates, removing price controls, reducing the overall burden of government regulation, adjusting salary scales, professionalizing the civil service and strengthening oversight institutions.

Sunshine is the Best Disinfectant

Illicit transactions take place in the darkest corners of business and government. Full disclosure of parliamentary votes, debates and draft legislation, as well as campaign contributions and spending, impose discipline on elected officials. Budget transparency is critical to subjecting government decision-making to public scrutiny. MCC also encourages countries to publish proper procedures and pricing for government services.

Use Deterrence to Change the Risk-Reward Calculus

People respond to incentives, including when confronted with the opportunity to engage in corruption. In most countries with high levels of corruption, the risk of being caught is very low

while the benefits can be very high. MCC encourages countries to alter this cost-benefit calculation with stiffer penalties and greater enforcement.

Political Will Matters

Anticorruption campaigns are successful only when backed by strong political will at the highest levels of government. Furthermore, sustaining this political will can be a difficult as political parties often fracture when vested interests are challenged or when patronage is reformed. Reform champions may recede if they or their family members face threats. MCC, therefore, places a premium on civil society participation which can deepen and sustain the political will necessary to combat corruption.

A Strong Legal Framework is Critical

Serious reformers need a comprehensive, transparent and predictable legal framework to support their efforts. At the same time, while a strong legal framework is critical for protecting witnesses and whistleblowers, tracking ill-gotten proceeds, and expanding citizens' access to information, the passage of legislation in itself cannot be seen as the final goal. New laws are a means to an end and must be accompanied by aggressive implementation and enforcement.

also on strengthening the role of investigative journalists, public prosecutors, civil society watchdog units and government auditing agencies in the fight against corruption.

All Threshold programs are based on the principle that strong country ownership and political will are essential components of any aid package. MCC's programs are designed, therefore, not as stand-alone anti-corruption efforts, but to be a part of a larger reform agenda. It is made clear from the outset that Compact eligibility is linked to demonstrable progress on this broader reform agenda.

Advancing the Practice of Development

MCC is advancing the global anticorruption agenda by setting a new standard for performance-based aid allocation. While many donors take corruption into account, MCC is the only donor to tie eligibility for assistance directly to performance on a publicly-available and transparent indicator produced by a third party. To receive MCC Compact funding, countries must perform above the median within their peer group on the World Bank Institute's Control of Corruption index.

In this regard, MCC is institutionalizing the idea that foreign assistance should be a two-way street. If donors are going to provide more assistance, recipient countries need to provide greater accountability and deliver results, including fighting corruption.

At the same time, as a relatively new actor in the anti-corruption and governance field, MCC is drawing extensively on the experiences and lessons of others. Based on two decades of lessons learned, MCC has incorporated five core principles (See "*Five core principles to fighting public corruption*," page 3) into its policy dialogue with candidate countries and the development of Threshold programs.

For more information on MCC's anticorruption efforts and tools, including the competitive selection process, the Threshold program and performance-based assistance, please visit www.mcc.gov.