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**[DRAFT]**

# **U.S. Agency for International Development Bureau for Europe and Eurasia**

## **A Strategy for Combating Corruption**

**Office of Democracy and Governance  
The E&E Bureau Anti-Corruption Working Group  
With additions and edits from  
USAID overseas missions  
and other USAID technical offices**

January 2001

*“The truth was difficult and risky to admit, but the sense of boundless responsibility to the present, past and future of my nation has forced me to state the horrible words: if we fail to avoid this national disaster, if we fail to cure the nation, public and State from the horrible and poisoning malady of corruption – Georgians, as a civilized nation, and Georgia, as an independent, democratic state will have no future.”*

---President Eduard Shevardnadze  
President of Georgia  
Preface to the National Anti-Corruption Program, 2000

*“Imagine a rather unusual family. You have the market economy as the mother, and the communist-style management system as the father. The only offspring you will get from that kind of marriage is a corrupt and criminalized state.”*

---Yevgenii Zhovtis  
Kazakhstan Human Rights Bureau

*“The difference between the Transcaucasus and Turkey is that in Turkey, the government just takes a cut; here, they take everything.”*

----A member of the U.S. Chamber of Commerce  
Tbilisi, Georgia

*“The key is that corruption is not a crime of passion, but a crime of calculation. If you simultaneously raise the costs and eliminate the temptations, people will behave differently.”*

---Ronald MacLean-Abaroa  
Mayor, La Paz, Bolivia

*“We have studied international experience and we have found the countries that have really reduced corruption have done it through creating better government.”*

--Francisco Barrio  
Chairman, Anti-Corruption Commission, Mexico

*“Make it five hundred francs; I’m only a poor corrupt official.”*

----Claude Reins as Chief of Police, Casablanca, accepting a bribe

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## Executive Summary

A decade into a difficult and uneven transition, corruption has emerged as a key factor limiting the further political and economic development of post-communist states. It not only has the ability to check further movement toward free markets and free societies, but the power to reverse critical gains already made. This paper first looks at the reasons for corruption's persistence in the region, then outlines a broad conceptual approach to fighting it. The recommendations and interventions listed go beyond piecemeal activities to embrace a broader strategic and tactical approach by the U.S. Government as a whole, and underscores AID's comparative advantages in implementing it.

Defined simply, corruption is the abuse of public office for private gain. In the former communist world, it was a symptom of an upside-down incentive structure created by a system dominated by shortages of basic goods and services but excesses of bureaucracy. Currently, it keeps short-term survival mechanisms in place, and discourages longer-term behavior changes that must occur to spur integration into increasingly interdependent global structures.

Historically, the U.S. Government has approached corruption from an anti-crime, law enforcement perspective. Such an approach does not favor the redistribution of power in post-communist states, promote long-term behavior changes, or encourage states to adopt transparent governing practices. It may even strengthen what many believe are the most corrupt institutions in these countries.

A more holistic strategy addresses the core issues of weak governance and ineffective institutional development, and is suggested by ten 'lessons learned' from recent research on global corruption and the practice of the last several years. Generating mechanisms of integrity, both formal and informal, play a critical part in this approach.

On the principle that corruption flourishes in an atmosphere of secrecy and information-withholding, the first recommendation of this strategy *is to strengthen transparency and information-sharing* across sectors and portfolios. Every country mission can pursue such policies, no matter how difficult the development obstacles or how limited the budget for tackling them. An aggressive commitment to disseminating information widely and freely may actually end up being one of the strongest tools we have to counter entrenched historical patterns. Such an approach should also be at the forefront of ways we and other donors and development partners do business.

Should additional resources be available, the strategy recommends a developmental 'triangle' of interventions that promote *awareness* (public education, oversight and information), *prevention* (the systemic reform of underlying administrative and regulatory institutions, i.e., 'good governance')

and *enforcement* (investigation, prosecution, legal and administrative adjudication). The balance among the three is determined first by examining a country's basic regime type, then using that to help undertake a more comprehensive in-country diagnostic.

Within the region as a whole, we believe at least five distinct regime types can be discerned, each with separate, if overlapping development challenges that imply differing types and degrees of corruption. For simplicity, we label these: (a) consolidating democracies; (b) weak states; (c) retreating democracies; (d) consolidating authoritarian states; and (e) re-integrating states. Through this lens, a mission can undertake an analysis which focuses on the informal institutional relationships that allow corruption to flourish. Understanding the deeper reasons why states frequently fail to uphold new laws and formal procedures is critical before designing additional interventions.

A series of illustrative inter-related programs and interventions are then outlined. Some are aimed at fostering greater public understanding of corruption's hidden costs, publicizing less-known ways for individuals and communities to survive without engaging in it, or working with journalists, media owners and governments to promote the adoption of 'sunshine' laws and 'freedom-of-information'-type legislation. Others direct attention to governance issues, suggesting areas for broad procurement, regulatory, tax and civil service reform. Still others focus on promoting integrity within law enforcement bodies and other branches of power. Professionalizing NGOs and other self-regulatory organizations so that they may more actively lobby for change and monitor government behavior and compliance forms another group. The strategy suggests, but does not develop, sector-specific targets in energy, banking, education and healthcare. Using the triangle analysis, technical experts can devise approaches best suited for those sectors.

Finally, we lay out AID's comparative advantages in helping embassies to manage an increasingly large and diverse portfolio of law enforcement and anti-corruption activities. Some conditional indicators for evaluating program impact are laid out to help missions develop their own, more specific sub-objectives and monitoring mechanisms. Post-presence programs are briefly described, as well as the importance, role and impact of regional resources and programs. The appendices include a list of resources for further study and research.

In conclusion, while promoting transparency is the most important tool for combating corruption, we believe that the right balance among awareness, prevention and enforcement interventions must also be considered. Such a strategy can help both the U.S. Government as well as outside donors to better plan, administer and evaluate anti-corruption interventions in the post-communist world.

## I. Introduction

A. Why Does the Bureau Need an Anti-Corruption Strategy? Over the past few years, a remarkable explosion of interest in corruption has taken place within USAID, the World Bank, the United Nations, and throughout the larger donor and development communities. Development practitioners have been coming to a more sophisticated, if perhaps belated understanding of corruption's ability to adversely affect economic and political modernization, not simply in the transition states, but in the larger developing world. Even lending policies within the International Monetary Fund and the World Bank are being re-examined in light of this new concern.<sup>1</sup> With breathtaking speed, corruption has gone from being regarded obliquely as an economic "externality"---the cost of doing business overseas---to one of the central dilemmas facing development at the turn of the century.<sup>2</sup> In December 1997, in recognition of this, the OECD ratified the Anti-Bribery Convention, which now penalizes bribe-givers in developed states, in recognition of the ways in which corruption is also influenced and inadvertently supported by developed states as well. For many who have been writing about this subject for some time, such recognition comes as something of a relief: corruption's hidden capacity to sabotage political and economic modernization is finally being exposed.

In response to both host-country and congressional concerns, earmarks for 'crime and corruption' entered the appropriations language beginning with FY1995. For several years, USAID, the Departments of State and Justice, together with embassies and missions abroad, have endeavored to comply with them. Yet the solutions to corruption, even a basic understanding of how to define it and how best to approach it, however, have never been well articulated or clearly understood. But in 2000, Congress passed the bi-partisan 'Anti-Corruption and Good Governance Act,' which added a new section on corruption to the Foreign Assistance Act of 1961 with new reporting requirements.<sup>3</sup> For these reasons, anti-corruption must now evolve into a more comprehensive, cross-cutting goal affecting all programs, strategic objectives and their results.

By taking the initiative on such a strategy, the Europe & Eurasia Bureau hopes to answer the following questions:

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<sup>1</sup>"World Bank Management Controls Stronger, but Challenges in Fighting Corruption Remain," GAO Report, NSIAD-00-73, Washington D.C., April 2000.

<sup>2</sup> See, for example, Joel Hellman, Geraint Jones and Daniel Kaufmann, "Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition," *World Bank Policy Working Paper 2444*, Washington D.C., September 2000 see ([www.worldbank.org/wbi/governance/pubs/seizestate.htm](http://www.worldbank.org/wbi/governance/pubs/seizestate.htm)).

<sup>3</sup> U.S. Govt., 106<sup>th</sup> Congress, 2<sup>nd</sup> Session, "The Micro-Enterprise Self-Reliance and International Anti-Corruption and Good Governance Act of 2000," Public Law 106-309, October 2000.

- (a) what is the nature of post-communist corruption and why is it widely considered to be particularly tenacious in this part of the world?
- (b) why does USAID have a particularly important role to play by approaching this issue from a larger development perspective? and
- (c) what kind of tactical approaches and programs seem to be effective (and which are not), and which ones does USAID have real comparative advantage in undertaking?

B. Definitions and Implications. Simply put, corruption can be defined as *the abuse of public office for private gain*. Stated in the reverse, “integrity” is the use of public power for public gain. This is a critical distinction for development practitioners, for we are just as interested in encouraging *integrity* as we are in discouraging *corruption*. Programs to stop corrupt behavior without creating systems of integrity to replace it will probably be ineffective at best; they may even backfire. *Replacing an incentive structure that emphasizes short-term gain for the few at the expense of the many with one that attempts the reverse* should be the goal of all our programs.<sup>4</sup>

C. Ten Years Into A Problematic Transition. As the U.S. Government began marshalling critical resources to respond to communism’s collapse a decade ago, there were few, if any larger policy discussions of corruption as an institutional obstacle to democratization and marketization. Few had much to say about corruption as a development issue, whether in the communist world, or outside it. It was simply assumed that a few vigorous years of technical assistance to help states to privatize state property and their societies to organize politically would make it possible for countries in Central Europe and the former Soviet Union to make a relatively quick transition from communism to something approximating western Europe. Policymakers were optimistic about the post-communist world; nearly universal literacy and high degrees of social organization and industrialization were thought to be good pre-requisites for a smooth and orderly transition. The political will for reform was taken for granted, and few thought carefully about the kinds of problems such an enormous and multi-faceted transition might encounter.

A decade plus into the that transition, however, and such sanguine views about the ease---or even the very direction of that transition---can no longer be justified. While many saw that the transition might be far more difficult than supposed, there was little understanding of the subtle ways in which the old

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<sup>4</sup> A larger definition would include both the abuse of power within the private sector for private gain, and the abuse of power within the NGO community as well. In the first, the concern is how corrupt interactions among private parties undermines corporate governance and minority shareholder rights; in the second, how those same interactions detract from the integrity of the ‘third sector.’



system, supposedly on its way out the door, would be able to bury its tentacles deep into the new political economy that was just emerging. Ironically, the patronage networks erected by the old system turned out not just to be still intact, but adapted and even thrived in the post-communist environment.

While privatization and political contestation are real, the pattern of their achievement is uneven, even in places like the Northern Tier (Poland, the Czech Republic, Hungary and Slovakia) where problems are certainly fewer than in the Balkans or in the former USSR. Barriers between the private and public sectors, meant to safeguard the public trust, are permeable and indistinct, while in certain countries they have become almost meaningless. Potential entrants into the marketplace are blocked by patronage arrangements between the state and a new semi-legitimate private sector. In places like Russia and Ukraine, honest entrepreneurs find themselves increasingly pushed toward the criminal economy because of state weakness or over-regulation. Throughout the region, income disparities between a new rich and the rest of the population are growing dramatically. Increasingly, states do not so much as regulate the new economy, but safeguard political and economic power in the hands of a few for short-term gains at the expense of longer-term development needs. While there is legitimate disagreement over the extent of the damage, it is now impossible to deny that corruption in the post-communist region increasingly harms chances to sustain long-term economic growth, attract direct foreign investment, institutionalize political fairness and stability.

Certainly, all this needs to be judged alongside the genuine achievements that have taken place already. New laws---entire civil codes in some cases--- have been passed, contested elections have become standard, and vast amounts of state property have in fact been passed into private hands. And for a few countries, geographically proximate to the West, genuine political and economic modernization is taking place, even as the social cost of the transition remains high. But for the majority, reforms are increasingly subverted by old elites who, in addition to their political privileges, have assumed control of a valuable marketplace as well, something they either did not value, or did not possess in the communist era. Not surprisingly perhaps, public opinion, especially in the former Soviet Union, far from supporting the transition with open arms, is increasingly coming to the conclusion that the transition itself “was the final criminal act of the communist regime and its officials,” which now justifies corrupt behavior on the part of ordinary citizens.<sup>5</sup>

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<sup>5</sup> William L. Miller et al., “How Citizens Cope with Post-Communist Officials: Focus Group Discussion in Ukraine and the Czech Republic,” *Political Studies*, Vol. 45, No. 3, 1997.

## II. What Does Post-Communist Corruption Look Like?

A. A History of Perverse Incentives. To answer this question, we must first understand more about the nature of the state-party system that preceded the post-communist era. As former USAID/Slovakia mission director Paula Goddard once noted, communist corruption was rooted in a “paradox of both shortages and excesses.” Shortages of every-day goods and services were laid side-by-side with a self-defeating system of bureaucratic excesses, regulations, controls, cross-cutting and overlapping systems of authority and responsibility, all bound with more than generous amounts of red tape. Taken together, those shortages and excesses turned societal values on their head. The only honor for the new ‘socialist man,’ whether in Albania or Azerbaijan, lay in beating the system of excesses by paying a bribe or exchanging a favor for the far more tangible and more important goal of protecting one’s family and friends from abuse and shortage. In effect, communism not only created a system of upside-down values, but carefully nurtured them over many decades. *Undoing those values and replacing them with their opposites is perhaps the larger developmental goal for this region.*

B. The Fall of the Wall: Changing The External Rules Only. When the first attempts at de-statization came to Eastern Europe after 1989, they proceeded without much attention to this upside-down incentive structure communism had created for individuals and groups alike. Rapid but flawed privatizations in the Czech Republic, Hungary, Poland, and then Russia did not foresee that people would be as effective at subverting the new rules and regulations as they were at undermining the old ones. Two kinds of corruption thus began to manifest in the region: one caused by the continuation of the old system (as in Romania and Ukraine in the early 1990s); the second due to the lack of strong enforcement and regulatory mechanisms to oversee the dismantling of the old system (Hungary, the Czech Republic and increasingly Russia throughout the 1990s). Hybrid economies, rather than truly marketized ones, began to take root, operating in the gray area between the public and private sectors. Without clear boundaries separating the two, the state either became increasingly “captured” by the private sector, or in reverse, increasingly involved itself in the private sector to safeguard its patronage and crony networks. In certain states, some researchers even argue that the state has turned into an economic parasite, simply living off the ‘host’ private sector, instead of supporting it.<sup>6</sup>

This unhealthy relationship forestalled the break-up and restructuring of inefficient state monopolies. It distorted competition, limited entry, and has given new life to the old patronage networks once thought to have died. The glue for all of this continues to be a series of short-term incentive structures that work *against* long-term investment in favor of short-term strategies to

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<sup>6</sup> See Cliff Gaddy and Barry Ickes, “Russia’s Virtual Economy,” *Foreign Affairs*, Vol. 77, No. 5.

avoid taxes, divert capital and continue to weaken, rather than strengthen state institutions. A genuinely vicious cycle is in place, where efforts to enforce rules to strengthen weak institutions run counter to this perverse, yet logical incentive structure for institutions and individuals alike. Put another way, corruption flourishes in the short-run because its perceived benefits outweigh its longer-term disadvantages. Corruption thus 'makes sense' in a logical, if perverse manner. Finally, there is even evidence that the new system itself is generating new attitudes highly conducive to corruption.<sup>7</sup>

C. Corruption's Effect on Political Institutions. The 'velvet' revolutions of 1989 and 1991 exposed the weakness of political development under communism. Yet just when the greatest energy was needed to help develop judicial, local-government, parliamentary and other institutions of self-government, the old incentive structure has acted to weaken support for political development. Judicial integrity remains a critical theme throughout the region, even without the threat of executive dominance. Local governments, operating in a new, and largely unknown legal area, have sometimes become more democratic and accountable when they have been permitted to develop, but in other places have become even less law-abiding than their national counterparts. The old incentives help to marginalize independent trade unions, and prevent well-articulated interest groups and political parties from forming. Perhaps most importantly, the absence of real accountability and transparency, and the barriers to a flourishing marketization have made ordinary people lose interest in politics and relate to the state in deeply familiar, non-participatory or even subversive ways.<sup>8</sup>

D. Country Competitiveness Undermined. The advent of computerized globalization with its open financial markets and instantaneous competitive pressures has made the task for 'late developers' even more difficult. We are used to thinking of *comparative advantage*---the notion that countries or regions can find for themselves some economic niche not occupied by others, and thereby prosper. Japan largely pioneered this in the post-war era with automation and finishing in the 1970s, which was in turn, replicated by the East Asian NICs (Singapore, Taiwan, South Korea and Hong Kong). But in the post-Cold War era, some writers are using *country competitiveness* to describe the set of local, national and international conditions conducive to success under globalization. According to such thinking, natural resources, literacy, geographic location and a pre-existing industrial base are less important now than the degree to which state facilitate the free exchange of

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<sup>7</sup> See, e.g., Stephen Handelman, "Stealing the Dream: Bandit Capitalism in the Post-Communist States," in Adrian Karatnycky, *Nations in Transit*, 1999.

<sup>8</sup> This is reflected in public opinion polls throughout the region. In Georgia, for example, there is widespread consensus that the country has made little or no progress in rule of law and anti-corruption since independence ( "Georgians' Faith in Their Government Declines," Office of Research: Russia/NIS Opinion Alert, U.S. Dept. of State, January 2001).

information, ideas, goods, people, and services.<sup>9</sup> Practicing transparency and encouraging the free flow of information, ideas, goods and services, is thus one of the surest ways a state, or a region within a state, or across several states, can find a competitive foothold in the new global economy. Conversely, there are strong correlations between systemic corruption and the lack of such flows. Those states are far less likely to gain that crucial foothold and prosper in the new interdependent global economy.<sup>10</sup>

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<sup>9</sup> Some examples can be found in Thomas L. Friedman, *The Lexus and the Olive Tree: Understanding Globalization* and Gregg Pascal Zachary, *The Global Me: New Cosmopolitans and the Competitive Edge: Picking Globalism's Winners and Losers*.

<sup>10</sup> The recently published 'Kearney/Foreign Policy 'globalization' index, for example, found that the most 'globalized' nations tend to be smaller, permit maximum access to capital, goods, and services, have fully embraced the digital revolution, and exhibit low degrees of systemic corruption and income inequality. See "Measuring Globalization," *Foreign Policy Magazine*, January/February 2001.

### III. How Has the Bureau Approached Corruption So Far?

A. Anti-Corruption Working Group. The new research mentioned above had a profound impact on development thinking at USAID. In the fall of 1997, the Europe and Eurasia Bureau (formerly the Bureau for Europe and the New Independent States) created an Anti-Corruption Working Group made up of technical representatives from the Democracy and Governance (DG) and Privatization and Economic Restructuring (PER) Offices. The goal of that Group was threefold:

- (a) to harness this new research and awareness of corruption into both new and existing mission programs;
- (b) to provide ways for international donors and development organizations (such as the OECD, the World Bank, the UNDP, the European Commission and others) could more actively collaborate to support similar policies throughout the donor community; and
- (c) to build a stronger consensus between anti-corruption practitioners and the policy community for tackling transition-related corruption from a more comprehensive development perspective.

The Working Group borrowed heavily from the thinking behind ten year's worth of public administration and administration of justice programs in USAID's Bureau for Latin America and the Caribbean (LAC). Particular attention was paid to creating an effective Donors' Consultative Working Group for the Europe and Eurasia region. But more generally, the Working Group also sought to apply lessons from the post-communist transition that USAID field missions and its partners were already discussing. Those lessons required us to take a deeper look at the kind of governance institutions that were evolving in the region, and at the effects of our support for them, particularly given criticism that donor programs might be inadvertently strengthening corrupt patronage networks instead of replacing them.

B. USG Forum on Fighting Corruption Within the Justice Sector. In recognition of the growing seriousness of the corruption issue, the USG launched the first Global Forum on Fighting Corruption for justice and law enforcement officials in Washington, in February 1999.<sup>11</sup> Spearheaded by the Vice-President, this forum gave particular importance to the importance of NGO oversight of government behavior, and prompted an overall re-assessment of this issue by the larger policy community. Indirectly, the Forum encouraged the Bureau and its missions to be bolder in setting aside funds for specific anti-corruption projects. Nearly two years later, nearly all field missions in E&E now have in place some kind of anti-corruption programming.

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<sup>11</sup> Recommendations from this Forum are found in Appendix A.

C. Mission Directors' Conference: Budapest. In February 2000, USAID/E&E Mission Directors met for the first time to discuss strategy and tactical approaches to fight corruption, with State/INL and Justice/OPDAT also present. Two missions gave presentations on specific programs (Georgia, Bulgaria and Slovakia), while the Bureau Working Group shared the thinking behind the Bureau's 'Eight Points' guidance on anti-corruption programs. There was strong agreement that the agency *can* and *does* move quickly when other international donors cannot. Missions frequently leverage assets from other donors in collaborative ways; often, USAID has provided the technical expertise first, while a larger donor (like the World Bank) has followed suit. More importantly, perhaps, was USAID's comparative advantage in developing strong relationships with host-country NGO communities. Such expertise, together with our experience in promoting local government reform and accountability over many years in many different parts of the globe, gives USAID advantages in this field that other donors probably do not have.

D. E&E's Larger Democracy Re-Assessment. A year after the Vice-President's Forum, the Democracy and Governance Office launched an eight-month strategic re-think of all its programs in the region.<sup>12</sup> This process represents a maturation in USAID's approach, and a candid admission that a scattershot approach to democratization can no longer substitute for a more sophisticated understanding of some emerging realities.<sup>13</sup> The DG Office developed a series of descriptive and analytical categories of states intended to prompt critical thinking about the kinds of state-society relationships which are desirable and possible across an increasingly diverse region. This strategy utilizes those categories to look at corruption-related issues as well.

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<sup>12</sup> A summary of those sessions and references can be found in "USAID: Bureau for Europe & Eurasia: Office of Democracy and Governance, Strategy Development Process, Discussion Papers and Session Notes," December 2000.

<sup>13</sup> See also Thomas Carothers, "Democracy Assistance: The Question of Strategy," *Democratization*, Vol. 4, No. 3 (Autumn 1997): 109-32.

#### IV. What Have We Already Learned?

A. Questions on Governance and Democratization. Based on the knowledge and experience acquired from programs implemented over the past decade, we can arrive at some broader 'lessons learned' about governance and corruption. These lessons help form the basis for next steps in formulating a strategic approach to corruption, one that builds upon both the successes and failures of the recent past.

#### B. Ten Lessons Learned.

1. *Anti-corruption efforts must address the basic propensity of governments to conceal information from their own people. Adopting "sunshine" laws and Freedom of Information-type legislation and practices must stand at the forefront of USAID advice and practice. If all we end up doing is strengthening forces for transparency, the increased flow of state information, and political contestation, we will have spent U.S. taxpayer moneys wisely.<sup>14</sup>*

Perhaps even more than other issues, fighting corruption presents an array of real trade-offs, potential misses, or simply uncertain outcomes that our budgets, country expertise and host-country political will together may still not solve. But enabling the free flow of information---economic, political and social---carries minimum risk for us and maximum benefit for the societies we work in. It may turn out to be the single most important contribution we can make. We should not underestimate the impact we can have in helping to break long-standing traditions of secrecy in this region which effectively impede co-operative corruption-fighting efforts. This is not difficult to do, but it does require extra energy to make certain our programs are genuine clearinghouses of information, easily accessible to NGOs, governments and businesses alike. It requires us to weave transparency and accountability throughout all existing strategic objectives.<sup>15</sup> *The first task for a mission, then, is to 'anti-corrupt' all existing programs, before adding new stand-alone activities.*

2. *Interest groups not receiving the benefits of corruption are probably the only ones now who have incentives to attack it. It therefore makes sense to target corruption-fighting efforts with these groups of critical 'stakeholders' in mind.*

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<sup>14</sup> In recent public opinion surveys, for examples, Armenians say that the state's simple adherence to free, fair and contested elections can go a long way to curbing corruption and restoring popular confidence in state institutions.

<sup>15</sup> Both USAID/Slovakia and Croatia have made transparency and accountability cross-cutting objectives relevant to the achievement of every strategic objective, for example.

Missions must undertake some difficult political analysis here to ask who stands outside the system. For instance, judiciaries are as subject to corruption as are prosecutors, but the former have generally been historically marginalized; the same holds true with local governments (mayors, city councils); political parties and groupings not a part of the emerging crony structure (which include not only the judiciary and reform-minded local government bodies, but small business associations, advocacy NGOs, human rights groups, consumers' organizations, micro-credit recipients, and some trade unions). USAID's goal for civil society development needs to focus on sustaining 'islands of integrity' to demonstrate to both government and the public that it is possible to live without corruption, and help develop new incentive systems to replace it..

*3. Despite popular usage of the term, corruption is not a well-understood concept, and its costs are often hidden from view. Diagnostic surveys and measurement are thus a critical first step to increase public awareness of corruption and political support for more comprehensive efforts to fight it. They also help provide a needed baseline from which to measure progress in combating it.*

One of the ironies of post-communist life is that, unlike Italy, where concepts like the "mafia" were never publicly discussed until very recently, newspapers and television reports are filled with detailed instances of corruption and organized crime. Yet very few, either private citizens or those within top echelons of the government, clearly understand what is meant by corruption, or acknowledge that they contribute to it in their daily lives. Most erroneously believe corruption to be an informal wealth redistribution mechanism which helps them to survive. Public engagement programs can help people understand how corruption actually impoverishes and demeans them, and how they might begin refusing to collaborate with it without suffering adverse consequences. A basic diagnostic of the problem---how it affects households, businesses and the government---is also important to help acquire baseline data from which to measure the impact of later programs.

*4. A "triangular" approach to fighting corruption---focusing on **awareness, prevention and enforcement**---offers a much more balanced strategy than one which looks at corruption in terms of simply 'fighting crime.'*

Public attitudes in host countries, as well as within the U.S. Government, tend to lump 'crime and corruption' together as economic evils that must be eradicated. But in many ways, this puts



the symptom before the disease. As this strategy will assert throughout, corruption in transition states is primarily a factor of weak and uneven institutional development. New and old institutions alike operate under unclear rules, little oversight, as well as without effective enforcement mechanisms. Understanding this helps us to devise anti-corruption interventions which involve less trying to eradicate something negative than creating its opposite: *strengthening both formal and informal mechanisms which generate integrity*. The list of formal mechanisms includes ombudsmen, parliamentary oversight bodies, auditing and accounting chambers, judicial independence, municipal self-governance and fiscal federalism. The list of informal mechanisms includes developing and enforcing codes of conduct for self-regulating organizations, peer review, and greater professionalism and accountability within the larger non-governmental sector, including business associations, advocacy groups, as well as political parties.

Each of the parts of the triangle should be viewed broadly, rather than narrowly. *Enforcement* does not mean simply “law enforcement” but the larger array of administrative, civil, commercial and criminal mechanisms responsible for the rule of law. Even in the narrower criminal sub-section, enforcement means addressing the larger institutional reasons why these organizations do not work the way they should, rather than simply adding training programs. In the same fashion, *awareness* should not be seen as simply more public discussion of the costs of corruption, but publicizing ways that people and communities can live without it. And *prevention* cannot consist of only a few laws and regulations changed to satisfy the demands of western donors, but must go to the heart of the issue of weak governance and short-term incentive systems that *cause* corruption .

##### *5. A ‘law enforcement’ approach alone could well be dangerous.*

Recent World Bank data show that high levels of public sector corruption are strongly correlated with low levels of civic activism, rigged elections, weak conflict of interest legislation, and regular violations of human rights, including attacks against independent media. *These findings imply that development programs themselves are one of the best tools we have to fight the symptoms of corruption.* But the findings go further. They also imply that one cannot fight corruption with corrupt institutions. Yet in country after country, those same data show that the police and law enforcement bodies are the most corrupt institutions of all, surpassing the courts, tax

authorities and other parts of executive government.<sup>16</sup> A 'law enforcement' strategy, therefore, will not only have little positive effect in such places; it may well backfire. If the USG pursues a law enforcement strategy by default, especially in isolation from a larger development strategy, lawless situations might be temporarily stabilized, but at the larger cost of longer-term societal reform.

*6. Our efforts to promote "reform" should strike a careful balance between economic and political goals; historically, we have skewed technical assistance toward the economic at the expense of the political.*

We must understand the importance of proper sequencing in our programs. Even in the West, effective markets did not just emerge spontaneously, but only *after* strong political institutions were created to oversee them, not before. We may well have erred too much in previous years helping to construct free markets first, rather than helping countries to construct free *societies*, on which free markets could later flourish. For example, strengthening banks without proper bank supervision is simply an invitation to grand theft. Writing new laws, no matter how well-intentioned, without providing for a genuinely independent judiciary, will ultimately provide only a stronger basis for executive misrule in the future. Executive decrees supporting economic reform may be easier to craft than legislative compromises, but presidential decrees alone undermine democratic notions of checks-and-balances.

*7. The process by which reform is introduced in a society is just as important as its content. Not just USAID, but the larger donor community must take the lead in practicing transparency itself, and using its influence to encourage transparency in the behavior of host-country governments.*

Admittedly, it is frequently not possible to dictate government behavior or the political climate for reform in any given country. Yet frequently, the World Bank, the EU, UN, and others have access to critical information that the NGO and business community need, but do not have. Disseminating such information freely and openly can have a profound effect on host-country behavior and practices in the long-term. It also helps to dispel increasingly popular notions that that donors often act in collusion with corrupt regimes to promote insider enrichment at the expense of the public good.

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<sup>16</sup> This is true even when the surveys query government officials themselves, not simply individual households and businesses.

*8. Regulatory and procurement reform probably make up the bulk of a short-term attacks on public sector corruption, while administrative and civil service reform should be the core of a longer-term, more ambitious programs, and probably undertaken by others, such as the World Bank.*

Throughout the region, weak treasury and procurement functions are a strong factor behind petty corruption and bribery. While donors have spent considerable effort creating private capital markets, comparatively less attention has been focused on developing accounting, auditing and oversight mechanisms within public financial bodies, and ensuring that they do not become easily corrupted themselves.

For the longer-term, comprehensive civil service reform, together with genuine fiscal federalism, could be key anti-corruption prevention measures. But they are generally expensive, often require extensive donor collaboration, and must be undertaken with careful attention to ensuring accountability, not simply strengthening professionalism. A mission political analysis (described in the 'strategy' section below) can help donors understand not simply the formal, but the informal client and patronage systems that work to discourage accountability, and should be done before embarking on such large-scale reform efforts. Pointedly, this was frequently not done in the early years of our assistance program.

*9. A holistic anti-corruption effort needs strong involvement and support from our diplomatic counterparts in embassies and the State Department, both to promote greater collaboration among U.S. Government agencies, as well as to encourage co-operation with international bodies pursuing their own anti-corruption efforts.*

Within the USG, our embassies must increasingly manage the operations of literally dozens of federal agencies involved in law enforcement, anti-corruption and/or anti-crime issues. To outsiders, the USG frequently looks like a conglomeration of actors which either overlap with, work in isolation from, or even at cross purposes with one another. But with greater co-ordination, *all* of our developmental, preventive and diplomatic responses can be leveraged to attack corruption-related problems. USAID, with both its long-term developmental perspective and a frequently substantial in-country presence, is well-positioned to play an effective role in such a balanced approach.

*10. The danger that programs will be overly broad and ambitious is great. Preliminary interventions should be modest, easy to comprehend*

*and highly visible. Programs focusing on only one or two key sectors where corruption directly affects people (such as health or energy) are often preferable to more comprehensive programs. Technical assistance to formal anti-corruption commissions, if appropriate at all, should proceed cautiously and even-handedly.*

Despite severe problems, there are real successes in battling institutional corruption in the post-communist region. Ukrainian ecological NGOs and Russian trade unions have used courts to compel back payment of wages, stop the construction of new nuclear reactors and demand the timely issuance of environmental impact statements before large construction projects begin. Romanian civic groups monitor vote fraud, and Bulgarian service delivery organizations push for regular and transparent municipal budget hearings. These programs are important, even if small, for they show people throughout the larger post-communist that battles for transparency can actually be won. They can also be fairly easily replicated in other countries.

In Slovakia, careful technical assistance and advice given to the government helped open up its official anti-corruption efforts to host-country NGOs. Other states, by contrast, have created anti-corruption commissions which seem to be used solely to attack political opponents. Still others approach corruption in wholly dubious ways. (In a famous example cited frequently by the current Slovak Government, Slovakia's former President Meciar attacked simply eliminated bribery altogether from the criminal code as a misguided part of an inappropriately named 'Clean Hands' campaign.) We must be careful not to lend our good name to such efforts. Even in countries like Georgia and Slovakia where we have decided to lend assistance to official efforts, we must remain cognizant of how wider publics view both these commissions and our efforts to assist them.<sup>17</sup>

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<sup>17</sup> In Georgia, for example, nearly two-thirds of those sampled in a recent poll doubt that the country's new anti-corruption commission will have much of an impact on corruption, despite high respect for the integrity of its members ("Georgians' Faith in Their Government Declines," Office of Research, Dept. of State, January 2001).

## Strategy

- A. What To Do *First*? As the first lesson learned strongly suggested, there is something that can be done by any mission, regardless of a country's specific political situation. **Putting transparency at the heart of all existing strategic objectives, a mission should undertake to 'anti-corrupt' its existing programs *first*, without adding additional stand-alone activities.** In many cases, this is not difficult, and can be accomplished by carefully reviewing scopes of work for existing grantees and contractors, and adding a paragraph or a section to their workplans. (Bureau support to the field, together with contractor assistance, can help a mission undertake this.) This can include creating mission-wide working groups on corruption that cross over strategic objectives and technical offices, even agencies. Regular meetings of grantees and contractors organized less around workplans and more around country issues, can also play an important role in information-sharing and programming for transparency.
- B. More Comprehensive Interventions. Beyond this, many missions have already reserved funds for add-on activities and are seeking to use them with the greatest impact. The following offers a guide for missions with the time, resources and personnel to do this.
1. A Political Diagnostic. Missions must first undertake some kind of political analysis of the institutions they want to work with. Most donors focus on the formal relationships among institutions and actors; but a corruption diagnostic must begin with the premise that the *informal*, client-patron relationships within a country are much more important than the formal ones (which are frequently meaningless). This kind of analysis is certainly challenging, but not impossible, in the opinion of current researchers.<sup>18</sup> But even before this, each mission should attempt to categorize where----along a broader post-communist spectrum of development markers---their country stands.
  2. Using Regional Typologies. After ten years, the disparities between states like the Czech Republic and Tajikistan have become so great that a set of analytical distinctions must be made between them. The Bureau believes that five broad categories of states within the region can be identified, each with its own set of political, economic and social challenges.

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<sup>18</sup> An informal discussion between Robert Klitgaard and the Global Bureau's Center for Democracy and Governance, 2000.

Viewing states through this particular lens, even without allowing for nuances and complexity, encourages critical thinking about developmental issues in ways that the more vague 'post-communist' label simply does not.

(a) Consolidating Democracies. (*Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Mongolia, Poland, Slovenia and Slovakia*).<sup>19</sup> Mostly free, fair and contested elections over bread-and-butter issues take place amid a defined economic transition marked by some genuine achievements in growth, investment and modernization. There is fairly strong political will and societal consensus for democratic principles: a rule of law, open political contestation, and general inclusion. Local governance has made measurable gains and can actually counterbalance central authority in ways that do not undermine state stability, but perhaps even strengthen it. Some economic growth and comparatively higher levels of foreign direct investment predominate. Not surprisingly, the majority of such states lie geographically close to the West, while three have been accepted into NATO and three on the first tier list of EU accession. Corruption exists, however, even thrives through an absence of strong boundaries between the public and private sectors, criminalization of the economy, and state weakness. *The political will to fight corruption is less of a question than in other states, but the competence and skills of the corruption fighters may well be, suggesting that prevention measures might well be effective. A law enforcement approach, if focused on promoting integrity and accountability within law enforcement bodies, can complement 'good governance' and public education programs in fairly equal proportion.*

(b) Late Nation-Builders (*Albania, Bulgaria, Macedonia, Moldova, Montenegro, Romania, Serbia*<sup>20</sup>). Ethnic confrontation and clan politics predominate over a larger economic landscape of stagnation and political, cultural or geographic isolation. Internal cohesion and the kind of cooperative relationships among state and society found in consolidating democracies are lacking. In some, deep social cleavages---ethnic or clan-based---delay or obstruct larger

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<sup>19</sup> Some states arguably could be placed in multiple categories. Croatia is currently in transition, but the movement shows strong signs of global integration this category suggests..

<sup>20</sup> While profound transformations are clearly underway in Serbia; their ultimate direction is less clear.

tasks of nation-building. While varied degrees of pluralism exist, the implementation of major reforms (land ownership, decentralization, rule of law) lags significantly behind their counterparts in the Northern Tier. Historically, many of these countries have been economically marginalized by more powerful neighbors, with systemic corruption entrenched long before communism's arrival, which only cemented these traditions more strongly. While some of these states are engaged in serious struggles with *corruption, there are strong systemic forces arrayed against such efforts, raising questions whether widespread efforts will be effective. Longer-term programs (such as civil service reform) may simply be premature and law enforcement approaches should be employed with great caution.*

(c) Retreating Democracies: (Armenia, Georgia, Russia, Ukraine) In large states, like Russia and Ukraine, the state's size and influence is actually increasing, even as overall governance, capacity and effectiveness is probably diminishing.<sup>21</sup> In all, entrenched elites have benefited disproportionately from privatization, and significant barriers to market entry impede growth and long-term investment. Lines between public and private, as those between legal and illegal activity are increasingly blurred, with judiciaries unwilling or unable to enforce the separation of the two. Public cynicism feeds into distrust of governments, while crimes of embezzlement, money-laundering and tax evasion go largely unpunished. Gains in independent media and regional development are under attack and losing ground. Clear rewards for corrupt behavior exist and the efforts of civil society groups to combat it are weak, unfocused or marginalized. Of all the typologies, these states may be the most corrupt, with intervention strategies the most difficult to formulate. *Stopping the short-term deterioration of democracy might be the first step in a longer-term effort to encourage and publicize new, integrity-generating behavior by businesses and communities. Law enforcement approaches run a decided risk of strengthening those agencies with the least amount of public accountability and transparency.*

(d) Consolidating Authoritarians: (Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan). For the rest of the former Soviet Union, politics lurches toward the

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<sup>21</sup> See Elizabeth Teague, "Vacuum of State Power: Russia's Main Weakness," *Jamestown Foundation Prism*, October 2, 1998.

authoritarian. *Glasnost* and *perestroika* never made it to these parts of the USSR during the 1980s, and consequently, the liberalization that preceded the collapse of communism simply did not take place. The absence of checks on state power, combined with a natural resource wealth in the Central Asian states, has created a 'crony' capitalism that effectively resists change. Elections are little more than basic plebiscites affirming the state's power, with parliaments and judiciaries mostly functionaries of the executive branch. Society remains heavily state-dependent and non-politicized. Ironically, these states are perhaps less corrupt than others only because there has been so little genuine market development, or because soviet-era political controls remain in place. *A large part of an anti-corruption strategy is much the same as that for basic democratization: expanding narrow avenues for civil society participation and creating alternative levers of power within a closed system. Employing a law enforcement, rather than a civil society approach here only damages those opportunities by strengthening the least accountable institutions of state.*

(e) Re-Integrating States (*Bosnia, Kosovo, Tajikistan*) Re-integrating formerly failed or warring states pose distinct, yet poorly understood questions for donors and anti-corruption practitioners. In the major "client" states marked by international occupation (Bosnia), the occupiers arguably had *carte blanche* to enact public administration reforms by decree in ways that were simply not possible elsewhere. The policy directives to support community re-integration and power-sharing, however, were so important and required so much energy that little attention was given to the accountability of public institutions themselves. *Perhaps the first task for donors is to recognize the inadvertent, but harmful effects on basic governance this has had, so that appropriate interventions to address basic issues of accountability can then be designed and implemented.*

3. A Corruption 'Triangle.' As a development model, we can envision a triangle of anti-corruption programs where *awareness, prevention* and *enforcement* make up the three sides. Which proportion of each or the sequence of programs to employ, however, strongly depends upon the kind of regime. For a consolidating democracy, all three sides are fairly equally important. But in the case of a retreating democracy, the problems shift more toward the *governance* and *awareness* angles



and less to enforcement, particularly law enforcement. In a re-centralized authoritarian state, efforts to fight corruption through the public sector are probably misplaced, and should probably be focused entirely on simply promoting pluralization, while leaving enforcement and governance issues to one side.

4. Program Interventions. While these models and analysis will help identify the problems, they don't tell us what to do or how to do it. Neither do they speak to priorities or program sequencing issues. We know, for example, that it may be counterproductive to press countries to reform their civil service if their employees are not getting paid anyway. Similarly, investigative journalism is not likely to succeed if journalists do not have access to adequate legal safeguards. The following illustrative list of interventions, therefore, require thought about appropriateness, order and sequencing that only further mission analysis can answer. Three pictorial diagrams follow, showing the shape of the triangles for three selected regime types.

(a) ***Awareness (Public Education, Oversight and Information Transparency Programs)***

- (1) incorporate transparency and information-sharing in all technical assistance programs across sectors and strategic objectives;
- (2) support diagnostic surveys and research to foster understanding of effects of corruption on individuals, households, private and the public sector;
  - disseminate results through 'integrity conferences' with media, NGOs, public/private sector;
  - promote follow-up action plans with implementation responsibilities for each group;
  - regularly monitor progress and compliance;
- (3) publicize examples of integrity in the private and public sectors, focusing on
  - introducing conflict of interest practices;
  - strengthening specific corruption-focused NGO monitoring and 'watchdog' groups;
  - promoting informal and formal codes of ethical conduct for key institutions across sectors;
  - strengthening and publicizing anti-bribery 'integrity pacts' by business associations and other SROs;
  - long-term harm by the failure to erect meaningful public/private sector barriers;
- (4) promote professional investigative journalism by

- training journalists, editors, publishers, and business owners together, using experience of other corrupt states (Italy, Latin America, Philippines);
  - supporting aggressive legal defense networks;
  - replacing poorly-written libel and slander laws with legislation to protect journalists' rights;
  - enlisting media and government to publicize examples of non-corrupt behavior by communities, individuals and businesses;
- (5) promote government adoption of 'sunshine' and 'freedom-of-information' legislation;
- (6) strengthen co-operation among business groups, NGOs and local governments for legislative and fiscal transparency, focusing on
- regularized public hearings on most legislation;
  - open disclosure of all funding sources in budgets;
- (5) stronger support for private sector governance reform efforts, including
- safeguards for minority shareholders;
  - stronger management training;
  - increased labor and union participation;
- (6) diplomatic support for international anti-corruption agreements (OECD Anti-Bribery Convention, FATF provisions, UN Anti-Crime and Council of Europe agreements, etc.) and
- publicize and disseminate provisions to businesses, NGOs and local governments;

***(b) Prevention (Systemic Reform of Underlying Administrative and Regulatory Institutions, 'Good Governance' Provisions)***

- (1) modernize financial management, audit and accounting systems across agencies and branches of government, focusing on
- *procurement reform* (transparent management, publicized procedures, professional training, agency independence);
  - *budgetary reform* (assigning detailed funding sources for revenues, expenses and deficits, incorporating non-budgetary items with shadow sources into budgets);
  - *audit/investigative oversight* in all ministries and in parliament (Chambers of Control, etc.);
- (2) promote political and fiscal de-centralization, including
- direct local elections;

- legalized tax and bond-raising authority;
  - NGO and SRO participation in local budget process;
- (3) professionalize SRO and NGO activities through
- adoption of regular business plans;
  - compliance with western auditing and accounting standards;
  - codes of conduct for members, with enforced provisions for violations;
  - national/regional balance in membership;
  - strengthening lobbying efforts toward tax incentives for philanthropy and clearer legal/economic distinctions between for-profit and not-for-profit entities;
- (4) encourage long-term, comprehensive civil service reform with other donor assistance, focusing on:
- uniform job descriptions;
  - promotion, hiring/firing, compensation, and re-training procedures;
  - salary increases in accordance with new training;
  - financial/income disclosure for high public sector officials and their families (judiciary, executive, legislative, military);
  - institution of blind trusts while in office;
  - disciplinary procedures for malfeasance, unethical conduct, gross negligence of duties;
  - institute 'whistle-blowing' mechanisms and waste, fraud and abuse hot lines within state bodies;
- (5) curtail administrative over-regulation by
- easing/simplifying business licensing procedures;
  - making tax laws coherent;
  - eliminating duplication or overlap of competencies across ministries and agencies;
  - publishing and disseminating clear fee schedules across agencies for most common public services;
- (6) promote stronger de-regulation in critical areas (energy, agriculture, foreign trade);
- (7) invite oversight by SROs and NGOs of other key sectors (banking, securities, telecommunication, customs, health, education);

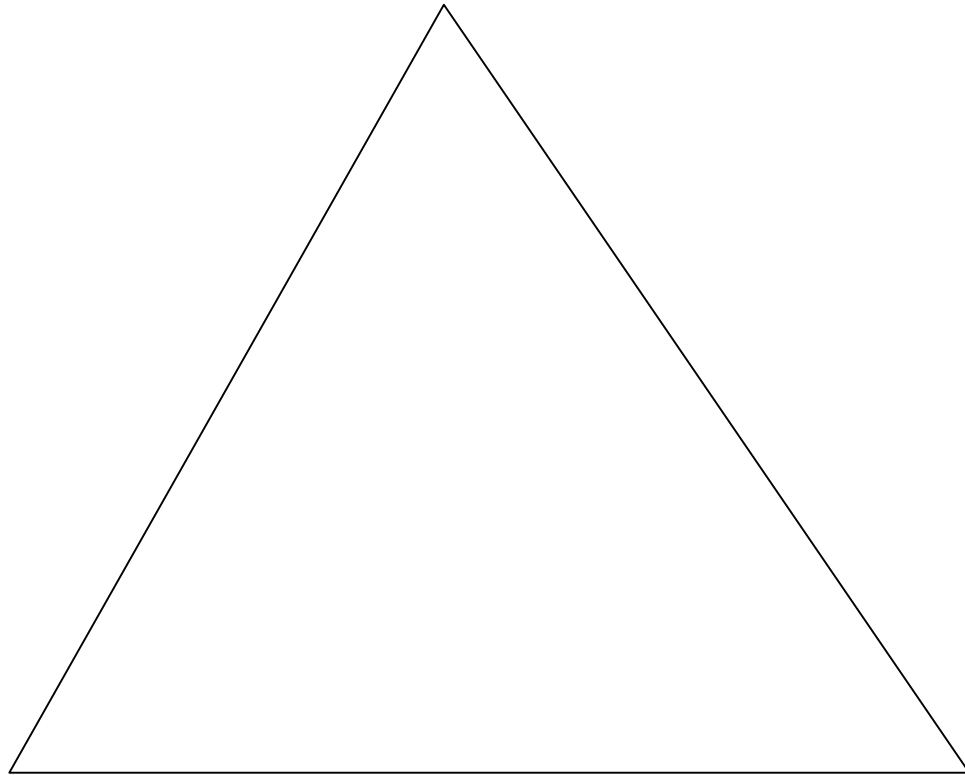
***(c) Enforcement (Investigation, Prosecution, Legal and Administrative Adjudication)***

- (1) encourage governments to:

- de-criminalize lesser ‘economic crimes’ (some capital flight, tax evasion, etc.);
  - fully criminalize grand corruption and white collar crime (racketeering, embezzlement, money-laundering);
  - discharge excessive or irrelevant functions from law enforcement bodies;
  - create/strengthen ombudsmen’s offices to promote oversight of police, interior and defense ministries;
- (2) promote integrity and accountability in law enforcement bodies through
- judicial independence (financial and political);
  - limiting powers of the procuracy;
  - introducing community policing with local and NGO participation;
  - ensuring adequate enforcement of court decisions by court, rather than private personnel;
  - more rapid case adjudication;
  - modernization of court procedures;
  - increased sentencing flexibility;
  - increased use of civil mechanisms to reduce burdens on criminal system;
  - penal and pre-trial detention reform;
- (3) offer careful support to formal anti-corruption commissions by
- encouraging NGO/judicial participation as pre-requisites;
  - focusing efforts on changing basic operating systems and management practices, rather than individual prosecutions;
  - help provide research/support on key sectors (agriculture, energy, banking, telecommunication, health, education) where corruption is most felt;

# Figure 1 (Consolidating Democracies)

***Awareness***  
**(Education, Oversight, Transparency)**

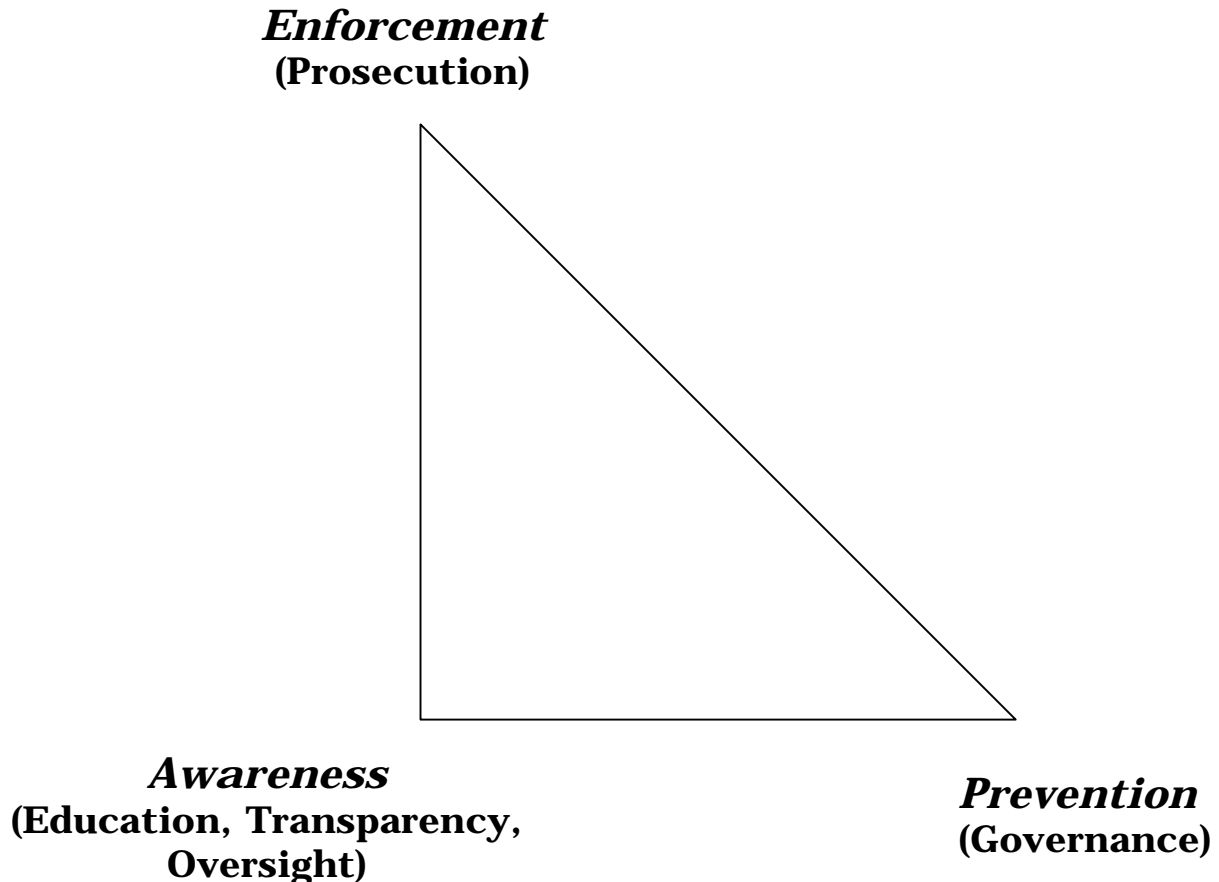


***Prevention***  
**(‘Good Governance’)**

***Enforcement***  
**(Prosecution, Adjudication)**

Consolidating Democracies: Since power is relatively contested through various checks-and-balances, and there is measurable political will to attack corruption from both state and society, there is less danger that a program might inadvertently strengthen corrupt law enforcement entities at the expense of democratic institution-building. Lack of technical competence is probably a stronger obstacle to clean government than wrong incentive systems or the lack of public awareness. This suggests that short-term technical assistance programs for reducing public sector corruption might be effective, as long as they are balanced with measures that engage NGOs and the private sector as well.

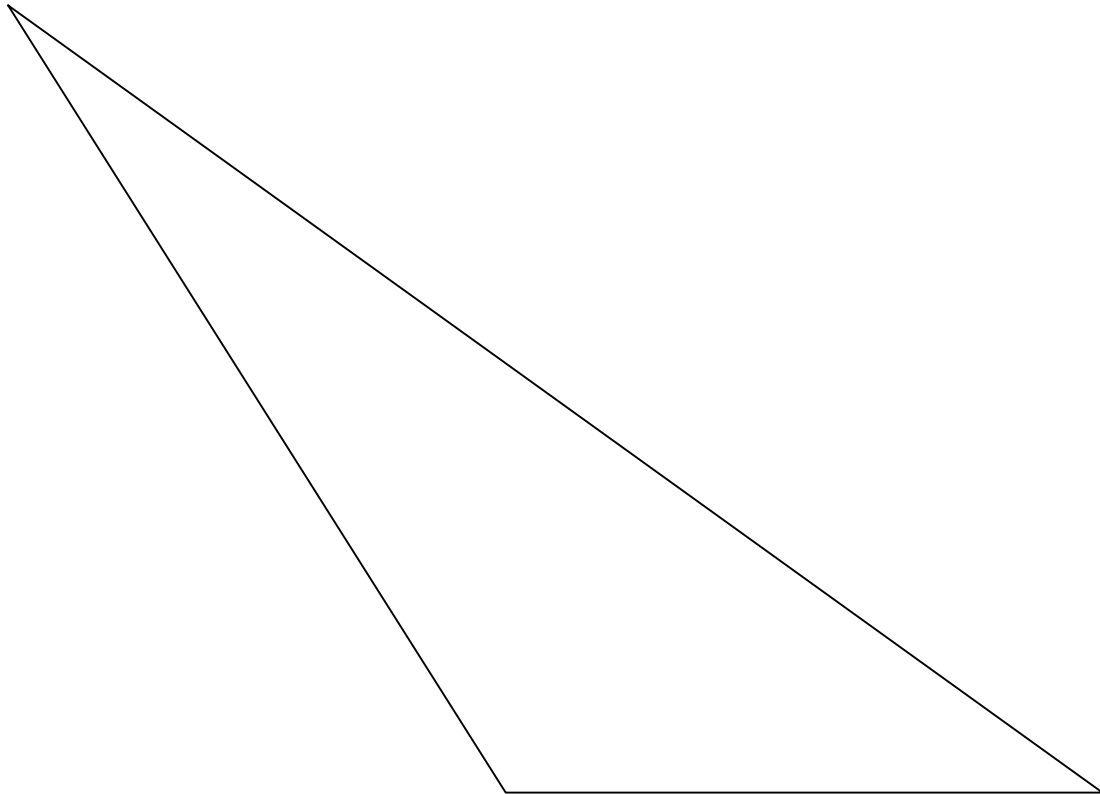
## Figure 2 (Retreating Democracies)



Retreating Democracies: Checks-and-balances are ineffective in counterbalancing a re-centralizing executive power. Even were they effective, however, most institutions are too corrupt to make short-term technical assistance geared toward better governance meaningful or effective. This suggests that anti-corruption programs should first try to stop the deterioration of democracy by strengthening other legitimate avenues of authority (free media, the private sector and municipal governance) more aggressively. Longer-term approaches that try to focus public awareness and discussion new integrity systems in formal and informal institutions, and how to disseminate such examples widely, would then make sense.

### Figure 3 (Consolidating Authoritarian States)

***Enforcement***  
**(Prosecution)**



***Awareness***  
**(Information, Contestation)**

***Prevention***  
**(Governance)**

*Consolidating Authoritarian States: Increasing legitimate avenues for the contestation of power is still the most important development issue for these states. Anti-corruption programs should focus on 'bread-and-butter' issues of development: free and fair elections, judicial independence, transparent privatization, and political de-centralization. Petty corruption is less problematic than systemic corruption arising from cronyism, thus programs should avoid strengthening agencies and institutions without basic standards of accountability.*

## VI. Tactics and Measuring Impact

- A. USG Co-Ordination of Anti-Corruption Efforts. The explosion of interest in anti-corruption efforts by dozens of USG agencies and their implementing partners raises the co-ordination issue to front and center stage. Most embassies have continued to assign responsibility for fighting corruption to law enforcement and anti-crime agencies by default, however. The result has inadvertently encouraged uncoordinated approaches toward US-based or third-country technical training, with little institutional analysis or follow-up. Other countries' embassies, following our lead, have generally adopted similar approaches.
1. Analytical Advantages. But as this strategy is arguing, law enforcement has simply become too small a passageway through which to view corruption. Corruption cuts across the entire spectrum of bilateral issues and has substantial implications for the achievement of virtually all Embassy goals and USAID strategic objectives together. What, then, does USAID bring to the table? First, we bring the intellectual and experiential resources that a development perspective implies, together with a considerable budget, in-country management and a portfolio of activities that can be harnessed in a comprehensive manner. In Slovakia particularly, USAID led overall USG anti-corruption efforts by *analyzing the nature and extent of the country's corruption problem, developing comprehensive, co-ordinated USG responses* focusing on awareness, prevention and enforcement; and *initiating embassy-wide working groups* on anti corruption and transparency to assure coordination of policy and program activities.
  2. Management Advantages. Several embassies have already begun more comprehensive approaches to anti-corruption and those efforts offer positive models for others in the region. This is particularly important given increasing resource levels being devoted to this fight by law enforcement entities, as well as increasing time and attention paid to this problem by Public Affairs Officers, the Foreign Commercial Service and other US Embassy sections. The organizational benefits to such a direct approach:



- (a) builds upon and links together *all* existing USG resources and technical expertise, not just some of them;<sup>22</sup>
- (b) encourages cooperation *within* the donor community to share information, enhance communication, avoid duplication, and encourage policy and technical coordination among the various international experts. This co-ordination is increasingly essential not only for USG efforts, but for the success of anti-corruption and transparency measures that World Bank and European Union programs are increasingly relying on as pre-conditions for funding;
- (c) *integrates* issues of transparency and anti-corruption into US bilateral relations and policy dialogue at the highest levels. With some humility, the USG can still exercise strong leadership in the international arena in this field, which currently lacks it. Importantly, technocrats of widely different ideological persuasions are increasingly expressing interest in the details of the American system of checks and balances, our experience with non-governmental "watchdog" organizations, our experience with de-centralized local and municipal governance, and our high degree of media openness and recent legislation guaranteeing public access to information. The USG is well-placed to exercise leadership by offering its own examples to others who need positive models.
- (d) supports host countries' *own* governmental and non-governmental anti corruption efforts, when those efforts are determined to be legitimate. In countries where anti-corruption commissions have been formed with credible partners to aid them, the USG's *imprimatur* can indeed become a powerful 'seal of approval' for such efforts.<sup>23</sup> Advocacy groups at the national and local level (such as chapter of

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<sup>22</sup> Even a short list of the involved underscores the need for such linkages. Embassies (political, economic, and information sections), USAID mission personnel and their grantees and contractors, S/INL, the Foreign Commercial Service, Treasury/FINCEN, DOJ/OPDAT and ICITAP, FBI, DEA, Customs, Commerce, and others carrying out related programs, such as NED grants through existing democracy commissions and networks.

<sup>23</sup> It is precisely for that reason that the USG should be wary to support such efforts. Whether such commissions have strong domestic support among the NGO community we have been working with all along is one important marker of 'legitimacy.'

Transparency International, or other monitoring NGOs) can leverage even stronger backing from their governments with such support USAID participant training resources can also help by providing opportunities for small groups of activists to gain exposure to US or western European experiences. Successful study tours have focused on investigative journalism, transparency in parliamentary operations, and problems in implementing 'freedom-of-information' legislation, to name a few.

B. Finding a Programmatic Home? USAID Missions themselves may have difficulty finding an appropriate office in which to lodge responsibility for implementation of anti corruption efforts. Conceptually anti-corruption and transparency issues cut across most Mission's strategic areas. A focus on anti-corruption and transparency can (and should) be woven into the entire range of Strategic Objectives. Unfortunately, the result is often to make responsibility for program implementation and results fall outside the "boundary" of any single Strategic Objective team. An internal anti-corruption working group, composed of representatives from each office or strategic objective, is useful, chaired by the Program Office, can help address that problem.

C. Who Should Do the Analysis? While these efforts should be mission-led, the Bureau has considerable resources that can help. Global contracting mechanisms, together with support to missions through personnel and regional contractors are important tools. However, they should not be used to substitute for mission leadership. A team that brings Bureau personnel at least "virtually" together with a contracted technical specialist is a good combination to increase the effectiveness of a Mission-led effort.

D. Stand-Alone Activities: When and Where? Some missions have already been modifying existing programs to make transparency a more explicit focus of all technical assistance, training and other institution-building efforts. But some have the resources and budget to initiate new, stand-alone anti-corruption activities. USAID/Ukraine has already introduced a de-regulation initiative simplifying business licensing procures, while USAID/Moscow is considering a competition for NGO-led anti-corruption efforts. USAID/Bulgaria's assistance to Coalition 2000 was instrumental in the Coalition's regional proposal to the Bureau to create and strengthen monitoring instruments throughout the Balkans as part of the Stability pact.

1. Effectiveness. The success or failure of stand-alone programs has been difficult to gauge. In the Slovak cases, budget

realities made a stand-alone program too expensive; in others, they were added to address problems that have only been lately considered. As stated before, this Strategy supports “anti-corrupting” existing programs through interventions with grantees and contractors rather than adding new programs to what may soon become an overburdened portfolio. However, each mission must answer this question differently, based on many factors that are frequently not even a part of USAID’s diagnostic analysis (importance of a program to USG political goals, funding and earmark issues, mission staffing, organizational strengths).

E. Indicators: Knowing What Works? The Bureau has deliberately not yet defined fixed indicators for anti-corruption efforts. Rather than lay down a set of hard and fast rules which seek to solidify temporary patterns at the expense of a rapidly changing dynamic, we offer some intermediate indicators of program impact below, closely tied to the range of indicators missions have developed for other programs.

1. Watchdogs. The quantity (and quality) of private bar associations, public interest law clinics, advocacy NGOs, consumers’ rights groups, tenants’ or residents’ unions, business associations, micro-credit recipients, working in co-operation with elected grassroots public sector officials at (mayors, city council/local legislative bodies, regional officials, governors, law enforcement officers) on projects of mutual concern. Such partnerships might serve as seed institutions to foster coalition-building across diverse social interests to support common goals: something that has been rare in E&E.

2. NGO Monitoring. A government-prioritized action agenda that assigns roles to NGOs as well as specific agencies that can be effectively and regularly monitored by NGOs for compliance.

3. Legal Enforcement. New legislation defining bribery and conflict of interest in criminal and procedural codes; guaranteeing property rights; outlawing racketeering, money laundering and embezzlement; number of prosecuted cases using such statutes; monitoring the enforcement of existing laws (e.g., court decisions carried out in a timely manner with damages recovered and/or fines paid);

4. Increased Integrity Practices. Evidence (media or other sources) that public awareness of the costs of bribery and corruption is increasing, that media groups are increasingly articulating public debates on possible solutions to corrupt practices with greater professionalism and regularity; adoption of

informal codes of conduct or professional ethical standards by the NGO community itself;

5. International Standards. Acceptance of global standards and procedures, such those articulated by World Trading Organization accession agreements, European Union accession agreements, Council of Europe's standards on bribery, various OSCE agreements, the UN Human Rights charter, the OECD's Anti-Bribery Convention, and the 1996 UN Anti-Corruption Resolution on Corruption.

6. Others?

F. Post-Presence Activities. Despite close-outs, it is fairly widely conceded that corruption continues to remain a key obstacle for future development of "graduated" countries (Estonia, Latvia, Lithuania, Poland, Hungary, Czech Republic and Slovakia). We have consciously tried to engage larger and longer-term donors, such as the European Commission, the Council of Europe and the World Bank, to make transparency a more important issue for them as well.

G. Regional Activities. Aside from helping to co-ordinate cross-border sharing of expertise through familiarity with many different missions throughout the region, the Bureau can also help with some of the political analysis called for in this Strategy. Cross-border activities and information-sharing is becoming increasingly critical in this effort, for all states in the region have similar developmental pasts. NGOs from Ukraine visited Bulgaria, influenced by the success of *Coalition 2000*, while Armenian and Albanian NGOs are travelling to Ukraine to see local-level 'partnerships for integrity.' The Government of Slovakia in 1999 advertised its own anti-corruption program on a public website, influenced by advice proffered at the IXth Annual Anti-Corruption Conference in Durban, South Africa. And *Coalition 2000* itself, having received considerable technical assistance from the U.S. Government for work in Bulgaria, received a grant from the Europe and Eurasia Bureau to begin training and organizing corruption coalitions across seven Balkan countries, beginning in 2000, as part of Stability Pact activities. In general, because of a common language and identical structural histories of state-party rule in the former Soviet Union, cross-border experience through regional programs needs to be emphasized. The accumulation of 'best practices' and cross-border sharing is critically important in this region. This is why regional programs, not just mission programs, must remain a critical feature of E&E's anti-corruption efforts.

## VII. Conclusion: A More Holistic Economic and Political Perspective.

The above summaries of lessons learned, strategic guidance, and suggested interventions were compiled after three years' initial observation and analysis of new research and on-the-ground experience. Corruption is a complex, multi-faceted issue that stubbornly defies overly simplistic and hastily concocted programs to fight it. We must understand that interventions which actually succeed in changing well-established patterns of human behavior cannot be implemented without a careful analysis of why those patterns were established in the first place. Without this, we will find ourselves tackling corruption in ways that may tackle short-term symptoms while doing nothing to change the systemic causes of corruption. Worse, such an approach might actually help make corrupt institutions even stronger, however inadvertently.

To counter this danger a broader *political economy* perspective is needed. We must be willing to admit that corruption fulfills, however inefficiently, a governance and regulatory void in state-market relationships that the current transition process has largely bypassed. Once we grasp that corruption is first and foremost a symptom of *weak governance and poor institutional development*, we can begin working on ways to change existing incentive structures in favor of longer-term behavioral changes, taking into account regime types, specific country histories, and our own comparative advantages, as well as those of other donors.

Finally, a strategy for fighting corruption must be humble enough to admit to friends and foes alike that the best efforts by outsiders are no substitutes for efforts from within. Donors can help by partnering with host-country individuals, public officials, NGOs, businesses and communities already engaged in this effort themselves. Thinking strategically and creating durable examples of transparency to counter traditions of secrecy are long-term investments on our part. But nothing less is required to help societies which bravely defeated communism on their own and now seek full integration with the larger global community.

## APPENDIX A

### FIRST GLOBAL FORUM ON FIGHTING CORRUPTION: SAFEGUARDING INTEGRITY AMONG SECURITY AND JUSTICE OFFICIALS

#### ‘TWELVE PRINCIPLES’ COMPARED TO OTHER INTERNATIONAL INITIATIVES

Guidelines suggested by participant states at the First Global Forum (Washington D.C.), February 1999.	Source from which the practice was derived <sup>24</sup>
<b>1. Establish and maintain systems of government <i>hiring of justice and security officials</i> that assure openness, equity and efficiency and promote hiring of individuals of the highest levels of competence and integrity.</b>	
* Systems for <i>equitable compensation</i> adequate to sustain appropriate livelihood without corruption	UN/CPCJ Report Observed experience of gov't.
* Systems for open and <i>merit based hiring and promotion</i> with objective standards	OAS Convention UN/Sec't Manual
* Systems which provide assurance of a <i>dignified retirement</i> without recourse to corruption	UN/CPCJ Report Observed experience of gov't.
* Systems for thorough <i>screening</i> of all employees for sensitive positions	Observed experience of gov't.
* Systems for <i>probationary periods</i> after initial hiring	Observed experience of gov't.
* Systems which integrate <i>principles of human rights</i> with effective measures for preventing and detecting corruption	Observed experience of gov't.
<b>2. Adopt public management measures that affirmatively promote and uphold the <i>integrity of justice and security officials</i>.</b>	
* An impartial and <i>specialized institution</i> of government to administer ethical codes of conduct	OAS Convention COE/Comm. Of Ministers Rec. UN Sec't Manual UN/CPCJ Report
* <i>Training and counseling</i> of officials to ensure proper understanding of their responsibilities and the ethical rules governing their activities as well as their own professionalism and competence	OAS Convention
* Training addressed to issues of brutality and other <i>civil rights violations</i> that often correlate with corrupt activity among justice and security officials	Observed experience; international literature relating to human rights issues

<sup>24</sup> This column indicates from which source or sources the statement of the practice was derived, including agreements, documents and other sources in existing international literature or experience regarding corruption, public integrity or related matters of crime.

* <i>Managerial mechanisms</i> that enforce ethical and administrative standards of conduct	OECD Council Rec. COE/Comm. Of Ministers Rec. Eur. Parliament Resolution UN/CPCJ Report
* Systems for recognizing employees who exhibit <i>high personal integrity</i> or contribute to the anti-corruption objectives of their institution	Observed experience of gov't.
* Personnel systems that include regular <i>rotation of assignments</i> to reduce insularity that fosters corruption	OECD Council Rec. COE/Comm. Of Ministers Rec. UN/Sec't Manual UN/CPCJ Report Observed experience of gov't.
* Systems to provide <i>appropriate oversight</i> of discretionary decisions and of personnel with authority to make discretionary decisions	OECD Council Rec. COE/Comm. Of Ministers Rec. UN/Sec't Manual UN/CPCJ Report Observed experience of gov't.
* Systems that hold <i>supervisors accountable</i> for corruption control	OECD Council Rec. COE/Comm. Of Ministers Rec. UN/Sec't Manual UN/CPCJ Report Observed experience of gov't.
* <i>Positive leadership</i> which actively practices and promotes the highest standards of integrity and demonstrates a commitment to prevent and detect corruption, dishonesty and unethical behavior	Observed experience of gov't.
* Systems for promoting the <i>understanding and application</i> of ethical values and the standards of conduct required	Observed experience of gov't.
* Mechanisms to support officials in the public sector where there is evidence that they have been <i>unfairly or falsely accused</i>	Observed experience of gov't.
<b>3. Establish ethical and administrative <i>codes of conduct</i> that proscribe conflicts of interest, ensure the proper use of public resources, and promote the highest levels of professionalism and integrity.</b>	
* Restrictions governing officials participating in official matters in which they have a substantial <i>direct or indirect financial interest</i>	UN/Sec't Manual
* Restrictions against officials participating in matters in which persons or entities with whom they are <i>negotiating for employment</i> have a financial interest	UN/Sec't Manual Observed experience of gov't.

* <i>Limitations on activities of former officials</i> in representing private or personal interests before their former governmental agency or department, such as prohibiting the involvement of such officials in cases for which former officials were personally responsible, representing private interests by their improper use of influence upon their former governmental agency or department, or using confidential knowledge or information gained during their previous employment as an official in the public sector	Observed experience of gov't.
* Prohibitions and limitations on the <i>receipt of gifts</i> or other advantages	COE/Specialized Services Conf. UN/Sec't Manual Observed experience of gov't.
* Prohibitions on improper <i>personal use</i> of government property and resources	OAS Convention COE/Specialized Services Conference Observed experience of gov't.
<b>4. Establish <i>criminal laws and sanctions</i> effectively prohibiting bribery, misuse of public property, and other improper uses of public office for private gain.</b>	
* Laws criminalizing the giving, offer or promise by any party ("active") and the receipt or solicitation by any official ("passive") of a <i>bribe</i> , and criminalizing or sanctioning the giving or receiving of an <i>improper gratuity</i> or <i>improper gift</i>	OECD Convention OAS Convention COE/Criminal Law Convention COE/Specialized Services Conf. EU Convention UN/Sec't Manual Others
* Laws criminalizing or sanctioning the <i>illegal use</i> by officials of government information	OAS Convention COE/Specialized Services Conf.
* Laws affirming that all justice and security officials have a <i>duty</i> to provide honest services to the public and criminalizing or sanctioning breaches of that duty	UN/Sec't Manual
* Laws criminalizing <i>improper use of official power or position</i> , either to the detriment of the government or for personal enrichment	
<b>5. Adopt laws, management practices and auditing procedures that <i>make corruption more visible</i> and thereby promote the detection and reporting of corrupt activity.</b>	
* Systems to promote transparency, such as through disclosing the <i>financial circumstances</i> of senior officials	OAS Convention UN/Sec't Manual UN/CPCJ Report
* Measures and systems to ensure that <i>officials report acts of corruption</i> , and to protect the safety, livelihood and professional situation of those who do, including protection of their identities to the extent possible under the law	COE/Specialized Services Conf. UN/Sec't Manual



* Measures and systems that <i>protect private citizens</i> who, in good faith, report acts of official corruption	OAS Convention COE/Comm. Of Ministers Rec. COE/Criminal Law Convention COE/Specialized Services Conf. UN/Sec't Manual UN Organized Crime Convention
* Government revenue collection systems that deter corruption, in particular by denying <i>tax deductibility</i> for bribes or other expenses linked to corruption offenses	OECD Council Rec. OAS Convention COE/Comm. Of Ministers Rec. UN/CPCJ Report
* Bodies responsible for preventing, detecting, and eradicating corruption, and for punishing or disciplining corrupt officials, such as <i>independent ombudsmen, inspectors general</i> , or other bodies responsible for receiving and investigating allegations of corruption	OECD Council Rec. COE/Comm. Of Ministers Rec. UN/Sec't Manual
* Appropriate <i>auditing procedures</i> applicable to public administration and the public sector	COE/Comm. Of Ministers Rec. UN/Sec't Manual UN/CPCJ Report
* Appropriately transparent procedures for <i>public procurement</i> that promote fair competition and deter corrupt activity	OECD Council Rec. OAS Convention COE/Comm. Of Ministers Rec. COE/Specialized Services Conf. UN/CPCJ Report
* Systems for conducting regular <i>threat assessments</i> on corrupt activity	Observed experience of gov't.
<b>6. Provide <i>criminal investigators and prosecutors sufficient and appropriate powers and resources</i> to effectively uncover and prosecute corruption crimes.</b>	
* Empowering courts or other competent authorities to order that <i>bank, financial or commercial records</i> be made available or be seized and that bank secrecy not prevent such availability or seizure	OAS Convention COE/Criminal Law Convention UN/CPCJ Report UN/Drug Trafficking Convention UN/Organized Crime Convention
* Authorizing use under accountable legal supervision of <i>wiretaps</i> or other interception of electronic communication, or recording devices, in	COE/Criminal Law Convention

investigation of corruption offenses	COE/Specialized Services Conf. UN/CPCJ Report UN/Organized Crime Convention
* Authorizing, where appropriate, the admissibility of <i>electronic or other recorded evidence</i> in criminal proceedings relating to corruption offenses	COE/Criminal Law Convention COE/Specialized Services Conf. UN/CPCJ Report UN/Organized Crime Convention
* Employing where appropriate systems whereby persons charged with corruption or other corruption-related criminal offenses may secure more <i>advantageous treatment</i> in recognition of assisting in the disclosure and prosecution of corruption offenses	COE/Criminal Law Convention COE/Specialized Services Conf. UN/Drug Trafficking Convention UN/Organized Crime Convention
* The development of appropriate <i>information gathering mechanisms</i> to prevent, detect and deter official corruption and dishonesty	Observed experience of gov't.
<b>7. Ensure that <i>investigators, prosecutors and judicial personnel</i> are sufficiently <i>impartial</i> to fairly and effectively enforce laws against corruption</b>	
* <i>Personnel systems</i> to attract and retain high quality corruption investigators	Observed experience of gov't.
* Systems to promote the <i>specialization and professionalization</i> of persons and Organizations in charge of fighting corruption	COE/Comm. Of Ministers Rec. COE/Criminal Law Convention UN/CPCJ Report
* Establishment of an <i>independent mechanism</i> within judicial and security agencies with the duty to investigate corruption allegations, and with the power to compel statements and obtain documents from all agency personnel	Observed experience of gov't.
* <i>Codes of conduct</i> or other measures that require corruption investigators, prosecutors, and judges to recuse themselves from any case in which their political, financial or personal interests might reasonably raise questions about their ability to be impartial	Observed experience of gov't.
* Systems that allow for the appointment, where appropriate, of <i>special authorities or commissions</i> to handle or oversee corruption investigations and prosecutions	Observed experience of gov't.
* Standards governing the initiation of corruption investigations to ensure that public officials are <i>not targeted for investigation for political reasons</i>	Observed experience of gov't.

<b>8. Ensure that criminal and civil law provide for <i>sanctions and remedies</i> that are sufficient to effectively and appropriately deter corrupt activity</b>	
* Laws providing substantial criminal penalties for the <i>laundering</i> of the proceeds of public corruption violations	OECD Convention OAS Convention COE/Criminal Law Convention UN/CPCJ Report UN/Organized Crime Convention
* Laws providing for substantial <i>incarceration and appropriate forfeiture</i> of assets as a potential penalty for serious corruption offenses	OECD Convention OAS Convention COE/Criminal Law Convention EU Convention (others)
* Provisions to support and <i>protect whistleblowers</i> and aggrieved private parties	OECD Council Rec. COE/Comm. Of Ministers Rec. UN/CPCJ Report
<b>9. Ensure that the <i>general public and the media</i> have freedom to receive and impart information on corruption matters, subject only to limitations or restrictions which are necessary in a democratic society.</b>	
*Establishing public reporting requirements for justice and security agencies that include <i>disclosure</i> about efforts to promote integrity and combat corruption	COE/Comm. Of Ministers Rec. Eur. Parliament Resolution UN/Sec't Manual UN/CPCJ Report
* Enacting laws or other measures providing a meaningful <i>public right of access</i> to information about corrupt activity and corruption control activities	COE/Comm. Of Ministers Rec. Eur. Parliament Resolution UN/Sec't Manual UN/CPCJ Report
<b>10. Develop to the widest extent possible <i>international cooperation</i> in all areas of the fight against corruption.</b>	
* Systems for swift and effective <i>extradition</i> so that corrupt public officials can face judicial process	OECD Convention EU Convention UN/Organized Crime Convention (others)
* Systems to enhance <i>international legal assistance</i> to governments seeking to investigate and prosecute corruption violations	OECD Convention OAS Convention COE/Criminal Law Convention EU Convention

	UN/Organized Crime Convention (others)
* Systems to facilitate and accelerate <i>international seizure and repatriation</i> of forfeitable assets associated with corruption violations	OECD Convention OAS Convention COE/Criminal Law Convention COE/Specialized Services Conf. EU Convention UN/Organized Crime Convention (others)
* Inclusion of provisions on combating corruption in appropriate <i>bilateral and multilateral instruments</i>	Observed experience of gov't.
<b>11. Promote, encourage and support continued <i>research and public discussion</i> in all aspects of the issue of upholding integrity and preventing corruption among justice and security officials and other public officials whose responsibilities relate to upholding the rule of law.</b>	
* Appointment of <i>independent commissions</i> or other bodies to study and report on the effectiveness of efforts to combat corruption in particular agencies involved in justice and security matters	Observed experience of gov't.
* Supporting the <i>efforts of multilateral and non-governmental organizations</i> to promote public integrity and prevent corruption	Observed experience of gov't.
* Promoting efforts to <i>educate the public</i> about the dangers of corruption and the importance of general public involvement in government efforts to control corrupt activity	OAS Convention UN/Sec't Manual UN/CPCJ Report Observed experience of gov't.
<b>12. Encourage activities of <i>regional and other multilateral organizations</i> in anticorruption efforts.</b>	
* Becoming parties, as appropriate, to applicable <i>multilateral legal instruments</i> containing provisions to address corruption	
* Cooperating in carrying out programs of <i>systematic follow-up</i> to monitor and promote the full implementation of appropriate measures to combat corruption, through mutual assessment by governments of their legal and practical measures to combat corruption, as established by pertinent international agreements	OECD Convention COE/Criminal Law Convention UN/Organized Crime Convention FATF Rec.
* Participating actively in future <i>international conferences</i> on promoting integrity and combating corruption among justice and security officials	

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