

**Remarks of USAID Misión Director Elena Brineman
Encuentro con el Dr. Leonel Fernandez
March 24, 2004
Hotel Jaragua Salon Anacoana**

- Dr. Leonel Fernandez, Candidato Presidencial del Partido de la Liberación Dominicana
- Members of the Table of Honor
- Friends, all:

I am honored to be here with you today. I want to again thank the Fundación Institucionalidad y Justicia, (FINJUS) for inviting me to provide initial remarks at the second of this important series of meetings where the 2004 Presidential candidates have been invited to discuss their anti-corruption platforms. The United States Embassy in the Dominican Republic is proud to be working with FINJUS, through USAID, to sponsor this event, as we believe that good governance is key to both a strong democracy and a strong economy. Fostering good governance and transparency, and strengthening mechanisms and institutions to fight corruption are major components of our USAID program with the Dominican Republic.

FINJUS, through these encounters, offers Presidential candidates the opportunity to present to the Dominican people their proposals for combating corruption and to address its devastating effect on the economy, on Dominican democratic institutions, and ultimately on citizens' faith and trust in the very foundations of the Dominican political and economic systems. Citizens will have the opportunity to judge the merits of each proposal.

Tonight we are honored to welcome the presidential candidate from the Partido de la Liberación Dominicana, Dr. Leonel Fernandez. Dr. Fernandez is the second Presidential candidate to present his vision of how, if elected, his administration would combat corruption in the Dominican Republic.

I gave opening remarks at the initial meeting of this series and discussed how corruption undermines the pillars of democratic institutions. Today, I will give brief remarks on how corruption has a similar corrosive effect on the economy.

A growing body of academic research over the last decade strongly links the negative impact of corruption on the rate of a nation's economic growth. For example, studies show that corruption has a negative impact on both foreign and national private sector investment that, in the medium to long term, will substantially slow economic growth. Countries that practice good governance are found to have higher per capita incomes. A recent World Bank country study showed that a one percent increase in the bribery rate is

associated with a 3 percent reduction in a business's rate of growth. The form of corruption that arises when there is collusion between business and government at the policymaking level to share the benefits of corrupt activities is even more dangerous to a society. This situation has been dubbed a "state-capture economy." A World Bank study demonstrated that the overall growth rate of enterprises in a state capture economy is 10 % lower than in a non-capture economy.

Simply put, to generate growth, businesses must use their capital, and a government its budget, productively. When business capital or public funds are drawn into non-economic transactions, for example bribes or government payments to cover losses in financial fraud cases, economic growth is detained. Corruption distorts growth incentives by forcing out more efficient and effective producers of goods and services. The advantage that the bribe payer receives is not based on the value he brings to the market, but on political connections and ability to grease the political decision-making wheels. It is clearly difficult to compete effectively in an open global economy when a business must function in a corrupt business environment, particularly where collusion exists between government and business.

The Global Competitiveness Report ranks countries on their economic competitiveness based on the responses by leading business executives and entrepreneurs to a series of questions about the business environment in which they work. On the question related to undocumented extra payments or bribes connected with influencing laws and policies, regulations or decrees, the Dominican Republic ranked 90 out of 102 countries, slightly better than Bangladesh, but worse than Nigeria, Panama, Nicaragua and Venezuela. The losers in this distorted economy include Dominican workers who could receive higher wages working for a more competitive business; consumers and citizens who could receive better goods and services; and on a societal level the nation's economy and democratic institutions.

Of course, those of you in this Hall suffering the effects of the Baninter, Bancredito, and other banking fraud scandals need not be told that there are studies to prove corruption has a negative impact on an economy or that the interaction between government and businesses is often not transparent or accountable. The repercussions of Baninter and other alleged bank fraud cases have been and will continue to be felt throughout Dominican society. These cases have shaken the foundations of both the Dominican Republic's economic well-being and its democratic institutions by revealing weaknesses in governmental regulatory agencies and possible collusion between corrupt business and government that span several Dominican administrations. The cases must be thoroughly investigated and prosecuted in an impartial and transparent manner in order for all Dominicans to regain confidence in their institutions, in their economy, and in their political system.

Fighting corruption and collusion between government and the private sector is a huge challenge. How best can the Dominican Republic ensure that the dealings between business and government are not corrupted and regain its shaken faith in its democratic institutions? A new focus on measures to ensure transparent and accountable

government regulatory institutions, adherence to the rule of law, and fair economic competition on a level playing field is imperative. This requires a strong, independent and competent justice system, and civil society's vigilance in ensuring good governance.

Certain recent legal and institutional reforms are promising initial steps. The Public Ministry Career Statute is designed to ensure qualified non-political prosecutors. Other positive changes have been the enactment of the Freedom of Information Law; enactment of the Chamber of Accounts Law; and the establishment of the Public Defenders' Office and its support by the Judiciary. Congress and the executive have taken steps over the past two years to make the public budget more transparent and results oriented, to reduce the size and breadth of the infamous 1401 account, and to implement an integrated public financial management system. We look forward to hearing how Candidate for President Fernandez will build upon these initial steps and how he proposes to lead by example in the fight against corruption.

Partly because of corruption, the next President will face the challenge of a financial crisis, but even more the challenge of a crisis of confidence. Accordingly, this series of FINJUS meetings is an important opportunity for Dominicans to hear how the candidates will confront the greatest challenge facing democracy in the Dominican Republic. We look forward to continuing our work in support of the struggle to guarantee honest, competent and client-oriented public institutions in the Dominican Republic.

Thank you.