

USAID Anticorruption Strategy

USAID STRATEGY



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Foreword

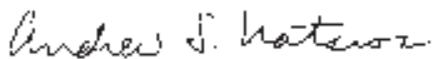
When I began my career in international development, corruption was a fact of life. Because of the magnitude of the problem and its political sensitivity, development professionals usually attempted to contain it, limit it, or work around it, but not confront it. Today, corruption is no longer a taboo subject. And more importantly, we can't ignore it because development cannot thrive in a corrupt environment.

An international consensus has now emerged that corruption and poor governance fuel state failure, deter foreign investment, and cripple economic growth and development. But recognition of the problem still has left the development community with the daunting challenge of finding ways to combat corruption more effectively across the globe.

USAID's Anticorruption Strategy outlines our new approach. We will do more to spotlight the dynamics of grand corruption and introduce new programs to deal with it. We will do more to identify the ways in which corruption affects all development sectors and design approaches to counter it. We will support reformers with rapid response assistance, and we will support diplomatic initiatives that raise anticorruption issues to the highest level.

We won't do it alone. Our programs work best when complemented by high-level diplomacy and local ownership. USAID's work both supports and is enhanced by U.S. and global law enforcement efforts that target international crime—money laundering, organized crime, trafficking in persons—that thrives in corrupt environments. These efforts help to strengthen the combined effectiveness of our programs, those of other donors and, most importantly, the work of committed reformers throughout the developing world.

With the approval of this strategy, it is my expectation that all members of the USAID community will join me in implementing the steps necessary for the Agency to play a leading role in advancing the fight against corruption and building good governance to achieve a more stable, prosperous, and democratic world.



Andrew S. Natsios
Administrator
U.S. Agency for International Development

Executive Summary

USAID is a leader in fighting corruption. The Agency's work reduces opportunities and incentives for corruption; supports stronger and more independent judiciaries, legislatures, and oversight bodies; and promotes independent media, civil society, and public education. Yet corruption—the abuse of entrusted authority for private gain—remains a tremendous obstacle to political, social, and economic development, and efforts to reduce it need to be more fully integrated into USAID programs across all sectors. Anticorruption efforts have tended to focus on what is sometimes the most immediately visible dimension of the problem: administrative corruption—mostly smaller transactions involving mid- and low-level government officials. Anticorruption efforts need to be expanded to better encompass grand corruption—exchanges of resources, access to rents, or other competitive advantages for privileged firms and high-level officials in the executive, judiciary, or legislature, or in political parties. New analytical approaches help illuminate a broader range of assistance strategies and tactics—many already in USAID's portfolio—that can help target the critical problem of corruption in all its manifestations.

Fighting corruption is emerging as an important U.S. foreign policy objective, and USAID anti-corruption programs are expanding. This USAID strategy builds on the Agency's experience and provides an opportunity to further advance its leadership.

Corruption, Development, and U.S. National Security

There is an emerging global consensus that fighting corruption and building good governance are essential for the development of people, markets, and nations. Corruption undermines social cohesion and broad participation in economic and political life by distorting the allocation of resources and the delivery of public services, usually in ways that particularly damage the poor. It also damages prospects for economic growth by reducing foreign direct

No problem does more to alienate citizens from their political leaders and institutions, and to undermine political stability and economic development, than endemic corruption among the government, political party leaders, judges, and bureaucrats.

USAID, Foreign Aid in the National Interest, 2002

investment, skewing public investment, encouraging firms to operate in the informal sector, distorting the terms of trade, and weakening the rule of law and protection of property rights. In doing all this, corruption fundamentally weakens the legitimacy and effectiveness of new democracies.

In addition, the current U.S. National Security Strategy underscores that poverty, weak institutions, and corruption can make states vulnerable to terrorist networks and drug cartels, and argues that efforts to address these challenges in developing countries can contribute directly to U.S. national security.

USAID's Role in U.S. Anticorruption Efforts

USAID is cooperating with a broad range of U.S. Government agencies (including the departments of State, Treasury, Commerce, and Justice), bilateral donors, international organizations, and NGOs to address corruption globally. Diplomacy, international law enforcement efforts, and development assistance are complementary and mutually reinforcing dimensions of a global U.S. Government anticorruption effort.

USAID works to reduce opportunities and incentives for corruption through public sector reform and deregulation, support for oversight and watchdog activities, and education of citizens about their roles in preventing corruption. USAID brings about sustainable change by building on its

experience in institutional development and through its engagement with national and local governments. The Agency has a special comparative advantage in its experience working outside of government with the private sector, political parties, trade unions, NGOs, universities, professional associations, and others.

The Current Context for USAID Anticorruption Work

The Agency has invested significant resources—\$184 million in FY 2001 and \$222 million in FY 2002, according to a 2003 survey, in programs specifically targeting corruption, as well as those broadly aimed at “governance” but with a significant anticorruption dimension. The same survey showed that more than two-thirds of all USAID missions have some programs related to corruption and that most missions are interested in expanding these programs.

Strategic Directions for USAID Anticorruption Efforts

The following broad actions will assist USAID to better address the development challenges posed by corruption:

- *Confront the dual challenges of grand and administrative corruption.* In the past, many USAID anticorruption programs have successfully targeted low-level, or administrative, corruption through bureaucratic and regulatory reform and public education and monitoring. In those countries where corruption is systemic and driven from the highest levels, however, efforts to address administrative corruption must be complemented by efforts to address high-level, or grand, corruption. USAID is developing a new assessment methodology that will provide a more comprehensive framework to analyze the locations, dynamics, and scale of corruption and the balance between grand and administrative corruption. The objective is to ensure that USAID interventions address the varying patterns of corruption; develop innovative strategies to address grand corruption; expand and
- *improve strategies to curtail lower-level, administrative corruption; and develop sectoral and cross-sectoral strategies to reduce corruption and improve governance.*
- *Deploy Agency resources strategically to fight corruption.* The Agency must deploy its resources strategically and must allocate a greater proportion of available resources to reducing corruption. Missions and bureaus can leverage resources by incorporating anticorruption components into all sectoral programs affected by corruption (including agriculture, education, energy, and health, in addition to democracy and governance and economic growth); focusing democracy and governance and economic growth resources more explicitly on anticorruption; and increasing the share of funds dedicated to specific anticorruption initiatives. The Agency will develop rapid response capabilities to enable USAID to augment anticorruption efforts quickly when key opportunities arise. The Agency also will explore and respond to requirements presented by the Millennium Challenge Account.
- *Incorporate anticorruption goals and activities across Agency work.* USAID must pay attention to organizational incentives and structures that support or resist a broadened approach to Agency anticorruption efforts. A comprehensive implementation plan will develop next steps to establish a budget code to track resources devoted to anticorruption; incorporate specific anticorruption goals into mission and bureau strategies and results frameworks; build collaboration by establishing integrated interagency and donor coordination mechanisms; include anticorruption in Agency training, communication, and planning vehicles; and continue and expand Agency leadership on fighting corruption.
- *Build USAID’s anticorruption knowledge.* Anticorruption assistance is a relatively new area of practice; thus, the Agency should strive

to expand anticorruption knowledge. Evaluating program effectiveness and impact will better enable the Agency to measure and improve the effectiveness of its programs. Establishing an Agency-wide “community of practice” will encourage the collection and dissemination of anticorruption learning. Engaging the Agency in a dialogue on gender and corruption will illuminate important and challenging issues.

Conclusion

Fighting the scourge of corruption is fundamental to advancing U.S. foreign policy interests. Corruption is now seen unequivocally as a major barrier to development, and reducing it a top priority. USAID has made important advances but must expand its approaches to fighting corruption, especially grand corruption; build new knowledge to design better interventions; support countries making real efforts to improve; and be quick to respond to emerging opportunities. Implementation of the actions in this strategy will help USAID make a significant contribution to the fight against corruption.

USAID Anticorruption Strategy

As we enter the 21st Century, people throughout the world are rejecting the notion that corruption is inevitable. Success [in fighting corruption] depends on impartial democratic institutions, open elections, and unfettered access to information. Success also requires leadership by the private sector and active participation by citizens. Promoting integrity in government and the marketplace improves the global governance climate, nurtures long-term growth, and extends the benefits of prosperity to all people.

Secretary of State Colin Powell May 2001¹

1. Corruption and Development

A consensus exists on the critical importance of fighting corruption.

A strong global consensus has emerged that addressing corruption and building good governance is essential for the development of people, markets, and nations. This opinion has been expressed clearly in several key development fora and policy documents. Over 50 heads of state at the 2002 Financing for Development meeting committed themselves to the Monterrey Consensus, which called for increased foreign aid resources in response to enhanced governance.²

¹ U.S. Department of State, *Fighting Global Corruption: Business Risk Management, 2001–2003*. <<http://www.state.gov/inl/rls/rpt/fgcrpt/2001/>>

² “Fighting corruption at all levels is a priority. Corruption is a serious barrier to effective resource mobilization and allocation and diverts resources away from activities that are vital for poverty eradication and economic and sustainable development.” Monterrey Consensus of the International Conference on Financing for Development, 18–22 March 2002.

Similarly, the U.S. Government’s Millennium Challenge Account (MCA) seeks to match resources to good policy environments but singles out control of corruption as a key hurdle that must be cleared before any other dimensions of performance are considered. Finally, the UN General Assembly has approved, and almost 100 nations have signed, the UN Global Convention Against Corruption.

Both the State Department and USAID have been working for many years to address corruption, but have elevated this issue to a higher priority in the past year. *The FY 2004–2009 Department of State and USAID Strategic Plan* confirmed that “[State] Department and USAID policy regarding assistance will support and encourage governments that fight corruption and safeguard the rule of law, pluralism, and good governance.”

Corruption undermines social, political, and economic development.

Corruption undermines service delivery, particularly for the poor. Corruption skews public investment choices away from service delivery toward more lucrative areas, such as large construction and infrastructure projects. Weak procurement systems and poor financial management yield both fraud and unaccounted-for leakages in public budget allocations. The general environment of scarcity in public services creates incentives for providers to demand payments for services that should be free or low cost to the poor. By improving the productivity of public expenditures, tracking and reducing leakage, and enhancing citizen oversight, anticorruption efforts can support the achievement of goals in health, education, social safety net programs, and infrastructure.

Corruption cripples democracy. Perceptions of rampant corruption contribute to public disillusionment with democracy. Corruption undermines both the legitimacy and effectiveness of new

democracies. It undermines democratic values of citizenship, accountability, justice, and fairness. It undermines free speech and public accountability, particularly when it reaches into the media sector and limits freedom of information. It violates the social contract between citizens and their elected representatives, and elevates the interests of the few over the many. By diverting public resources to finance reelection campaigns, corrupt parties can effectively bar new entrants from competing for political office and choke efforts to consolidate weak democracies. Nepotism and cronyism can generate deep grievances that contribute to conflict and state failure, particularly if these cleavages follow preexisting fault lines in society such as economic, religious, or ethnic divisions.

Corruption impedes economic growth. Corruption undermines economic growth by distorting public investment in infrastructure and other key public goods, deterring foreign direct investment, encouraging firms to operate in the informal sector, auctioning off property rights, distorting the terms of trade, and weakening the rule of law. Small- and

medium-sized enterprises are disproportionately affected. Farmers are subjected to demands for payments along transportation routes that reduce the gains from bringing products to markets. In some countries, powerful firms can effectively “capture” the state, purchasing laws and regulations that shield them from competition and blocking reforms that would benefit the majority of firms.³ Massive unaccounted-for losses in the energy sector undermine the quality and sustainability of electricity. Crony lending and weak supervision misallocate credit and may lead to banking sector collapse.

The failure to address endemic corruption ultimately undermines all development efforts.

Political, economic, and social reforms all can help create a more constructive climate for combating corruption. Open economies, liberal democracies, and improved human development contribute to

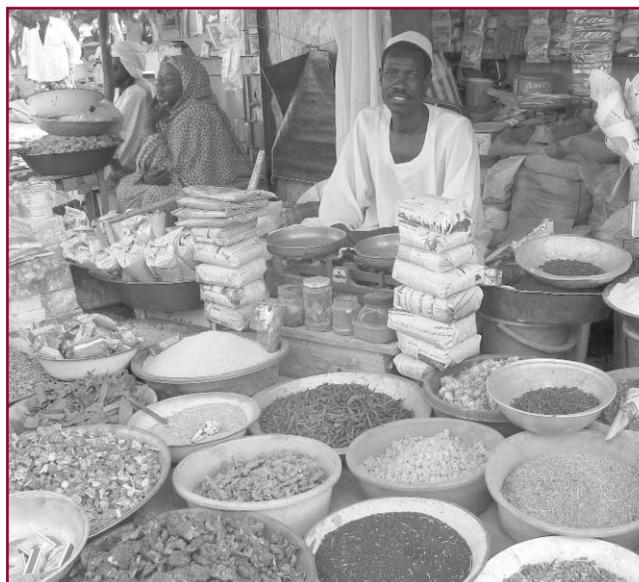
³ See World Bank, *Anticorruption in Transition: A Contribution to the Policy Debate* (Washington D.C., 2000). For one case study, see Bernard S. Black and Anna S. Tassarova, “Institutional Reform in Transition: A Case Study of Russia” (Stanford Law School, Working Paper 238, 2002).



By improving the productivity of public expenditures, tracking and reducing leakage, and enhancing citizen oversight, anticorruption efforts can support the achievement of goals in health, education, social safety net programs, and infrastructure.

opportunities and capacities to control corruption. But the reverse is equally true.

Corruption must be addressed in tandem with political, economic, and social reforms to advance the success of each. In the political arena, for example, democracies vary dramatically in their performance. Many young, partial democracies have not shown themselves to be significantly less corrupt than the authoritarian regimes that preceded them.⁴ Nor can economies simply “grow” their way out of corruption. Research finds that governance appears to have a strong causal effect on per capita incomes, but per capita incomes have only a weak or even negative effect on the quality of governance, in part because many of the economic gains may be captured by corrupt elites.⁵ In the same way, commitments to allocate greater public spending to poverty reduction will not be successful unless governments come to terms with corruption.⁶ The Asian Development Bank estimates that one-third of public investment in many countries within the region is being squandered on corruption.⁷ Corruption also has more indirect effects on development. The 2003 *Arab Human Development Report*, focusing on the need for building a knowledge society, points out how free flows of knowledge—critical for building societal resources for development—require the elimination of corruption, “which diverts knowledge, ideas and information in order to serve the personal interests of a few and hinders their movement for the good of society.”⁸



Small and medium-sized enterprises are disproportionately affected. Farmers are subjected to demands for payments along transportation routes that reduce the gains from bringing products to markets.

Poverty does not make poor people into terrorists... Yet poverty, weak institutions and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.

*President George W. Bush
National Security Strategy of the
United States of America
September 2002⁹*

2. Corruption and U.S. National Security

USAID efforts to address corruption in developing countries enhance U.S. national security.

The U.S. National Security Strategy (NSS) links development directly to U.S. national security. USAID, and its anticorruption efforts in particular, have a valuable role to play. The document articulates the need to fight corruption in order to address

⁴ Philip Keefer, “Clientelism, Credibility, and Democracy” (Washington, D.C.: World Bank, 2002).

⁵ Daniel Kaufmann and Art Kraay, “Growth without Governance.” *Economia* 3:1 (Fall 2002).

⁶ World Bank, *World Development Report 2004, Making Services Work for Poor People* (Washington, D.C., 2004). Tanzi and Davoodi, in “Corruption, Public Investment, and Growth” (IMF Working Paper 97/139, Washington, D.C.: International Monetary Fund, 1997), concluded that corruption is associated with higher rates of public investment and lower productivity of public investment.

⁷ AP news story, December 3, 2003. Speech by Asian Development Bank President Geert Van Der Linden.

⁸ United Nations Development Programme, *Arab Human Development Report 2003: Building a Knowledge Society* (New York: UNDP, 2003): 143

⁹ *National Security Strategy of the United States* (2003). <<http://www.whitehouse.gov/nsc/nss.html>>

global threats such as terrorism and international organized crime. Corruption is truly a global phenomenon, and its costs are borne by all countries. Four weeks after the September 11 attacks, the head of Interpol addressed an international anticorruption conference and stated, “the most sophisticated security systems, best structures, or trained and dedicated security personnel are useless if they are undermined from the inside by a simple act of corruption.”¹⁰

3. Defining Corruption

Corruption is defined as the abuse of entrusted authority for private gain.

This definition recognizes that, while corruption in the public sector has particularly devastating impacts, it cannot realistically be addressed in isolation from corruption in political parties, the private business sector, associations, NGOs, and society at large. Corruption involves not just abuse of public office but other offices as well. In addition, it



Corruption skews public investment choices away from service delivery—particularly for the poor—toward more lucrative areas, such as large construction and infrastructure projects.

reflects the understanding that corruption may be undertaken not only for immediate, personal gain but also for any “private gain,” including that of family or political contacts, long-term rather than immediate payoffs, and the siphoning of public funds to finance an incumbent’s reelection campaign. Under this intentionally broad definition, not all illegal activities are corruption, and not all forms of corruption are illegal.

While all forms of corruption undermine both development and democracy, USAID has tended, and is expected to continue, to focus mainly on corruption in the public sector and where the public and private sectors interact. Strictly “private-to-private” corruption—such as kickbacks on contracts between private companies—receives some attention through corporate governance or other related programs, but USAID, as an international bilateral donor, mainly concerns itself with the appropriate use of public resources and authority. This is due not only to the fact that USAID and its partner governments and nongovernmental organizations have relatively fewer points of leverage to affect private corporate behavior, but also because working to change the way the public sector manages public resources and interacts with the private economy expands the impact of USAID programs to entire sectors and economies.

The above definition encompasses both grand, or elite, corruption and lower-level, administrative corruption. *Grand corruption* typically involves exchanges of resources, access to rents, or other advantages for high-level officials, privileged firms, and their networks of elite operatives and supporters. The size of transactions is usually significant. *Administrative corruption* usually refers to smaller transactions and mid- and low-level government officials. Perhaps the most important distinction is that administrative corruption usually reflects specific weaknesses within systems, while grand corruption can involve the distortion and manipulation of entire systems to serve private interests. It is not possible to draw stark lines between these two phenomena. Administrative corruption is facilitated by and often linked to grand corruption. An

¹⁰ Ronald Noble, Address to 10th International Anticorruption Conference (IACC), Prague, October 2001.

understanding of the general trends represented by these two manifestations of corruption, however, is critical for developing appropriate responses and expectations of success.

4. USAID's Role in U.S. Anticorruption Efforts

USAID's approach focuses on preventing corruption and on civil aspects of enforcement.

Corruption programs can be broadly divided into "prevention" and "enforcement." USAID generally concentrates on prevention and on the administrative, audit, oversight, and civil aspects of enforcement, by providing technical assistance to countries to address the causes of corruption and modify behaviors and incentives in the future. Here USAID can build on its development experience across all sectors and draw on extensive experience in institutional development, education, and awareness-building, including engagement not only with national and local governments but also with the private sector, political parties, trade unions, NGOs, universities, professional associations, and other actors.

Although USAID's rule of law programs sometimes involve strengthening prosecutorial and investigative functions, legislative prohibitions generally restrict USAID's ability to engage with law enforcement agencies to bolster the criminal aspects of anticorruption enforcement. While other U.S. agencies are able to fill some of this need (see below), this limitation poses a challenge for effective anticorruption programming, because it prevents USAID from implementing comprehensive prevention strategies that include the institutions, such as police forces and prosecutorial services, that are often the most corrupt but must play critical roles in the fight against corruption.¹¹

USAID is cooperating with a broad range of U.S. Government agencies to address corruption globally.

USAID cannot and does not address corruption on its own. Diplomacy, law enforcement efforts (such as international conventions and mutual legal assistance treaties), and development assistance focused on prevention are complementary and mutually reinforcing dimensions of a global U.S. Government anticorruption effort. In order to project substantial U.S. commitment, USAID and other U.S. Government agencies, particularly the Department of State, must cooperate closely.

Complementary Roles. High-level diplomacy, including aid and trade conditionalities, visa policies, denial of safe havens, implementation of global and regional conventions, and public and private policy messages can create powerful incentives for reform. They also can address the global dimensions of corruption that extend far beyond developing countries themselves. Law enforcement efforts by the departments of State, Justice, and Treasury also help to break the prevailing culture of impunity in many countries by criminalizing corruption and providing international legal cooperation and training on corruption-related investigations, anti-money laundering, and asset recovery.

Coordination. Most USAID coordination is with the Department of State. USAID works with several bureaus on formulating U.S. positions on international conventions, such as the UN Global Convention Against Corruption; participating in international conferences, such as the Global Forums Against Corruption; incorporating good governance into regional initiatives, such as the Middle East Partnership Initiative; and building anticorruption measures into emergency response activities, such as the U.S. response to Hurricane Mitch. In addition, USAID contributes to the formulation and implementation of National Security Council-led initiatives such as the Group of Eight (G8) Comprehensive Transparency Initiative, which will provide diplomatic support and technical assistance to a range of transparency initiatives

¹¹ For examples, see "U.S. Anticorruption Programs in Sub-Saharan Africa Will Require Time and Commitment," Government Accounting Office Report to the Subcommittee on African Affairs, Committee on Foreign Relations, U.S. Senate, April 2004.

in selected pilot countries. USAID works with U.S. Treasury advisers around the world to strengthen budget, tax, and customs reform and coordinate approaches bilaterally and in international financial institutions. USAID coordinates with the U.S. Trade Representative on trade-related issues, including World Trade Organization efforts to promote transparency in procurement. USAID collaborates with the Department of Justice on enhancing the prosecution function and hopes to work more closely with both State and Justice on efforts to address police corruption. With the Department of Commerce, USAID collaborates on corporate governance, commercial law reform, and related areas.

USAID collaborates with numerous other international actors.

USAID interacts, either directly or in partnership with other U.S. Government actors, with a wide variety of international organizations. The Agency participates actively in the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee, a forum for sharing best practices and experiences among bilateral donors, and contributes regularly to the OECD's Governance Network. USAID collaborates with U.S. Government agencies in planning and running the biennial Global Forum against Corruption, and convenes the Donor Consultative Group for Latin America and the Caribbean through the Americas' Accountability/Anticorruption Project, funded by the Bureau for Latin America and the Caribbean. The Agency advises the State Department in the work of the committee of experts for the implementation mechanism of the Inter-American Convention Against Corruption by involving USAID missions and civil society in the review process. USAID maintains collegial relations with various bilateral donors, most notably the UK Department for International Development, with which it undertakes joint training, research, and assessment projects. Finally, USAID has partnered with key international NGOs, an example of which is its multiyear support for Transparency International and recent contribution to establish its endowment fund.

USAID models anticorruption best practices within its own operations.

To be seen as a credible provider of anticorruption assistance, representatives of the Agency strive to model best practices in all USAID operations. These include implementing assistance in ways that assure transparency and accountability, e.g., project-based assistance and oversight of contractors and grantees, and by extending generalized budget support only to those countries that clearly demonstrate the capacity and commitment to manage funds for their intended purposes (funds subject to USAID audit). This also includes conforming to U.S. Government and USAID policies and regulations in all regards, behaving according to the highest ethical standards, and exemplifying the values of public service that underpin these standards.

Modeling best practices might include specific transparency and reporting requirements; fraud awareness training for implementers; oversight opportunities for civil society, host country government, and the media; and requirements for interim and concurrent audits. USAID also aims to make explicit these efforts by communicating these standards and controls and demonstrating transparency in its operations to all external stakeholders. USAID standards and practices are described more fully in Annex 1.

5. The Current Context for USAID Anticorruption Work

An inventory of FY 2001 and FY 2002 programs (Annex 2) and a 2003 Field Perspectives Survey¹² shed light on current USAID programming trends and lessons learned. Some highlights follow:

¹² See <http://www.usaid.gov/our_work/democracy_and_governance/publications/ac/field_perspectives.pdf>.

Most USAID missions understand the link between corruption and development, and more than two-thirds have programs to address it.

- The Agency invested significant resources in this effort: \$184 million in FY 2001 and \$222 million in FY 2002.¹³ These figures include not only programs primarily focused on fighting corruption, but also broader “governance” programs with a significant anticorruption dimension.
- Approximately 87 percent of current USAID anticorruption and good governance programs are concentrated in two strategic objective (SO) sectors: democracy and governance and economic growth. The energy, environment, and health sectors each report a number of programs to address corruption, accounting for approximately 10 percent. Agriculture, basic education, urban programs, conflict, and the other transition programs also report a small number of programs, accounting for the remaining 3 percent.

USAID missions face several constraints in tackling corruption.

- Ninety percent of missions indicated the long-term, embedded nature of corruption represented a key constraint and necessitated large-scale shifts in public attitudes and practices.
- Seventy-eight percent of USAID field offices indicated they would expand anticorruption programming if they had additional staff and resources.
- Sixty-nine percent indicated that insufficient political commitment on the part of national counterparts was a constraint.

¹³ These figures were collected through a special field survey in 2003. Official budget figures do not adequately capture Agency anticorruption efforts. Only one sector, Democracy and Governance, has created a budget code of “transparent and accountable government.” This code accounted for \$23.6 million in FY2001 but does not capture work in other sectors and does not include programs that have a broader focus but contain important anticorruption elements.

- Fifty-seven percent indicated that insufficient donor coordination limited program effectiveness.

Missions identified a range of approaches that were yielding results.

Many of these projects benefited from three factors: good policy environments, committed local partners, and strong U.S. policy leadership.

Some examples of recent successes include the following:

- *Rule of law.* USAID/Guatemala helped to establish, in October 1998, a Clerk of Courts Office in Guatemala City. By 2003, the impact on reducing corruption and increasing transparency was clear. First, the court system now maintains a credible inventory of its caseloads. From October 1997 to September 1998, the court system *lost* 1,061 cases in Guatemala City alone. Under the new system, only four cases were lost between October 1998 and January 2003. Second, a new computerized system assigns cases in an objective, tamper-proof fashion, eliminating judge shopping and reducing congestion. Third, the system establishes and tracks time limits for processes. Fourth, there is a reliable system for generating statistics and reports.
- *Environment.* USAID/Madagascar has recently supported the new Ministry of Environment’s cleanup campaign to regularize all logging permits. A coalition composed of the National Forest Service, National Forest Observatory (a watchdog organization), and conservation organizations surveyed the different types of permits and canceled all that were irregular, or any that had not paid the required fees. This resulted in the revocation of approximately 300 permits, out of a total of 380. The program is being expanded nationwide.
- *Health.* USAID/Armenia supports the Armenian-American Wellness Center, which

has eliminated under-the-table payments by establishing and publicizing clear fees for services, and enforcing procedures to ensure that the fee policy is followed. For example, patients are required to check their bags prior to beginning an examination, preventing them from bringing extra money that doctors used to demand in return for preferential service.

- *Fiscal reform.* USAID/Bosnia, under a multiyear activity, is helping to automate government treasury systems at the national and subnational levels. To date, this activity has saved substantial public funds by rejecting payment orders inconsistent with parliamentary-approved budgets. In one jurisdiction alone, \$17 million in payment orders were rejected as “unauthorized” in the first eight months of FY 2002.

Missions identified several approaches that were less effective.

- Several missions note that public awareness campaigns are ineffective when not linked to specific reforms, and, similarly, that reform efforts are only successful when they incorporate elements of public education and engagement.
- Public sector reforms in environments of low political will appear to have limited chances of success.
- Failure to take a long-term, sustained approach to the problem of corruption means that the approach is unlikely to succeed.
- Anticorruption commissions have become a popular strategy used by governments to spearhead and publicize their efforts, but these commissions often lack the resources and authority to be effective and are often manipulated for political purposes (see Box 1 on p. 17).
- Though clear planning is needed to avoid the problem of proliferation of agencies without clear definitions of roles and responsibilities, “national anticorruption plans” can be time-

consuming distractions and ultimately may not be executable. Often developed with donor technical assistance and including every conceivable reform, these plans can easily become large and unwieldy wish-lists that far outstrip implementation capacities.

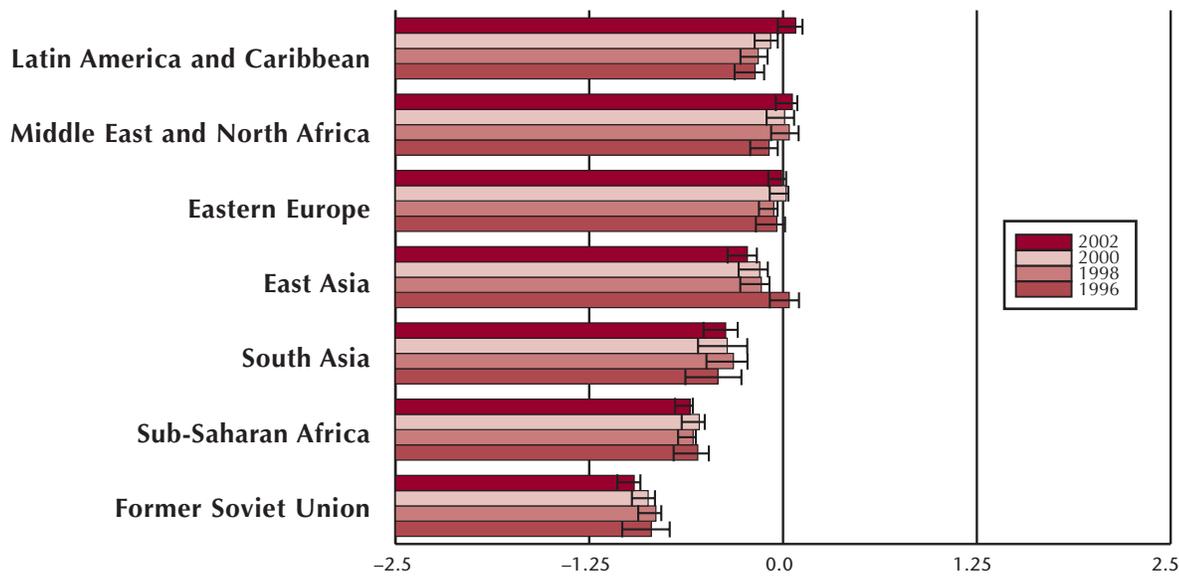
6. An Expanded Understanding of Corruption Dynamics

Much progress has been made in the battle against corruption. There is powerful evidence of significantly increased attention to the problem, beginning with the information from the USAID survey cited above. The increasing number of international conventions and domestic laws against corruption, as well as the evolution of Transparency International from a small NGO to a global movement with over 100 chapters around the world, further confirms this trend. Diplomatic, donor, and private sector engagement also has increased.

However, there is also evidence—again starting with the experience of USAID missions outlined above—that corruption remains a serious problem and a serious impediment to development. Most “measures” of corruption are actually measures of *perceptions* of corruption, so it is difficult to assess what real progress has been made, but even this unsatisfactory gauge, especially in the context of broad experience, provides a window on the scope of the problem, as suggested in Figure 1. With some minor variations, perceptions of how well countries have controlled corruption have changed little over time.¹⁴ It is clear that, while initial efforts have had important impact, an expanded approach is necessary.

¹⁴ It should be noted that the time frame for these metrics is very short, and attempts to reduce corruption are, necessarily, long-term undertakings. Also, the indicators available are based on perceptions. Changes in perception may as easily be driven by increased awareness and publicity about corruption as by corruption itself. Therefore, interpretation of perceptions data is ambiguous. And finally, these data are for the country level and cannot be disaggregated by sector or region. They therefore may not recognize important gains made at subnational or sectoral levels.

Figure 1. Perceptions of Control of Corruption over Time, 2002



Note: Comparison between 2002, 2000, 1998, and 1996. Point estimate ranges from -2.5 to +2.5.
 Source: D. Kaufman, A. Kraay, and M. Mastruzzi, *Government Matters III: Governance Indicators for 1996–2002*. (Washington, D.C.: World Bank). <www.worldbank.org/wbi/governance/pubs/govmatters3.html>

The 1999 USAID *Handbook on Fighting Corruption* was based on the analytic understanding that “corruption arises from *institutional attributes* of the state and societal attitudes toward formal political processes.”¹⁵ The essential argument was that institutional (bureaucratic and regulatory) reforms would help to address principal-agent failures linked to corruption,¹⁶ while support for civil society, media, and other public education efforts

would shift public attitudes and increase demand for accountability in the use of public resources.¹⁷

The problem with a principal-agent model of corruption, at least as it was originally conceived, is that it offers little guidance when the principals themselves do not act in the public interest.¹⁸ Yet this is too often the case. In an environment of endemic corruption, anticorruption efforts must eventually confront grand corruption, or they risk rearranging corruption rather than reducing it. Pursuing technical bureaucratic or regulatory reforms in these negative environments may also put the effort at risk of being politically manipulated by corrupt elites or used as window dressing.

¹⁵ Center for Democracy and Governance (Washington, D.C.: USAID, 1999, PN-ACE-070 or PN-ACR-212), 8. The Handbook drew from Robert Klitgaard’s “stylized equation” of corruption (CORRUPTION=MONOPOLY+DISCRETION-ACCOUNTABILITY) and his policy recommendations in five areas: selecting agents, changing rewards and penalties, gathering information, restructuring the principal-agent-client relationship, and changing attitudes about corruption. See Robert Klitgaard, *Controlling Corruption* (Berkeley: University of California Press, 1988).

¹⁶ In this context, “principal-agent failure” refers to the fact that those in authority (“principals”) cannot always guarantee that their employees or representatives (“agents”) will act in the way the principals intend. Because direct supervision of every action is not possible, principals try to devise procedures and incentives (both positive and negative) to encourage behavior that fulfills their objectives. When applied to corruption, the principal-agent problem was initially formulated to illustrate the fact that noncorrupt officials (principals) cannot guarantee that those who work below them (agents) do not behave corruptly. Anticorruption programs based on this analysis, therefore, sought to reduce opportunities for corruption as well as increase incentives for noncorrupt behavior (including punishment for corrupt behavior).

¹⁷ While the *Handbook* did include consideration of broader political and economic dynamics (recommending, for example, that elections be seen as a means for altering the incentives for corruption), USAID’s implementation still focused mainly on lower-level bureaucratic and regulatory issues. In the survey cited in section 5, for example, only two USAID missions included elections programs in their inventory of anticorruption activities.

¹⁸ This situation could be formulated as the failure of a different principal-agent relationship: the one that arises when public officials or political leaders are seen as the agents and the country’s citizens as the principals. This formulation helps underscore the need for a different set of incentives based on public rather than institutional sanctions, the highest—if least direct—level of which is removal from office through elections.

Furthermore, civil society and public education may not constitute sufficient levers for altering corrupt elites' incentive structures. In this context, the lack of *political will*—always a challenge for supporters of reform—may become even more difficult to overcome.

Thus, the first-generation USAID approach to anti-corruption programming remains a critical element, but needs to be complemented by a more comprehensive, systemic approach that puts increased emphasis on grand corruption, underlines the larger political and economic dynamics that animate corruption, and extends our understanding of the nature and impact of political will.

Broader perspective on the systemic nature of corruption helps to highlight expanded opportunities for anticorruption programmatic responses. An expanded model of corruption examines not only institutional endowments and social attitudes and mobilization, but also imbalances between *political* and *economic attributes* of developing societies. Distinct “corruption syndromes” flow from the interaction of relative levels of economic and political opportunity, on the one hand, and institutional and social characteristics, on the other.¹⁹

In settings of low institutional capacity (which describe, to varying degrees, most of the countries in which USAID works), two syndromes emerge. Where economic opportunities are opening up more rapidly than political ones, ambitious people will pursue *power through wealth*,²⁰ using their economic influence to shape laws and regulations to suit their interests—often excluding competitors from the same access and benefits. “State capture” is a particular form of this phenomenon, in which political processes, such as campaign finance, may

take the place of direct payoffs in exchange for advantageous outcomes.²¹ Alternatively, where political opportunities are relatively more plentiful than economic prospects, elites may pursue *wealth through power*. In these circumstances, state power becomes a tool for extracting financial benefit from whatever economic resources are available in the country—in its extreme form, this pattern is sometimes called “state predation.”

Both of these patterns demonstrate how corruption, particularly grand corruption, results from (and thus can be affected by) political and economic structures and processes beyond the bureaucratic and regulatory issues typically considered in anti-corruption programming. Networks of corruption restrict access to political and economic opportunities and protect elites' privileged positions. Reforms that increase competition in these spheres are therefore critical elements in a comprehensive strategy to reduce corruption.

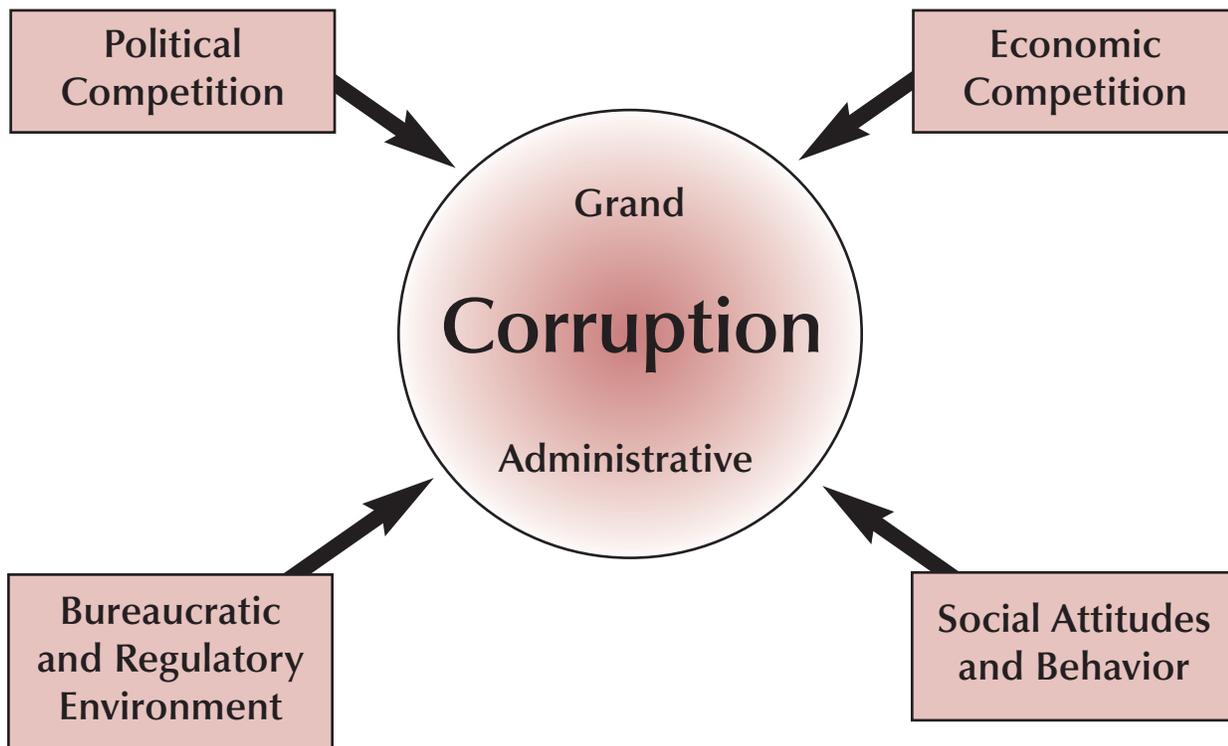
The model represented in Figure 2 captures this broadened understanding of the variety of factors that contribute to corruption and that can be used as entry points to fight it. Institutional (i.e., bureaucratic and regulatory) endowments and societal attitudes remain important both in analyzing the extent and location of corruption and in developing responses, but at the same time, the larger dynamics of economic and political competition help clarify other critical influences on the corruption problem. The center circle indicates that corruption includes a range of manifestations, from lower-level, administrative corruption to a variety of activities that constitute elite or grand corruption, including state capture and predatory states.

¹⁹ This model was developed by Michael Johnston, “Comparing Corruption: Participation, Institutions, and Development,” forthcoming in John J. Kleinig and William Heffernan, eds., *Corruption: Private and Public* (Lanham, MD: Rowman and Littlefield, 2002.)

²⁰ The “wealth through power/power through wealth” formulation was first proposed by Samuel Huntington in his analysis of patterns of elite competition in developing societies. *Political Order in Changing Societies* (New Haven: Yale University Press, 1968). It should also be noted that, at some point, these two dynamics may converge if a small elite is able to complete this process of consolidating political power and economic wealth.

²¹ The degree of exclusion, along with the degree of transparency and legal regulation—or lack thereof—that governs these processes, would constitute the difference between the standard processes of political lobbying and a corrupt, or captured, state. “State capture is rooted in the extent of competition, participation, and transparency in the state’s policymaking and legislative processes. It thrives where economic power is highly concentrated, forms of collective interest representation beyond the firm remain underdeveloped, and the market for political influence is thus monopolized by dominant firms.” Cheryl Gray, Joel Hellman and Randi Ryterman, *Anticorruption in Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999–2002* (Washington, D.C.: World Bank, 2004), 11.

Figure 2. Corruption Dynamics and Access Points for Response



An expanded approach to fighting corruption, based on the model in Figure 2, offers several advantages:

- A more comprehensive model of the dynamics of corruption highlights how bureaucratic and elite factors shape administrative and grand corruption. This has important programming implications. Bureaucratic and regulatory approaches must be complemented by additional attention to political and economic competition to address grand corruption.
- The multilevel analysis highlighted by this model casts light on the complex nature and role of political will in anticorruption efforts. Anticorruption programs work best where they support existing, locally-initiated processes (evidence of political will). However, as with corruption, political will needs to be disaggregated. Programmers need to look for political will at the same levels and in the same institutional arenas where programs are targeted. At the same time, the impact of political will (or lack thereof) at the highest levels must be taken into account in order to evaluate realistically possibilities for program effectiveness at any level.
- USAID's work on fragile, failed, and failing states emphasizes the importance of government effectiveness and government legitimacy for state stability. Corruption undermines both of these critical factors, and this strategic approach provides a more comprehensive framework for disaggregating the problem and then specifying critical elements of anticorruption interventions. For example, in addressing administrative corruption, the legitimacy imperative underlines the need for changes to be highly visible, while improving effectiveness requires a comprehensive approach. A careful analysis of grand corruption can reveal not only its more subtle, but powerful, impacts on effectiveness, but also the potentially devastating impact perceptions of elite corruption can have on legitimacy, even in the context of

objective improvements in administrative corruption.

- This analysis focuses USAID on a multisectoral and multidisciplinary approach to combating corruption that incorporates political competition, economic competition, social factors, and institutional and organizational performance across all sectors. Corruption touches every area of development, and USAID analysis and response must be equally broad.

7. USAID's New Anticorruption Strategy

The following four broad actions constitute a strategy to assist USAID to better address development challenges posed by corruption, and to make a reality of the Agency's rhetorical commitment to doing so:

- ▶ Confront the dual challenges of grand and administrative corruption
- ▶ Deploy Agency resources to fight corruption in strategic ways
- ▶ Incorporate anticorruption goals and activities across Agency work
- ▶ Build the Agency's anticorruption knowledge

Confront the dual challenges of grand and administrative corruption.

The majority of USAID's experience in fighting corruption has focused on attempts to reduce lower-level, administrative corruption, rather than corruption among political and economic elites.²² The analysis in chapter 6 indicates why and how USAID must expand this approach. Grand corruption may be less immediately visible than administrative corruption, but it is often more devastating to development, harnessing state institutions as well as financial and natural resources for private and elite interests rather than public goals.

²² This refers to anticorruption programs targeting government, rather than those involving civil society. Awareness raising and advocacy are often not specific to either grand or administrative corruption.

Furthermore, the impact of efforts to control administrative corruption is ultimately circumscribed by corruption at the highest levels. USAID can build on its extensive experience in political and economic reform to explore the terrain of grand corruption and develop more effective and comprehensive ways of addressing it.

■ Ensure that USAID strategies reflect varying patterns of corruption.

Identifying dominant patterns of corruption, especially the relative impact of grand and administrative corruption, is essential because it has direct implications for USAID anticorruption programming. Of course, these categories are not exclusive. Instances in which one type of corruption is wholly absent are rare, so combinations of approaches may be appropriate. Furthermore, within a given country, the problem definition could differ between social or economic sectors, between political or institutional arenas, across levels of government, or over time. Nonetheless, an analysis of predominant patterns of corruption allows the suggestion of appropriately different anticorruption strategies.

A strategy of high-level diplomatic pressure, combined with investments to increase political and economic competition, will be most appropriate in countries with high levels of grand corruption and limited evidence of political will for reform.

USAID programs should target the political and economic conditions that facilitate grand corruption and should build constituencies for reform through civic education and advocacy and support for independent media. Kenya offers an example where 10 years of consistent USAID assistance and a concerted multidonor message about corruption supported a political transition and opened up new opportunities for more direct assistance to the public sector itself. In this challenging political setting, there also may be opportunities for addressing corruption in specific sectors, such as health or education, especially if significant donor resources are being directed to those sectors. However, USAID should be very cautious in financing extensive bureaucratic reforms or new anticorruption agencies in countries with pervasive levels of corruption among high-level officials and members of the elite

(see Box 1). Specific opportunities also might arise to promote transparency in particular industries, especially if international businesses and public opinion are creating pressure for change (for instance, conflict diamonds).

Strategies that focus on improving the capacity of regulatory and control institutions are most appropriate in countries that have demonstrated substantial commitment to reform and have begun to address grand corruption. In these countries, USAID will be in a better position to expect results from bureaucratic and regulatory reforms to improve procedures that control lower-level, administrative corruption—such as procurement reform, financial management, and audit practices—and strengthen the public sector’s capacity to carry out these mandates. Activities to strengthen horizontal accountability (improving legislative oversight and establishing supreme audit institutions and judicial reform) also may be particularly appropriate in these settings, though some opportunities may exist in grand corruption contexts as

well. Support for civil society and media participation and oversight in anticorruption efforts is also a critical reinforcing element of anticorruption efforts in this context.

USAID should continue to support efforts to consolidate good governance that have already shown positive results in countries where patterns of corruption persist, but not at levels that actively inhibit the viability of other development efforts. In these countries, USAID should ensure that individual programs across all sectors incorporate strategies to control corruption, promote transparent and accountable governance, and target specific vulnerabilities as they are identified.

This approach suggests that USAID’s largest anti-corruption programs may not be in the countries or sectors with the highest levels of corruption overall. The largest investment in specific anticorruption activities may typically be found in countries with higher levels of administrative corruption and relatively lower levels of grand corruption.

Box 1. Anticorruption Agencies: Key Conditions for Effectiveness

The success of specialized anticorruption agencies in Hong Kong and Singapore has led to growing popularity of these institutions among donor agencies and partner countries alike. Specialized agencies—or sub-units of other agencies—can make important contributions to a country’s fight against corruption, but as more is understood about **necessary supporting conditions**, these institutions are being viewed with increasing skepticism by practitioners and researchers.

Necessary **internal characteristics** include genuine political independence; freedom to pursue inquiries without limitations or “no-go” areas; adequate staffing, training, and remuneration; accountability to all branches of government and the public; and effective internal integrity reviews.*

At the same time, several **exogenous conditions** also appear necessary for success: political stability, basic elements of the rule of law, evidence that anticorruption success results in political gain rather than political loss, and a basic framework of sound governance and democratic accountability.**

* See Transparency International, *Sourcebook* (2000).

Without these conditions, specialized agencies are vulnerable to failures ranging from being manipulated to pursue political enemies, to serving as window dressing for donors and other international observers by otherwise uncommitted leaders, or to simply distracting energy from more important, long-term reforms necessary to address the real scope of corruption.

In sum, specialized anticorruption agencies appear most effective for attacking specific areas of corruption within an overall environment of stability and effective governance. Their ability to substitute for such an environment is not established. At minimum, support for these institutions should be conditional on some basic measures of independence and transparency in their operations, and donors should be ready and willing to end assistance if these conditions are not maintained.

** Patrick Meagher, “Anticorruption Agencies: Making Sense of Rhetoric and Reality,” Center for Institutional Reform and the Informal Sector (Lanham: University of Maryland, 2004). See also Michael Johnston, “Independent Anticorruption Commissions: Success Stories and Cautionary Tales,” presentation to Global Forum II (revised September 2001).

■ **Develop innovative interventions to address grand corruption.**

USAID missions and their local partners are well aware of the devastating impacts of grand corruption. But these elite processes are often so opaque, and the entry points for USAID programs so unclear, that addressing grand corruption is quite daunting, and many believe it is best left to U.S. diplomacy. In fact, the most effective approach is for U.S. diplomacy and U.S. development programs to work together (see Box 2 on page 19). But dramatic results should only be expected over time, because this is arguably one of the most difficult issues to tackle.

Bilateral donors, rather than multilateral banks, may need to lead in this area given the highly political

nature of grand corruption, and thus the necessity for anticorruption efforts to reach well beyond the executive branch of government. In its ability and experience working with oversight bodies, political parties, the private sector, and civil society, USAID has a unique comparative advantage vis-à-vis multilateral agencies. At the same time, however, USAID needs to continue discussions with multilateral agencies about the leverage they can exercise based on the scale of resources they bring. It is also possible that the unique relationships they have with host country governments may allow them some ability to raise challenging problems of corruption more effectively than can be done bilaterally.

■ **Expand and improve strategies to address lower-level, administrative corruption.**

USAID has built a strong record of accomplishment in assisting countries to curb and control administrative corruption, and the Agency has learned much about what works and what does not (see Box 3 on page 20). USAID programs have demonstrated considerable progress in “unbundling corruption” and targeting specific dimensions. In doing so, the measurement issues become more manageable, and multifaceted efforts to target a specific form of corruption become more manageable.

■ **Develop an assessment methodology to address both grand and administrative corruption.**

USAID will update its assessment framework to explicitly incorporate a disaggregated analysis of locations, severity, and key political and economic drivers of administrative corruption and grand corruption. The assessment framework will help to identify, in a given country, the relative presence and impact of these two general types of corruption, as well as other important characteristics of the problem. The framework also will help identify key institutional arenas where anticorruption programs may be most needed or most likely to succeed. A comprehensive assessment of political will and constituencies for reform also will be critical elements of the analysis. USAID’s Bureau for Europe and Eurasia is already developing an analytic tool that may help inform these efforts. The World Bank has made important intellectual

Gender and Anticorruption Programming

Though much remains to be learned about the different impacts of corruption on women and men—and their differential roles in fighting corruption (see discussion on page 26 on anticorruption and gender)—many of the programming options described in this paper may lend themselves to giving special attention to how they can facilitate women’s participation and improve women’s access to resources, public services, and the political and economic processes of a country. Examples of possible opportunities include the following:

- Build on women’s roles in family health and education to increase their participation in oversight of local resources
- Include rights-based and gender budgeting issues in budget transparency work*
- Apply an anticorruption lens to programs supporting women’s political participation

* See International Budget Project and IDASA internet sites at <<http://www.internationalbudget.org/themes/ESC/index.htm>> and <http://www.idasa.org.za/index.asp?page=programme_details.asp?RID+29> respectively.

Box 2. Programmatic Responses to Grand Corruption

Although grand corruption is often intertwined with lower-level administrative corruption, analysis of the problem of grand corruption highlights its roots in the failure of public leaders to act in the public interest. Addressing it, therefore, involves going beyond traditional public sector reforms to focus on ways to shift the incentives underlying political and economic competition and political will. This is relatively unexplored terrain, but some ways that USAID can help countries to chip away at this problem might include the following:

- **Focus on diplomatic approaches and donor coordination to consolidate external pressure for reform.** Harness external sources of pressure for reform through strategies such as donor consultative groups and interagency efforts. Coordinated diplomatic efforts can serve as the “stick” while donor agreements act as a “carrot.” International initiatives like the UN Convention Against Corruption can also provide opportunities for diplomatic efforts.
- **Foster industry-specific transparency initiatives that help reduce the risks of the “resource curse”* and level the playing field for economic competition.** Several initiatives have emerged in recent years that combine international and diplomatic pressure, civil society oversight, and technical assistance to establish basic transparency standards and procedures, especially in the lucrative industries involved in extracting natural resources. Some examples include the Kimberly Process for diamonds, the Congo Basin Forestry Initiative, the Wolfsberg Principles on money laundering, and the Extractives Industry Transparency Initiative.**
- **Assist countries in developing strategies to address political corruption.** USAID has recently published a *Handbook on Money in Politics*, and a small number of missions are supporting innovative programs to introduce disclosure systems for political party finance.
- **Build on existing efforts to promote open political competition.** Electoral reforms to allow independent candidates or single-member districts can help crack open ossified party networks, while strengthened electoral management and oversight can reduce electoral fraud. Activities to promote healthy and responsive par-

ties can be designed to target the linkages between party finance and corruption, and the need to develop alternatives to patronage-based electoral competition.

- **Safeguard natural resources.** Empower communities to monitor and control the use and abuse of natural resources to avoid exploitation that leads to unsustainable practices.
- **Shed light on the abuse of parliamentary (and other) immunity.** Blanket immunities enjoyed by many parliamentarians and other government officials create incentives for individuals to “buy” their way onto party slates and into parliamentary seats to enjoy broad, and sometimes lifetime, immunity.
- **Promote ad hoc independent monitoring of large procurements or concession awards.** Transparencia por Colombia, for example, has monitored every stage of numerous large government procurements in order to improve transparency and safeguard the integrity of the entire process.*** There may be special opportunities to use this approach when a specific contract is attracting wide international attention, and it may be a useful tactic where there is will among political leaders, but not among the bureaucratic rank and file.
- **Generate credible information.** For example, fund diagnostics (such as forensic audits and expenditure tracking surveys covering the most vulnerable or strategic sectors) and support independent media, and the creation of anonymous complaint mechanisms and NGO watchdogs. These efforts can shed light on specific modalities of grand corruption, even when formal institutions of oversight and accountability are weak.
- **Improve civilian oversight of military budgets.** In many countries, militaries consume significant public resources with little or no public accountability. In weak states, governments fund only a fraction of military spending through the state budget, turning militaries into private entrepreneurs and protection rackets.
- **Address state capture by building on existing strategies for economic diversification.** Traditional approaches to encouraging economic competition (including privatization, strengthening small and medium-sized enterprises, and promoting business associations and appropriate oversight authorities) can limit or alter the environment in which corruption thrives, but the benefits of these approaches may not be realized without explicit treatment of anticorruption objectives in program design and implementation.

* This is the widely-observed phenomenon that many of the nations with the richest stores of natural resources (especially mineral, though not always) are the poorest and most corrupt. For a review, see Michael L. Ross, “The Political Economy of the Resource Curse,” *World Politics* 51:2 (1999).

** “Know your customer” standards in the banking industry and the “Publish What You Pay” campaign are other examples. One of the widely-noted shortcomings of these types of initiatives is that they are voluntary, but strong international pressure is making it harder for companies and countries to ignore them.

*** For more information on “Integrity Pacts,” see the Transparency International website: <http://www.transparency.org/integrity_pact/preventing/integ_pacts.html>.

contributions, particularly to the understanding of state capture and its role in transition states.²³

USAID's expanded methodology will take a multisectoral, multidisciplinary approach to the analysis of corruption. The Agency is also exploring collaboration with other bilateral donors to develop a shared approach.

Deploy Agency resources to fight corruption in strategic ways.

The centrality of corruption as a development challenge, and the need to fight it, are no longer disputed. The U.S. Government's commitment to this effort is unequivocal. USAID's own *Foreign Aid in the National Interest* is equally emphatic. The

²³ The World Bank, *Anticorruption in Transition: A Contribution to the Policy Debate, 2000 and Anticorruption in Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999–2002* (Washington, D.C., 2004).

Agency must, therefore, ensure that the deployment of its resources focuses on strategic anticorruption efforts across its operations.

■ Improve strategic analysis of the corruption problem and anticorruption options.

Strategic use of resources requires designing and implementing interventions based on a sound analysis of the dynamics, types and locations of corruption; the nature of competition; and realistic evaluation of opportunities for impact. The assessment framework and methodology envisioned in this strategy (see p.18) will assist missions in determining the nature, location, and impact of corruption, and in making strategic choices about anticorruption activities. Assessments may be undertaken by the mission, regional bureaus, pillar bureaus, or some combination thereof. In strategic states, where resources are unavailable at the field level for analy-

Box 3. Programmatic Responses to Administrative Corruption

USAID will continue to promote its successful programs in prevention and education, learn from these efforts, and improve its performance in this area. Some directions the Agency can follow include the following:

- **Support budget transparency** by engaging national and local governments, legislatures, independent budget analysis, and citizen engagement. In Bosnia, USAID treasury assistance has saved substantial public funds by rejecting payment orders inconsistent with approved parliamentary budgets.
- **Improve procurement transparency** through outreach to the supplier community, independent monitoring, and system-wide reforms. USAID/Philippines' AGILE project gathered support for comprehensive procurement reform by supplying information to the public, private sector suppliers, the legislature, government officials, and civil society. This approach could be part of a comprehensive procurement reform activity, or it could be scaled down to deal with specific sectors, including health and education.
- **Support merit-based, transparent public sector employment practices.*** In Colombia, USAID has supported

merit-based recruitment of more than 200 government officials in oversight roles.

- **Expand community oversight of public investment and service delivery.** In Rwanda, local government officials and community members constitute community monitoring committees, which are receiving USAID-supported training to assess and verify the execution of district government works before payment is made to contractors. In Uganda, school budgets were published and posted at each school, giving communities key information needed to hold leaders accountable for how the funds were being used.
- **Reduce opportunities for public sector corruption** impacting the business environment. In Romania, USAID supported a red tape analysis (sometimes called an "investor road map"), which documented how bureaucratic obstacles were crippling entrepreneurs and mapped key opportunities for corruption. Reforms resulting from the study helped to reduce the number of approvals required to register businesses.
- **Improve land tenure and registration systems.** Rendering the process of land titling and registration more transparent and accessible, the use of cadastral maps, and automation have all contributed to reducing corruption while promoting economic growth in countries as varied as Paraguay, Uganda, Albania, and India.

* Merit-based hiring should be seen as part of broader civil service reforms, which include the provision of an appropriate living wage.



One response to administrative corruption is to expand community oversight of public investment and service delivery. For example, local government officials and community members can form community monitoring committees to hold local leaders accountable for how funds are disbursed and used.

sis, resources from technical bureaus may be made available.

■ **Leverage USAID resources.**

Where corruption acts as a significant constraint to development or contributes to state fragility, missions and bureaus will be expected to develop strategies and dedicate resources to address the challenge. For example, anticorruption components should be incorporated into and resourced from programs under any SOs where this problem threatens development objectives. Specifically, democracy and governance and economic growth resources can be focused more explicitly on anticorruption, while the share of resources from other sectors that are dedicated to specific anticorruption initiatives can be increased to realize the Agency's stated commitment to address corruption seriously.

■ **Partner where appropriate with private actors.**

Another approach to maximizing the impact of limited resources is to use the Global Development Alliance model to establish public-private partnerships. Private actors have a number of reasons to contribute to USAID anticorruption efforts. Anticorruption measures strengthen and deepen

democratic culture, encourage a transparent business environment (and therefore lower transaction costs), and improve corporate reputations. The programmatic approaches discussed in this document offer private foundations, companies, or associations an opportunity to support anticorruption interventions through provision of additional expertise, resources, and networks of interested participants.

■ **Establish priorities for anticorruption resources.**

In addition to better strategic analysis for anticorruption programming in all countries, USAID will examine options for aligning anticorruption resource allocations with Agency goals, priority concerns, and countries. The Agency goal areas related to promoting transformational development, strengthening fragile states, and supporting strategic states are particularly relevant.²⁴ Priority anticorruption concerns related to these goal areas include support to countries' participation in the MCA, the relationship between corruption and state failure, and the need to respond to critical breakthrough

²⁴ See USAID's White Paper *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century* (2004, PD-ABZ-322).

opportunities, particularly in strategic states. Each is discussed in turn below.

■ **Explore opportunities presented by the MCA.**

The MCA sends a strong signal that the highest levels of the U.S. Government are committed to fighting corruption. Already, the MCA has raised the profile of corruption in high-level policy dialogues with MCA-candidate countries. The governments of these countries already clearly see the benefit of addressing corruption, thus opening new opportunities for USAID technical assistance programs to succeed. USAID bureaus and missions should be prepared to take advantage of these opportunities as they emerge.

- *MCA-eligible and “threshold” countries.*
Countries that qualify as eligible for assistance under the MCA will have passed the core requirement on corruption, but this does not mean that they are, in any way, corruption free. In fact, they still face important ongoing governance challenges and may have particular vulnerabilities relative to MCA funding. Language in the Millennium Challenge Act of 2003 requires that countries develop a plan to ensure fiscal accountability, and that grants and procurement be open, transparent, and competitive. At present, mitigating these areas of vulnerability under MCA-eligible country programs is the responsibility of the Millennium Challenge Corporation (MCC). However, USAID should be prepared to conduct vulnerability assessments to identify the potential weak points in each country’s readiness for MCA assistance if the MCC requests it. USAID should similarly be ready to deliver technical assistance in areas such as concurrent audit, citizen oversight, and fraud awareness training, and to recommend appropriate diplomatic interventions. In “threshold countries,” USAID will be the lead implementer in an MCC-financed program to help improve performance on key indicators that caused these countries to miss MCA eligibility. If control of corruption is one of those missed hurdles, then USAID may

have an active, important role to play in these environments; agency activities should be financed by MCA funds whenever practicable.

- *Non-MCA countries.*
Countries that do not qualify for MCA eligibility—or are not in the threshold program—because of scores substantially below the median for control of corruption are less likely to show the requisite political will to exercise control over elites or their bureaucracies. In these countries, large-scale programs to address administrative weaknesses are not likely to be sustainable. USAID should pursue civil society and media programs to build bottom-up pressure for reforms and look for opportunities to address the fundamental incentive structures for political and economic competition. USAID should engage with the U.S. embassy, other U.S. Government actors, and other donors in an appropriate policy dialogue to create external pressure for reform. These environments may also be appropriate for targeted, multidonor, industry-specific initiatives, such as the Extractive Industries Transparency Initiative, or intergovernmental efforts, such as the G8 Transparency Compacts.

■ **Develop appropriate anticorruption responses for situations of state fragility and failure as well as postconflict environments.**

As USAID focuses greater attention on countries in crisis, the Agency will have to develop strategies appropriate for these environments that can contribute toward reversing a downward trend or supporting positive developments.

It is clear that corruption undermines state legitimacy and efficiency. The Agency’s draft *Fragile States Strategy* cites “high levels of state-sponsored corruption” as one of the “pathways” to state failure. However, little is known about the possible effects of various anticorruption interventions in such environments. The Agency must develop recommendations for how best to respond to the challenges of corruption in the context of the

Fragile States Strategy. Further, the offices of Democracy and Governance, Conflict Management and Mitigation, and Transition Initiatives (OTI) must coordinate to ensure that all are working from a similar analysis of the corruption problem and an agreed-upon strategy for addressing it in various environments. This would ensure that the various offices in USAID’s Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) adopt a harmonized programmatic approach in the countries in which they operate together.

This also suggests an agenda for research into topics, such as the ways in which both corruption itself and efforts to combat it contribute to conflict, and the stabilizing (or potentially destabilizing) role of anticorruption reforms in fragile states.

■ **Ensure rapid response to key opportunities.**

In a small number of countries, USAID needs to be able to quickly augment anticorruption efforts as credible leadership emerges. These critical transitions can often represent opportunities to support a core of committed leaders who are willing to take on grand corruption. If these early reforms take root, they can pave the way for comprehensive governance reforms. If they wither, they can have a chilling effect on global efforts. USAID must have the ability to deliver rapid assistance in situations like these. In the past year, however, USAID missions in Nicaragua, Madagascar, Zambia, and Kenya faced serious obstacles in responding to time-sensitive requests for anticorruption assistance. On the other hand, in Mexico, USAID assistance was rapidly deployed to support government-led reforms, with important positive impact.

The Agency will examine its current rapid response resources and capacities and seek ways to enhance them for the purpose of responding to key opportunities for addressing corruption. The emphasis should be on rapid—rather than large—amounts of assistance. Funds could be used to foster national dialogue among all key stakeholders and bring opposition parties into the process. They could quickly place an advisor on the

ground to assist governments in setting out realistic, achievable, short-term objectives, monitoring progress, and communicating regularly with media and the public on these efforts. Immediate access to resources also could jumpstart appropriate programs in support of prioritized reforms. In all cases, an enhanced ability to respond quickly would signal to all parties that USAID is credible on this issue and committed to supporting anti-corruption efforts.

Both USAID and political leaders have learned that advances in the fight against corruption are extremely fragile and easily reversed. Citizens understand that corruption will not be eradicated overnight. But they need to see some short-term results, and they need to see serious and credible efforts. An improved rapid response capacity will allow USAID to support vulnerable reformers in the critical early stages of reform.

Incorporate anticorruption goals and activities across Agency work.

In order to implement strategic change throughout USAID, attention must be paid to organizational incentives and structures. A comprehensive implementation plan will be developed that expands upon the organizational priorities highlighted below.

■ **Incorporate specific anticorruption goals into mission and bureau strategies and programs.**

Patterns of corruption can change across countries and across sectors. All missions will be expected to consider the issue of corruption and, depending upon the severity of the problem, focus their strategy in some way on the role of USAID assistance in addressing the problem. Where corruption is clearly going to compromise USAID’s development objectives, operating units will be expected to analyze the challenge and develop strategies and programs to respond. Where corruption is identified as the central impediment to development or the driver of fragility, operating units will be expected to develop more robust approaches and integrate anticorruption approaches widely throughout their entire portfolios.

■ **Develop sector-specific strategies to reduce corruption and improve governance.**

Each sector of the Agency must develop explicit anticorruption approaches to address the unique challenges of corruption. This goes beyond attempts to ensure that USAID funds in a specific program are protected from corruption; it implies a proactive commitment to finding ways to reduce the impact of corruption through out the sector. (See Box 4) In addition, the Agency must encourage cross-sectoral collaboration that supports the establishment of efforts mission-wide or across several SO teams to target corruption in a more holistic fashion.

■ **Establish an Agency-wide budget code to identify and track resources allocated to anticorruption.**

A key factor affecting incentives for change is the ability to monitor how resources are actually being employed to address new initiatives. Currently, USAID is unable to track accurately what resources are devoted to fighting corruption.

■ **Establish cross-team, interagency, and donor coordination mechanisms to increase collaboration on corruption.**

Missions have reported innovative mechanisms and tactics for coordinating Agency and U.S. Government responses to corruption. Such efforts yield a shared vocabulary, a joint commitment to fighting corruption, and a common understanding of both the problem and the solutions. These mechanisms include cross-SO teams, interagency task forces, embassy-led workshops, and donor coordination strategies of various types. Missions

Box 4. Sectoral Approaches to Corruption

Examples of current sectoral initiatives include the following:

Education

- Programs to identify and reduce “ghost workers” through teacher mapping and monitoring
- Public expenditure tracking surveys
- Parent-teacher organizations for school-level management oversight

Energy

- Improving the authority and independence of regulatory commissions
- Improved metering and management tools, including management contracts, to improve governance and reduce unaccounted-for losses in the energy sector

Environment

- Community involvement in environmental management
- Citizen oversight of concessions, permits
- Transfer control to local governments
- Sector-wide assistance programs in agriculture, tourism, forestry, etc.

Health

- Efforts to ensure the transparency and integrity of pharmaceutical management, particularly for antiretroviral and other scarce, high-value drugs
- Introduction of cost-based accounting systems and asset tracking systems in hospitals
- Posting of formal fees at health clinics and enforcement of procedures to ensure the policy is followed

Information Technology

- E-government applications, such as e-procurement, and tax and fee payments online
- Use of internet for transparency and accountability
- Computerization of land records, legal case files, and integrated financial management systems

Transport

- Work with transportation associations to measure corruption, organize those most affected, and shift practices

have also designed and conducted mission-wide and regional anticorruption training workshops.

■ **Include anticorruption elements in Agency training, communication, and planning vehicles.**

To mainstream the Agency's commitment to addressing corruption, both missions and Washington bureaus should seek to identify appropriate vehicles and opportunities into which they can incorporate elements of anticorruption technical leadership. Tactics might include objectives in work programs, anticorruption modules in annual training events, and prominent placement of success stories in communications vehicles.

■ **Continue and expand Agency leadership on fighting corruption.**

Within USAID, high-level policy messages and hard-won lessons from the front lines have converged to create strong leadership in many missions. Some missions are placing anticorruption at the center of country strategies. Others are weaving it throughout mission portfolios as a crosscutting issue. Some 15 missions indicated that ad hoc structures were in place to coordinate anticorruption work across the country team. Still others described anticorruption donor-coordination mechanisms. Such leadership efforts should be recognized and encouraged.

The democracy and governance and economic growth sectors, which are funded through discretionary, non-earmarked accounts, have traditionally been the most involved in efforts to reduce corruption. Others—such as agriculture, education, energy, and health—are equally hurt by corruption but appear underrepresented in current Agency anticorruption efforts.

There are at least two ways to approach corruption in specific sectors. At a minimum, anticorruption efforts should be embedded in broader sector reform strategies. Alternatively, multisectoral anticorruption programs could target a specific type of corruption that cuts across several sectors. Examples might include efforts to address procurement fraud

by monitoring large procurements across several sectors. It might involve efforts to reduce expenditure leakages by enhancing treasury systems, parliamentary budget oversight, and social auditing by end beneficiaries. Finally, it might involve creation of one-stop shops that would deter bribery for several types of services.

Build the Agency's anticorruption knowledge.

Anticorruption assistance is a relatively new area of practice and, in some respects, faces a credibility gap. Not only host government leaders but donors themselves need to demonstrate that it is possible to achieve tangible impacts. In light of the critical gaps in our knowledge, and consistent with other Agency initiatives, USAID should strive to improve its capacity as a learning organization and build new anticorruption knowledge into all sectors of its operations.

■ **Evaluate program effectiveness and impact.**

The Agency needs to be better able to measure and improve the effectiveness of its anticorruption programs. Little systematic evidence exists to demonstrate which strategies are most effective in addressing and controlling corruption in different settings. Incentives must be put in place—perhaps through centralized evaluations—to accelerate innovation, learning, and the cross-fertilization of ideas. Additional work is needed to understand which interventions provide the biggest return for the varying objectives of promoting economic growth, consolidating democracy, mitigating conflict, and improving service delivery. *The Department of State and USAID Strategic Plan for Fiscal Years 2004–2009* contemplates conducting two multi-phase evaluations of anticorruption programs.²⁵ Resources to fund midterm or ex-post evaluations need to be identified, either at the mission level or in Washington.

²⁵ See the evaluation section of the plan at <http://www.state.gov/m/rm/rls/dosstrat/2004/23511.htm>

■ **Establish an Agency-wide “community of practice.”**

The community of practice is an emerging information technology-based tool that will be used to collect and disseminate anticorruption learning to various technical bureaus, field missions, and external partners. The first task for this community would be to design and facilitate the dissemination and implementation of this strategy. Subsequently, it would become the key forum for pursuing cutting-edge initiatives within the Agency and could address some of the particularly challenging issues it faces, such as political party corruption, immunity, and state capture.

■ **Promote synergies between gender and anti-corruption work.**

In USAID’s work across every sector, it is important to incorporate efforts to prevent corruption and to integrate gender. Both are crosscutting issues, but the links between corruption and gender are unclear. Some USAID-financed work on corruption victimization in Latin America has incorporated gender analysis²⁶ but, in general, not enough is known about the differential impact of corruption on women and men, nor are the ways in which women cope with or attempt to reduce it well understood. More work is needed.

Similarly, the links between efforts to reduce corruption and address gender inequalities should be explored. For example, ensuring that public employment practices are sensitive to gender and diversity requirements is a benefit in its own right. But it may also help to break up closed, exclusionary networks in these institutions that create an enabling environment for corruption. Examples of USAID mission programs that incorporate both anticorruption and gender elements include the following:

Benin. A civic education program designed to educate women and girls on corruption and the solici-

tation of sexual favors in exchange for higher grades

Philippines. Rule of law program designed to increase access to justice for women and girls

Russia. Investigative journalism training, press events, and public awareness campaign on trafficking in persons

Angola. Civil society advocacy efforts focusing on housing rights of displaced women

West Africa Regional Program. Economic growth program in support of women-owned business with an emphasis on lobbying government to reduce corruption and nontransparent procedures.

The Agency should engage in a dialogue on the ways in which gender and corruption interplay in order to better understand the challenges it poses as well as the opportunities it may present.

■ **Develop and promote mission-wide, regional, and Washington-based anticorruption training vehicles.**

Some mission directors have organized mission-wide workshops on anticorruption to develop a common language for discussing the problem and generating multisectoral solutions. To ensure that the Agency has a cadre that is well prepared to implement this strategy, USAID will increase its commitment to this holistic approach to training. In support of this, DCHA’s Office of Democracy and Governance and the anticorruption community of practice will develop appropriate training modules for use by missions, bureaus, or other interested USAID operating units.

²⁶ See Mitch Seligson, Corruption and Democratization in Latin America, University of Pittsburgh Latin American Public Opinion Project. Results from seven recent surveys conducted by the Bureau for Latin America and the Caribbean will soon be available at <www.usaid.gov>.

8. Conclusion

Corruption is now seen unequivocally as a major barrier to development, and its reduction is a top priority for development efforts. Fighting this scourge is also fundamental to advancing U.S. foreign policy interests. USAID has made important advances in the few years in which the Agency has worked in this field. However, current learning, together with recent world events, compel the Agency to rethink its efforts in the area of corruption and to reevaluate its placement within its priorities.

The Agency must build new knowledge to help design better interventions. It must support countries making real efforts to improve, and it must be quick to respond to emerging opportunities.

USAID must develop new ways to work and seek out new partners with whom to collaborate. And finally, Agency leaders must bring the focus of the entire organization to bear on this commitment.

The implementation of the actions in this strategy will position USAID to make a significant and growing contribution to the fight against corruption in the new century.

Annex 1. Modeling Best Practices within USAID

USAID recognizes the critical importance of protecting U.S.-appropriated funds and ensuring the highest ethical standards of conduct for its staff and contractors. The Agency does this through promoting transparency of its operations, accountability in its programs and use of funds, competitiveness in procurement, and high standards for internal financial and operational controls.

- *Transparency.* Information on procurement activities, in terms of requests for proposals or applications and information on awards, is available publicly. Information on all procurement actions in excess of \$25,000 is accessible on the USAID website (<<http://www.usaid.gov/business/>>) and the general U.S. Government website FedBizOpps (<<http://www.eps.gov>>). The USAID website (<www.usaid.gov>) contains information on country strategic plans and funding, as well as the complete USAID budget. A separate section of the website (<<http://www.usaid.gov/oig/>>) is devoted to Office of Inspector General (OIG) audits and recommendations.
- *Procurement.* Competition in procurement is ensured by compliance with U.S. Federal Acquisition Regulations (FAR). In addition to the FAR, USAID is subject to other U.S. laws and USAID Acquisition Regulations, the Agency's internal procurement rules.
- *Financial management.* The policies and procedures that govern these systems are clear, precise, and strictly monitored and enforced. A critical component of the oversight of these systems is the Federal Managers Financial Integrity Assessment and an annual self-assessment of internal controls.
- *Contract compliance.* The Agency is diligent in investigating the financial management capacity and management skills of fund recipients. This includes onsite pre-award surveys, as well as review of the A-133 audits of NGOs receiving federal funds. USAID relies upon strict financial controls, management procedures, and oversight exercised by contract officers and cognizant technical officers to ensure contract compliance.
- *Audit, oversight, and enforcement.* Almost all U.S. Government programs are subject to rigorous audit standards by law and regulation. In addition, there are in-depth audits that target systems or themes. The OIG provides audit and investigative services within U.S. departments and agencies. The OIG's oversight extends to USAID programs around the world. This is largely accomplished from regional offices overseas.
- *Ethics and training.* A code of conduct for all Agency personnel sets out the standards of integrity expected of the Agency and its staff. It is implemented through mandatory annual training, extensive communication, and appropriate rewards and sanctions.²⁶

²⁶ See Principles of Ethical Conduct for Government Officers and Employees at <http://www.usoge.gov/pages/laws_regs_fedreg_stats/lrfs_files/exeorders/eo12731.html>.

Annex 2. USAID Anticorruption Programs

Analysis of USAID Programs

The inventory of anticorruption programs compiled from data supplied by missions shows a broad and rich variety of programmatic approaches to fighting corruption. The inventory represents an agency-wide investment of \$184 million in FY 2001 and \$222 million in FY 2002. The data yielded an illustrative typology of anticorruption programs. Information from this survey is available to users of the internal USAID website at <http://inside.usaid.gov/anticorruption>.

Reducing corruption vs. strengthening the anticorruption environment. One analysis of programs in the inventory separates them into two categories based upon the primary goal of the program. Some programs are designed with the express intent of reducing corruption; others, designed for broader or distinct development goals, make significant contributions to strengthening the anticorruption environment. Explicitly anticorruption programs include anticorruption commissions, legislative initiatives to promote transparency and accountability, freedom of information initiatives, procurement reform, accounting and budget reform, certain rule of law programs, and audit and oversight initiatives, including supreme audit institutions (SAIs). This group also includes programs working with civil society to promote citizen advocacy, participation, and oversight on corruption-related issues and programs to strengthen the media and private sector associations.

A somewhat smaller portion of the programs, the corruption environment programs, make essential, but indirect, contributions toward reducing corruption. Election programs; financial sector, fiscal, and tax reform programs; privatization initiatives; and other rule of law programs (notably commercial law reform), as well as programs focused on creat-

ing an enabling environment for private sector development, have a substantial indirect impact on anticorruption efforts. Programs such as these help create the economic, political, or regulatory environment necessary for anticorruption programs to ultimately succeed.

Certain program types could fall into either the anticorruption or the corruption environment category, depending upon the specific focus of the effort involved. Programs in the rule of law sector and those which deal with the private sector are examples of program types that appear in both categories.

Sectors. Most of USAID's support for anticorruption is related to programs in economic growth and democracy and governance. Together, these account for 87 percent of the programs in the inventory. The democracy and governance sector represents the largest investment in anticorruption programs, and economic growth programs contribute the largest share of corruption environment programs. Energy, environment, and health sectors each report a number of programs with explicit anticorruption components. Agriculture, basic education, urban, conflict, and OTI also report at least a few such programs.

Program typology. USAID has developed an extremely wide range of programmatic approaches to fighting corruption, often in response to local environments and problems, windows of opportunity, or the presence of local champions. Table 1 describes the 21 program types drawn from the inventory. Each type is further divided into subtypes, which more specifically characterize the program's focus.

Table 1. Anticorruption Programs by Type and Focus

Program Type	Anticorruption Focus (Subtype)	
	Reducing Corruption	Strengthening The Anticorruption Environment
Anticorruption Commission	Commissions Ethics Ombudsman	
Agriculture	Audit/internal control	
Conflict	Local government	Cooperatives
Corporate Governance	Accounting reform Corporate governance	
Cross-Sectoral	Advocacy	
Civil Society	Advocacy Capacity building Civic education Financial management/ procurement Freedom of information acts Oversight	Advocacy Capacity building Oversight
Education	Governance	Data collection
Elections	Political finance	Elections administration Monitoring Party development
Energy	Financial management/ accounting	Metering Regulation Privatization
Environment		Environmental management Environmental governance Forest management Land registration Water management
Financial Sector	Money laundering	Microfinance Banking Capital markets
Fiscal/Customs	Budget reform Customs reform	Tax reform
Financial Management	Audit/internal control Financial management Supreme audit institutions Treasury systems	
Health	Family planning (inventory controls) Financial management Pharmaceuticals management	Advocacy Health reform Health financing

Table 1. Anticorruption Program Types continued

Type	Subtype	
	Reducing Corruption	Strengthening the Anticorruption Environment
Legislative	Budget oversight Freedom of information acts	Legislative strengthening
Local Government	Financial management/ procurement Red tape	Fiscal decentralization Local government capacity Service delivery
Media	Freedom of information acts	Civic education Independent media Investigative journalism media
Privatization		Privatization
Private Sector	E-government Red tape	Business association development Credit Real estate/cadastre Regulatory Small- and medium-sized enterprise development Statistics policy
Procurement	Procurement E-procurement	
Rule Of Law	Ethics Money laundering	Alternative dispute resolution Court administration/case management Commercial law Criminal justice Civil society oversight Judicial reform Judicial training Legal reform Police Police reform Prosecutor training

Figure 3 ranks the various types of anticorruption programs according to the level of FY 2002 funding dedicated to each.

Most programs fall into a few major categories. The following is a brief discussion of those categories and the kinds of programs that comprise each.

- *Fiscal/customs.* USAID efforts in the area of fiscal and tax reforms, largely funded by economic growth programs, include a number of large-scale reform and structural adjustment projects. They include initiatives to revamp tax regimes, including collection and reporting systems. Customs and budget reform projects also fall in this category.
- *Civil society programs.* USAID has long recognized the key role of civil society in creating pressure for reform and ensuring that the resulting changes are sustainable. Missions report that civil society programs constitute the single largest segment of the programs specifically focused on reducing corruption. These extremely varied programs are designed to increase public awareness through media and civic education, promote involvement and participation of citizens, and encourage civil society oversight of various bodies of government, whether the city council or the national parliament.

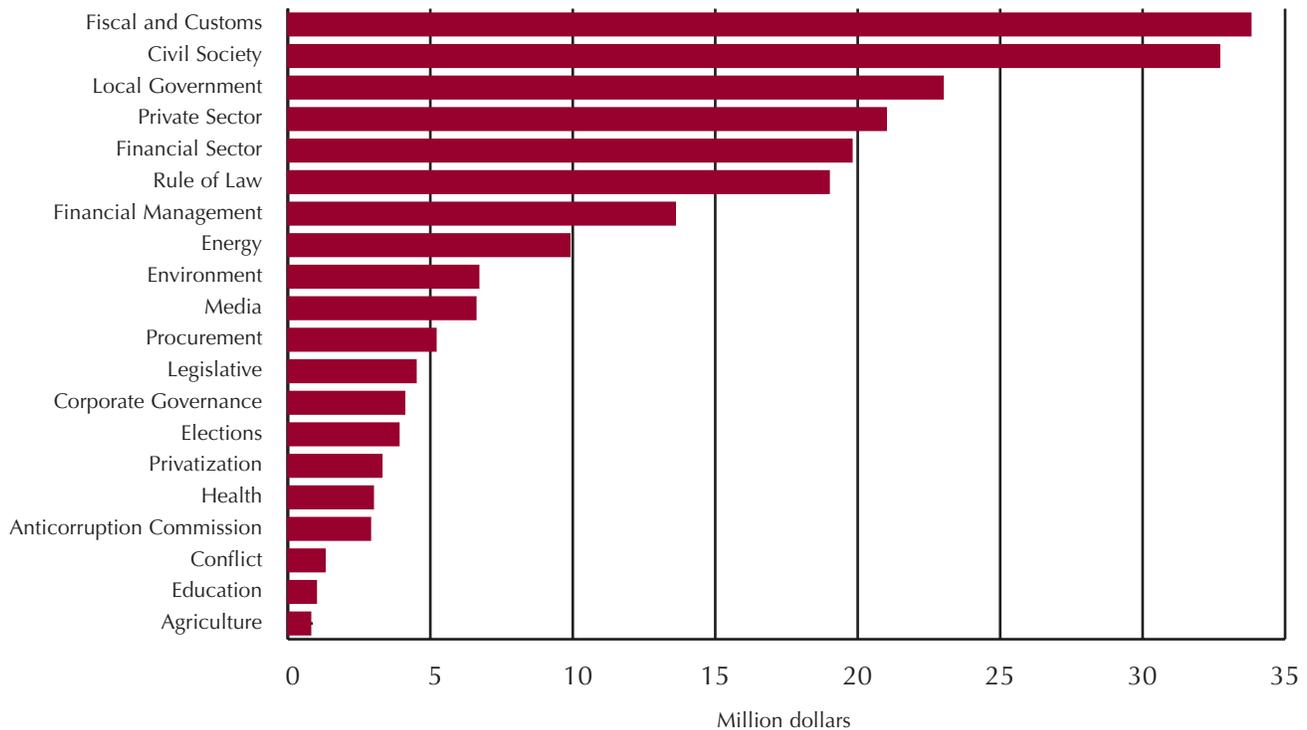
Civil society programs include efforts to promote free and independent media, improve the quality of investigative reporting, and pressure government to implement freedom of information legislation. They strengthen local NGOs and citizens' groups, empowering them to become critical constituencies for reform.

- *Local government and decentralization.* USAID programs assist national governments to deal with the complex and politically sensitive challenges they face as they attempt to decentralize both government authority and responsibility. Most of these programs focus on budget reform and financial management matters, with an emphasis on intergovernmental issues.

USAID programs support transparent and accountable local government in the same way they do at the national level. While many similar approaches are used, including civil society programs, freedom of information, and procurement reform, much of the emphasis at the subnational level is on capacity building. This includes assistance with improving service delivery, budget, financial management, and audit capacity, and increasing citizen voice in local government. Many local government programs also contain explicit anticorruption efforts.

- *Private sector.* The Agency works with the private sector through the establishment of corporate governance regimes and training on governance and business ethics. Programs to strengthen business and trade associations also contribute to increased participation and competitiveness, as does support for alternative dispute resolution and commercial law reform.
- *Financial sector.* Financial sector programs focus mainly on reform and strengthening of banks and banking regulation. They also address establishment of efficient and transparent capital markets and availability of microfinance and other forms of credit. Strategies to prevent money laundering also appear in this category.
- *Rule of law.* Programs to improve the justice sector have long been key to democracy and governance strategies. Recourse to an effective justice system is a critical prerequisite for success in reducing corruption. Many of these programs—such as legal or judicial reform, court administration improvements, prosecutor training, and anti-money laundering projects—contribute to a government's ability to enforce anti-corruption efforts. Others—such as judicial ethics programs, judicial and prosecutorial training on corruption, and the establishment of judicial review bodies—target corruption within the justice sector more directly.
- *Financial management.* USAID's work in financial management includes institutional strengthening programs assisting ministries of

Figure 3. Anticorruption Program Funding by Typology, FY 2002



finance and line ministries, programs to strengthen legislative oversight of the budget and financial management process, and civil society budget oversight. Many of these programs involve the design and implementation of effective treasury systems and integrated financial management systems. The strengthening of government audit and internal control functions, and support for procurement reform and supreme audit institutions, are also key financial management initiatives.

- *Other programs.* Other corruption-fighting efforts include media programs that seek to strengthen the independence and professionalism of the sector and freedom of information initiatives. Procurement reform and e-procurement programs, as well as efforts to increase legislative capacity and oversight, also figure in the inventory.

Programs that strengthen the anticorruption environment. The enormous number and variety of these programs reported by USAID missions contribute importantly to the establishment of an environment in which good government and business practices can flourish and corruption cannot easily take root. These programs, mostly from the economic growth sector, include fiscal reform efforts, financial sector restructuring and improvement, privatization of state-owned enterprises, more efficient and transparent capital markets, and land-titling reforms.

Programs of this nature encourage competition, transparency, and accountability; facilitate the efficient and effective functioning of free markets; encourage private sector growth domestically and through foreign direct investment; and facilitate the incorporation of developing countries into the mainstream of the global marketplace.

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