

Corruption: What Can Be Done about It?

A Practitioner's Perspective through a Russian Lens

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Author's Note: The civil society and trade and investment anticorruption strategy and the eight-point intervention framework outlined in this article were officially adopted as the U.S. Agency for International Development (USAID) anti-corruption policy for the countries of Central and Eastern Europe and the former Soviet Union in December 1997. It is now being reviewed for possible replication in Asia, Africa, or Latin America and as a global strategy. Many of the programs recommended in this article are already being implemented in various countries around the world.

In this article, I synthesize and analyze the current state of key research and programmatic experience relating to global corruption and the transition countries of the Former Soviet Union (FSU)—particularly Russia. Second, I advocate a holistic prescription of preventive and remedial anticorruption medicine that includes balanced doses of prevention, investigation, and public awareness. Third, I argue for collaborative local, country, regional, and global anticorruption trade and investment/civil society strategies that are grounded on political will, “good governance” principles, and global technological, business, and democratic trends and practices. Fourth, I propose a broad, flexible framework for action, including eight high-priority areas of programmatic intervention and strong support for regional public and private initiatives. And fifth, I call for leadership and action—particularly from the business, academic, and foundation communities—as well as for more transparency, accountability, and informal and formal information sharing among donors, governments, businesses, and the law enforcement community, particularly when there

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is evidence of corrupt or criminal activities. Moving in this general direction now will strengthen the enforcement teeth of private and public ethics codes and new and planned global and regional anticorruption treaties and country initiatives such as those just inked by the Organization for Economic Cooperation and Development (OECD) and the Organization of American States (OAS).

Historical Regional Perspective and the Causes of Corruption Russian Lessons Learned/Global Admonitions

The chapter on corruption is necessarily being constantly rewritten as we learn more about its causes and nature and the countries in which we are working and investing. New information technologies and dramatic global economic and political forces are all contributing to this evolving process. And as the full, long-term political and economic effects of corruption play out on the world stage, the international political and business community, as well as a more engaged and vested citizenry, is now less willing to accept corruption as a price they are willing to pay to protect the status quo and to maintain close-knit political and business alliances.

A historical perspective is important to understanding this “new” global phenomenon. Whether in the days of Peter the Great or Louis XV in eighteenth-century Europe, or South Korea, Italy, or Mexico in the twentieth century, corruption has been a serious, although infrequently discussed, phenomenon. Until recently there has been no appreciation of the full costs of corruption and no consensus on a wide range of governance and business issues. There has also been a conspiracy of silence among virtually all of the key players—donors, companies, and governments alike.

In 1894, a French/Russian scholar, Anatole Leroy-Beaulieu, observed that corruption and lawlessness was a centuries-old problem for Russia and that it had been a major deterrent to Russia’s becoming part of the world community for centuries. After noting the progressive reforms initiated by Czar Alexander in the 1860s, including an effort to create an independent judiciary, he wrote that the fundamental causes of corruption in Russian history remained the same: (a) a society ruled by men instead of law; (b) a secretive, restrictive bureaucracy that stifles justice and the press and the development of strong state institutions; (c) a weak civil society unable to check governmental action; and (d) a citizenry cynical and distrusting of government and the law. These are among the key problems that must be addressed by Russia and numerous other countries even today. However, the difference in Russia and some other FSU countries is that corruption appears to be systemic throughout all levels of society. Many are beginning to believe that this profound problem is the most enduring legacy of the Communist system, under which corrupt practices were a totally acceptable, and often necessary, method of making virtually anything happen on an everyday basis. In effect, they were the established “rules of the game.”

By contrast, in the West, systemic corruption is a violation of the rules of game, and it is usually contained or found within certain sectors or institutions. (There are, of course, numerous exceptions to this generalization.) Whether in the developed or the developing world, when corruption has been fully exposed, it has some-

times rocked the political leadership of governments and the fortunes of huge multinational corporations. However, such instability usually occurs only when the political leadership refuses to pursue a steady path of balanced political and economic reforms. Today, there is a new awareness that political and economic stability is a clearly important, mutual objective of governments, businesses, and civil society.

Russia is now poised, more than at any other time in her long and colorful history, to take bold steps to remedy some early reform-oriented missteps in both the private and the public sector. This complex task is so monumental, complex, and expensive, that she will need broad internal and external support to accomplish the task. In some instances, however, external political and economic support, while critical, should be provided only under certain conditions.

In other words, political and economic integration with the West, as well as technical assistance and loans from the World Bank or International Monetary Fund, should be provided only upon Russia's implementing certain reforms. Independent audits of how donor monies are spent should also be

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required for all high-priority programs. A strong argument can be made that some Russian enterprises should be allowed to fail; likewise, some Russian political and institutional restructuring should be allowed to take its natural course. Market solutions are often a necessary but are not an exclusive component of any larger remedy for such serious financial and economic problems. A thorough, targeted, institutional cleansing exercise may be necessary before a market-based, democratic society based on the rule of law can be developed. The resulting economic and political instability will no doubt be difficult to manage in the short term; however, this means only that Russia and the international community will have to work in more creative ways to support long-term reforms during this transition period. It also means that Russian leaders will have to begin to implement many of the reforms that often have been more rhetoric than real. In many ways, this political and economic transition is as important to Russia and the international community, public and private, as were the first five years of reform.

Corruption: A High Priority Issue for Russia, the FSU, and the Developing World

One of the key policy issues is whether it is timely to consider corruption a high priority development issue for the FSU and other regions. Current country political developments, coupled with recent political and economic global events, all seem to answer this question affirmatively. An international nongovernmental organization that is attempting to develop a global anticorruption network and to measure how corrupt the international business community perceives given coun-

tries to be is Transparency International. It is interesting to note in the organization's now famous corruption perception survey, the bottom third of the fifty-four countries surveyed is occupied exclusively by developing and former communist countries. Nigeria is last, China 50th, Russia 47th, India 46th, and Indonesia 45th. The lowest-ranked of the Western countries is Italy at 34th. The sub-Saharan African and Latin American regions are a close second and third, respectively.

The World Bank survey of small, medium, and large indigenous and international businesses appears to support the notion that the business community's perception of corruption weighs heavily in decisions to invest in a given country. The survey found that corruption, crime, and an unpredictable judiciary are perceived to be three of the greatest barriers to developing business in 80 percent of the countries in the FSU. No other region had so many countries in this triple-whammy category. However, once again sub-Saharan Africa was a close runner-up, with Latin America a not-too-distant third. The resulting picture supports the notion that corruption is an acute problem for the developing world, where political and economic stability is a necessary condition for sustainable development. Indeed, a number of people are now concluding that systemic corruption may be a main reason why some political and economic reform efforts in certain countries in Africa, Asia, and Latin America have proved to be unsustainable or have had negligible impact.

Global, Regional, and Local Public/Private Strategies

The fundamental economic and political principles undergirding the fight against corruption are relevant to most of the less-developed countries and regions. The premise of the strategy and the framework for action is that governments, businesses, professionals, and the emerging middle class share a common interest in promoting many of the economic and political reforms needed to support and sustain democratic, market-based societies based on the rule of law. However, the problem for many countries, particularly in the less-developed world, is that it is virtually impossible for them to appreciate fully the myriad requirements and implications of rapidly changing, interrelated, legal, technological, business and political developments. This would include the new OECD Anti-Bribery Convention, the OAS Inter-American Anti-Corruption Treaty, and all of the formal mandates and conditions required for membership in organizations such as the World Trade Organization, the Organization for Security and Cooperation in Europe, the Organization for Economic Cooperation and Development, the United Nations, the Council of Europe, and the European Community.

At present, this international mosaic is a quickly evolving picture that is abstract for most decisionmakers and entrepreneurs. It is not so much that the basic, substantive material and the potential political and business momentum for constructing this picture doesn't exist; rather, it needs to be coherently organized, integrated, and implemented. The net result would enable less-developed countries, as well as economic enterprises, to engage in more efficient and competitive economic and political activities. In turn, this would spur trade and investment, economic growth, and the political reforms needed to transform nontransparent, nonaccountable systems and governments into rule of law societies.

New Rules of the Game for Governments and Businesses

The developed world has substantially more technical and economic capacity than the less-developed world to appreciate the numerous economic and good governance principles, laws, and practices—the rules of the game—that are quickly emerging. Countries are largely embracing them as a means to become more competitive and politically powerful. These new rules are the change agents that are forcing the governmental, business, foundation, and academic communities to alter the way they do business and manage their respective agendas. The current challenge, then, particularly for those in transition countries such as Russia, as well as the less-developed world, is to adapt appropriately to these forces and trends. Developing the kinds of practices and cooperative relationships necessary to enable them to act effectively and competitively, both economically and politically, should be an overriding priority for the twenty-first century.

Crosscutting, issue-oriented, public/private initiatives and strategies, particularly those of a regional and global nature, are among the tools needed to undertake this complex task. Such regional and global networks, institutions, and organizations will also help to provide the political and professional protection that serious anticorruption reformers, institutions, small businesses, and entrepreneurs will need to succeed in current monopolistic environments. For political and economic reasons, it is particularly important to work with countries such as Russia within an international context.

Crosscutting Eight-Point Action Plan Promotes Economic Growth, Transparency and Accountability, Trade and Investment, and the Rule of Law

Finding the right balance among the eight targeted areas listed below, and coupling them with a strong but fair law enforcement program, is a strategic prescription that should be effective in Russia, the FSU, and many other countries. Of course, the prescription may vary from country to country depending on political will and where the country is on the road to reform. This trade and investment, civil-society-oriented strategy and eight-point intervention program envisions global, regional, country, and local initiatives that will require close working relationships among the various donors, host country counterparts, and civil society—particularly the business community.

In general, the eight areas are crosscutting, promote international best practices and good governance, are mutually reinforcing, and are aimed at (a) promoting more governmental accountability and transparent democratic processes; (b) increasing trade and investment and economic growth; (c) building capacity and public confidence in governmental institutions, and (d) developing public respect for rule of law societies. They target the causes, not the symptoms, of corruption and are as follows:

- Establishing broad-based reform-oriented public/private coalitions
- Passing and enforcing “freedom-of-information” laws and support for an independent media and investigative journalism

- Passing and enforcing public ethics codes with emphasis on income and asset disclosure and conflict of interest regulations
- Passing and implementing regulatory reform initiatives, with emphasis on deregulation, such as business de-licensing; financial sector reform, such as banking oversight; enterprise restructuring and entrepreneurship; and issues related to corporate governance
- Passing and enforcing internationally acceptable public procurement laws and regulations that encourage competition, transparency, and accountability
- Passing and implementing internationally acceptable public accounting and auditing standards that allow for public and independent audits
- Supporting business and legal advocacy associations, think tanks, university networks, government “watchdog” groups, and public and business education campaigns
- Supporting key institutions needed to enforce necessary laws and regulations and to monitor and review government decisionmaking, such as independent judiciaries and regulatory and oversight agencies and commissions.

Emerging Global and Regional Alliances— Historic Merging Agendas of Major Private and Public Actors

The agendas of key donors, institutions, and the private sector are becoming clearer each year and are slowly merging, including those of

- international lending institutions, such as the World Bank (Bank) and the International Monetary Fund
- regional banks, such as the Inter-American Development Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development
- regional associations, such as the Organization for American States, the Coalition for Africa, the Council of Europe (COE), the Organization for Security and Cooperation in Europe (OSCE), the Asia-Pacific Economic Cooperation Forum, and the Association of Southeast Asian Nations
- global entities, such as the World Trade Organization (WTO), the World Customs Organization (WCO), the United States Agency for International Development, the European Community (EC), the United Nations Development Program, and the Organization for Economic Development and Cooperation
- numerous international business associations and foundations, such as the International Chamber of Commerce, the Center for International Private Enterprise, the International Federation of Accountants and its Public Sector Committee, the International Organization of Securities Commissions; international associations of judges, parliamentarians, journalists, and the Ford, Carnegie, Soros, Asia, and MacArthur foundations.

Although organizations such as the World Bank have traditionally provided technical assistance to governmental entities working primarily on economic growth issues, many do not realize that the Bank is now beginning to incorporate more crosscutting issues related to good governance, transparency, and public participation into many of its programs. One case in point is the Bank’s creative,

\$50 million—plus legal reform loan that provides support to a broad range of Russian players—not only the minister of finance as is more typical of many Bank programs. Support is directed to both governmental and nongovernmental entities. This multiyear loan promotes, among other things, judicial independence and professionalism and programs designed to change cynical public attitudes. Clearly, more of these kinds of long-term loans, focused on key institutional reforms that touch the Russian public, NGOs, and various power centers, should be expanded and replicated.

The Bank should be applauded and needs to be technically and politically supported in this relatively new endeavor. After many years of academic debate, recent crises and experience are finally leading economists and political scientists to the logical conclusion that economic and democratic reforms should parallel and support each other. Accomplishing this economic and political balancing act, however, requires more interaction and collaboration between the policymakers, the international community, and businesses. At the same time, many in the governmental and business communities, in both the developed and the less-developed world, do not fully realize that over the last ten to twenty years numerous economic and democratic good governance principles, laws, and procedures generally have been accepted as having international applicability and that they are mutually supportive. Examples include the development of international accounting standards, public procurement procedures, financial disclosure and capital markets requirements, ethics and antibribery codes, and numerous good governance, law enforcement, and human rights norms and practices. Often related, overlapping, and sometimes duplicative, these mandates or principles, which are found in treaties, protocols, and accession and membership requirements, are not at all fully understood or ever implemented.

Emerging Consensus on Best Business Practices and Good Governance

Virtually all of the major public actors mentioned above currently are engaged in some type of policy dialogue with Russia and other countries, although they often do not make a serious effort to speak with a united voice on key governance issues of common interest. This is explained partly by the fact that until relatively recently there was no clear consensus within the developmental, business, or political communities as to what principles constituted a “best practice.” That is no longer the situation in a number of areas; however, this reality has not yet been widely acknowledged or fully appreciated. Thus, there is a need to reflect on, compare, and document the new rules of the game—inside and outside of government—so that all countries and companies, regardless of their size and wealth, can move toward the same economic and political playing field.

In sum, the proposed strategy represents a call to all players to forge a more united and coordinated front to undertake the herculean task at hand. Without a collaborative public/private strategy, including the pooling of resources, donor leveraging, and more enlightened, unified political dialogue, the economic and political reforms in countries where corruption is endemic cannot likely be sustained.

Target the Emerging Middle Class and Those Constituencies That Have the Most to Gain

Corrupt governmental practices are deemed to be widespread governance problems that both nourish organized crime networks and negatively affect host country economic growth, trade, and investment and the development of democratic institutions. They also have significant negative impact on the activities of the international business community, the emerging middle class, the professions, entrepreneurs, and the development of a pluralistic, rule of law society.

Anticorruption strategies should emphasize policies and programs that benefit the emerging middle class or the “have-not” constituencies. At the same time, it is obviously important to also work with those in power to open up the system. Without this new “have-not” or emerging middle class constituency, reformers will not be able to root out endemic corruption simply because those benefiting from the current corrupt system will resist serious political and economic reforms. As we have recently learned from the Asian crisis, too much economic power in the hands of a few political and business elites is a prescription for failure—at least in the long term. Thus, Russia and other transition countries should move quickly and decisively to secure much broader access to the expanding economic pie. Ultimately, it is the social safety net and economic underpinning needed to promote and sustain long-term democratic and economic reforms.

Model Multilateral Regional Initiatives Should Be Expanded or Replicated

It is also worth noting that important policy and technical work currently being done through multilateral initiatives, such as OECD’s Financial Action Task Force (FATF)—which has developed the laws and cooperative procedures necessary to address money laundering in OECD countries—and OECD’s Working Group on Bribery—whose work led to the adoption of the 1997 OECD Anti-Bribery Treaty—is now being replicated or expanded through other regional or subregional initiatives and organizations. Witness the broad 1997 OAS Inter-American Anti-Corruption Treaty (which requires the adoption of many good governance and internationally acceptable business practices), current moves to establish subregional financial action task force initiatives (as a more effective and efficient way to implement the forty OECD FATF recommendations), and the development of regional anticrime and anticorruption protocols by the Council of Europe. Implementation of new regional and global agreements and protocols, along with those that have already been agreed to, would go a long way toward moving Russia and other countries down the road of sustainable reform.

Whether the objective is trans-border problem solving or developing more political and economic clout, there is also more demand for regional public and private institutions and alliances. Although many global organizations have limited capacity to implement programs and policies at the regional and country levels, some, such as the WTO, OECD, and WCO, could contribute more if they were to become more engaged in high-priority areas outside their traditional sphere of the developed world. Foundations, trade associations, advocacy groups,

and the academic community, all have a critical and unique role to play in reaching out to transition countries such as Russia and to the developing world.

Holistic Approach: Business Community Issues Are Inextricably Linked

Although the scope of this article is generally limited to governmental corruption, it should be acknowledged that activities of the government and business communities are inextricably linked. After all, government officials are typically corrupted by private interests and vice versa. When the lines between the business community, organized crime, and government officials are blurred, as recently evidenced in Indonesia and to some degree Russia, corruption and white collar crime breed rampantly and public cynicism soars. This is a major problem plaguing many countries. Over time and unless checked, these forces virtually control the state and all of its resources. Rarely, if ever, do these unholy alliances act in the public interest. Their primary motivation is to continue the economic and political monopoly that they currently maintain under the corrupt system.

Any broad anticorruption effort should include an ongoing business education campaign, the development of professional, business, and advocacy associations, and the adoption and implementation of codes of business conduct, such as the one promulgated by the International Chamber of Commerce. Broad coalition-building efforts that help to balance public and private interests and create informal oversight structures must also be part of the larger picture. Recent passage of the OECD Anti-Bribery Treaty and the broader OAS Inter-American Anti-Corruption Convention (which is open to any country) should help to create the impetus for more action.

Holistic Approach: Law Enforcement Community Issues Are Inextricably Linked

When corruption permeates society, it has a multilayered, negative impact on a country's democratization, anticrime, trade and investment, and economic growth objectives. It requires a comprehensive, long-term, holistic analysis and policy response. That analysis begins with a recognition that corruption is often intertwined with and contributes to the growth of organized crime. Organized criminals are among the greatest beneficiaries of corruption, as they take full advantage of countries that lack the laws, regulatory systems, and democratic institutions to support market-based democratic societies. Such a situation allows criminals to become key players in the policymaking and dispute resolution systems and enables them to exploit government assets and officials with little fear of being brought to book. Today, no one doubts the clout of organized crime in Russia or its geographic reach. Neither Russia nor the international community can afford to wait until tomorrow to address this serious, complex phenomenon.

Balancing Investigation, Prevention, and Public Education/Participation

Reformers need to develop policies that take into account corruption's multidimensional character. Although the investigation and prosecution of corrupt officials and business persons is an important strategic pillar that must be balanced

and integrated with the prevention and education pillars, too much emphasis on the investigation pillar without a broader institution-building and civil society program in place may be ineffective or counterproductive—especially in some countries where the judiciary and media are very weak and politically influenced. An unbalanced, prosecution-oriented program also would not address some of the underlying causes of crime and corruption. Indeed, one of the key lessons of the successful Hong Kong anticorruption model is that the law enforcement or investigation pillar must be supported by and balanced by the prevention and public education pillars to change societal behavior and the public's cynical attitude about government institutions and the business community.

Conclusion: Global and Regional Forces Require Global and Regional Responses

A strong argument can be made that the time is ripe to address the corruption problem in Russia and other countries within a global and/or regional strategic framework. Strong global economic, technological, and democratization trends are driving the need for action, including a sea change in public attitudes. Today, the public has much more information about the way in which their governments operate, allowing them to hold their governments more accountable. As a result, for the first time many countries are launching comprehensive programs designed to directly address corruption. These kinds of initiatives, along with the further development of civil society, are necessary if past, present, and future market and democratic reforms are to take root and grow. The current financial crisis in both Russia and Asia, and a better understanding of how those issues relate to organized crime and corruption, including illegal government and business collusion, also graphically illustrate the need for immediate, concerted action.

The cumulative impact of these new global forces—such as more democratic elections, more rule of law societies, more independent media, more international trade, investment, and information—has resulted in a more engaged and vibrant civil society in the FSU and around the world. A new culture, as exemplified in the growth of more enforceable international law and of best business practices, is now taking shape and becoming the standard for transacting business and for world relations in general. International treaties, protocols, and acceptable business practices, as well as democratic processes and minimum standards, are forcing countries and businesses to adopt new ways of governance and transacting business. Examples include the practices and laws that countries must adhere to as members of the WTO, the COE, the EC, the OSCE, the UN, the OAS, or the Global Coalition for Africa.

Promoting the Free flow of Information; Support for Key Institutions and Addressing the Lawlessness Syndrome— Crime, Corruption and Unpredictable Judiciaries

As the information age quickly becomes a reality, and as citizens become more aware of the true cost of economic and political corruption, no official, organization, or business leader will be able to avoid the penetrating global spotlight on cor-

ruption. The issues outlined below directly address many of the causes of corruption—as identified by the previously mentioned French-Russian scholar Beaulieu. Addressing endemic corruption and the pernicious societal, economic, and political maladies it spawns and perpetuates—such as organized crime, policy distortion and poverty—will be seriously addressed only when (a) crime and corruption are fully exposed and heretofore secret information related to corrupt officials and business persons is in the hands of a fair and effective criminal justice system guided by the rule of law; (b) new global, regional, and local anticrime, anticorruption private/public partnerships and strategies are developed and collaboratively implemented; (c) there is more transparency, accountability, and information sharing and cooperation among governments, donors, and the law enforcement and business communities; (d) good governance policies, processes, and key institutions—such as an independent media and judiciary, a transparent and sound financial and regulatory framework—are in place, viable, and respected, and (e) there is an engaged, viable, and informed civil society—including the business community.

Addressing the causes of corruption and recognizing that promoting and sustaining long-term economic growth and trade can best be achieved by simultaneously promoting democratic good governance reforms and addressing the “lawlessness syndrome”—the interrelated problems of crime, corruption, and unpredictable judiciaries—should be the guiding principles undergirding integrated economic and political reform strategies.

Although all agree that rooting out endemic corruption in a country such as Russia will necessarily be a long-term and expensive battle over power and money, the developed world—governments, foundations, academics, and the business community—has an interest in helping to prepare the less-developed world for the revolutionary economic, cultural, technological, and political transition. It is also in the developed world’s self-interest to do so—politically and economically. This type of timely investment will help to sustain current political and economic global trends and reforms, and it will promote peace and regional and international cooperation on many fronts. In short, real political and business community leadership on this new high-priority global issue will lead to a better, fairer, and more efficient way of doing business and governing. Nurturing the fragile, historic marriage that is now taking place between market-based economies and democratic societies based on the rule of law is what is most needed now. This call for public and private sector leadership, on one the most sensitive of issues, will truly test Russia’s and the world’s collective political, economic, and intellectual leadership. Indeed, for countries such as Russia, it could well be their last generational chance to develop the rule of law that others have sought but failed to achieve. Without this transition, Russia’s economic and political problems are not going to be resolved. In the new world order, it is a problem that neither Russia nor the international community can ignore or solve unilaterally.