

COALITION BUILDING
AND MONITORING
IN ANTI-CORRUPTION

STRATEGIES AND IMPACT
IN CENTRAL AND EASTERN
EUROPE

VARNA, 19-20/VI/1999

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**COALITION BUILDING AND MONITORING IN ANTI-CORRUPTION:
STRATEGIES AND IMPACT IN CENTRAL AND EASTERN EUROPE**

Coalition 2000

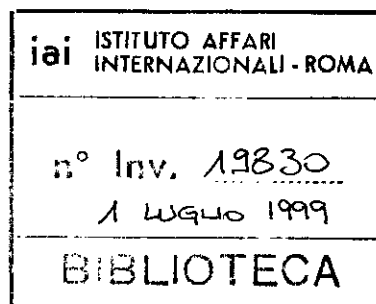
United States Agency for International development (USAID)

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Varna (Bulgaria), 19-20/VI/1999

1. Fascicolo rilegato con programma, lista dei partecipanti, documenti (indice all'interno)
2. "Corruption : a challenge to be faced"/ Auren Pasha
3. "Notes on anti-corruption strategies in Albania"/Albanian Center for Economic Research
4. "A focus group study of bribery and other ways of coping with officialdom in postcommunist Eastern Europe"/ William L. Miller, Åse B. Grødeland, Tatyana Y. Koshechkina
5. "Victims or accomplices? Extortion and bribery in Eastern Europe"/ William L. Miller, Åse B. Grødeland, Tatyana Y. Koshechkina
6. "Confessions: a model of officials' perspectives on accepting gifts from clients in post-communist Europe"/ William L. Miller, Åse B. Grødeland, Tatyana Y. Koshechkina
7. "Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia" (slides)
8. "Anti-corruption Network for Transition Economies : background information"/ Organisation for Economic Co-operation and Development (OECD)
9. Idem (slide)
10. "Transparency International ranks 85 countries in largest ever Corruption Perception Index"/ Transparency International
11. "TI newsletter, June 1999"/ Transparency International
12. "Anti-corruption strategy and guidance"/ USAID Bureau for Europe and new independent states
13. "Balkans Forum for Accountability and Transparency : an activity of the Anti-corruption Network for Transition Economies" (presentazione)
14. "Global integrity: 2000 and beyond : 9th international anti-corruption conference : Durban, 10-15 October 1999" (programma)
15. Presentazione del sito www.nobribes.org
16. "Law No. 21/1999 on preventing and sanctioning money laundering"/ Bulgaria
17. "Clean future, No. 2 (Spring 1999)/ Coalition 2000





COALITION BUILDING AND MONITORING IN ANTI-CORRUPTION

STRATEGIES AND IMPACT IN CENTRAL AND EASTERN EUROPE

International Conference
June 19-20, 1999, Varna Bulgaria



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INTERNAZIONALI - ROMA

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INTRODUCTION

Coalition Building and Monitoring to Counter Corruption: Strategies and Impact in Central and Eastern Europe

International Conference
19-20 June 1999, Varna, Bulgaria

The integration within the global economy have brought the issues of corruption in public administration in the former communist countries to the forefront of the agenda of their national governments and of international organizations. Fighting corruption, as well organized crime, is further complicated in these countries because of the enormous task of rapid transition from closed societies with total state control over the economy to open political democracies and market economies. Internationally, corruption is used by criminal groups to evade law enforcement and to influence policy-makers, thus undermining reform efforts.

Reducing corruption requires not only the relevant institution-building measures but also creating the social preconditions for establishing the rule of law. In this context it is of decisive importance to foster a democratic political and economic culture based on trust and respect of government institutions, transparency and openness of the activities of the administration, and an orientation towards stability and predictability.

The latter could be achieved only in a cooperation among the institutions of the state and civil society. In Bulgaria, the experience of *Coalition 2000* - an initiative of Bulgarian non-governmental organizations aimed at combating corruption through a process of cooperation among governmental institutions, NGOs and individuals - has proven that this kind of dialogue could provide a comprehensive framework for effective strategies.

Bilateral and multilateral donor agencies have supported the development of various anti-corruption programs in the CEE countries. The majority of these have been based on the previous experiences of the donor community in other countries. For several years now, the programs have been implemented in the overall context of political and economic reforms with the participation of both public and private bodies.

The impact of these efforts is now becoming crucial as the CEE countries are consolidating their reforms and speeding up their integration in Euro-Atlantic structures.

The conference brings together non-governmental organizations, including business associations and other interest groups, as well as government officials from Albania, Bulgaria, the Czech Republic, Greece, Hungary, FYROM, Poland, Slovakia, Slovenia, Romania, Turkey, Ukraine and Yugoslavia as well as representatives of bilateral aid agencies and international organizations - United States Agency for International Development, Organization for Economic Cooperation and Development, the World Bank, the European Union, the Council of Europe and the United Nations Development Program.

The purpose of the conference is:

- to review anti-corruption strategies in the transition countries of Central and Eastern Europe, with an emphasis on those involving cooperation between the public and the private sector, as well as monitoring mechanisms;
- to assess the results and impact of the implementation of these programs and summarize lessons learned, and make an inventory of best practices;
- to encourage further cooperation among governmental and non-governmental organizations, especially in Southeastern Europe - within existing bilateral and multilateral instruments against corruption.



Program

Coalition Building and Monitoring to Counter Corruption: Strategies and Impact in Central and Eastern Europe

International Conference
19-20 June 1999, Varna, Bulgaria

Friday, June 18

20:00 Welcoming cocktail

Saturday, June 19

8:00 - 8:30 Registration

8:30 - 9:00 Opening

Dr. Ognian Shentov, President, Center for the Study of Democracy

9:00 - 10:00 **Plenary Session 1: *Coalition Building and the Role of Civil Society***

Public-private cooperation within the Coalition 2000 process

Ekaterina Mihailova, MP, Deputy Chair of the Parliamentary Anti-Corruption Committee

USAID's Global Approach in Assisting Anti-Corruption Efforts
Nadereh Lee, Chief, Office of Democracy and Local Governance, USAID/Bulgaria

Partnerships in anti-corruption efforts in the countries of CEE
Evgenii Dainov, Director, Centre for Social Practices

Information for action: the Anti-Corruption Network for Transition Economies

Bryane Michael, Private Sector Development Unit, OECD

10:00 - 10:30 Coffee break

Parallel Workshop Sessions

	Workshop #1	Workshop #2	Workshop #3
	Anti-Corruption Efforts and Reform Packages	Monitoring Corruption as a Policy Design Tool	Local Anti-Corruption Instruments and Best Practices
	<u>Moderator:</u> Bertram Spector, Management Systems International	<u>Moderator:</u> William Miller, University of Glasgow	<u>Moderator:</u> Zhivka Damianova (Bulgaria)
10:30- 11:00	<i>Interventions</i> Dimitar Bachvarov (Bulgaria), Petr Pajas (Czech Republic), Vladimir Nestertsov (Ukraine), Lubica Macevska (Macedonia)	<i>Interventions</i> Alexander Stoyanov, (Bulgaria), Vessela Tabakova (Bulgaria), Georgy Lengyel (Hungary), Panayotis Glavinis (Greece)	<i>Interventions</i> Lyudmila Kakaulina (Ukraine), Vesselina Shaleva (Bulgaria), Gejza Balogh (Slovakia), Josip Kreger (Croatia), Sevinch Solakova (Bulgaria)
11:00- 12:30	<i>Discussion</i> - Anti-Corruption Action Plans - Public-Private Partnerships - Anti-Corruption Awareness Campaigns	<i>Discussion</i> - Monitoring System of <i>Coalition 2000</i> - Media Monitoring - Political Implications of Corruption Monitoring	<i>Discussion</i> - <i>Coalition 2000</i> "Transparency Matrix" at Local Level - Curbing Corruption in Local Government - Local Level Civic Initiatives
	LUNCH		
13:00- 14:30	<u>Keynote speaker:</u> Mr. Ettore Greco, Deputy Director, Institute for International Affairs, Rome		
15:00- 18:00	Networking Opportunities (separate conference halls provided)		
18:00- 19:00	Information Fair of Anti-corruption Publications and Materials		

19:00 - 20:00

Plenary Session 2: Regional Anti-Corruption Initiatives**Chair:** Boyko Todorov, Director, Information Centre on the Council of Europe in Sofia**Interventions:**

William Loris, Deputy Director, International Development Law Institute (IDLI), Rome

Alexander Seger, Program Advisor, Octopus II Program, Council of Europe

20:00 - 21:30

Informal Reception

Sunday, 20 June

Workshop Sessions (continued)

	Workshop #1	Workshop #2	Workshop #3
	Anti-Corruption Efforts and Reform Packages	Corruption Monitoring in CEE	Local Anti-Corruption Instruments and Best Practices
	<u>Moderator:</u> Maria Yordanova, Law Program Coordinator, CSD	<u>Moderator:</u> Alexander Stoyanov, Director, Vitosha Research	<u>Moderator:</u> Liljana Cekovska (Macedonia)
9:00-9:30	<i>Interventions</i> Auron Pashaj (Albania), Sanja Vucotic (Croatia), Karoly Bard (Hungary)	<i>Interventions</i> Dina Smeltz (US), Jaroslaw Martyniuk (US), William Miller, University of Glasgow, Sara Morante (TI).	<i>Interventions</i> Borislav Tsekov (Bulgaria), Biljana Cakmakova (Macedonia), Ivana Aleksic (Yugoslavia), Dushan Kalember (Bosnia and Herzegovina)
9:30-11:15	<i>Discussion</i> - The role of the Ombudsman Institution – experience of CEE countries - Local Ombudsman	<i>Discussion</i> - Attitudes Towards Corruption of the Elite - Public Opinion on Corruption - Interaction of Citizens and the Administration	<i>Discussion</i> - Coordinating National and Local Anti-Corruption Efforts - Anti-Corruption Legal Aid to the Public - Local Anti-Corruption Centers
11:15-11:45	Coffee break		

11:45-13:00

Plenary Session 3: Conclusions and Next Steps

Chair. Dr. Ognian Shentov, President, CSD

Interventions: Corbin Lyday, USAID/Washington, DC
Bryane Michael, Private Sector Development Unit, OECD

13:00-14:30

Lunch

Keynote speaker: William Meyer, Esq., CEELI Liaison, Prague



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International Conference,
June 19-20, 1999, Varna Bulgaria

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COOPERATION BETWEEN STATE INSTITUTIONS AND CIVIL SOCIETY IN COMBATTING CORRUPTION IN BULGARIA

Ekaterina Mihailova
Deputy Chair of the Parliamentary Committee to Counter Crime and Corruption
National Assembly, Bulgaria

Dear colleagues,

It is a pleasure and honour for me to take part in another initiative organised by *Coalition 2000* in cooperation with its foreign partners. I am glad that our conference, focusing on some practical aspects of the anti-corruption activities, attracted so many outstanding experts. I believe it is particularly important that among the participants there are representatives of non-governmental organisations from Central and Eastern Europe. The discussion of problems that are common to our societies and of concrete solutions and social techniques guarantees that by acting together we would go beyond the academic stage of anti-corruption issues.

As a member of the Steering Committee of *Coalition 2000* I can assure you that the Bulgarian anti-corruption initiative is carried out as a social practice aimed simultaneously at the necessary change in the public attitude to the issue, and at identifying the anti-corruption aspects of the reform that is underway in our country. I witnessed the first steps of the *Coalition 2000* while it established itself as an initiative of individuals and organisations who were not indifferent to this cause.

An important stage in the Coalition's development was the Policy Forum that was held in Sofia last November. It was preceded by consultations between *Coalition 2000* experts and the Parliamentary Committee to Counter Crime and Corruption on which I have the honour to serve as a Deputy Chair. The Forum itself, which was attended by representatives of the founding NGOs, state institutions and public figures, adopted a very ambitious document: an Action Plan Against Corruption. Perhaps some of its recommendations may seem to you too ambitious and pointed at the distant future. We believe that a document of this kind which outlines the general guidelines should be a reference source for the strategy and the practice of anti-corruption activities of both state institutions and the civil society. This is why the document itself, as well as the awareness campaign were entitled "Clear Future". It is our belief that the necessary steps for the restriction and marginalisation of corrupt practices must be made immediately, so that the Bulgarian society - and, I should say, other post-communist societies

as well - may complete successfully their transition to democracy and market economy. However, this will be a relatively long process, and it will require the development of a new type of social culture, as well as profound transformations in the values of Bulgarians. Indeed, it is a matter of the practical implementation of the civilizational choice that moves us away from the communist past and closer to the successful models of democratic society and modern civil ethic.

I should point out here that the idea of a public-private anti-corruption coalition came to fruition mostly owing to the fact that both the civil society and the main government party are, so to say, on the same wavelength, they share the common values of market economy, democracy and the rule of law. Symbolically, the current government which is dedicated to European-oriented reforms is a coalition too: the United Democratic Forces. This is a formula of openness to the ideas and initiatives of both our political partners and the public at a time when our country should make up for the wasted time and take decisive steps towards its European future. At the same time, it carries a powerful integration potential based on shared priorities but respecting the autonomy and value of the different social sectors.

I must emphasize that the present government is far from the etatist models of the past where the citizens were subjects of an omnipotent state. As equality is characteristic of *Coalition 2000*, concrete initiatives are proposed by state-institutions, NGOs, and independent experts alike.

Since the launch of the *Coalition 2000* initiative last year, the government majority did much to overcome the legal and institutional chaos that it inherited in 1997. A comprehensive reform is being implemented in the judiciary that was finally cleared of corrupt magistrates and became more able to meet the high public expectations. The implementation of the administrative reform, based on the principles of transparency and responsibility, also has an important role to play for the reduction of the "grey zones" of irresponsibility and bureaucracy. It is a necessary albeit painful process with acute social consequences. It is time that public institutions and public officials start to act in the interest of the citizens of this country. Thus, things will gradually normalize and taxpayers will be certain that anonymous functionaries would not get rich on their money.

A major achievement of the executive was the breakthrough in organized crime control. By adopting new regulations for the activities until recently monopolised by shadow business – insurance, security services, etc., - the government succeeded in pushing the so called "power structures" out of these businesses, or at least made them give up their illegal practices and compromised employees. This process evoked a markedly positive public response as it delivered a heavy blow on the mass-scale racketeering and the related corruption and favoritism in the administration. People realised that they could rely on public institutions and that racketeers' impunity was a thing of the past.

Of course, I am far from the thought that the problems of corruption and organised crime have been solved. The incomplete privatisation, the lack of established business rules, the early stage of development and establishment of professional codes of conduct are among the factors that make corruption one of the most pressing problems of Bulgarian society. In *Coalition 2000* it is our objective to promote those policies and

solutions that we believe will produce the greatest effect in combatting corrupt practices. Indeed, in this respect I welcome the NGOs' constructive proposals - they are not only partners but also a corrective to the government.

I believe that it is in the field of concretization of the cooperation between NGOs and state institutions that we are yet to achieve even better results. In 1998, *Coalition 2000* was at a stage of formation and laying the foundations of its activities. Since the launch of the awareness campaign this spring, new potential spheres of cooperation between civil society and state institutions have been outlined. Local government is one of these fields. I have been following with great interest the Coalition's initiative of working with local partner organizations aimed at more transparency in local administration. The development of concrete civil control criteria and the clear definition of public officials authority would contribute to the fight against corruption at the municipal level. Essentially, the successful implementation of this initiative would also result in an improvement in the functioning of public institutions which is a high political priority. Thus, we can optimistically expect a further integration of the efforts of the various social sectors to that effect. Indeed, local level cooperation may become a successful model of harmonization of civil society criteria with those of state and municipal institutions, and of the implementation of concrete measures for the achievement of the "Clear Future".

At the next Policy Forum, which is scheduled to take place this autumn, we will have an opportunity to discuss the first results of the activities of *Coalition 2000* in the implementation of the Action Plan Against Corruption. Your opinions and suggestions in the discussion of both the Bulgarian experience in anti-corruption strategy and policies and the experience of other countries facing similar problems will be extremely helpful. Here I should point out the methodological significance of the cooperation of *Coalition 2000* with leading experts from organizations such as the World Bank, the Council of Europe, the European Union, the US Agency for International Development, the United Nations Development Program and the International Development Law Institute, Rome. We are particularly grateful for the support provided by USAID.

In conclusion, I would like to say that we are no dreamers; we are realists. We do not seek to achieve the impossible: to put an end to corruption and to create some unprecedented public order where there will be neither human greed nor crime. However, we – both *Coalition 2000* and the government political coalition – are reformers. This means that we believe in the values that give meaning and perspective to our actions. In this, we feel we are part of a larger community, the community of modern civilized societies and their civil institutions united by the anti-corruption cause. Global challenges, just like the challenge that we call corruption, require coordinated global efforts. It is my hope that the present conference will be an important contribution to their success.

Workshop #1



Clean Future: Anti-Corruption Awareness Campaign for Bulgaria

Emil Tsenkov, Coordinator, *Coalition 2000*

1. Background

The *Clean Future* public awareness campaign was conceived and organized as a typical social marketing initiative. It should be noted that such campaigns are novel to Bulgarian society. The reasons for that are several. On the one hand, the state—burdened by economic difficulties and efforts to adapt its political system to the changing environment—was incapable of generating the resources necessary to finance public campaigns. On the other hand, neither local business—still in a nascent stage—nor Bulgarian non-profit organizations have the ability to organize and finance such activities.

In the last few years, the Bulgarian public has witnessed—mainly through the National Television—orphans charity campaigns and blood donation campaigns. Both cases, however, represent charity campaigns, which must be differentiated from the social marketing approach to anti-corruption initiatives. The only campaign launched to change the public attitudes toward undesirable social phenomena called 'Say No to Fear' (1995-97), was launched by pop singer Doni. The campaign was targeted at society's tolerance of organized crime and racketeering and, to a large extent, evolved as a good-will initiative, which could not receive substantial support neither from political parties and organizations, nor from big donors. This fact combined with a feeling of apathy among the population during that particular time period did not allow the campaign to achieve any significant result, other than the establishment of a problem in the public domain.

2. The corruption level in Bulgaria.

Specific conditions that appeared in the early to mid-1990s created a favorable environment for the proliferation of corrupt practices in Bulgarian society. A combination of factors—reform slowdown, political instability, financial and economic chaos, etc.—led to an erosion of legality and encouraged corrupt administrators and private businessmen. The proliferation of such practices as racketeering, 'mob rule' and clientilism associated mainly with the privatization of the economy created a feeling in Bulgarian society that privatization and theft were practically synonymous. Through the mass media the public received information about the extent of corruption in the country. The obvious convergence of the 'underground' economy with state and political party structures reinforced the sense of resignation and cynicism among a large

number of Bulgarian citizens. It was only at the end of 1996 that, with the erosion of the neo-communist approach to political power, preconditions for attitude change were created.

The main conclusion of the monitoring exercises conducted by *Coalition 2000* in Bulgaria have shown that, as result of such negative social developments, Bulgarian citizens have developed an ambivalent attitude toward corrupt practices. On the one hand, the great majority considers corruption to be a social evil but, on the other hand, the practical circumstances of every-day life transform this general intolerance in such a way that corruption is conceived as a 'necessary evil.' The majority of Bulgarians believe that:

- Corruption is widely spread among public servants
- It is beneficial to both the active and passive side to corruption deals
- It is practically unpunishable.

It follows quite clearly from this overview that an effective counteraction against corruption requires a combination of efforts to change the corruption environment in all social sectors. This has been reflected in the *Anti-corruption Action Plan for Bulgaria* (<http://www.online.bg/coalition2000/>) developed by *Coalition 2000*.

3. Positioning

The success of any social marketing campaign depends, to a large extent, upon the authority and image of those who promote it. This holds particularly true in respect to anti-corruption campaigns. Since corruption is manifested primarily in the public domain, an effective initiative presupposes three basic conditions:

- a. international cooperation and foreign support for the initiative
- b. a strong NGO sector responsible for the campaign organization and promotion
- c. co-opting of representatives of the state institutions and political parties.

Since the *Coalition 2000* process was launched a year ago, some important steps have been made for its successful positioning in the public domain. The effective cooperation among the non-governmental organizations participating in *Coalition 2000* and their international partners and sponsors has guaranteed the continuity of the process. In addition, the yearlong coordinated efforts for the establishment of the Coalition and its anti-corruption activity have facilitated the creation of an effective mechanism for interaction among the founding members of *Coalition 2000*, and their relations with a large network of experts and policy-makers. The successful cooperation between *Coalition 2000* and state institutions has been manifested in the involvement of senior public officials in the Steering Committee of the Coalition and their participation in the first Policy Forum, which took place in November 1998. The Forum, which involved leading state and non-governmental organizations and prominent public figures, endorsed the *Anti-Corruption Action Plan for Bulgaria* and thus granted public legitimacy and transparency to the process.

4. Campaign Strategy

In close cooperation with its international partners, primarily the International Development Law Institute (IDLI) in Rome, *Coalition 2000* developed a comprehensive awareness campaign strategy. This strategy reflects the need for prioritizing the campaign goals and could be represented in the following way:

<i>Stages of Taking and Maintaining Action</i>	<i>Communications Objectives</i>
Awareness	Create awareness and interest; change values
Knowledge, evaluation	Persuade, motivate
Action	Create action
Maintenance	Maintain the process of change

The campaign actions could be divided in two major categories:

- Actions aimed at changing societal attitudes toward corruption. Their goal is to act upon the collective conscience in order to create a sense of intolerance toward corruption.
- Practical pilot actions to act as a 'test-bed' for the effectiveness of civil action and administrative measures for the creation of a climate of transparency and accountability of the public administration.

Sometimes these two components are present in the same pilot initiative, and in this case the distinction between the two is contingent.

5. Target Groups

The *Clean Future* public awareness campaign is targeted at the following major groups: (i) the general public in Bulgaria, (ii) the political and business elite (iii) the international community.

i. The general public in Bulgaria

The support of the general public is essential for the success of any anti-corruption initiative. A change in popular attitudes towards corruption is crucial if systemic change is to occur. This most representative societal category includes both the participants in corrupt deals and the law-abiding citizens who are not susceptible to the temptations or racketeering of those in power. It should also be noted that different factors motivate the participants in corrupt deals, who thus bear a different responsibility for these unlawful deals. On the one hand, the agents of political and bureaucratic corruption could be an active or a passive party in the corrupt transaction. Corruption in this case is manifested in the unlawful reallocation of resources for personal benefit. In other words, this is an act of privatization of public power and state/municipal resources. On the other hand, the participants in corrupt transactions are the clients of potentially, or manifestly corrupt bureaucrats and politicians. It is common for this group that while most of them condemn corruption as a social evil, they rely on it as an instrument for resolving personal problems and realizing personal priority objectives, and therefore

regard corruption rather as a 'necessary evil.' This category also includes a group representing 15% of Bulgarian citizens who do not condemn corruption and, consequently, conceive it as a normal market economy transaction.

After analyzing the dynamics of public opinion towards corruption in Bulgaria, the expert group working on the design of the public awareness campaign decided that special attention should be dedicated to a specific subgroup in the first category consisting of young people in the 18-30 age group. According to social marketing specialists, people belonging to this age group are engaged to a lesser degree in corrupt practices, which would make it psychologically easier for them to differentiate from the participants in such transactions. The emphasis on efforts targeted at young people is also determined by the fact that this generation typically rejects the totalitarian legacy, including the tradition of clientelism and corruption.

ii. Political and business elite

Public administration is the 'domain' where corruption most often occurs. If the political elite and senior civil servants are widely believed to be corrupt, the public will see little reason why they, too, should not misbehave. A firmly established feeling among Bulgarian citizens is the lack of trust in civil servants and the state itself. Certainly, such an attitude is historically predetermined and there are rational explanations behind it. The process of de-communization and the transition to democracy and market economy have substantially transformed, but not eradicated such negativistic attitudes. The public consciousness is presently dominated by two co-existing tendencies. Existential egotism and total mistrust for the state, its institutions and its elite (this tendency is also manifested in a slightly different opposition between capital city and countryside, between center and periphery) combines with an emerging sense of social responsibility for the fate of the community.

The political and business elites could also be divided in two categories: representatives of the older type of *nomenclature* bureaucracy who are used to privatizing public functions and resources, on the one hand, and representatives of a new class of politicians and technocrats who show no fear of publicity, do not erect barriers between themselves and the public and therefore comply with the requirements for transparency and accountability, on the other.

Hence, the emphasis on political and business elites. This 'upper level' targeting will, however, be achieved through different instruments than those currently used in the general public awareness campaign. Examples of such tailored awareness tools include insight and analysis articles in specialized journals and magazines, survey research papers, best practices documentation, anti-corruption readers, a *Coalition 2000* monograph, a *Coalition 2000* Newsletter, the Public Information Desk, electronic mailing lists and online discussion fora, among others. A public service training program will be developed and implemented with the assistance of IDLI. Round table discussions will also be targeting local community elites.

iii. International organizations and community

The *Coalition 2000* project is a local effort, which cannot be credible without the support of the concerned Bulgarian public and private institutions. At the same time, the international dimension of the project is of key significance for the achievement of

its main objectives. Corruption is an international phenomenon, which is being tackled by various international initiatives. International cooperation in this area is even more crucial for Bulgaria in view of its Euro-Atlantic integration efforts.

The international cooperation interface of *Coalition 2000* is envisaged to develop in four complementary directions:

- International promotion of the project objectives and results. By disseminating information about its activities and achieved results to the international community, *Coalition 2000* will contribute to an improved international knowledge and appreciation of Bulgaria's anti-corruption efforts. Bulgaria's image abroad has improved significantly over the past two years as a result of the strong reform commitment shown by the UDF government. This action is therefore considered an important contribution to enhancing the international credibility of Bulgarian market-oriented reforms.
- Coordination and cooperation with international organizations implementing anti-corruption programs in Bulgaria. The objective here is to allow the project to benefit from the expertise and experience of international organizations and multilateral agencies. The Center for the Study of Democracy has already established contacts and carried out preliminary consultations with key international institutions. The participation of internationally-recognized experts in the work of the Policy Forum, as well as in the awareness and monitoring components of the project will ensure that the progress achieved in the country is being regularly reviewed and assessed in cooperation with the international community.
- Enhancing the awareness of the Bulgarian public as to the significance of cooperation with international organizations in the field of anti-corruption. By inviting foreign and international organizations to provide information about their anti-corruption activities to be incorporated in the project awareness instruments, *Coalition 2000* is developing a cost-effective mechanism of promoting these efforts to the Bulgarian public.
- Cooperation with other anti-corruption initiatives and their core non-governmental organizations in Central and Eastern European. This action is also seen as quite natural given the similarities of the challenges facing societies in transition, the comparable level of civil society development and the newly-emerging patterns of public-private partnerships in the former socialist countries.

6. Campaign Objectives

The objectives of the general public awareness campaign can be defined as follows:

- To raise the general public awareness of the causes, implications and costs of corruption as it occurs in Bulgaria, as well as of the legislative, policy and administrative reforms needed to deter corruption;
- To generate a sense of ownership among the general public of anti-corruption efforts and initiatives;
- To promote the values of transparency, accountability and effective democratic government;
- To encourage grassroots pressure for reform.

These objectives are in direct correspondence with the priority goals put forward in the *Anti-Corruption Action Plan for Bulgaria*: "The main objective in this respect is to provide further impetus to the positive changes already in progress in public consciousness, moving from resignation to dissociation and resistance against the practices of organized crime and corruption in its diverse manifestations. Catalyzing broad public opposition against corruption implies awareness of the phenomenon, of its essence and workings, as well as of its consequences for the individual and society as a whole. The formation of public intolerance against corruption should also result in stronger public demands for institutional change guaranteeing transparency and accountability of the administration, as well as for new moral standards in public life." (p.42)

As regards the second target group comprising political and business elites, the campaign objectives are slightly different: (i) to mainstream a concern for corruption within the national institutions, (ii) to increase understanding of the causal factors and the variety of manifestations of corruption among the staff of national institutions, (iii) to influence behavior of corrupt, and potentially corrupt individuals by promoting new norms of acceptable behavior; and (iv) to create a receptive attitude to the many structural, procedural and administrative changes that will have to take place throughout the public institutions.

On the regional/local level the campaign is focused on promoting the objective of local government transparency, which should also mobilize the efforts of local NGOs and mass media.

7. Promotional Cycles

The *Clean Future* public awareness campaign will continue throughout the entire duration of the project (until end of 2001). Since it is neither possible nor desirable that the campaign activities should be equally intensive at all times, *Coalition 2000* has chosen a *cyclical model*. The first cycle is being implemented at the moment (spring-summer 1999). The second promotional cycle will take place immediately after the end of local government elections in the fall (most probably November-December 1999). The timing of the following campaign cycles will be determined at the end of the year.

During periods between promotional cycles *Coalition 2000* will continue to employ the various instruments and media channels in pursuit of the campaign objectives.

8. Motto and Slogan of the Campaign

The multiple dimensions of the campaign itself determine the content of the anti-corruption message. This is manifested in the following way:

i. Regarding the target groups

As already mentioned, the scope of the objectives put forward by *Coalition 2000* as well as the expansion of corrupt practices require that the campaign reach should be as broad as possible. At the same time, the social marketing logic — similarly to other advertising and marketing campaigns — demands a narrower definition of target groups. This specificity has led to a campaign, which is channeled in several complementary dimensions.

ii. Regarding the specific nature of the phenomenon

Considering the nature of the "corruption" phenomenon, in which the actions of both passive and active agents are incriminated, the campaign message should by definition relate to these two types of criminal activity.

The Bulgarian public opinion tends to condone the agent who offers a bribe, thus placing the blame entirely on the one who receives it. (The judicial system itself penalizes the recipient more harshly than the person, who offers a bribe.) This attitude corresponds to a traditional apathy among Bulgarian citizens who, until recently, had regarded themselves as passive object of pressure and victims of bureaucracy. In this sense, public opinion tends to transfer the blame for corruption activities entirely on the bureaucrat whose victims are ordinary citizens.

iii. Regarding the geographical coverage

The awareness campaign develops on two levels: national and regional/local. The parallel campaign model is typical for the first promotional cycle (May-June 1999). The second cycle (November to mid-December 1999) will also have a national and regional/local scope.

The local campaign has its own characteristic features related to the corruption environment in the country. In other words, the local campaign is not merely a replica of the nation-wide campaign on a local/regional level, but it has also additional elements, which more precisely correspond to the priorities of the anti-corruption campaign in a given municipality.

Considering this multi-dimensionality of the message, the phrase "Clean Future" has been chosen as a campaign motto.

Why "Clean Future"? The explanation is self-evident: the word "clean" is referred to as the archetype of all anti-corruption campaigns (the Italian *mani pulite*, i.e. "clean hands"). Why "future"? In a country where public discussions are often centered around the issue of whether we have seen the worst of the crisis or that is yet to come, the future holds brighter exceptions.

The Coalition's motto is expected to have a greater impact on the active part of the population – those who live with the hope for a better future. Such expectations provide a counterpoint to the totalitarian past, as well as to the hardships and disappointments of the present. It is no accident that the concept "future" is often used as a metaphor expressing the hopes of Bulgarian society.

To a large extent, the Coalition's motto predetermines its positive nature – its founding members emphasize above all the need to give a sense of perspective to people in the region, as President Petar Stoyanov put it. In this sense, "Clean Future" also corresponds to the key message associated with the transition process in Bulgaria, namely the idea of a 'civilization choice', Bulgaria's association with a Western model of democracy and its European integration. "Europe" is perceived as a model of a civil society and culture, which are opposed to corruption and backwardness.

9. Media Channels

All existing media channels are used to promote the anti-corruption messages throughout Bulgarian society. The selection is based on a good understanding of the media preferences of the population. According to CSD and BBSS Gallup Interna-

tional media surveys conducted in 1997, the Bulgarian National Television and Bulgarian National Radio attract the largest audience and are perceived as a trustworthy source of information. Newspapers have smaller, more fragmented audiences. The press is perceived as less objective because it is believed that economic interests often determine the political orientation of certain newspapers. Radio — both state and private-owned — continues to attract a high degree of public trust. The most successful tool is expected to be Bulgarian National Television broadcasting, particularly during primetime. Private TV channels are also used, as well as national and local cable television networks.

Within the context of this project, radio is used widely as one of the key instruments for achieving the desired awareness impact. Several factors justify this choice. Radio is traditionally popular in Bulgaria but, especially in recent years, with the impoverishment of the population, its popularity has grown even further. Because radio is free, it is generally preferred over newspapers. Equally important for the purposes of the project is the fact that production costs for a radio program are very low compared to TV. The project envisages involving networks of private radio stations (such as Vitosha-Atlantic, Darik, Express, FRANC, Canal Kom, and others) which will be invited to contribute public service time in kind.

Print media is also used extensively. *Articles in popular newspapers* and specialized magazines explain the causes of corruption, its specific manifestations and economic costs to the public. The national news agency, BTA, is used as a primary vehicle for communicating project-related information to local newspapers and television stations.

10. Promotional tools

Specific instruments of the public awareness campaign are being applied to the different target groups.

i. Regarding the general public

The promotional tools to be used in the implementation of the general public awareness campaign are divided in two groups: *direct* (involving and/or addressing the public directly) and *indirect* (reaching the target audiences through a medium). A summary of the promotional mix is provided in the following table:

<i>Direct</i>	<i>Indirect</i>
1. Information days	- Popular newspaper articles
2. Townhall meetings	- Insight and analysis articles in specialized newspapers and magazines
3. Anti-corruption events	- Press conferences
4. Logo, poster and cartoon competitions	- Educational radio programs
	- Public service announcements and radio clips

Direct Information days and townhall meetings will be used to raise public awareness through direct involvement. Information days will assist the citizens and grassroots organizations across the country

in making an informed decision about their involvement in future anti-corruption efforts at local level. Townhall meetings are intended to translate awareness into a sense of empowerment through participation in a public-private community dialogue, involving local government, public authorities, private business, citizens and prominent local personalities. The purpose of such meetings is to encourage the general public to support and demand actions from local policy-makers.

Stronger public involvement in the anti-corruption campaign will also be encouraged through the organization of 'anti-corruption' events (such as 'anti-corruption' days or music festivals), *national 'anti-corruption' logo, poster and cartoon competitions*, among others.

ii. Regarding the political and business elites

A variety of information and training activities are designed to implement this project component. Anti-corruption issues will regularly be brought to the attention of elite representatives through such vehicles as:

- insight and analysis articles in specialized journals and magazines
- survey research papers
- best practices documentation
- anti-corruption readers
- a *Coalition 2000* anti-corruption monograph
- a *Coalition 2000* Newsletter
- Public Information Desk
- electronic mailing list
- online discussions
- a public service training program will be developed and implemented with the assistance of the International Development Law Institute (IDLI). It envisages a series of training seminars for target groups such as senior public service officials (incl. Customs officials, traffic police officers, taxation authorities); public servants in the Judiciary; and National Audit Office representatives.
- round table discussions (about 30) will be organized at local community level for an audience including mayors of municipalities, local government officials, key opinion leaders, business representatives, local NGOs, intellectuals, academicians, and journalists.
- In order to reinforce the impact of its public awareness activities, the project also envisaged intensive *targeted work with opinion leaders* (e.g. 100 leading Bulgarian journalists).

11. Local anti-corruption initiatives

These initiatives represent the next step in the development of the anti-corruption campaign. They are implemented within the framework of small grants awarded by *Coalition 2000*. The most successful initiatives to date have included:

- Establishment of anti-corruption municipal centers/councils (involving the effort of non-governmental organizations, local government, mass media and independent experts)

- Establishment of anti-corruption hot lines
- Establishment of 'mediation groups', which operate as permanent units assisting the citizens in relation with the local and state authorities
- Establishment of 'corruption-free' zones

These initiatives are currently at a stage of implementation. In the future they could evolve on a nation-wide initiatives. This could lead to the next stage of the campaign - creation of a national anti-corruption network involving local coalitions and watchdog agencies.

12. Measuring the impact of the awareness campaign

Conditions for the implementation of the campaign have been rather unfavorable till now, due primarily to the war in former Yugoslavia, which displaced the public attention toward foreign policy issues. Nevertheless, the campaign will fulfil its purpose in the long run.

The campaign's impact will be measured on the basis of the following objective criteria:

- The major instrument for measuring the impact of the awareness campaign is the *Corruption Indexes* prepared in three-month cycles by Vitosha Research.
- Another instrument is the telephone polls, which will be carried out while the *Coalition 2000* anti-corruption vide is being broadcast on National Television, and immediately after the end of these broadcasts in July this year.
- The media monitoring of regional and local press will make it possible to evaluate the social response to the campaign throughout the country and in particular municipalities.



An Anti-Corruption Action Plan or the Bulgarian Experience in Developing an Anti-Corruption Strategy

Coalition 2000, Bulgaria

A. Conceptualization of strategy

Background

The task to develop an original "public agenda" in the struggle against corruption is unprecedented in the post-communist history of Bulgarian civil society. Its solution presupposed the creation at expert level of *Coalition 2000*, formed as an association of NGOs and individuals. The actual selection of the expert group required the scope of such a plan to be defined in advance. In this respect, the initial commitment of *Coalition 2000* did not provide any pre-defined framework within which the country's anti-corruption strategy could be developed. We are aware of the fact that in some countries this kind of campaign was defined within a narrower framework - for example, in the sphere of business relations. A more comprehensive approach was chosen elsewhere.

In the preliminary discussions, the *Coalition 2000* experts stressed that the different spheres of anti-corruption activity are interlinked. The actual initiative against corruption is essentially a citizens initiative, the coalition principle being its characteristic feature. In the concrete case this means that *Coalition 2000* is not only an association of NGOs and independent experts but that it also throws a bridge between civil society and state institutions. In this sense, a national strategy for the struggle against this social phenomenon could not but involve both nongovernmental and state structures. Moreover, it was clear that it would be impossible to score success in the struggle to restrict and control corruption practices without creating the necessary legal institutional environment. And, as we all know, the latter is a prerogative of the power institutions and of Parliament, above all. These considerations tipped the balance in favor of defining as broadly as possible the perimeter of anti-corruption efforts in the context of the Bulgarian strategy for a "clean future".

Reform of the legal institutional environment

It is no accident that this reform is planned as chapter one of the proposed Action Plan: in the process of reforming and self-reforming of the public sphere, the "rules of the game" are created in relations between civil servants and citizens/private sector. In

addition, the wishes and skills of the authorities to make their departments more transparent and subject to citizens control, largely determine the attitudes and behavior of a society in which *etatisme* invalidated civil self-awareness and ethics until recently.

The experts had to look for the point of intersection between civil interest and the reforming priorities of the ruling majority of the United Democratic Forces (UtDF). The UtDF's declared intentions in "Program 2001" to conduct a broad reform program to bring the country closer to European standards in administration, the administration of justice and other spheres of public life was a favorable condition for attaining agreement between the representatives of the third sector involved in the *Coalition 2000* process and the representatives of state institutions. From the point of view of *Coalition 2000*, the efforts of the Ivan Kostov government to deal with organized crime, which became one of the cabinet's most important priorities during its first two years in office, are also encouraging. As a result of these efforts, 1998 marked the greatest decrease in the crime rate since 1990.

The optimal result of combining government priorities and civil interests in this sphere would be to formulate the kind of goals and tasks which, on the one hand, would rest on the administrative legal reform genuinely implemented by the ruling majority and, on the other, provide prospects for future reforms oriented towards Europe. The document defines the aim of the reform in the sphere of public-cum-private relations as the "creation of a modern legal framework of administrative activity and the administrative servicing of the population".

The request contained in the Action Plan for the creation of an ombudsman as a state-funded institution, called upon to monitor the management of public processes and the activity of public government bodies, is of a contributory nature. As pointed out in the document, it is necessary within the scope of discussions with the participation of experts and politicians to choose the optimal model for Bulgaria. But even just identifying such a task means progress has been made, considering that the state administration still shows a negative attitude to the creation and functioning of such an institution. Besides the practical advantages from its establishment, the future Bulgarian ombudsman would bear witness to the evolution of power and the tendency of the authorities to guarantee legal monitoring and control on the actions of the administration which concern the interests of citizens. In other words, a successful ombudsman exists in those societies in which there is equality between state and civil society and where public administration satisfies the requirements of transparency and accountability.

From the point of view of *Coalition 2000*, a particularly important component of the legal institutional reform are the proposed reforms regarding political parties and the conditions of their activity. The document contains a number of activities for increasing the transparency and accountability of party and political activity. Specifically proposed are the introduction of a system of state funding of parties, a ban on donations in favor of political parties and related organization by juristic persons, as well as by foreign juristic and natural persons, introduction of the practice of mandatory transparency of party funds and election campaigns, etc. In addition, the Action Plan recommends a detailed regulation of relations between parties and the state through the clearer differentiation of the public-cum-state and private party sphere.

It should be noted that the political parties in Bulgaria still fail to realize the importance of a reform in this sphere. This also explains the complete lack of progress towards transparency and accountability of party funds, despite the upcoming local elections this autumn.

Reform of the judicial system

In contrast to the Italian "Clean Hands" campaign in which anti-corruption actions were initiated by independent magistrates who opposed the system of clientele relations, the judiciary in Bulgaria is regarded by society as one of the most corrupt powers. Correspondingly, the reform of the judicial system was launched as an initiative of the political class to rid this system of corrupt magistrates and to create conditions for greater transparency. As announced, this initiative also corresponds to the interests of civil society. In formulating national strategy in this sphere, *Coalition 2000* again based itself on the developments of experienced jurists such as Neli Koutskova, President of the Sofia District Court, Kapka Kostova, President of the Union of Judges, Roumen Georgiev - Vice Chairman of the Special Investigations Service, etc.

The document contains proposals for changes in the sphere of criminal law and action. A reform in the work organization of the judicial system is also planned, along with improved personnel selection and even measures to reveal corruption among employees in the judicial system.

It should be noted that the practical steps taken both last year and this year by legislators were largely in harmony with these proposals. Changes to the procedural laws entered into force already in April 1998, regulating the three-instance legal proceedings, thereby at long last satisfying the requirements of the Bulgarian Constitution. Five appellate courts started functioning in the country - in Sofia, Plovdiv, Bourgas, Varna and Veliko Turnovo. The introduction of appeal enables the parties to present evidence to two instances, the second instance pronouncing itself by a panel of three judges. The Supreme Court of Cassation started administering justice as the last, cassation instance, which does not collect evidence, but judges how correctly the law has been applied by the lower instances.

The Judiciary Act which is essential for the judicial system was also amended in late 1998. These changes are aimed at establishing the supremacy of the court in the trial and the creation of greater openness and transparency of the activity of the judiciary bodies.

A bill on amendments to the Code of Criminal Procedure was adopted at first reading in Parliament. It envisages radical changes, aimed mainly at ridding the criminal action of unnecessary formalism and increasing the speed and efficiency of criminal justice under strict observance of the requirements of the respect of human rights and fundamental freedoms.

Changes to the Code of Civil Procedure, aimed at establishing the competitive principle in civil actions, as well as optimizing the work involved in civil suits are also in the process of being adopted.

A Center for the Training of Magistrates was registered in April 1999. It develops professional training programs for employees in the judicial system, including professional morals and ethics.

Although indirectly, all these changes are also aimed at limiting corruption in the judicial system.

According to *Coalition 2000*, given clear and non-contradictory legal rules which create openness and transparency in the work of the judicial bodies, and provided conditions for the professional training of magistrates and normal conditions for their work are ensured, the prerequisites favoring corruption in the judicial system will inevitably be greatly reduced. All this also means to definitely disperse any doubts (and accusations by the opposition) that the judicial reform is used for yet another purge of magistrates inconvenient to the government.

Limiting corruption in the economic sphere

Given the absence of sufficiently clear and transparent rules and the lack of citizens control, the process of privatization has become a natural field for corruption practices. In this connection, the Action Plan provides for the discussion of ways to rationalize the privatization mechanism, changes in the regulation of the methods and ways of privatization, stepped up privatization through the stock exchange which offers a transparent mechanism for the sale of securities, optimal use of auctions and tenders as a form of privatization, tightening control on the fulfillment of privatization agreements, establishment of a legally regulated "embargo" regime for potential investors, proven to have failed to keep the undertaken commitments in privatization agreements, etc.

The document also provides for effective monitoring of the post-privatization process for transactions which do not require 100 percent payment at the time the privatization agreement is concluded.

Another component of anti-corruption measures in the sphere of business is the liberalization of conditions for the development of private business through the elimination of bureaucratic mechanisms and forms of state regulation.

On the other hand, the Action Plan also provides for restricting corruption within the private sector itself and in financial and economic relations, above all. Here the document refers to the fact that precisely this sector produced the type of corrupt individual most characteristic for Bulgaria - the so-called "credit millionaires" who, together with the pyramidal structures, created a negative image of the entire banking and finance system.

The Action Plan also recommends a review of the current Public Procurement Act (in force since 1997) which contains a number of flaws. The need to bring legislation and practice in this sphere in conformity with European standards is stressed.

Civil society as a subject in anti-corruption

Already, at the stage of designing the Action Plan against Corruption, we were aware of the fact that as long as the changes in the legal institutional environment, the judicial system and business are largely the prerogative of public power, the task to increase citizens control on administrative services and other social spheres subject to corruption, is in the hands of the third sector. Admittedly, despite the progress made in the establishment of NGOs - associations and foundations - during the last ten years of the post-communist transition, the Bulgarian third sector is still not an equal partner to government. The successive parliaments failed to adopt a special law on

nongovernmental organizations which continue to work in an amorphous legal environment. This state of affairs is often used by politicians for pressure and suggestions through which they try to create and maintain their clientele network among NGOs.

The Action Plan recommends the institutionalization of citizens control on corruption in the state administration, political organizations and the judicial system. The establishment of an institute of citizens representation in the state institutions would be an important part of this control. What we have in mind is the optional and free access of NGO representatives to the meetings and documents of state institutions.

In this respect there is still insufficient initiative and systematicness in the efforts of NGOs both in the capital and the country as a whole. Civil institutions continue their inertia with regard to discussing and taking decisions on a number of questions concerning citizens. In this way some of the rules of transparency within the framework of municipal services, in particular, remain merely on paper, without any benefit to civil society. A similar shortcoming also exists at national level where the interaction between public institutions and NGOs and their experts often remains formal and ineffective.

Within the framework of the third sector itself, the chaotic formation processes, especially during the first years of the transition, failed to establish fruitful cooperation between NGOs and work out common positions in defining and protecting civil interests.

Due to all this, the establishment of working interaction between NGOs in the *Coalition 2000* process requires concrete cooperation and a "division of labor" between the variously specialized organizations.

In addition, the Action Plan also envisages the task of restoring traditional professional ethics in different spheres of life as a counterpoint to corruption practices. Here the document focuses on the importance of restoring class and branch organizations on the basis of the ethic codes of the different professions. Such a task comprises part of the formation of civil society in which the standards of behavior are dictated by a newly realized sense of honour, dignity and public awareness.

The success of any public campaign would be unthinkable without the necessary interaction and cooperation with the mass media. On the other hand, the media environment itself is not only a means of forming public opinion, but also the ground and object of corruption pressure. Corrupt journalism is a serious threat to democracy and in recent years such phenomena have become widespread both within the national and local/regional media. This is why the Action Plan provides for a number of initiatives in this sphere: working out basic anti-corruption rules of the journalistic profession, instituting a prize for journalists with a major contribution to the struggle against corruption, organizing courses for young journalists on the problems of corruption and counteracting its manifestations, etc.

Clean Future public awareness campaign

It comprises the Plan's fifth direction of action. The aim of the campaign is to change public ideas of corruption: from tolerance and resignation to opposing and counteracting this phenomenon.

In discussing this part of the document, the experts stressed that its importance is determined by the fact that the success of the other components of the Action Plan depend largely on the professional realization of the public awareness campaign. On the other hand, a characteristic feature of this component is that, in this case, the third sector is itself defining the tasks it has to accomplish in the course of such a campaign.

A characteristic feature of the campaign is that it is of the "social marketing" type, using both traditional promotional tools, as well as the specific methods for popularizing socially important causes.

International cooperation

With the globalization of trade and of economic cycles and with the deepening of the integration process, in particular in Europe, anti-corruption has become a key topic on the agenda of most international organizations and multilateral agencies. A considerable body of knowledge and experience has been accumulated internationally and a number of efforts are underway to make these available to countries with acute corruption problems.

The Action Plan addresses Bulgaria's cooperation with the major international organizations working in this area - the Council of Europe, the OECD, the World Bank, the European Union, the United Nations - as well as with a variety of regional initiatives.

Since the adoption of the Action Plan, Bulgaria has been among the first member states to sign the Criminal Law Convention of the Council of Europe and among the first non-member states of OECD to sign and ratify the Convention against Bribery in International Business Transactions. The entry into force of these documents entails a number of implications for the domestic legislation which by and large coincide with the recommendations made in the respective section of the Action Plan.

Especially notable is Bulgaria's cooperation within the Council of Europe. In order to monitor the observance of the leading principles and application of international instruments, adopted in fulfillment of the Council's action program of 1996, the creation of a "Group of States against Corruption - GRECO" was approved on 5 May 1998 in the form of a partial and widened agreement of the Council of Europe. It will enter into force once 14 countries declare their intention to participate in it. The Republic of Bulgaria is the tenth country which has agreed to take part in GRECO (26 January 1999).

Bulgaria is also actively participating in the second phase of the Octopus Project which is implemented jointly by the Council of Europe and the European Commission. The main goals of the second phase of the Octopus Project which will end at the end of the year 2000 are: assistance in preparing legislative and institutional reforms, education and practical training for increasing the capacity of the member states in counter-acting corruption and organized crime, and improving international cooperation in this sphere.

As regards the European Union, cooperation in this area is an important exercise for accession preparations in the area of the so-called "third pillar". It should be noted that the so-called "acquis communautaire" in the sphere of justice and internal affairs include not only anti-corruption instruments, adopted by the EU, but also the international instruments of the Council of Europe and OECD in this sphere. Thus, Bulgaria's participation in the conventions of the Council of Europe and the OECD which are open

to us, and the approximation of domestic legislation and practice with their standards, as well as with the standards and instruments of the EU, becomes a condition for future full membership in the Union.

B. Public approbation of the Action Plan

As a basic document of *Coalition 2000*, the Action Plan against Corruption involves mainly those NGOs and individual members of the formation which share its anti-corruption priorities. At the same time, it is an open document which appeals to the whole of society and to the state institutions, in particular. In this sense the Action Plan against Corruption is an attempt to formulate the agenda of Bulgarian society in counteracting this social phenomenon. In other words, the fate of the Action Plan - its implementation or non-implementation - is only partly in the hands of the third sector, represented by the founding organizations of the *Coalition 2000* initiative.

Precisely the maintenance of the necessary coordination between the reforming efforts of the authorities, on the one hand, and the anti-corruption activity of *Coalition 2000* on the other, forms the basic content of Component 1 of the initiative. The second socio-political forum will be held this autumn as part of this component. It will be preceded by a working seminar which will discuss the forum's agenda, as well as the documents which *Coalition 2000* will present to it for discussion.

On the other hand, the Action Plan against Corruption has become the methodological basis of the Clean Future public awareness campaign. The inclusion in the campaign of 14 NGOs which are developing short-term anti-corruption projects at municipal level, has turned this important document into a manual for action for the third sector in the provinces. At the same time, the Action Plan was presented to the public in a large number of towns and cities: Vratsa, Pleven, Lukatnik, Shoumen, Razgrad, Bourgas, Smolyan, Plovdiv, etc.

The media, both at national and local/regional level, are an indispensable means for showing the basics of the anti-corruption strategy. At the same time, successful interaction with them requires the development of concrete initiatives, proposals and ideas, conducive to circulation and satisfying the criteria of news items. As regards the local media, a widespread response can only be guaranteed if the media events based on the Action Plan focus on concrete problems and offer solutions on which people's daily life depends.

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In conclusion, it may be said that the Action Plan against Corruption has largely fulfilled its original purpose - to channel the efforts for the conceptualization of the anti-corruption strategy and to offer both political elites and the broad public a long-term strategy and concrete initiatives for limiting corruption in the country. The future activity of politicians, civil society and the media will show whether it will remain merely "on paper" or whether it will become a social reality, either in part or in full.



Plan for an Anti-Corruption Awareness Campaign at Local Level

Kristina Georgieva

In today's dynamic, rapidly changing world, communications between different regions, states, political and economic communities, unions and formations are starting to play a major role. New communication technologies are modifying not only our way of thinking, but our attitude to the solution of problems as well. Public relations as a social technology integrate all channels of interaction between different teams in order to eliminate emerging negative attitudes and problems in young democratic societies. The adoption of new ideas is often defined as a diffuse process of five main stages. During the first stage (awareness) individuals learn of the existing idea, problem or practice. At the second stage (interest) individuals show increased attention to the idea and seek more information about it. They consider its merits and shortcomings. At the third stage (assessment) specific cognitive processes take place in the mind of the audience. The audience receives more information about the idea and decides how to use it. At the fourth stage (test) individuals apply the idea in practice and report its effect. They assess its time and state. At the fifth stage (adoption) members of the audience adopt the idea and continue to use it for satisfying their needs. From stage one to four people are collecting information. It is therefore called "information stage". The fifth stage is called "stage of interests". The audience's interests must not only be taken into account, they must also be completely satisfied. Public relations focus precisely on this. The logical impact is not aimed merely at gaining recognition. It should prompt the wish to suppress contrary attitudes. Logical and psychological reasons cannot be separated from each other. The logical considerations are often supported by practices with an immediate impact on the wishes and feelings of the audience. The main thing in persuading people is to create a favorable attitude to the voiced proposal. Or, conversely, to call forth a clearly negative attitude to the antithesis.

Public relations as a social practice is extensively concerned with the nature of communications. It focuses on techniques and approaches which lead to greater awareness. Communications, and communication techniques in particular, occupy a central place in public relations. They are manifested in the form of diverse initiatives and events. The messages must be correctly interpreted by the recipient in order to create a feeling of mutual comfort and respect between public and institution. The aim of all communication tools is to promote a genuine dialogue with the audience. The information interaction must be uninterrupted and stable in order to achieve specific effects among target groups. Attention needs to be paid to persuading the public, changing its attitude to specific problems and drawing attention to the resolution of a given situation.

One of the main and pressing problems of modern Bulgarian society is the presence of corruption at different levels of the political, economic and public sector, as well as the passive attitude of society to it. By definition, corruption is a peculiar "crisis" in the values of public awareness, as well as a result of the practice of silent resignation in Bulgaria's not too distant past. One of the main conclusions is that most present-day crises do not emerge either suddenly or accidentally. On the contrary, the problems have existed for a long time and have even been known to the authorities which, however, have denied their existence. Most importantly, the wish, inclination and will to resolve conflicting problems in time are lacking here. A large part of present-day crises are a result of negligence by the authorities, ineffective legislation and criminal acts. An adequate attitude and proper knowledge of crises management is required in this respect. The creation of a specific culture, suitable communication field and attitude of the authorities to crises mobilizes people's intellectual and mental potential in counteracting crises situations. The initiative undertaken by *Coalition 2000* with the Clean Future anti-corruption public awareness campaign which aims to make public the mechanisms of counteracting corruption is addressed to this. The underlying thesis here is that one can only successfully fight something one is familiar with.

The PR information campaign program conforms to the need of raising the level of knowledge and commitment to the existing problem. The use of different communication methods helps to attain greater understanding between the organization and the targeted audience. The policy, goals, concrete actions and interaction between the institutions committed to the struggle against corruption are a guarantee for the correct design and accomplishment of the program, as well as for achieving the expected results. This will help to successfully formulate the correct strategy, aimed at creating a definitive public image of *Coalition 2000*, increasing the level of confidence, awareness and commitment of the broad public, as well as popularizing the ideas and initiatives embedded in the Clean Future anti-corruption campaign.

The solution of such a serious social phenomenon as the existence of corruption, as well as the change in public attitudes to this problem require an information program which will achieve cooperation and a communication balance on the part of society.

We propose a Public Relations plan, containing the following components:

- In-depth analysis of the external environment: the existing need in society to raise the level of knowledge about the nature of the problem and the need to institutionalize the problem.
- Global goals: cooperation between NGOs within the framework of *Coalition 2000* and its foreign partners, creating a working mechanism for interaction between *Coalition 2000* and state institutions, and increasing anti-corruption activity among the broad public. Promoting collective awareness for counteracting corruption practices.
- PR goals: creating widespread socio-political legitimacy and visibility of anti-corruption processes:
 - garnering maximum support by more people in society;
 - heightening favorable attitude to the activity of *Coalition 2000* and encouraging society to actively counteract corruption;
 - managing the two-way information flow;

- creating a favorable communication environment.

The effective launching of the Public Relations plan requires the necessary funds to be set aside, in accordance with the exactly defined campaign budget.

PR INFORMATION CAMPAIGN PLAN:

1. Defining the origin of the problem

- Analysis of the environment: the transitional character of the Bulgarian state system favors the existence of bureaucracy in almost all spheres of public life which is a prerequisite for a functioning corruption mechanism and the passive tolerance of society to it. The gaps in current legislation prevent it from enjoying the necessary confidence in sanctions imposed on corruption and favors its emergence and unpunished spread. It is a widespread public opinion that the judicial system is one of the systems most affected by corruption. The present chaos especially in the economic sphere, as well as the lack of clear, transparent and detailed rules and the absence of citizens control enables many civil servants to derive benefits at the expense of public interest. As a result of the negative processes, widespread phenomena such as racket, bribes and mob law are a commonly known and tolerated fact. The inept social changes have served to cultivate a double standard to corruption practices among the population. On the one hand, a large majority considers that corruption is one of the most serious crimes against society and the state; on the other, corruption is perceived as a successful means of resolving personal problems, a practice that is difficult to prove and left almost unpunished.
- Situational analysis (description of the challenges and present state of the organization). The creation of *Coalition 2000* marked the beginning of the positioning of the anti-corruption process in public space. The forum is a basic instrument for establishing an economic and political culture of confidence and respect for state and government institutions. It aims for openness and transparency in public administration and for correctness in private business - a guarantee for Bulgaria's establishment as a democratic European state.

On a regional level, the challenges facing *Coalition 2000*, and the Clean Future public awareness campaign in particular, are grouped in several main groups:

- poorly informed small town populations regarding the ways and mechanisms of counteracting corruption practices (insufficient knowledge of civil rights and their protection);
- existing distrust in the judicial system at local level and fear of negative consequences when seeking legal sanctions for concrete civil rights violations (in small settlements the population is very compact and closely interlinked, creating a prerequisite for taking the law into one's own hands);
- the public in the provinces is skeptical of initiatives coming from the capital, as well as of the chance of curbing corruption worldwide;
- the concept of corruption differs widely in the different towns and municipalities, requiring different communication approaches for the different regions, depending on the specific situation.

At first glance, the subject of the campaign seems boring and unattractive. To successfully stir the awareness of the Bulgarian, the campaign's initiatives have to be conducted in a suitable, intriguing and interesting form in order to spark public attention. The campaign should not be identified with narrow party tasks to prevent the politicization of the idea. Any possible negative reactions by circles affected by the anti-corruption campaign should be anticipated and curbed or be neutralized in time.

Maintaining and improving the effectiveness of the campaign in the changing and nonstandard conditions of the situation in the different regions requires the organization's central management structure to constantly provide information and methodological assistance to regional partners, as well as to the team responsible for developing and implementing the Public Relations plan at local level in the course of the program's accomplishment.

2. Identifying the goals

- A) Changing public ideas of the nature of corruption and the consequences for the individual and society as a result of passivity and tolerance to it.
- B) Increasing society's awareness of the activities of *Coalition 2000* as part of the Clean Future campaign and, respectively, heightening the activity of concrete target groups by focussing on the personal commitment of every single individual.
- C) Encouraging the active opposition of the broad public to the different manifestations of organized crime and corruption.
- D) Heightening people's knowledge and awareness of the organization's character and mission.

3. Identifying the audience

Every group or audience has its own specific features and characteristics which any communication program must take into account.

- General external audience: the aim is to garner the possibly largest support by more members of the public.

A characteristic feature of this audience is that it includes both participants in corruption, as well as law-abiding citizens. An analysis of the state of corruption in the country also revealed the existence of a subgroup of young people aged between 18 and 30, engaged to a lesser extent in corruption practices and more easily differentiated from them. This group is reached in various ways, including through radio, television, papers and magazines.

- External target audience: the professional political elite. Characterized, on the one hand, by representatives of the old type of bureaucrats known to privatize public functions and resources and, on the other, by representatives of modern thinking politicians and technocrats who do not fear publicity and do not erect a wall between themselves and citizens, thus satisfying the criteria of transparency and accountability.
- Internal audience: employees and members of the organization and different experts.

- Additional supporting audience: national and regional media (media support is necessary since the media is the basic instrument for influencing public opinion, whilst also being the audience most difficult to work with).

4. Planning how to reach the audience

Various means and methods are chosen for translating announcements and messages to the audience, in accordance with its specific characteristics. Different print, verbal and visual methods are used:

- choosing research methods to define specific groups as part of manageable groups;
- composing key announcements (selected specific appeals and messages, answering the following questions: What do we want to tell our audience? What do we want them to feel about us? What do we want them to do?. In the concrete case the general message "The Future Rejects Corruption" does not correspond to the needs of small town audiences).

The following methods are used:

Print methods for the dissemination of information: news items, fact lists, reports, books, newspaper and magazines articles, newsletters and organizational advertisement, pamphlets, manuals, electronic media bulletins and facsimiles.

Verbal methods: speeches, news conferences, meetings with the public, gatherings, interviews, different parties, face-to-face discussions.

Visual methods: TV broadcasts, video cassettes, photos, slides, films, streamers, posters, etc.

Media channels need to be carefully and accurately selected to effectively and successfully reach a given audience, especially in the work of local centers.

5. Preparing a strategy development program

All the organization's actions must correspond to the sent messages and conform to the set goals. The strategy describes how the intended goals will be achieved. It is a plan for action, supplying the organization's efforts with the necessary instructions and themes. One or several strategies are developed for each audience. Depending on the goals and tasks, strategies may be extensive or limited. Such strategies can include:

- organizing and establishing long-term relations with national and local mass media;
- mapping out a set of communication methods and techniques to support the main efforts in public relations.

Combinations of different tactical methods are used for each strategy. The communications methods will be detailed once the guidelines of the PR plan are adopted.

6. Identifying the tactics: the main part of the plan which describes in succession the specific activities proposed for achieving each goal.

- Selecting communication tools.

- Choosing media in conformity with the characteristics of the audience and providing it with suitable information (media folders on coming events, intended for interested organizations, newsreels of important events, analysis of materials in the mass media and assessment of their coverage of the organization, interviews, news items, special events).
- Media coverage should provide a satisfactory picture of the problem. One of the main requirements is that the supplied information corresponds to the facts, that it has been verified, that it is clear and accurate. Reports should be written in a readable and easy language, the use of positive terms being recommended.
- Formation of media strategies: deciding which media to use, when and how. The aim is to fully cooperate with the mass media in order to supply the audience with information as soon as necessary. Situational factors determine both the nature of the communication, as well as the choice of channel. People select messages and ideas in communication depending on the social situation. They turn to channels which facilitate communication. A perceptive choice of media is necessary, especially in regional campaigns. The context in which an announcement is published also plays a role. The effect of a message differs in different contexts.

7. Working out a calendar: an accurate time schedule in graphic form is needed to show the start and implementation of the project. The regional campaigns will comprise three stages:

1. First stage: end of September until early November. The necessary information level for launching the second stage must be attained during that period.
2. Second stage: end of November until early February 2000. Increasing the level of confidence in *Coalition 2000* and promoting a sense of personal commitment among audiences in the struggle against corruption.
3. Third stage: end of February until early May 2000 (active stage). Conducting activity that is clearly distinguished by society.

A set of communication methods and techniques are mapped out for every stage, special events and a suitable PR instrumentarium are planned for every region in accordance with its specific features. Close cooperation with local media is a basic requirement (they, too, should be viewed as a specific target group).

8. Establishment of the budget

Consistent calculation of exact expenses for all activities (10% should be set aside for contingencies).

9. Defining assessment procedures

- testing relations in the audience
- conducting quantity analyses, accompanying the events
- conducting content analyses of success in the media
- conducting analyses of the monitoring and reports of the team of experts

- review of letters containing comments addressed to the organization's management
- using feedback from other means and channels
- the study techniques in information campaigns should show how the information is used for successful communication with the audience.

10. Feedback and adaptation of the program

Feedback is of exceptional importance since it improves communication quality and eliminates communication barriers. Encouraging feedback heightens the confidence of participants in the communication process and creates conditions of comfort and cooperation. The information is used to plan future actions. Essentially, it is a retrospection of announcements and attained effects. Feedback enables a constant flow of information on the progress of the campaign, its direct assessment by communication recipients enables the timely neutralization of certain problems that could appear and, respectively, enables the organization to react adequately and in time.



Coalition 2000 Process: Media and Civil Society

Ivan Vlahov, Communications Officer, *Coalition 2000*

Among the most important factors for the success of the *Coalition 2000* process has been the favorable attitude of the public towards its ideas and objectives. It could be considered that such an attitude is the result of specific and well directed public relations efforts.

Two principal communications lines - an external and an internal one - have been established since the very outset of the *Coalition 2000* project.

The external communications line has targeted several groups of publics:

the media and through them the whole of society;

the political and social elite;

the foreign community.

The enormous part of the public relations efforts of *Coalition 2000* has been spent on building stable and trustworthy relations with the media. Bulgaria boasts some 10 national daily newspapers and 4 major weeklies dedicated to social, political and economic issues. Leaders among electronic media are the state-owned Bulgarian National Television (at prime time the program of the BNT's Channel One is watched by 55% of the population of the country) and the Bulgarian National Radio (its early morning show is listened to by 16% of Bulgarians). Of special importance among privately owned media are Nova Television, covering all major cities in the country (at prime time its program is watched by 5% of the population of the country and its viewership is very strong in Sofia where at prime time more than 15% of viewers switch to Nova Television), and Darik Radio, a radio station dedicated to news and public affairs (its morning show is listened to by 3% of Bulgarians but its audience is very strong in Sofia where every morning 6% of radio listeners switch to Darik). Several other radio stations, known for their highly educated although small audience, such as Radio Free Europe, Radio Deutsche Welle and the Bulgarian Section of the BBC, have played a significant role in getting across the anti-corruption messages of *Coalition 2000*.

As a whole, for the period of its implementation so far the *Coalition 2000* project has generated 119 articles in national newspapers and 15 articles in the regional and local press.¹ 25 TV segments about the Coalition activities have been aired and 61

¹ The figure for the *Coalition 2000* generated stories in local and regional newspapers is based only on the publications that have been received by the Coalition secretariat. The actual number of local stories inspired by *Coalition 2000* activities is significantly higher.

radio reports have been broadcast. There have been 9 news agency reports about *Coalition 2000*, including one by REUTERS, and 2 publications in foreign media, including a story in the *Financial Times* of March 8, 1999.

Media Coverage of the Coalition 2000 Activities
(July 1, 1998 - May 31, 1999)

Publications in national newspapers	119
Publications in regional newspapers	21
Publications in international media	2
TV coverage (number of segments aired)	25
Radio coverage (number of reports aired)	61
Information agency reports	9

The beginning of the *Coalition 2000* media exposure was a press conference held at the Center for the Study of Democracy on July 1, 1998 - a week before the draft version of the anti-corruption action plan of the Coalition made its premiere before the public. The objective at that point was to announce the existence of the anti-corruption initiative and to position *Coalition 2000* among other civil society initiatives in Bulgaria.

The main thrust of these initial efforts was directed at national daily newspapers, especially at the two market leaders, *Trud* daily with a circulation of approximately 340,000 copies, and *24 Chassa* daily with a circulation of 230,000 copies, as well as at the BNT and the BNR. An exclusive interview with the Director of the International Development Law Institute, Mr. Michael Hager, provided *Coalition 2000* with an entrance to *Trud* daily. The first breakthrough of the Coalition in the BNT was achieved thanks to the Deputy Chair of the Parliamentary Committee to Counter Crime and Corruption, Ms. Ekaterina Michailova, who attended the Policy Workshop of *Coalition 2000* held on July 8, 1999.

It should be noted, however, that receiving initial exposure in the media market leaders would have been much more difficult for *Coalition 2000* to achieve without the support of prominent journalists. Due to the social significance of the fight against corruption, many of those journalists have agreed to work free of charge as media consultants for the Coalition.

Meanwhile, the appearance of the *Coalition 2000* name in several of the quality national media provoked the interest of the rest of the media community, whose representatives began calling the coalition's office with requests for more information. This led the public relations efforts of *Coalition 2000* to a new stage where the initial objective to make the initiative known to the public was replaced by the objective to start a public debate on the messages contained in the Anti-corruption Action Plan the Coalition. This meant generating publications in weekly newspapers known for their in-depth coverage of social and political affairs as well as participation of *Coalition 2000* experts in radio talk shows. Of special importance was to receive favorable coverage by the business weekly *Kapital* (circulation 40,000), known for its significant influence over Bulgaria's economic and political elite. This goal was achieved following personal talks

with *Kapital* editors at which they were briefed about the scope and the significance of the *Coalition 2000* process. In the meantime, representatives of *Coalition 2000* were invited to the Sunday discussion show ("Nedelya 150") of the Bulgarian National Radio.

However, the *Coalition 2000* brand name was not really established until the first Policy Forum of the Coalition was held at Boyana residence near Sofia on November 11, 1998. The forum, which was attended by more than 150 high-rank government officials, representatives of non-governmental organizations, members of Parliament, media editors and representatives of foreign missions and organizations actively involved in the international fight against corruption, was the event that sky-rocketed the media image of *Coalition 2000* bringing it exposure at the 8 o'clock news of the Bulgarian National Television and the evening news of Nova Television.

This led the *Coalition 2000* public relations efforts to their third stage - reinforcing the *Coalition 2000* brand name in the conscience of the public. Extremely helpful in this respect has been the publication, on a quarterly basis, of the Corruption Indexes of the Coalition. The media have liked this system of indicators about the public's attitudes and perceptions of corruption due to its very specific and topical approach and have given it large coverage, hammering down the name of *Coalition 2000* together with the values of its corruption indexes.

Some problems, which the public relations activities of *Coalition 2000* faced in the initial stages of the coalition development, had stemmed from the fact that all of the *Coalition 2000* founders came from the capital Sofia. In the first place, this made contacts with local and regional media more difficult. Secondly, the very distance between the province and the capital presupposed that the anti-corruption messages of *Coalition 2000* would most probably be distorted. And finally, observations supported the assumption that people believed their local media much more than the national press.

The barrier of distance and mistrust had been overcome only after *Coalition 2000* established partnership with local non-governmental organizations and began sponsoring local anti-corruption efforts and initiatives. This allowed local media to find indigenous cases to illustrate the anti-corruption messages and calls for reforms contained in the Anti-corruption Action Plan of *Coalition 2000*.

The second public at which *Coalition 2000* has directed its public relations efforts has been the Bulgarian political and social elite. The attitude of this elite towards the *Coalition 2000* process and its objectives has been of crucial importance for the success or failure of the project. Furthermore, many of the components of the *Coalition 2000* Anti-corruption Action Plan would have been impossible to implement without the active support of the political elite.

The first principle, which *Coalition 2000* has applied in its relations with the political and social elite, has been to keep it informed about its activities. Leaders, and especially politicians, dislike being asked questions for which they are unprepared. For this reason *Coalition 2000* has created something like an advance notification system to provide the political elite with information about its intended activities. The system has included regular talks and meetings with a selected group of MPs and key members of the current administration as well as notes sent via e-mail.

Coalition 2000 has also developed its own web-page, available in both Bulgarian and English, where information about the Coalition activities is normally posted in advance to its release in print. Taking into account that according to official data only 2% of Bulgarians have Internet access, it can be considered that the *Coalition 2000* web-page is read primarily by the political and social elite, which is among the main users of Internet communication in the country. To cater for the interests of this special public *Coalition 2000* has also created a monthly electronic newsletter, accessible from its web-page.

The second principle in the Coalition interaction with the political and social elite has been to involve its members in the *Coalition 2000* process. Extensive efforts have been made to incorporate the knowledge and experience of prominent state officials and intellectuals in the implementation of the *Coalition 2000* initiative by including them in expert groups designed to provide independent evaluations of various components of the *Coalition 2000* project, such as the Corruption Monitoring System and the anti-corruption public awareness campaign of the Coalition.

The third major public for the public relations efforts of *Coalition 2000* has been the foreign community. This large public can, in turn, be divided into three specific groups: representatives of foreign organizations in Bulgaria, representatives of foreign organizations abroad and foreign media. In general, foreign organizations in Bulgaria, who consider corruption a major obstacle for their work in the country, have been very supportive of the *Coalition 2000* initiative. What those organizations often lack, however, is a proper understanding of political processes in Bulgaria and of the fact the *Coalition 2000* is part of those processes. Therefore, the main public relations task of *Coalition 2000* with respect to this specific public has been to explain to it the scopes and the limits of the *Coalition 2000* influence on the workings of public administration. This has been achieved mainly through personal contacts and meetings between representatives of *Coalition 2000* and of foreign organizations and missions in Bulgaria. *Coalition 2000* has also convened two special briefings for representatives of foreign community in Bulgaria to present the results of its work so far and to receive feedback on the international repercussions of its activities.

Foreign organizations abroad as well as foreign media have been contacted mainly through the media of Internet. Direct mailing techniques have also been used to generate interest in the activities of *Coalition 2000*. Information packages have been sent to five leading western publications covering Bulgaria. The *Coalition 2000* quarterly newsletter published in English under the title Clean Future has also played a role in liaising with foreign organizations and media. Nevertheless, it should be admitted that the task to promote the anti-corruption efforts of *Coalition 2000* outside the country has been best performed through personal contacts with foreign government officials, representatives of non-governmental organizations, academics, and media editors.

The internal line of communications has been instrumental in coordinating the activities of the non-governmental organizations being part of *Coalition 2000*. Internal communications have consisted of regular meetings of the *Coalition 2000* Steering Committee (approximately once a month) and of updates on the *Coalition 2000* activities for which electronic mailing has been heavily used. The latter has both accelerated the communications between the coalition partners and saved time and other resources.

Another important objective of the internal line of communications of *Coalition 2000* has been to smoothen the link to its donors. Updates on the *Coalition 2000* activities have been forwarded on an almost weekly basis to USAID/Bulgaria, the representative offices of the World Bank and the United Nations Development Program in Sofia, and to the International Development Law Institute based in Rome. Several donor meetings have been convened at the Center for the Study of Democracy, acting as a secretariat to *Coalition 2000*, to discuss the progress of the Coalition anti-corruption efforts and to find solutions to current problems.

Looking back at the public relations activities of *Coalition 2000* it can be concluded that they have achieved their major objectives:

- to create awareness among the general public about the presence of *Coalition 2000*;
- to explain the principles and ideas *Coalition 2000* stands for and to make it a brand name for the fight against corruption in Bulgaria;
- to establish support among citizens for this brand name and for the values that it implies.

A significant next step that should be done, however, is to spread the *Coalition 2000* brand awareness to the whole of the country and not only to bigger towns and cities. This will require establishing stable contacts with local partners from the non-governmental sector and building more intimate relations with local media.

The larger the popular basis of *Coalition 2000*, the easier it will become for the coalition to put pressure on the political elite for changes in its perceptions and attitudes to corruption. Stronger citizen support for the coalition would also lead to its recognition by foreign institutions and media that so far have been indifferent to the maturing Bulgarian non-governmental community and its anti-corruption initiatives.



Corruption in the Transition Countries

(a View from Macedonia)

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Who is responsible for the visible, and who — for the invisible corruption? **"Bribery and corruption are an almost incurable disease, linked to the imperfection of human beings."** It is said that these diseases have always and will always exist as long as humans exist. This, however, must not create a sense of defeat or become the *modus vivendi* of everyday life because, as long as humans exist, there will persevere the desire for self-improvement and self-development, for the purpose of creating a better life.

Since, in a country undergoing transition, the destructive effect of bribery and corruption is felt in every area of life, I feel it is necessary to use a comparison with the models developed by other transitional and non-transitional countries that have dealt with the issue thoroughly and have found different solutions for its prevention. So, let us have a closer look at them and see what we can apply in our case.

The course "Corporations and Investment," held at the International Development Law Institute in Rome from June 2 to July 6 1997, was attended by lawyers from all over the world and, among other crucial issues, explored bribery and corruption. **"The responsibility for the visible existence of crime, the fortunes acquired through it, audaciously visible in our everyday life, must lie with the government in power."** The success of this international course is due to the rare opportunity for experts from all over the world to discuss the issue *in vivo*, which definitely helped them to form an idea of the extent of bribery and corruption in the world, its variation from country to country, the amount of damage caused, and, most importantly, locating those responsible for this problem.

The key point is to distinguish between the individual responsibility of people who participate in corrupt practices (those giving and receiving bribes in a corrupt deal) on the one hand, and those holding the legislative and executive power in a country, on the other hand. The criminal legislature in every country has marked bribery and corruption as acts punishable by law.

To the offer and reception of bribes (i.e. "bribery" which is the term used in our criminal legislature), there are two basic solutions. Since most countries hold liable both the persons giving and the receiving the bribe, there are difficulties in determining the culprits of these crimes because, as people say "a raven doesn't peck another raven's eyes."

The second solution is present in countries undergoing transition, especially in places where the situation is out of control or where there is control over the protection of culprits. This is due to the functioning model of the institutions that are authorized to prosecute and punish these criminal acts, and to the existence of forces concentrated in the hands of officials employed in the institutions of the system and enabling them to propose and enact regulations. The bribers are forced to give bribes because they depend on these officials to keep or lose their legal rights, which they have difficulty exercising or which have been removed for no legal reason, and therefore are forced to give a bribe in order to get that which is their right by law. This solution might be one which should be considered by our legislators, that is, by the creators of our criminal legislature. So much for the liability of the individual perpetrator of the crimes under consideration.

The responsibility, however, for the existence of such criminal acts and the material fortunes achieved thereby, audaciously visible in environments like our own, must lie with those holding the executive power. Why? Let us put aside, for a moment, the material damages to individual groups and the state as whole. Let us consider the negative atmosphere caused by bribery and corruption which in the long run threatens to destroy everything valuable, such as material goods, ideas, manufacturing systems, the nurturing and development of true professionalism, which should create a positive financial and human effect for all of us, even for the short-sighted individuals in power, if they take a more long-term point of view.

The coexistence of the legislative and the judicial system in a country, as well as the chances of survival, development and investment, depend on a certain degree of visibility of bribery and corruption. The visibility of the existence of bribery and corruption, evidenced by, on the one hand, the material goods possessed by some officials holding governmental offices, who through their legal wages would have never been able to obtain their wealth, and on the other hand, by the material evidence presented by public media along with the lack of procedure and specified penalties for such crimes, create a sense of discontentment, apathy, and disloyalty among the citizens. This is the most dangerous plague that can infect and overtake a country — the disloyalty of the citizens towards their country is going to be the most destructive contagion in the future.

The mere act of placing and accepting the responsibility for this will be small consolation if we do not act in time. And I think it is of urgent priority that this problem is realized and curtailed.



The Ombudsman Institution



THE INSTITUTION "PEOPLE'S DEFENDER" (OMBUDSMAN)

Justification and a Proposal for a Draft Law

Report of the Working Group at the Center for the Study of Democracy

The democratic European countries pay increasing attention to the out-of-court methods for protection of human rights which add to or go along with the more expensive and cumbersome judicial, administrative and other forms of protection. Among them, with a longer or shorter tradition in the different countries, **the institution of ombudsman** stands out.

The primary function and role of the ombudsman and the other similar institutions is to observe the function of administration in the country and to prevent abuse of power, corruption and arbitrary decisions which infringe on human rights, to assist with the reinstatement of the individuals' rights abused by the state or by the state servants and to contribute to the creation of a climate of respect for human rights and the autonomy of the society. In many countries the ombudsman institution has developed as an element of the mechanism for guaranteeing the free exercise of human rights.

The viewpoint in favour of the introduction of the **people's defender (ombudsman)** institution in Bulgaria primarily takes into account the country's existing needs, the public attitudes and the current political and constitutional realities. Also, it is based on the comparative study and the comprehension of foreign experience. Although the best means of creating such an institution in Bulgaria would have been its explicit provision in the Constitution (which would have ensured the necessary prestige and efficiency), the prevailing opinion is that at this stage a procedure for amending the Constitution will involve unjustifiable time and effort to discuss an unknown and unpopular concept with no prior tradition here. For this reason it is proposed to have the institution based on a special statute. This viewpoint is supported by the following arguments:

- the past experience has been that the ombudsman in the European states was established either on the basis of a special statute or a constitutional provision. It is possible (as in the Polish case) that an institution can first be created by a special statute and then incorporated in the Constitution as well;
- according to the proposed viewpoint, the ombudsman should not have any government powers and so does not affect the principle of separation of powers; therefore, its incorporation in the Constitution is not mandatory, according to the constitutional general principles (Article 1, para 2);
- the general principles of a special statute for the introduction of the ombudsman will be supported by general constitutional principles and concepts such as the rights of the individual and the individual's dignity and security (proclaimed as a supreme constitutional principle in the Preamble); the principle of the **rule-of-law state**

governed by the Constitution and the laws of the country and obliged to protect the individual's life, dignity and rights and to create **favourable conditions for the free development of the individual and the civil society** (Article 4); the principle of the free market economy based on the requirements that law must secure and guarantee to **all physical and juridical persons** equal legal conditions for constructing business activities (Article 19, para 1 and 2).

This approach, if adopted, will require detailed legislative regulation of the objectives, scope of activity, status, competence, functions, procedures and organization of the work of the institution. Special attention must be given to the relationship between the institution and the constitutional institutions exercising the powers of state. The future statute should be in conformity with the Constitution and the other relevant legislation in order to provide for the broadest possible and most effective legitimate scope for the institution's activities.

The present variant of the draft law proposes the inauguration of the institution "ombudsman" called "people's defender" with general responsibilities which will combine the characteristics of the classical Scandinavian ombudsman model with some of the new features of its modern versions existing in the European countries, and with some adjustments according to conditions in Bulgaria. the proposed concept has the following characteristics:

BASIC FUNCTIONS, SUBJECT AND SCOPE OF ACTIVITIES

The establishment of the ombudsman institution is aimed at creating a **new type of guarantee** for the basic rights and freedoms of individuals and their organizations. The institution would add to the traditional mechanisms for protection such as the classical parliamentary mechanisms (primarily the parliamentary commissions), the constitutional justice, the judicial and administrative control, the media and non-governmental organizations. The formation of this new institution reveals the reasons which made it necessary in the first place, placing it among but distinguishing it from the existing mechanisms.

In the modern world the influence and range of activity of the administration at all levels is increasing. More and more central or local governmental authorities with their actions, visible or invisible, affect the private persons — individuals and legal entities — on a daily basis. The existing mechanisms are not always in a position to secure a quick, timely, efficient and easily accessible protection of the parties affected by the actions of the administration. This creates the need for a new mechanism which will not duplicate the functions of the existing mechanisms but, rather, will operate parallel to them, add to their work, initiate directly or indirectly their interference, and under some circumstances, be their alternative.

The most essential function of the people's defender (ombudsman) institution will be to **guarantee more efficiently the rights and freedoms of private persons**. If the former are abused by the public authorities, the ombudsman shall be entitled to **propose measures for terminating the acts of abuse, compensating the incurred damages and creating conditions for their smooth and efficient exercise in the future**. The functions of the ombudsman will be carried out by observing the regulation of public processes and monitoring the work of the public authorities.

The basic functions of the institution predetermine the subject and the scope of its activities. In general terms, the scope of its activities is concentrated in the point of intersection between the State and the civil society. Thus, the subject matter of its authority will cover all cases in which the border between private and public, inherent to the rule-of-law-state, was breached, or in other words, all cases in which the public authorities, or private persons vested in public functions, abuse the private rights and freedoms proclaimed by national and international law or do not provide conditions for their free exercise.

Its functions, therefore, are geared toward monitoring and specific control within a comparatively broad scope which includes the regulation of society in general: 1) the operation of the executive power and the administration in its narrow meaning, 2) the organization and regulation of the judicial system's administration and 3) any other exercise of public activity.

For self-explanatory reasons, the subject and scope of the activities of the people's defender (ombudsman) shall not include certain institutions and relationships between the private and public sectors, as follows:

- firstly, the supreme state bodies: the National Assembly, the President, the Constitutional Court and the judiciary. Sufficient grounds for excluding the first two institutions is their immediate democratic legitimacy. The Constitutional Court may be excluded by reason of its status as an independent supreme constitutional body, functionally and organizationally separate from the other branches of government. It is designed to safeguard the constitutional consensus, protect the Constitution, and balance the power of the public authorities "at the top" of the governmental pyramid. The constitutional principle of independence of the judicial system requires that its constituent bodies perform their constitutional functions separately.
- secondly, the activities related to the exercising of judicial power by the courts, the prosecution office, the investigation office, or to national security and the country's foreign policy.

STATUS

The Person of the Ombudsman

Notwithstanding the name of the institution — ombudsman, parliamentary commissioner, human rights commissioner, public advocate, intermediary, etc. — the effectiveness of the institution will always depend on the person of the Ombudsman. As foreign experience shows, the number of individuals who carry out this function may vary, and it may be possible to establish a division of labour among them based on various criteria, for example general and specific authority, national or local scope of activity, etc.

In Bulgaria, during the initial stage of the establishment of the institution, it would be appropriate to have one individual who meets certain requirements outlined by law: Bulgarian citizenship, political neutrality, high professional achievements, between a certain minimum and maximum age, knowledge in the areas of domestic, international and European law, holding a university degree, and not occupying any other public position or function during the term of office. It is desirable that the individual is sup-

ported by broad social circles and has certain qualities which will enable him to gain and extend the public confidence, such as high civil ethics and commitment to the ideas of humanity, democracy and justice.

The Parliamentary Ombudsman Institution

The successful performance of the tasks vested in the institution and the prestige it obviously needs require that its powers follow directly from the supreme representative body. This is the most common practice in those countries where the institution is already in place. It is logical that in Bulgaria, a parliamentary republic, the appointment should be made directly by the parliament in accordance with its authority to elect the heads of the institutions created by statute (Article 84, para 8 of the Constitution of the Republic of Bulgaria).

Because of its parliamentary origin, the people's defender will report to the National Assembly once a year which would secure a high level of publicity and transparency for its activities and the results thereof. This effect will have a positive influence on those public institutions which do not fully respect the rights and freedoms of private persons.

To ensure that the selection of candidates is done in a responsible manner, and that there is a sufficient pool of qualified candidates, it should be allowed for proposals for people's defender to be made by **the President, the Supreme Judicial Council and the Chairperson of the Constitutional Court, as well as by predetermined number of individuals.**

It is suggested that the Council of Ministers (specifically, the prime minister) should not be included in the list of the constitutional bodies who are entitled to make a proposal for ombudsman because in the conditions of a parliamentary governance the Council of Ministers is anyway supported by the parliamentary majority which, on its part, will always have the decisive vote when the candidates are selected and the eventual choice is made.

The suggested mechanism for proposing candidates for people's defender will soften the politicization of the parliamentary debate and the election process, and will prevent the transformation of the parliamentary ombudsman institution into a governmental one. At the same time, it aims at creating conditions for proposing competitive candidates, for selectivity and alternativity of the choice and for the recruitment of the best candidate.

Appointment and Term of Office

The people's defender must be elected directly by the National Assembly with a simple majority vote, as the present Constitution does not provide for any other alternative. If the institution gains the public confidence and performs as hoped, amendments to the Constitution can be considered, including the introduction of a qualified majority for election and dismissal of the ombudsman. This would mean a larger consensus between the political forces represented in parliament, and therefore a larger guarantee for the independence of the ombudsman, for the confidence in it, and for the effective performance of its functions.

The people's defender should be appointed for a specific term which must not coincide with the term of office of the body which elects him. The number of possible terms is limited to two.

In order to ensure the democratic character of the institution and to guarantee the diligent performance of the full scope of its duties, the dismissal of the people's defender should be possible following the same procedure as for his election.

The other grounds for termination of the authorities of the ombudsman, besides his dismissal, are to be similar to the ones applicable to the termination of an MP's term of office as listed in Article 72, para 1 of the Constitution — namely resignation, effective imprisonment sentence for a wilful crime of common character or any imprisonment sentence which has not been suspended, violation of any of the requirements for occupying the position, or death.

Independence and Immunity

While performing its main functions, the people's defender should adhere strictly to the Constitution and the laws, international contracts and agreements and should be guided by his own conscience and morality. For this reason it is necessary to legislatively guarantee his autonomy and full independence from any and all bodies in the performance of his assigned functions.

One of the conditions for securing the independence of the institution is to grant its representative immunity equal to the immunity of MP's.

Budget and Organization of the Activity of the Administrative Office of the People's Defender

The budget of the institution should be determined by the National Assembly in two ways — either as a part of the budget of the National Assembly itself, or as a separate part of the state budget. In all cases the executive power bodies — the Council of Ministers and the Ministry of Finance — shall not be entitled to take part in the preparation, execution or accounting of the ombudsman's budget. It could perhaps be similar to the independent budget of the judicial power (for more details please refer to Decision No 18 of 16.12.1993 on the constitutional case No 19/93 of the Constitutional Court of Republic of Bulgaria, State Gazette 1/94). The solution should allow the ombudsman to perform his main functions without being "forced to his knees" or placed in the condition of dependence from any other factors. Any apprehension concerning misuse of funds is irrelevant here, since the ombudsman's activity is public at any time and its annual report to the Parliament will include a section on the expenses incurred.

In his activity, the people's defender will be supported by secretaries and an administrative office. The people's defender will adopt internal rules for the functioning of his office, appoint and dismiss his employees and define their duties and remuneration. His remuneration could be equal to the remuneration of a Constitutional Court Judge.

POWER, BASIC PRINCIPLES AND PROCEDURES FOR CARRYING OUT THE ACTIVITY OF THE PEOPLE'S DEFENDER

The people's defender should have certain authorities in order to perform successfully his main functions and the tasks that were assigned to him. These authorities are to a great extent predetermined by the fact that the ombudsman will be placed outside the system of state bodies, by its role of an intermediary between the state and society as a **guardian and guarantor of private rights and freedoms**.

Types of Responsibilities and Authority

In general, the responsibilities and authority of the people's defender are:

- to review petitions in any form from private persons — individuals and legal entities, whether local and/or foreign, as well as from individuals with no citizenship;
- to conduct investigations and examinations when a particular case has been referred to him;
- to make proposals and recommendations to **all** observed institutions with public powers or functions regarding their respect for human rights and freedoms, and to recommend possible remedies for the infringement of certain rights and freedoms and the reasons for that infringement, notwithstanding whether the ombudsman acts at somebody's request or his own initiative;
- to extend recommendations and give advice to petitioners;
- to act as an intermediary between private persons and public entities in order to overcome the existing infringements on private rights and freedoms;
- to request and receive timely, complete and precise information from all observed institutions;
- to have direct access to the observed institutions, including their meetings, discussions and other forums;
- to give and announce publicly his opinions on cases he has been approached with or on issues on which he makes summaries and conclusions at his own discretion;
- to approach the prosecution bodies when, as a result of his observations and investigations, the ombudsman has obtained information on a committed crime;
- to prepare and present an annual report to the National Assembly;
- to prepare special reports, if necessary and to inform the Parliament incidentally about particularly serious cases of disrespect and abuse of rights.

It is important to keep in mind that the right of the people's defender to receive information and have access to relevant documents and institutions is related to the check-ups it carries out, and naturally this right corresponds to the observed institutions' obligation to provide the requested information and the required access. Nobody shall, under the excuse of state, official or trade secret, obstruct the work of the people's defender. At the same time the latter shall keep confidential and shall not disclose any secret information which has become known to him in the course of, or in connection with, the exercise of his powers.

In connection with the outlined limitation of the scope of activity of the people's defender, it should once again be noted that the ombudsman is not entitled to make any proposals or give recommendations and opinions in substance related to the actions of the judicial power bodies, nor is it entitled to interfere in any way in their function to administer justice. The people's defender does not have a right to legislative initiative, nor to approach the Constitutional Court.

Basic Principles in the Activity of the People's Defender

In his activity the people's defender shall be governed by principles predetermined by the perceived view of its legal status, its place outside the system of the state bodies and the scope of their authority. When the principles are defined it should be explicitly emphasized that the people's defender is primarily a **spokesman and defender of the attitudes and dispositions regarding the exercise of public powers and func-**

tions. Therefore, the authorities of the people's defender do not compete with the authorities of the constitutional bodies. The people's defender has none of their means for influence and enforcement. He does not grant legal protection, nor does he control the legality or discretionary powers of the administration. His mechanisms of influence are within the sphere of morality, prestige and publicity. The following basic principles of the functions of the people's defender are formulated:

- judgement as to whether all observed institutions carry out their activity in compliance with the requirements for fair and efficient government;
- judgement as to what measures are to be taken, according to the requirements of the rule-of-law state and to his own conscience and understanding of justice;
- political and institutional independence in the exercise of his authority.

Petitions and Signals. Procedure

The people's defender shall exercise his authority following extremely **simplified and informal procedures**. Therefore, no special forms with any obligatory requisites are envisaged for the petitions and signals given to the people's defender. The only requirement is that they include information on the petitioner, the offence and the offender.

Along with the free-style written form of the petition or signal, verbal ones are also acceptable on the condition that they are filed in a manner which unquestionably identifies the petitioner. This approach will make the institution of the people's defender easily accessible and open to anyone whose rights have been infringed, irrespective of any other procedures and means of protection which can be taken in parallel. This accessibility is further enhanced by the fact that the filing of the petition or signal and the entire procedure for its review will be free of charge for the petitioner.

In order to prevent the overloading of the institution with petitions whose settlement is beyond his powers (which can be expected, considering the slow and expensive procedures for defence in the country, the presence of a considerable number of unresolved court disputes, the complicated legal cases, etc.), the law should explicitly state that the people's defender cannot initiate proceedings on behalf of the persons who have approached him, cannot represent them before the court or another institution (i.e., does not represent them in the narrow legal meaning), cannot approach the Constitutional court (but can approach the organs which can approach the Constitutional court) and does not have legislative initiative. In addition, the introduction of a "statute of limitations" should be considered; e.g., the people's defender shall engage only with such cases having occurred one or at most two years before the date of submitting the petition or signal, and, for the rest, the people's defender shall be entitled to decide whether to accept them.

After a petition or a signal has been submitted following any of the above procedures, the people's defender shall respond within a fixed term to the petitioner whether the petition or signal is accepted or not without having to give the reasons for his answer. Irrespective of its content and form, an answer should always be given! There is no restriction on a second or further approach if the petition has not been accepted. The people's defender shall be entitled to decide on the acceptability of the petition not only at the date of its submission but also at a larger stage, at any time in the course of the investigation.

When a petition or a signal has been accepted, the people's defender shall, within his powers, and with the help of his secretaries and administrative office, take the necessary actions for gathering information, including examination of documents, direct observation of the activity of the respective institutions, inquiries, etc. If he ascertains the presence of any action or inaction which has led to the infringement of the rights and freedoms of the petitioner or to the prevention of their exercise, he can relay his recommendations and proposals to the relevant institutions. He may also follow this course if, instead of acting on a specific petition, he has acted on his own initiative and come to a generalized conclusion concerning rights and freedoms.

The institutions to which the recommendations and proposals are extended should be obliged to answer within a fixed term whether they accept them or not and to inform the ombudsman of the measures which they have taken or intend to take and their prospective timing.

Report before the National Assembly

The report is submitted to the Parliament until March 31 of the following year. It should contain at least the following parts:

- information about the solved cases;
- information about the cases in which the ombudsman's intervention was unsuccessful and the reasons for that;
- general information about the submitted petitions pending investigation;
- information about extended proposals and recommendations which have or have not been taken into consideration;
- expense report.

A summary of the report should be published in the State Gazette and the full text should be available at the office of the people's defender to anyone interested. The report has an extremely important role for the publicity of the activity of the people's defender. It is equally important in exposing the activity of those institutions which do not respect, or infringe on incidentally or systematically, the rights of private persons, and whether or not they take into account the ombudsman's recommendations and inform him of the undertaken measures. The information about the successfully resolved cases can serve also as a model for settlement of similar cases.

It would be useful for the office of the people's defender to issue, within its authority and budget, a bulletin periodically announcing information about its activity as well as about the activities of similar institutions in other countries.

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In conclusion, the present draft law developed by experts of the Center for the Study of Democracy is based on the expectation that the institution "people's defender" would not be limited to the settlement of individual cases. The successful development of this institution can make it an important factor in the evolution of general principles and rules governing the administration's functioning and state servants' attitudes. The efficient, high-quality work of the office of the people's defender would raise its reputation, gaining the public trust and respect.



LAW ON THE PEOPLE'S DEFENDER *

Chapter One

General Provisions

S. 1. This law shall govern the organisation, the powers and the activities of the People's Defender.

S. 2. The People's Defender shall guarantee respect for the rights and freedoms of citizens and legal persons by proposing measures to discontinue the interference with rights, to compensate for the damage suffered, and to create conditions for a unimpeded and effective exercising of the rights and freedoms.

Chapter Two

Election, Qualifications and Term of Office

S. 3. Shall be elected People's Defender a Bulgarian national who has reached the age of 40, but is not older than 70 years, possessing a university degree and knowledge in the field of national and international law and revealing high integrity and devotion to the ideas of humanism and democracy.

S. 4. (1) The People's Defender shall be elected by the National Assembly for a term of five years. The People's Defender shall carry out his duties until a newly-elected People's Defender takes office.

(2) No one may be elected People's Defender more than twice.

S. 5. (1) During his term of office, the People's Defender may not occupy a civil service, nor may he receive remuneration for work, except for teaching and for scientific publications, or fulfil any other public function.

(2) The People's Defender may not be member of a political party or trade union.

(3) After the expiration of his term of office the People's Defender shall have the right to resume his former work, unless legal obstacles exist to that effect.

* The term "People's Defender" is a literal translation of the Bulgarian term which was deliberately chosen to designate the notion of "Ombudsman" in Bulgaria.

S. 6. (1) Proposals for the election of a People's Defender may be made: the President of the Republic, the President of the Constitutional Court, the High Judicial Council, as well as twenty thousand Bulgarian nationals who have come of age.

(2) The proposal must be presented to the National Assembly at least six months before the expiry of the term of office of the active People's Defender. Where the term of office of the People's Defender ends earlier, the proposal must be presented to the National Assembly within six months after the term of office has ended.

S. 7. The National Assembly shall elect the People's Defender by a simple majority.

(version: The National Assembly shall elect the People's Defender by a majority of two-thirds of the Members of Parliament present and voting).

S. 8. The election shall take place three months before the expiry of the term of office of the active People's Defender at the latest, simultaneously for all nominations and with a single secret voting.

S. 9. (1) If none of the candidates proposed is elected, one month before the expiry of the term of office of the active People's Defender at the latest a second voting shall take place under the conditions set out in the foregoing section.

(2) If none of the candidates receives the required majority, shall be deemed elected the candidate who has received the greatest number of votes at the second voting.

S. 10. Upon taking office the People's Defender shall take the following oath: I swear that I would abide by the Constitution, the laws, the international treaties and agreements to which the Republic of Bulgaria is a party, and I would serve the people by make every effort to contribute to the recognition of citizens' rights and freedoms.

S. 11. The People's Defender shall be removed from office in case of:

1. resignation;
2. expiration of the term for which he was elected;
3. death or loss of legal capacity;
4. removal for failure to carry out his duties;
5. sentencing-by virtue of an effective verdict for an intentional crime prosecuted on indictment.

S. 12. (1) The People's Defender may be removed for failure to carry out his duties on a proposal from any of the bodies or persons entitled to propose a nominee.

(2) A decision on the removal shall be made by a simple majority, with a single secret voting, after the People's Defender has been heard. The time for hearing may not be limited.

Chapter Three

Fundamental Principles of the Activities of People's Defender. Independence and Immunity

S. 13. In the carrying out of his functions the People's Defender shall only obey the Constitution, the laws, the international treaties and agreements to which the Republic of Bulgaria is a party, and shall be governed by his own conscience and moral.

S. 14. In his activities the People's Defender shall be guided by the following principles:

1. assessment, on the basis of his inner conviction, as to whether the institutions exercising public authority or functions work in compliance with the requirements for just and efficient governance;
2. determination of the measures to be undertaken in accordance with the principles of the rule of law and justice;
3. independence of any political party, and institutional independence.

S. 15. The People's Defender shall enjoy the same immunity as a Member of Parliament.

S. 16. The People's Defender shall receive the remuneration of a Member of the Constitutional Court.

Chapter Four

Powers of People's Defender

S. 17. The People's Defender shall:

1. examine complaints and signals against institutions exercising public authority or function which interfere with the rights and freedoms of individuals or which fail to create the necessary conditions for the respect for these rights and freedoms;
2. make inquiries and checks in relation to complaints and signals received;
3. make proposals and recommendations to institutions exercising public authority or function in view of respecting the rights and freedoms, overcoming the consequences of interference with certain rights and freedoms, as well as eliminating the reasons therefor;
4. make recommendations and give advice to the senders of complaints and signals;
5. seize the authorities listed in s. 150, subs. 1 of the Constitution where he is of the opinion that it is necessary to interpret the Constitution or to declare a law anti-constitutional;
6. give opinions on cases pending before the Constitutional Court;

7. mediate between the institutions exercising public authority or function and the persons concerned in view of overcoming the violations committed, and reconcile their positions;

8. have the right to request and receive timely, comprehensive and accurate information from the institutions exercising public authority or functions;

9. have the right to access to the institutions exercising public authority or functions, including presence to discussions and decision-making;

10. have the right to publicly express opinions on the interference with rights and freedoms of individuals and the respect therefor;

11. notify the public prosecution office of the results of his inquiries and checks where data exist that a crime has been committed;

12. draft an annual report and present it to the National Assembly;

13. inform the National Assembly of particularly grave cases of interference with and disrespect of rights and freedoms;

14. publish a bulletin.

S. 18. The People's Defender may act on his own initiative where he finds that the necessary conditions are not created to respect the rights and freedoms of citizens and legal persons.

S. 19. (1) The powers of the People's Defender shall not extend to:

1. the National Assembly, the President, the Constitutional Court and the High Judicial Council;

2. the exercising of judicial power by the courts, the public prosecution offices and the investigation services;

3. the relations pertaining to the field of national security and foreign policy.

(2) The People's Defender may not bring actions on behalf of the persons who have addressed him, nor may he represent these persons before a court or any other institution exercising public authority or power.

S. 20. The institutions exercising public authority or function may not refuse to provide information or deny access to the People's Defender on the ground that a State, official or commercial secret is affected.

S. 21. The People's Defender must refrain from disclosing any circumstances constituting State, official or commercial secret, as well as any personal secrets of which he has become aware in relation to the exercising of his powers.

Chapter Five

Procedure and Organisation of People's Defender

S. 22. The People's Defender shall lay down the procedure and the organisation of his activities.

S. 23. (1) In the exercising of his powers the People's Defender shall be assisted by secretaries and by an administrative office.

(2) The administrative office of the People's Defender shall be an independent legal person funded through the budget and having its seat in Sofia.

(3) The administrative office shall be managed by an administrative secretary.

Chapter Six

Lodging of Complaints and Signals

S. 24. All Bulgarian and foreign nationals, and stateless persons, all legal persons, irrespective of their nationality, as well as non-formal organisations, may address the People's Defender by means of complaints and signals.

S. 25. The complaint or the signal, accordingly, must contain particulars about the sender, the way in which a contact could be established with him, the violation and the offender.

S. 26. For complaints made orally a protocol shall be drawn up.

S. 27. The identity of the sender, at the request of the latter, shall be kept in secret.

S. 28. No fees shall be charged for complaints and signals lodged with the People's Defender.

S. 29. A complaint or signal may be lodged with the People's Defender irrespective of the fact that other remedies also exist to solve the issue raised.

Chapter Seven

Consideration of Complaints and Signals. Procedures

S. 30. Upon receipt of a complaint or signal, the People's Defender must reply within one month whether he would admit the issue to consideration, without any duty to state reasons for his reply. The admissibility of a complaint or signal may be reconsidered by the People's Defender even after it has been accepted for consideration.

S. 31. Violations committed before more than two years shall not be admitted to consideration.

S. 32. There shall be no obstacle to the same complaint or signal being lodged again.

S. 33. The institutions exercising public authority or function to which the People's Defender has made recommendations or proposals must state, within one month, whether they accept these or not, notify the People's Defender of the measures they have taken and of the time limits within which they intend to take any such measures.

S. 34. The People's Defender may also require an administrative body to pronounce explicitly in the cases where the time limit to appeal against a silent refusal has expired.

S. 35. The People's Defender shall inform the senders of complaints and signals about the results of the measures taken.

Chapter Eight

Annual Report

S. 36. The annual report of the People's Defender shall contain:

1. information about the cases solved;
2. information about the cases where his intervention has had no consequences and the reasons for that;
3. general information about those complaints and signals lodged, the checks in relation to which have not been terminated;
4. information as to the proposals and recommendations made and whether these have been taken into consideration;
5. an opinion on the degree of respect for the rights and freedoms of the individuals;
6. a statement of expenditure;
7. an executive summary.

S. 37. (1) The report shall be presented to the National Assembly for discussion until 31 March of the next year.

(2) The full text of the report shall remain at the administrative office of the People's Defender at the disposal of any interested parties.

S. 38. A summary of the annual report shall be published in the State Gazette together with the decision of the National Assembly on the report.

S. 39. The unabridged text of the annual report shall be published in the bulletin of the People's Defender.

Chapter Nine

Financial Conditions

S. 40. The expenses relating to the activities of the People's Defender shall form the subject of a separate section of the State budget.

Workshop #2



Corruption Monitoring System of *Coalition 2000*

Corruption Monitoring System (CMS) of *Coalition 2000* includes a system of empirical studies and analytical reports. The main objective of CMS is to periodically present information, which would enable conclusions about the scope of corruption in the country, as well about the related public attitudes, assessments and expectations.

I. Coalition 2000 Initiative and Corruption Monitoring System

The main objective of the anti-corruption initiative of *Coalition 2000* is the enhancement of public intolerance towards corruption as an element of the democratic values and practical implementation of mechanisms, which lead to greater transparency, trust, and integrity. This will be achieved by developing an Anti-Corruption Action Plan for Bulgaria (AP), conducting an Anti-Corruption Awareness Campaign and implementing the Corruption Monitoring System (CMS). The CMS is based on regularly conducted empirical studies.

The *Coalition 2000* process is structured in three main components where the CMS is designed to perform several specific functions:

Component 1: Corruption Assessment and Development of an Anti-Corruption Action Plan

Corruption Diagnostics.

The first CMS panel of surveys is conducted at the initial stage of the project. At this initial stage, the CMS is the major diagnostic tool. It helps to evaluate the status of corruption in different areas of public life and to map the specific characteristics of the perceptions of the general public, public officials, experts, and political decision makers. The findings of the first surveys are presented to the group of experts who are drafting the Anti-Corruption Action Plan. The major function of the CMS in the initial stage of the project is to help experts in the drafting process.

Corruption Assessment.

The full analysis of the findings produced from the first CMS panel of surveys is presented in the Corruption Assessment Report (CAR). The CAR is prepared on a yearly basis and presented at the Public Policy Forum. In addition to corruption assessment the second and third CAR will evaluate the progress made in curbing corruption and influencing public perceptions and attitudes.

Component 2: Anti-Corruption Awareness Campaign

All the activities of *Coalition 2000* under this component could be divided into two basic groups:

- A system of activities aimed at changing public attitudes towards corruption. The awareness campaign is intended to promote public awareness of corruption and to create in Bulgarian society a climate of rejection of corruption.
- Practical action-based pilot initiatives, which could test the effectiveness of various anti-corruption normative and socio-psychological mechanisms in a specific region and/or settlement.

The CMS surveys are conducted in the course of the activities associated with this component. Their functions related to this specific component are:

Targeting.

Surveys included in the CMS help identify specific target audiences (based on attitudes and perceptions) for the practical initiatives of *Coalition 2000*. The CMS also help select the most effective media channels for reaching the specific audiences.

Message design.

Some of the CMS surveys are specifically targeted at testing and tailoring the messages of *Coalition 2000*. This helps the awareness campaign achieve maximum efficiency.

Analysis of patterns of corrupt behavior.

CMS survey results and analysis are some of the essential content elements of the awareness campaign. In this respect the CMS is a major provider of analysis aimed at generating public debate on corruption issues in Bulgarian society.

Component 3: Monitoring of corruption and corrupt behavior

The basic functions of the CMS itself are related to its major outputs: the Corruption Indexes of *Coalition 2000* and the Corruption Assessment Report.

Corruption indexes are based on the surveys included in the CMS and summarize the most important corruption indicator variables to evaluate/measure the level of proliferation of corrupt practices in different spheres of society. The Corruption Indexes of *Coalition 2000* are to be published four times a year.

The Corruption Assessment Report is to be published yearly and summarizes the results of all the CMS surveys conducted during the year.

In addition, the other functions of the CMS are:

- To provide reliable feedback about the effectiveness of the anti-corruption initiatives of *Coalition 2000*;
- To maintain, on the basis of the collected information, regular feedback with the relevant institutions in order to support the implementation of mechanisms that would constrain corrupt practices.

Methodology and results of the CMS are submitted for evaluation to the members of an Expert Council established with *Coalition 2000* (See Attachment 1). Through the Expert Council an effort is made to coordinate corruption assessment research in order to develop a methodology, which ensures maximum reliability of data and objectivity of analyses. The CMS components and outputs are developed according to the recommendations of the experts, thus producing changes in the initial design and structure of the CMS.

The empirical information collected through the CMS surveys is made available (on demand) to research agencies and government bodies in Bulgaria, as well as to international organizations for further analysis and reporting. The main results of the corruption monitoring are available at the web site of *Coalition 2000*: <http://www.online.bg/coalition2000>.

II. Structure of the Corruption Monitoring System

1. Structure of the CMS

The CMS includes several basic types of surveys (coded from S1 to S7 in the table below) which are conducted with different periodicity by *Vitosha Research* with the Center for the Study of Democracy.

The surveys conducted quarterly are included in the *Corruption Monitoring Panel*. Corruption Indexes are computed from the quantitative surveys included in the CMS (S1, S2, and S6). They make it possible to estimate the dynamics of public attitudes and actions, characterising different aspects of corruption-related phenomena. Regular observations also provide feedback on the effectiveness of the anti-corruption initiatives in Bulgarian society and on the progress toward achieving the goals of *Coalition 2000*. Qualitative studies included in the Corruption Monitoring Panel (S3, S4, S5) are used to improve and refine CMS design and methodology and to better understand the subjective aspects of the corrupt behaviour.

Once a year the *Corruption Monitoring Panel* is expanded with the surveys S4 and S5. Based on the extended Corruption Monitoring Panel, a **Corruption Assessment Report** is prepared for the annual Policy Forum. The report summarises the results of all surveys conducted in the preceding 12 months and derives conclusions about the scope and dimensions of corruption in the country. The Corruption Assessment Report also evaluates the effectiveness of anti-corruption initiatives. The second and the third Corruption Assessment Reports will be prepared and disseminated before the annual Policy Forums of *Coalition 2000*.

2. Stages of Implementation of the CMS

Development and implementation of the CMS is to be accomplished during the following stages:

Stage 1: Elaboration and testing of the first version of the CMS methodology

Duration:

6 months (April 1998 — September 1998)

Main purposes:

- development of the design and methodology of CMS surveys;
- submission of initial data to the experts of *Coalition 2000*, working on the anti-corruption Action Plan.

Information sources:

Development of the CMS is based on the experience and information gained from the following surveys, conducted by Vitosha Research with the Center for the Study of Democracy:

- qualitative study (focus group discussions) on the problems of interactions between citizens and public sector officials. It was conducted in October 1996 in the framework of a joint international project with Glasgow University, Scotland;
- four national representative surveys of the Bulgarian population on the problems of public tolerance towards different forms of corrupt behavior. The surveys were based on national representative random samples and were conducted in March 1997, September 1997, January 1998, and May 1998;
- representative quantitative survey of the population (national sample) on the problems of the interaction between citizens and public sector officials. The survey was conducted in January 1998 in the framework of a joint international project with Glasgow University, Scotland.

Surveys S3 and S5 are used to elaborate the methodology of S1, S2 and S6. At the same time, the methodology of the initial qualitative studies is based on the experience and results of the quantitative surveys listed above.

Activities:

Creating the initial CMS information database including the surveys S1, S2, S3, S5 and S6.

Stage 2: Improvement of the CMS methodology

Duration:

3 months (September 1998 — December 1998)

Main purposes:

Establishing an Expert Council and reviewing the CMS methodology;

Improvement of the CMS methodology which is to be implemented at the next stage;

Preparation and review of the first versions of the CMS reports:

- Corruption Indexes of *Coalition 2000*;
- 1998 Corruption Assessment Report.

Information sources:

The initial CMS information database including the surveys S1, S2, S3, S5 and S6.

Activities:

1. Elaboration of:
 - Corruption Indexes of *Coalition 2000*;
 - Corruption Assessment Report.
2. Review of the reports in the Expert Council and publication
3. Development of the second modified version of the design and the methodology of the CMS

Stage 3: Current Corruption Monitoring

Duration:

January 1999 — December 2001

Main purposes:

Implementation of the regular surveys included in the CMS;

Preparation and publication of the reports:

- Corruption Indexes of *Coalition 2000*;
- Corruption Assessment Report.

Information sources:

CMS surveys

Activities:

1. Regular implementation of the surveys included in the CMS;
2. Preparation and publication of the reports:
 - Corruption Indexes of *Coalition 2000*;
 - Corruption Assessment Report.

III. CMS SURVEY METHODOLOGY

1. National Representative Surveys of the Population (S1)

The sample size of the national representative surveys is about 1200 respondents. The sample is representative of the Bulgarian population aged 18 and over.

Surveys are based on a two-stage cluster sample constructed from the list of the electoral sections of the last parliamentary or local elections. In the first stage, primary units (clusters) are chosen with probability proportional to the size of units according to the number of the electoral sections in the country. In the second stage, the respondents within the clusters are chosen at random. Each interviewer is supplied with the names and the addresses of the respondents to be interviewed.

The survey method is face-to-face interview.

Information is collected about public opinion on the following main issues:

- Public attitudes towards corruption;
- Identification of different types of corrupt behaviour;
- Personal experience and involvement of the respondents in corrupt practices;
- Levels and scope of corruption;
- Spread of corruption among different occupational groups and in the public institutions;
- Corruption-related expectations, etc.

2. Quantitative Survey of Public Officials and Business Leaders (S2)

Quantitative survey of public officials and business leaders is conducted with a sample of 300 respondents. The survey method is face-to-face interview.

There are two important advantages of this method:

- compared to the national representative surveys of the population the sample is smaller. In this sense, this type of survey is more flexible;
- a specific social group could be addressed, whose opinions and evaluations very often determine the decisions taken by the major actors in the political and economic scene.

Public officials from the following spheres are to be interviewed:

1. Public officials in the central administration;
2. Public officials at the local level of municipal authorities;
3. Public officials at the Employment Offices, Social Care Centers, National Insurance Institute, etc.;
4. Police;
5. Court officials (judges, prosecutors, investigators);
6. Customs officials;
7. Tax officials;
8. Financial inspectors;
9. Public health (physicians, dentists, nurses, hospital administrators);
10. Education (university professors, university administrators, school-teachers);
11. PTT and telecommunication officials and others.

Quota sampling of the public officials is used, based on the following criteria:

1. Type of employment;
2. Region;
3. Type of settlement;
4. Age;
5. Gender.

3. Focus group discussions (S3)

Three types of discussions are to be held: with public sector officials, with businessmen and managers, and with citizens. Representatives of different groups of public officials are recruited to participate in the focus groups — central and local administration, health system, education, police, judicial system, social care, tax administration and customs, etc.

The recruitment procedure to be used includes the following steps:

- to select the participants from various groups of public officials, business leaders or citizens, and to receive their consent to participate in the focus groups;
- to compose the groups with a ratio between potential and actual participants of at least 2:1, i.e. 13–15 respondents for each group;
- to receive final agreement of the selected potential participants 2–3 days before carrying out the discussions. Expected refusal rate is about 20–25%;
- to select the final participants (8–10 persons) on the day of the discussions.

Using the focus groups helps to achieve a better understanding of corruption-related attitudes, expectations, motives and behavior of the public officials, business leaders and citizens. Qualitative study allows to better formulate the questions of the quantitative survey and to delineate new problematic areas to be addressed in the framework of *Coalition 2000* activities.

4. Participant observation of the mechanisms of corrupt practices (S4).

A total of about 15 observers provide expert assessments and detailed descriptions of the mechanisms of corrupt practices in different spheres of public life using uniform monitoring tool - Transparency Matrix (TM). Different experts answer particular questions on resource allocation, decision making and recruitment in specific institutions - municipalities, ministries, state agencies etc. Quantitative (amount of resources per type, area and allocation and ratios) and qualitative (decision making mechanisms, practices of influence and corruption, grey areas) data is collected by this monitoring tool.

The Transparency Matrix has been tested and revised twice in the first half of 1999 in the implementation phase of 14 local pilot projects under the Small Grants Program of *Coalition 2000*. A specific Community Transparency Matrix (CTM) was designed to establish a uniform way to collect information about the mechanisms of discretionary power at the local government level by respective sectors of decision making. The CTM focuses on decision making in the following spheres: health care, education, social services, culture, investments, licensing procedures, construction, environment and waste collection.

The main implementation objective of the CTM is to monitor a set of indicators and provide information making it possible to obtain expert assessments of the level of transparency in local government decision making. The CTM is an exploratory tool to be used by experts to assess the level of decision making transparency at the local level and respectively estimate the relative risk for the existence of corruption generating mechanisms. In this way the analysis based on the CTM provides assessments of positive and negative corruption risk (administrative and legal mechanisms generating corruption and mechanisms curbing corruption).

5. In-depth interviews with Policy Makers (S5)

In-depth interviews are included in the diagnostic component of the project and are conducted once per year. A quota sample of 20 policy makers is used. Representatives of governmental and municipal administration, parliamentarians, ministers, directors of state and private enterprises, mayors and councilors are to be interviewed as follows:

- 10 in-depth interviews with politicians and public officials in central and local level administration;
- 10 in-depth interviews with businessmen and managers.

The main advantages of this kind of interview are the elimination of group influences and deeper elaboration of the topics, revealing the details and nuances of the issues under consideration which could not be detected by quantitative methods.

6. Media monitoring (S6)

As an element of the CMS, media monitoring is designed to achieve several objectives:

- to measure the level of exposure of corruption-related problems in electronic and print media. Assessments about the influence of the media on the attitudes and opinions of different social groups made through the use of specific research techniques;
- to produce feedback about the media coverage of the initiatives of *Coalition 2000* and other similar citizens' activities aimed at curbing corruption.

Media monitoring objectives will be achieved through synchronized activities in three directions:

1. Regular monitoring of the news programs of National TV and National Radio.

The purpose of the monitoring is to locate the coverage of corruption-related issues in the news programs.

2. Regular monitoring of central newspapers with national coverage.

The objective of the monitoring is to gauge the presence of corruption-related problems in the whole aggregate of the observed print media.

Media monitoring is conducted using a specially designed questionnaire, and data will be summarized and presented as a part of the report "Corruption Indexes of *Coalition 2000*."

3. Collating the results of media monitoring and quantitative surveys (S1 and S2).

This element of media monitoring is based on Agenda Setting methodology. This is a research method, which uses statistical tools to identify relationships between the media coverage of a certain topic and the public attitudes and opinions registered at the same time period. The Agenda Setting approach allows conclusions to be drawn about the correlation between public attitudes, media influences, and the broader social context.

This type of analysis provides substantial feedback concerning the implementation of the initiatives of *Coalition 2000* as well as an accurate definition of the objectives and activities included in the Public Awareness Campaign.

IV. Coalition 2000 Corruption Indexes: Methodology and Theoretical Approach

1. General Notes

The corruption indexes of *Coalition 2000* are a system of synthetic indicators, which present the results of the quantitative surveys of the CMS (S1 and S2) and the media monitoring (S6) in a summarized form. Implicitly the corruption indexes also summarize the results of the qualitative surveys (S3, S4 and S5), as the latter are used for the elaboration and the improvement of the methodology of the quantitative surveys.

The main objective in constructing the corruption indexes is to reduce the multidimensionality of corruption as a social phenomenon to a limited set of synthetic indicators. The advantages of such an approach are at least the following:

- synthetic indicators (corruption indexes) facilitate the public presentation of the results, thus making analysis easier to perceive;
- the employment of synthetic indicators is a prerequisite for establishing time series and respectively for analyzing and assessing change.

2. Theoretical base of the study of the elements of corrupt behavior

The four types of corruption indexes are based on a relatively simple theoretical reconstruction of the elements of the social action:

- social action has its specific prerequisites, among which the more important are social actors' attitudes, interiorized values and the way actors perceive their social environment;
- social action itself presupposes a specific interrelationship of actors in which they exchange the resources they possess in order to achieve a specific objective;
- action results include certain specific characteristics: 1) they change or preserve the initial (pre-action) prerequisites; and 2) they leave a specific "trace" in the social environment (change or preserve its structural components);
- the fulfillment or non-fulfillment of the objectives generates expectations among actors about the character and the structure of social action in its subsequent cycle. Based on these expectations, each actor constructs or changes his behavioral strategy.

Applied to corruption, this model of social action could be reduced to the following basic components:

It should be especially noted that the application of the general model of social action (even in its simplified form) to corruption (in constructing the methodology of the quantitative studies) is, for understandable reasons, subject to a multitude of restrictions. In this respect the model on which the study of corrupt behavior is based is much

simpler than it could have been. In constructing the set of indicators that was actually employed, the objective was to use the indispensable minimum in a way that would make it possible to maintain professional standards of fieldwork.

3. Theoretical Interpretation of Corruption Indexes.

Corruption is a complex and multidimensional phenomenon and is associated with several differing definitions. **The operational definition adopted defines corruption as abuse of power (economic, political, and administrative) in the interest of personal or group gain and at the expense of the individual, specific groups or society as a whole.** This rather broad definition is warranted by the character of the phenomenon itself as well as by the wide-scope initiatives against corruption on the national and international level, including both citizens and governments.

The reproduction of corruption presupposes the existence of four necessary components: 1) state/public officials; 2) discretionary power; 3) abuse of public power; 4) private gain on behalf of officials. Depending on the forms in which these components actually function, there could exist different forms, levels, spheres and mechanisms of corruption.

Corruption manifests itself mainly in the interactions between the public sector on one side, and citizens and private business on the other. There are two basic types of corruption: **Grand corruption**, which involves top state officials, politicians and business people and refers to the allocation of substantial resources; and **Petit corruption**, which usually includes lower-level public officials and refers to the daily interactions between them and citizens and businesses (small and medium size). This second type is more widespread and is associated with smaller payments and/or a system of favors and gifts.

Having in mind the specific objectives of corrupt behavior, two specific cases of corruption should be considered. First, abuse of power for private gain in cases where officials are obliged to provide a certain service by law. This type of corruption, known as "greasing the wheels," is targeted at the faster or more expedient delivery of services, or greater safety in the resolution of the problem. A second case is when an official provides services/rights to which the citizen (business) is not entitled by law, or even services that are a direct abuse of the law.

From an economic point of view the proliferation of corruption follows the classic market principles of supply and demand: a larger demand and a larger discretionary power of officials produces an environment that facilitates and encourages corruption. The value of the bribe depends on the expected profit or benefit. In this respect corrupt behavior could be regarded as mutually beneficial economic transactions. However, these transactions eliminate the rules of competition and the legal regulations and thus distort market principles and criteria for efficient economic action and decision making.

The definition of corruption as a negative social phenomenon allows several assumptions to be made concerning the interpretation of the indicator included in the CMS:

- in an ideal state of society (the practical absence of corruption), corruption attitudes should assume minimal values; i.e., citizens should perceive corrupt behavior as morally inadmissible and they should not be inclined to compromise their moral

values. Intensity of corrupt behavior should also be minimal, and corrupt behavior should be rated low as an effective problem-solving practice.

- it would be logical to assume that the existence of a certain level of tolerance of corrupt behavior (moral admissibility) would have several consequences. First, readiness to compromise would increase as the level of tolerance increases. Second, the frequency of practical acts of corruption would also increase with the level of tolerance (due to the "natural intensity" of social conformity). Third, in cases when the frequency of corrupt behavior surpasses the level of "single isolated cases" it is likely that assessments of the pervasiveness of corruption would substantially surpass the frequency of practical acts of corrupt behavior (only one case of "taking a bribe" would be sufficient to socially label an official as "corrupt"). Fourth, the existence of a social environment where acts of corrupt behavior exceed the level of "single isolated cases" is very likely to produce the perception that corruption is a socially normal environmental component. The chances of that perception being firm and widespread increase with the limited implementation of sanction mechanisms.

One of the basic theoretical assumptions for the construction of the CMS is that it is more important to track the dynamics of corruption in several dimensions than to analyze its initial/current values. Because corruption has been identified as a problem to Bulgarian society, it would be important to assess its gravity. However, it is more important to know dynamics: whether corruption is evolving in the positive or in the negative direction in comparison with its initial baseline values.

Corruption indexes provide an approximation about the scope and aspects of corruption based on the assessments of citizens and public officials. These assessments are the starting point for their practical behavior and the way they perceive their social environment. Corruption indexes could not be a base for making direct conclusions about the exact level of proliferation of corrupt practices.

Because the index of personal involvement in corrupt practices is based on the anonymous admissions of respondents, it comes closest to indicating the "level of proliferation of corruption." Also, to a certain extent the specific legal characteristics of corruption (that both sides act illegally) make this index one of the few realistic measures of the actual level of proliferation of corruption. Currently, in comparison with the information available from law enforcement institutions, the accuracy level of empirical survey estimates of the realities of corruption is (for obvious reasons) substantially higher.

4. Structure and Conceptual Interpretation of Corruption Indexes

The CMS includes four types of indexes:

Attitudes towards Corruption

1. Principle Acceptability of Corruption

The index reflects the degree to which Bulgarians accept, at the level of values, certain acts of corrupt behavior on behalf of members of Parliament and public officials.

2. Susceptibility to Corruption (general public)

This index measures the inclination to compromise on values, principles and legal-

ity in order to perform corrupt acts, such as giving or accepting money and/or gifts for the purpose of solving certain personal problems.

3. Susceptibility to Corruption (public officials)

This index reflects the existing attitudes among public officials to accept money or gifts (to participate in corrupt practices) under certain conditions: providing additional services and performing duties faster than normal.

Corrupt practices

1. Corruption Pressure on the General Public

This index shows the degree to which the citizens are subject to direct or indirect pressure to participate in corrupt practices with public officials. It accounts for cases in which public officials wanted or showed they were expecting corrupt behavior from the citizens.

2. Corruption Pressure on Public Officials

This index reflects the frequency of attempts to corrupt public officials with the purpose of solving personal problems.

3. Personal Involvement in Acts of Corrupt Behavior (general public)

This index reflects self-confessions about cases in which citizens have offered public officials money or gifts.

4. Personal Involvement in Acts of Corrupt Behavior (public officials)

This index reflects the degree to which public sector officials and their colleagues accepted money or gifts when dealing with citizens' personal problems as part of their professional obligations.

Magnitude of Corruption

1. Spread of Corruption (according to citizens)

This index reflects citizens' assessment of the spread of corruption in the country. It could also be computed for specific groups of public officials and public institutions.

2. Spread of Corruption (according to public officials)

This index reflects the extent to which citizens attempt to resolve their personal problems by offering money or presents to public officials.

3. Practical Effectiveness of Corrupt Behavior

This index shows the extent to which citizens perceive corruption as an efficient tool for solving personal problems. It is based on the registered probability of citizens offering money and/or gifts in order to successfully resolve their problems.

Expectations about the Future of Corruption

This index reflects the expectations of the general public about the capacity of society to curb corruption in the country.

5. Method of computation of corruption indexes

The method used to construct indexes includes the following steps:

1. A rank (ranging between 0–3) is assigned to each value of indicator.

2. Each rank is weighted by the percentage of respondents who have chosen the respective answer option (excluding the "don't know" and "no answer" categories).
3. The value of the indicator is computed as a sum of the weighted ranks.
4. Each corruption index summarises the values of several indicators and is presented in a statistically normalised form: from 0 to 10.

Example:

The index for the spread of corruption is constructed based on the following question: According to you how widespread is corruption in this country? (One answer only).

	Rank	Valid percent
1 Almost all state officials are involved in it	3	19 %
2 Most state officials are involved in it	2	42 %
3 Only a few state officials are involved in it	1	38 %
4 Hardly any state officials are involved in it	0	1 %
9 DK/NA	-	-

$$I = 3 \times 0.19 + 2 \times 0.42 + 1 \times 0.38 + 0 \times 0.01 = 1.79$$

The value of the index ranges between 0 and 3. The closer this value is to 3, the more widespread is corruption (according to respondent assessments).

In order to construct aggregate indexes, the values of the individual indexes are normalized by adjusting their values to fall into the range 0 — 10. Normalized values are then summed. For example, the index for the spread of corruption is normalized by dividing its current value (1.79) by its maximum value (3.00), obtaining its normalized value (0.60). This value is then recalculated to fit into a scale ranging between 0 and 10.

Attachment 1. Expert Council

Members of the Expert Council are leading public opinion researchers and sociologists in the country, as well as representatives of the state administration (See Attachment 1)

Antonii Todorov

Director, Institute for Social Values and Structures

Assen Yosifov

Director, National Public Opinion Research Center

Blagovest Georgiev

Associate Professor, Department of Sociology, Sofia University "Climent Ohridski"

Boyan Stankov

Deputy Chair, Council for Criminal Studies, Chief Prosecution Office

Dimitar Bachvarov

Head, Structural Reform Department, Councils of Ministers

Evgenii Dainov

Director, Center for Social Practices

Georgi Fotev

Director, Institute of Sociology, Bulgarian Academy of Sciences

Irena Angelova

Legal Adviser, Ministry of Internal Affairs

Ivan Chalukov

Deputy Director, Institute of Sociology, Bulgarian Academy of Sciences

Krastyuo Petkov

Professor, Department of Sociology, Sofia University "Climent Ohridski"

Mihail Mirchev

General Manager, ASSA-M Ltd.

Miroslava Yanova

Director, MBMD Ltd.

Peter-Emil Mitev

President, Bulgarian Sociological Association

Rumen Georgiev

Deputy Director, National Investigation Office

Rumyana Bachvarova

Director, Market Test Ltd.

Svetoslav Slavov

General Manager, GfK Bulgaria

Valeri Roussanov

President, Access Association

Yancislav Yanakiev

Head of Department, Center for Sociological Studies, Ministry of Defense

Zhivko Georgiev

Director of Research, BBSS Gallup International

During the implementation of the Coalition 2000 initiatives, new members of the Expert Council could be invited in order to further discuss and develop CMS methodology and outputs.



MEDIA COVERAGE OF CORRUPTION: SOME CONCLUSIONS BASED ON THE PERIOD JANUARY — MARCH 1999

Vessela Tabakova

1. General media monitoring characteristics

The media monitoring of corruption in the activity of *Coalition 2000* focuses on the following main objectives:

- to present the general quantitative characteristics of the presence of the topic of corruption in the central press and electronic media;
- to reveal the qualitative characteristics of the media coverage of corruption while highlighting the way and extent to which the media analyze the essence, manifestations, and varieties of this social relationship and phenomenon;
- to assess the media coverage of corruption in terms of the possible impact on the formation of public opinion and attitudes;
- to inform about the media presence of the activity of *Coalition 2000* and other anti-corruption initiatives.

Methodologically, the monitoring is based on the understanding of corruption as a social relationship between two parties, one of whom is willing to give something in order to get something else from a person with the resources to provide it. Being essentially a violation of the established "rules of the game", or existing on the basis of unestablished, yet necessary, rules, corruption is a covert (invisible) social phenomenon and relationship. For this reason the media presence of the subject is extremely important, insofar as the media, in bringing the problem into public view, constitute a possible instrument for the achievement of anti-corruption results.

The media analysis integrates research methods which are functions of the middle range theories as working adequately on the level of the group, community, or institution. Thus, on the basis of the empirical material collected, it is possible to reveal not only the quantitative parameters of the presence of the subject of corruption, but also, to define and analyze the most interesting tendencies and mutually confirming interconnections and contextualizations of its media presence.

The registration card used for the monitoring of the press and electronic media includes 26 indicators. They may be classified in the following way:

- indicators for measurement and analysis of quantitative and content-based media characteristics of the presence of the topic of corruption in terms of volume, place, authorship, type of communicative unit, etc.;
- indicators for measurement and analysis of the level and specific way of dealing with the subject of corruption in the media in terms of spheres of occurrence, type of corrupt activity, accounts of anti-corruption action and disclosures, etc.;
- indicators for measurement and analysis of verbal aspects of the media coverage of the subject of corruption, such as key words, titles, tone characteristics, etc.

The research approach creates the necessary empirical and analytical basis for:

- identifying the most essential characteristics of the media presence of the topic of corruption in a given period;
- comparative analysis of featured characteristics and tendencies in the coverage of the topic of corruption in different periods;
- outlining the fields of media exposure which have an impact on public opinion and attitudes towards corruption.

The monitoring covers 13 newspapers published in the capital, of which 10 dailies (9 since the beginning of March, when one of them stopped appearing), and three weeklies, as well as specific time intervals of the programming of electronic media.

The monitored newspapers are *Demokratsia*, *Duma*, *Trud*, *24 Chassa*, *Sega*, *Standart*, *Novinar*, *Pari*, *Monitor*, *Kontinent*, and the weekly *Kapital*, *168 Chassa*, and *Banker*. The monitored electronic media are Bulgarian National Radio (BNR), Bulgarian National Television (BNT), Darik Radio, *Nova Televizia*, and *7 Dni* television.

2. How is the subject of corruption featured in the media?

In the three months covered, 270 communicative units were registered in newspapers and 86 communicative units, in the electronic media. While newspapers were generally characterized by gradually declining coverage of the subject from January to March, in the electronic media, after the dramatic drop in the number of texts in February, there was a certain increase in March. It should be noted that in the last week of March the media were exclusively concerned with a single topic - the NATO operation in Yugoslavia.

A first glance at the frequency distribution may suggest the conclusion that corruption is discussed more in the press and electronic media which stand closer to the positions of the Government, while the opposition media, or those expressing views closer to the opposition, seem to be less active in the anti-corruption field.

Presumably, the policy of the newspapers or electronic media close to the Government is to some extent motivated by the Government's declared resolve to fight corruption in this country. Furthermore, with its typical characteristics, the topic of cor-

ruption tends to "sell" the media well. At the same time, to the opposition media, the subject seems to be a mined field of sorts, with possible adverse boomerang effects on the opposition itself. Seen through the frequency distribution data, the "Bulgarian case" apparently displays specifics of its own, since, as is well-known, in the public practice of the democratic countries journalistic anti-corruption investigations are a strong opposition instrument.

This, however, is only a first impression. A closer look at the findings of the study shows that the greater number of publications in newspapers such as *Demokratsia* and *Standart* only appear to be signs of greater activity. As indicated by the data from the study, in 67% of all texts registered in *Demokratsia* corruption is considered in general and vague terms. In fact, by all parameters of the study, the newspaper of the Union of Democratic Forces is among those least exposing corruption. By its tone, however, it is the most optimistic one concerning the fight against corruption. Almost the same verbalism characterizes *Standart* newspaper as well, with the share of general terms being even larger. General comments are also typical of *Duma* newspaper, but it is distinguished by its prevailing pessimistic tone. All registered texts in the newspaper are situated in the range from neutrality through skepticism to pessimism (by comparison, no texts have been registered in *Demokratsia* newspaper under the options "skepticism" or "pessimism").

Corruption is rarely specially highlighted or a leading topic in the media, both in terms of its place on the pages of the newspapers and in the electronic media. All too often the subject comes up in brief information texts. This is where it is present as the leading topic. It is quite revealing that in the electronic media more than half of the units - over 60% - are of a length of up to 1 minute. On BNT the topic is addressed almost exclusively in brief information texts within the central evening newscast on Channel 1 (13 appearances out of 15).

In the newspapers the picture seems to be exactly the opposite. A considerable number of the texts are of a large size - about 60% are between 70 lines and a full newspaper page. The larger size would seem to suggest an analytical approach to the subject of corruption, its varieties, forms of manifestation, action and counteraction. Such an assumption, however, is hardly confirmed - in a great many cases the topic appears as an accessory, secondary one. Thus, in a certain sense, the newspaper coverage of the subject is symmetrized with the "electronic" one, since it is precisely in the brief information texts that corruption is the leading subject.

In both the electronic media and the newspapers, analysis is present in about 1/5 to 1/4 of the texts.

In the media, corruption is most typically associated with state institutions (24% in the press, 27% in the electronic media), with the judicial system, local government, the social sphere, etc. In the period under observation corruption increasingly began to appear under the topic of international life. Even though it is true that the period was marked by a coincidental event (the Eurocommission scandal), there is reason to believe that the regular communications about "foreign corruption" function as an extenuating context which only comes to confirm the assumption that corruption is an omnipotent phenomenon.

3. The discourse on corruption, or "the absences and the absent"

The research hypothesis and expectations about the manner of speaking and writing about corruption were confirmed - incontestably so, moreover - by the very frequently encountered general discourse on corruption. Naturally, corruption is not a transparent, visible and open social relationship, but the generalized anti-corruption rhetoric or guesswork do little to help shed more light on this phenomenon. The fact that both the press and the electronic media typically associate corruption with state institutions, as already mentioned above, is actually rendered pointless and watered down in the general comments about corruption. All too often corruption is written about without any specific references - there is corruption, corruption is everywhere, people talk about corruption. Popular talk often sustains the newspapers and in its turn, the media discourse induces talk in society. The verbose nature of this discourse through speculations, rumors and hearsay seems to project the actual futility of the otherwise clearly articulated goals. Of all the newspaper texts, about 43% referred to a real event. In this respect there is naturally a big difference compared to the electronic media, which - with the predominating presence of information texts - typically present actual facts. Thus, 74% of the "electronic texts" referred to a real event. However, it should be noted that a "real event" does not necessarily involve the disclosure of a certain case of corruption or producing specific evidence. Real events include texts which cite or hint at specific names of persons or institutions. Ultimately it was found that 71% of the texts in the press dealt with corruption in most general terms, 9% mentioned facts and names but without producing any evidence, and only 20% presented some evidence. In the electronic media the correlation was 61%:9%:30%.

To cite a specific example: among the electronic media, BNR had most registered units - 31. Of those, however, merely 8 units (i.e. 24,8%) presented some evidence of corruption.

The same observation can be made with respect to some other characteristics of media texts. In the press an extremely high rate of the texts registered - 29%, were not concerned with a specific event, and 14% had a so-called verbal referent. The electronic media reproduced even more verbal events - about 20%.

The sources of verbal events are quite often high-ranking figures and all of them most emphatically condemn corruption - that "terrible disease of democracy" and "revolting crime...to use power for personal gain", to quote, for instance, Vice President Todor Kavaldzhiev. Statements denouncing corruption, and containing vague accusations against the ruling majority, have been made by representatives of the entire political opposition spectrum.

Indicative of the lack of a premeditated anti-corruption media strategy and the absence of a real debate is the fact that a non-negligible part of the texts (10% in the press and 2% in the electronic media) were occasioned by an earlier text. But even in those cases they either dealt with the same fact or with exposure of corruption-related scandals which, however, are not brought to any conclusion but tend to sink into oblivion, following the fate of nearly all "disclosures", which some in the media community believe to be commissioned. Emblematic in this respect were the "cigarette scandal", instigated by the opposition with accusations against the ruling majority, as well as the "alcohol scandal", instigated by those in power with accusations against the opposition.

Those scandals were accompanied by the "reanimation" on both sides of old controversies. Ultimately both of the new scandals dropped out of the news altogether and proved to be simply another round of the political battle to discredit one's opponents.

Set in the context of the occasions on which they were produced, the texts suggest the conclusion that corruption is far more often simply the object of verbalism, rather than exposure, in the media. This verbalism itself extends the quantitative parameters of the presence of the topic in the media, but not the qualitative level of revealing and analyzing the true nature of corruption.

It is for the same reason that corruption itself is often presented through epithets rather than facts and their interpretation.

The media have a modest contribution to the description of the phenomenon but are significantly more profuse in judging it.

The analysis indicates that whenever there appears greater specificity it is most likely to concern a single corrupt practice - bribery. In 2/5 of the cases in the electronic media and 1/3, in newspapers, the featured act of corruption is a pecuniary bribe. Not only the texts but the titles, as well, highlight bribery as a specific corrupt practice - the very lexeme "bribe" was encountered 16 times in the registered texts.

The act of corruption itself - regardless of whether it is verbalized as a speculation or has more specific dimensions - is typically presented in the context of official administrative positions (in 65% of the texts in the press, and 69%, in the electronic media). In very few cases the corrupt practice is set within other types of relationships - political party, family, and other relationships.

And it is in this very respect - the specificity of bribery - that a distinctive trait of the media presence of corruption proves particularly salient. It is the conspicuous absence, in the bulk of the texts, of the briber and process of bribing. Only 3% of the texts in the press and 3.5% in the electronic media "feature" the giving of a bribe, and the only title referring to it over the three-month period is "Foreigners Stop Greasing Palms".

Those who are featured, though in many of the cases without specific referents, are the bribed. The publications seem to abide by the peculiar rule not to feature both sides of the corruption relationship at the same time.

Apparently the media themselves assume that each and every one of us can play the corrupting role and the crucial figure is that of the corrupt since they are the ones with the positions and resources. Could it be that this nonappearance of the briber fosters the popular attitude that if a corrupt practice is a way of getting something, it is not a problem of the corrupting nor can they be held responsible, but rather, the blame is entirely on the corrupt themselves? The "nonappearance" in the media of the bribers strengthens the conviction that what cannot be achieved by following the "rules of the game", can be gotten in another way. One exception in this respect - i.e., featuring the briber - is a title, though not from the period under observation, which remains unsurpassed in terms of its meaning and message: "Blind Man Gets Driving License through Bribe".

4. Are there any consequences for the corrupt?

Even though the corrupt are the featured side in the corruption relationship, they are rarely present as personified perpetrators of corrupt practices, as specific individuals accepting bribes. In the press, only 19% of the registered texts refer to a specific person. In the electronic media of non-specified corrupt officials the share is about 61%. The non-specification of a perpetrator both in the electronic media and the press almost fully coincides with the share of general discourse in the media. When the corrupt are featured they typically prove to be representatives of various institutions and spheres. The names occasionally alluded to include the prime minister, one of the vice prime ministers, a few ministers. In fact, however, there has not been a single real disclosure of corruption in the high-ranking administration, nor a single cited case of anti-corruption steps taken at the top echelons. Within the general discourse the claim that "those in power are corrupt" is commonplace but without mention of any specific instances. And that is due both to the journalistic approach and the actual state of the fight against corruption. Journalists' tendency to skim through the subject deprives the media of the possibility to show to what extent corruption processes in society are perceivable and where the deliberate black-out begins. It is quite striking that one of the vice prime ministers is known as "Mister 10 per cent". That nickname is mentioned in texts and cartoons (even in the period under observation there were texts where "Mister 10 per cent" was among the key expressions), but up to now there does not seem to have been a single publication which, if not actually investigating it, at least reflects on the origin of the nickname.

It is in this context that we should interpret the findings that only about 6% of the texts in the press formulate some kind of accusation and less than 2% of the texts contain some form of rebuttal or explanation. In the electronic media some charges are advanced in 10% of the cases.

The critical question which arises is whether it is the media themselves which are to be blamed for the fact that published disclosures do not command any respect on the part of those concerned, and to what extent the reasons ought to be sought in the inefficient judicial system, which imposes the conviction that each corruption-related disclosure is but a "nine days' wonder".

Insofar as the high ranks of the administration are protected behind the curtain of non-transparency, it is but natural that in the period January - March, the specific accounts of corruption involved doctors, customs officers, and police officers. It is through them that there accumulated texts about corruption in state institutions - in the healthcare system, the police, and customs. In the three-month period, of the insignificant number of press articles referring to specific individuals, the largest share was held by doctors, with 6%. In the electronic media this share was 8%. Thus the non-permeability of the top ranks has led to strong media emphasis on corruption among doctors in public healthcare. This overemphasis no doubt influenced public opinion and attitudes in the period - especially in January and February.

The problem is not simply in the fact that for a month and a half the media used doctors to "prove" there is an ongoing fight against corruption. The problem is that those very cases - appearing above all in information texts - seem to be self-contained, without being analyzed from the perspective of the institution concerned or without occasioning a closer look at the existing system of relations and dependencies.

In the Bulgarian media there is hardly any subject which is not used for political purposes or treated from a narrow political-party perspective. It is true that there is no real debate or analysis of corruption in either society or the media. More than 80% of the texts in the press and half of the texts in the electronic media do not even have a thesis. And where any claims are made, they tend to mirror the views of the preferred political power of the respective media. This characteristic is equally manifest in terms of the tone of the various texts. Perhaps one example will be sufficient to illustrate the different "social worlds" of corruption. In *Demokratsia* newspaper the correlation between texts claiming that corruption is being counteracted and those claiming it is not, is 7:1. In *Duma* newspaper, the correlation is nearly the opposite. Among the electronic media, *Nova Televizia* is the one most insistent on the reality of the fight against corruption, followed by BNT and Darik Radio. *7 Dni* television comes last in this rating, with nearly no contribution to the thesis of an ongoing fight against corruption.

5. Some conclusions

On the basis of the analysis of the texts from the first three months of 1999 it is possible to summarize certain observations and make a number of conclusions:

- In the media, the topic of corruption appears much more in general discourse rather than through facts, interpretations, and serious analyses. The presence of the topic leaves the impression of substantial quantitative parameters but not of quality and results. Nevertheless, there is reason to believe that to a certain extent the media do bring the problem to the attention of the public and in itself that may be interpreted as a precondition for more significant results in an anti-corruption perspective.
- As a social relationship, corruption tends to be identified with corrupt individuals, i.e., the social relationship itself is not present in the media.
- The media - and especially the press - often reproduce rumors and speculations, a circumstance that gives grounds to those concerned not to react to any accusations made.
- The media only present in more specific terms minor crimes from the lower levels of the functioning of society.
- The media fail to analyze or fully pursue any cases of corruption, and even the most sensational scandals are not followed through, but are reduced to fleeting remarks and gradually sink into oblivion.

The reported findings from the first quarter mark the beginning of the *Coalition 2000* media monitoring. Already there is reason to claim that since late April, when the NATO operation and the Kosovo conflict stopped being the only news in Bulgarian media, corruption has become "the most fashionable" topic - to use the expression of a radio reporter. What is more, following a publication by a member of parliament from the opposition group of the Euroleft, the Prime Minister has called for a thorough investigation. The comparative analysis after the second quarter is certain to reveal definite changes in the media picture.

The question remains, however, whether public and media practices will come to involve some serious investigations and tangible anti-corruption results. The research team ventures to make a moderately optimistic forecast and hopes it will not prove mere wishful thinking.



How Citizens Cope with Postcommunist Officials: Evidence from Focus Group Discussions in Ukraine and the Czech Republic

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Summary

Communist systems were notorious for providing their citizens with neither collective influence nor individual respect. Free elections in postcommunist countries have provided citizens with a degree of political influence, but not necessarily with better treatment by officials - indeed, perhaps worse. As part of a wider study, this paper uses focus group methods to see how citizens in Ukraine and the Czech Republic view their interactions with officials in two very different postcommunist countries. In the Czech Republic they complain that bureaucracy has increased with the transition from communism, and they gossip about the need to use contacts and bribery, but their own experience is much more positive. By contrast, in Ukraine they complain that corruption has increased because officials are no longer afraid, and their accounts of the need for contacts and bribery extend from gossip to personal experience. They see advantages in more "control" and more "fear".

Introduction

Good governance is not just a matter of high politics.¹ Free elections should do more than offer an often confused or misleading choice of programmes and leadership: they should affect the general political culture, set the tone of democratic government, legitimate voters individually as well as collectively, turn officials and bureaucrats into "civil servants" and encourage government to respect individual citizens as well as the collective decision of the whole electorate.² In their analysis of democratic culture, Almond and Verba³ drew attention to the importance of what they called "citizen competence" and "subject competence", both of which, they claimed, were required for a healthy functioning democracy.⁴ In terms of perceptions, Almond and Verba defined them as follows: citizen competence = percent who say they can do something about an unjust law on both the national and local level; subject competence = % who expect serious consideration both in a government office and from the police. Communist regimes were traditionally depicted as bureaucratic, in Laski's sense of that word rather than Weber's: "a system of governmentso completely in the hands of officials that their power jeopardises the liberties of ordinary citizens."⁵ Citizens could expect neither se-

* See the notes at the end of article

ous consideration nor fair treatment without some means of "interesting" the official in their case. Dependence upon the use of bribes and contacts was notorious. Like the Tsarist regime before it, parodied so well by Gogol in *The Government Inspector*, the Soviet regime could reasonably be described as an "autocracy tempered by corruption" if nothing worse. A majority of respondents in DiFranceischo and Gitelman's survey of émigrés from the old USSR regime, suggested bribery or connections could be used to change an unwelcome work assignment or to get a dull child into a good university department⁶; and surveys of those still living in the USSR tended to corroborate these findings.⁷ Yet it was never quite clear whether the use of bribes and contacts reflected a lack of "subject competence" and the ability of officials to dominate citizens, or an excess of "subject competence" and the ability of citizens to manipulate officials. In this connection, DiFranceischo and Gitelman found that university graduates were only a little less likely than others to suggest bribery but far more likely than others to suggest using connections; and, moreover, they found graduates were overwhelmingly in favour of a system of unequal treatment - which they could manipulate to their advantage⁸. Even after the transition to democracy at the top such aspects of the political culture may be resistant to change.⁹

Or they may have changed for the worse. Since 1989 there have been several changes in the institutional and social context which might be expected to impact upon the behaviour of postcommunist officials in ECE and the FSU: local government reforms, which have been characterised as a move "from democratic centralism to local democracy".¹⁰ Of the countries in our study only the former Czechoslovakia has implemented a far reaching purge of officials from the old regime¹¹, and any improvements there have been offset by the loss of more competent officials to better paid jobs in the growing private sector¹². So the issue is essentially one of "new thinking", the location of officials in a new more democratic structure, a new working environment and new relationships, rather than "new people".

But the privatisation and restitution of state property and the general climate of economic and moral chaos which have accompanied the transition from communism encourage more self-interested action by citizens and officials alike. Privatisation and restitution were designed in principle to widen consumer choice and provide fair treatment for the formerly persecuted, but they also provided, and continue to provide, enormous opportunities for officials to enrich themselves.¹³ Privatisation or restitution is usually "a lengthy and tedious bureaucratic process, complete with audits and appraisals that generate legal quagmires"¹⁴; so that "it is often only a (substantial) bribe or an offer to share the property that can speed up the procedure"¹⁵. Farmers operate in "a climate dominated by clientalism and distrust for public institutions" and "the dependence of the private sector on selected individuals in the collective and state farm system" for access to equipment and supplies¹⁶. Finally, there is the impact of a general climate of economic and moral chaos. The transition to democracy has been accompanied by a collapse both of the old communist economic system, and of belief in the old communist value system¹⁷. Verheijen and Dimitrova point to "the general deterioration of values" and the "moral wasteland" in postcommunist countries as a prime cause of increasing corruption amongst officials.¹⁸ The end of communism brought unemployment (often well disguised¹⁹), poverty, a sharp decline in health and welfare services, a rise in nationalist tensions, and a general climate of aggressive, often desperate, individualism and communalism, all of which are likely to affect the relationship between

citizens and officials adversely. Economic dislocation made many entrepreneurs and senior officials conspicuously - and not always legitimately - rich, while putting the incomes of junior officials under severe pressure. While local democratisation should have encouraged junior officials to behave better, the moral chaos and economic pressures of the transition may have encouraged them to behave worse.²⁰ How these contending influences are balanced is an empirical question. Lack of motivation, unclear responsibilities, difficult personal circumstances (low wages), a bad example at the top and poor monitoring of their activities, all provide conditions that encourage corruption amongst junior officials though they neither guarantee nor excuse it.

In her study of the use of "blat" (contacts and influence) in Soviet and post-Soviet Russia, Alena Ledeneva suggests that the transition from communism to a market economy had two effects upon the use of contacts and bribery in the FSU: first, the predominant use of "blat" shifted from the everyday life of ordinary citizens up to the networks of former nomenklatura now turning themselves into quasi-criminal businessmen, from the mass to the elite - which takes it out of the range of our research; but second, in the everyday life of citizens - which is what concerns us here - crude monetary bribes increasingly supplemented or even replaced the subtle and sometimes civilizing use of contacts.²¹ Our focus group discussions lend some support to both those conclusions.

ECE and the FSU

Our previous surveys of public opinion and democracy in five countries of the FSU/ECE showed that there were modest differences between the FSU and ECE on Almond and Verba's first aspect of democracy: citizens in the FSU were only 10 percent less likely than in ECE to agree that regular elections had at least some effect in making politicians do what ordinary people want.²² But there were much larger differences between the FSU and ECE when we attempted to tap perceptions of "subject competence" using a slight variant of Almond and Verba's original questions: "Suppose there were some problems you had to take to a government office - for example, a problem about tax or housing. Do you think you would be treated fairly by the officials in that office?" We found citizens in the FSU were 39 percent less likely than those in ECE to expect fair treatment without recourse to bribes or contacts²³; and Members of Parliament in the FSU, 59 percent less than those in ECE.²⁴ (Our interviewers were instructed to note any replies that indicated respondents would expect to get fair treatment "only by using connections or bribes", but not to offer this alternative if it did not emerge spontaneously.) Ukraine and the Czech Republic were at the extremes: citizens in Ukraine were 49 percent less likely to expect fair treatment without recourse to bribes or contacts than those in the Czech Republic; and Ukrainian MPs 58 percent less.

Table 1: PUBLIC: Expect fair treatment by officials (%)

	Ukraine	Russia	Hungary	Slovakia	Czech Rep.
Yes	12%	16%	43%	53%	61%
Only with connections or bribes	20%	17%	7%	14%	5%
No	67%	67%	50%	33%	34%
Note: Based on 5769 (hour long) interviews with representative samples of the public. Nov-Dec 1993.					

Table 2: MPs: Expect fair treatment by officials (%)

	Ukraine	Russia	Hungary	Czech Rep.
Yes	21%	19%	79%	79%
Only with connections or bribes	5%	8%	4%	5%
No	74%	73%	17%	16%
Note: Based on 504 similar interviews with Members of Parliament. Oct-Dec 1994.				

Expectations of fair treatment correlated very weakly - almost negligibly - with trust in "most ordinary people that you meet in everyday life" ($r=0.07$); but much more with trust in "the police" ($r=0.21$) or with trust in "the government" ($r=0.24$); so expectations reflected perspectives on the political and administrative system rather than purely personal psychological tendencies.

Levels of trust in government varied from country to country of course. But that failed to explain the varying numbers who expected fair treatment from officials: those who "completely distrusted" the Czech or Slovak governments nonetheless expected fairer treatment from officials than those who "completely trusted" the governments in Russia or Ukraine; those who described themselves as "opponents" of the government in Slovakia or the Czech Republic were much more likely to expect fair treatment from officials than those who described themselves as "supporters" of the government in Russia or Ukraine. So expectations of fair treatment by officials reflected more than general political satisfaction or dissatisfaction.

Either officials in the FSU really do treat citizens worse than in ECE, or citizens in the FSU have got more into the habit of complaining than in ECE - they have certainly had much to complain about in the past, and the old Soviet regime (cynically, perhaps) encouraged a "culture of complaining" as a system of controlling officials, at least after the decree of 1967 though it had much earlier roots.²⁵ It is just possible that the huge discrepancy between allegations of ill-treatment in ECE and the FSU, as revealed by our surveys, could reflect habits of conversation and complaint rather than the actual behaviour of officials. But our focus group studies show that is not the explanation.

Table 3: PUBLIC: Expectations of fair treatment without bribes or contacts						
	All respondents	Ukraine	Russia	Hungary	Slovakia	Czech Rep.
Amongst those who:						
completely trust govt	55%	na	28%	na	76%	87%
mostly trust govt	48%	28%	25%	61%	64%	74%
neither	42%	17%	18%	50%	64%	65%
mostly distrust govt	26%	9%	13%	42%	46%	50%
completely distrust govt	17%	8%	10%	30%	34%	32%
"support" govt	48%	30%	22%	60%	65%	71%
neither	32%	12%	15%	45%	52%	65%
"oppose" govt	22%	8%	13%	34%	45%	42%
Note: na = less than 20 respondents in this cell.						

To investigate the interaction between postcommunist officials and citizens in more depth we have chosen the countries that differed most in our previous surveys, Ukraine and the Czech Republic. We have added Slovakia and Bulgaria, because they are close geographically and culturally to the Czech Republic and Ukraine respectively, without being quite the same in either case. Although this paper is based almost exclusively upon an intensive analysis of focus group discussions in Ukraine and the Czech Republic, a preliminary reading of the transcripts from our focus groups discussions in Bulgaria and Slovakia suggests the situation is intermediate in those countries but with Bulgaria, as expected, more similar to Ukraine, and Slovakia to the Czech Republic.

Methodology

Our full study involves four phases - focus group dicussions, followed by one-to-one in-depth interviews, the large-scale surveys of public-opinion and of junior officials. The focus-group discussions were designed to see whether people were willing to discuss such a sensistive topic openly and, if so, how they did so - in their own words and with a minimum of prompting. The corresponding in-depth interviews were designed to see whether they said different things in the context of a semi-public group discussion or a more private and confidential one-to-one discussion. Since these are small-sample techniques, large scale public opinion surveys will be necessary both to provide representative findings for each country and to permit detailed analysis of patterns within countries, and interviews with officials will provide a "right of reply".²⁶

The focus group discussions were video-recorded and transcripts produced in both the original language and English. These computer-readable transcripts provide not just a complete record but also allow a degree of computer-assisted analysis. We have used the QSR:NUD-IST (Revision 3) package for this purpose.²⁷

The focus group discussions and in-depth interviews were completed in the second half of 1996. Altogether there were 26 focus group discussions: two in each of the capital cities, Kyiv, Sofia, Bratislava and Prague - one of which, in each capital, included more highly educated participants; plus a focus group in a medium town, a small town, and a village in the Russian speaking area of east Ukraine around Donetsk, in the Ukrainian speaking area of west Ukraine around Lviv, and in each of the other three countries; plus a focus group centred on a geographically concentrated ethnic minority in Ukraine (Crimean Tartars), Bulgaria (Turks) or Slovakia (Hungarians). Corresponding to each focus group there was a set of 5 one-to-one in-depth interviews (6 with Ukrainian Tatars). Since these involved only 187 participants in focus group discussions and 131 in-depth interviews, never more than 55 focus group participants or 46 in-depth interviews in any one country, we cannot be sure that they are fully representative of the countries in question. Moreover, only those who had had some personal contact with officials (or the police) in the last one or two years were invited to participate. Nonetheless the design ensures that the discussion groups and in-depth interviews in each country ranged from capital cities down to villages, that they ranged widely across the regions of each country, and that they were inclusive of ethnic Ukrainian and Russian areas in Ukraine, as well as concentrations of small ethnic minorities in Ukraine, Bulgaria and Slovakia. So although we cannot assume that they were strictly representative of the entire population in each country, it would be equally wrong to assume that they were wildly unrepresentative. Insofar as strict representativeness is critical, our large scale follow up surveys will provide the necessary check. We accept, as we must, that our focus groups may not be representative - though we have no reason to believe that they actually are not, and some reason to hope that they are.

There is a popular but fundamentally misconceived dictum that "qualitative data should not be subjected to quantitative analysis". Findings based upon the limited numbers of participants in focus groups may be unrepresentative of the country as a whole. Alas, that is equally true, whether the findings are expressed in words or in numbers. Analysis of focus-group material is usually based on the reviewer's impressions supported by selected quotations. Unfortunately that compounds the problem of representativeness rather than solving it, because the selected quotations may not even be representative of the discussions as they occurred. Quantitative analysis is entirely valid and appropriate as a description of the discussions; it is the assertion that the discussions are necessarily representative of the country as a whole that is not - irrespective of whether the description of the discussions is expressed in words or numbers. To provide an accurate description of what people actually said in the discussions we shall use numbers as well as sufficient representative quotations. QSR:NUD-IST provided a good method of selecting those quotations as well as quantifying them.

Table 4: Design of the focus group and in-depth interview phases

	Ukraine		Bulgaria	Former Czechoslovakia	
	East	West		Slovakia	Czech Rep
Capital city (lower educ)	Kyiv-B		*Sofia	*Bratislava	Prague-A
Capital city (higher educ)	Kyiv-A		*Sofia	*Bratislava	Prague-B
Medium town	*Khartsysk	*Striy	*Yambol	Zvolen	*Hradec Kralove
Small town	Volnovakha (FG) Maryinka (IDI)	*Horodok	*Straldja	Presov	*Kutna Hora
Village	Nikolayevka (FG) Rybinskoye (IDI)	*Sholomia	*Tenovo	Dolny Kubin	*Olesnice
Ethnic Minority	Sevastopol (Tatars)		*Kardjali (Turks)	*Nove Zamky (Hungarians)	CC-
Total participants in Focus Groups	55		45	49	38
Total participants in associated In-depth Interviews	6		30	30	25

4: Design of the focus group and in-depth interview phases Notes: Ukraine: FGs in East Ukraine were located in the Donetsk region, those in West Ukraine in the Lviv region. They were chaired by Alexander Fedorishin, using the language chosen by the participants - Russian in Kyiv, Sevastopol and East Ukraine, Ukrainian in West Ukraine, where participants complimented him on his command of local vernacular Ukrainian. Marichka Padalko provided simultaneous translation. XXXXX carried out the IDIs. Bulgaria: FGs in Bulgaria were spread across Bulgaria. They were chaired by Andrej Nonchev (except for the one in Straldja which was chaired by Elena Lazarova), all in Bulgarian. Mitra Myanova provided simultaneous translation. Elena Lazarova carried out the IDIs. Slovakia: FGs in Slovakia were spread across Slovakia. They were chaired by Patrik Minar in Slovak (except for the one in Nove Zamky which was chaired by Ladislav Koppl speaking in Czech while participants responded in Slovak). Zuzana Vrstiakova provided simultaneous translation. XXXXX carried out the IDIs. Czech Republic: FGs were spread across the Czech Republic. They were chaired by Ladislav Koppl in Czech. Klara Flemrova provided simultaneous translation. XXXXX carried out the IDIs. All focus group discussions were video-taped. Computer readable vernacular and English-language transcripts were made from the tapes. In addition, simultaneous translation was provided during the 16 FGs marked with an asterisk, which were attended by Miller. Koshechkina attended most of the FGs in Ukraine, and Grodeland all of those in Bul-

garia. Usually, five IDIs were held in the same place as each FG (or in a neighbouring village or town, as indicated). Participants were selected and interviewed as in the corresponding focus group, but on a one-to-one confidential basis, though usually with an audio-tape record of the interview.

But what are we to quantify? We have chosen the "text-unit" as our unit of analysis, defined as the contribution made by one person at one point in the discussion, starting when that person starts speaking and ending when the next person intervenes. Such text-units could be as short as a word or as long as a paragraph, though typically they extend to about two lines of text. Ignoring the 631 text-units in the Czech Republic and 2634 in Ukraine which were contributed by the "moderators" who chaired the discussion, our analysis is based on the 1459 text-units contributed by focus group participants in the Czech Republic and the 5143 by participants in Ukraine.

We read through the transcripts, indexing each text-unit according to various classification schemes reflecting, for example, whether the text-unit referred to generalised hearsay and gossip or something more personal, whether it mentioned arguing with an official or bribing them, whether the purpose was to obtain fair treatment or favourable treatment, and so on. This allows us to calculate how much of the actual discussion fell into various categories and combinations of categories. It is important to note that all percentages in our focus group analysis are percentages of text-units, not percentages of participants. They tell us about the discussion itself, rather than about the participants.

It is also important to note one essential difference between text-units in focus group discussions and the answers given in a typical opinion survey: a single text-unit can answer several questions, or give several answers to the same question: for example, "I have heard that some people give large bribes, but I have never given anything more than a box of chocolates as a token of appreciation" would be classified as both "general hearsay" and a "personal statement", because it talks about both. This need for "double indexing" means that the percentages of text-units in different categories usually sum to a little over 100 percent. Similarly it would be classified as referring to "large bribes" and mere "tokens"; and in a statistical analysis it would count, misleadingly, as referring to both a "personal statement" and "large bribes". In practice, however, such pathologies do not cause major problems for our analysis, since most - though not all - text-units do, in fact, make a single integrated point.

We drew up a detailed eleven page schedule of suggested questions which was translated into the local languages and used by moderators to guide the focus group discussions. It had five sections, raising, in sequence, increasingly personal and sensitive questions about:

- (i) attitudes towards the transition - both to democracy and to a market economy
- (ii) general expectations - how officials would "typically" treat citizens, and how citizens might respond
- (iii) projective situations - what participants "would do" in certain specific scenarios which we outlined, some of which were tailored to the characteristics of the group (we had special scenarios for village groups, and for ethnic minority groups, for example)

- (iv) personal experience - what had actually happened to participants, their close friends or relatives
- (v) past and future - how things had changed since the fall of communism, their expectations for the future, their proposals for reform.

Moderators, however, retained the flexibility to adjust to the flow of the discussion. Participants might spontaneously raise the "scenario" situations, or respond with tales of personal experiences when they had only been asked about "typical" situations, for example, making later sections of the schedule largely redundant. Not surprisingly, this flexibility was used most in the Czech Republic and least in Ukraine. Variations in the sequence of discussion topics have no effect upon our analysis, since we index all comments according to their content, not the point in the discussion where they occurred but the omission of a topic altogether prevents analysis.

Findings

Perspectives on the transition

While there was wide support for the transition from communism, there was also wide criticism of the way the transition had been handled and, in Ukraine, some doubts about whether a transition had really taken place at all. In the Czech Republic the transition was accepted as a matter of course but criticisms of conditions under the new regime were voiced: "the law of the jungle - he who's got money has got power...harsh social policy" (PragueA 3)²⁸; "advanced countries were always saying...the free market did not solve everything, that certain matters had to be solved by interference of the state" (PragueB 7). In Ukraine the transition was more open to debate. It had a lot of support especially, but not only, in west Ukraine: "The transition to the market economy is necessary as the whole world lives like that" (Horodok 1); "the whole world lives, and it lives better than we do in market conditions - I think that it was necessary to move" (Sholomia 5); "something had to be changed" (Khartsyzsk 6); "a market approach...a very correct decision" (Sevastopol 4). But there was criticism of the way it had been done, coupled with justified scepticism about whether the transition had been to a market economy or to something else: "It is a good thing but I think it should not be the way it has started in this country" (KyivB 1); "the state must regulate this process" (KyivB 4); "they broke everything apart and haven't built anything" (Sevastopol 1); "we still haven't built a market" (Sevastopol 3); "privatisation is not being done" (KyivA 4); "they don't let private farms rise" (Sholomia 4).

More relevant to our concerns about the interaction between citizens and officials, there was the perception in Ukraine - largely absent in the Czech Republic - that the transition was itself the final criminal act of the communist regime and its officials. That perception was bound to encourage, or at the least excuse, corrupt behaviour by ordinary citizens in their dealings with the state. Some explicitly held the state responsible for the transition in the most all-embracing terms: "The state took responsibility for transition to the market" (Sevastopol 4); "It stepped forth as the initiator, so it is the answerable party" (Sevastopol 3). Others were more specific about the transition from communism being, paradoxically, a conspiracy by communist officials against ordinary citizens: "what's going on now is a lie of the first order" (KyivB 4); "it's clear that [the transition] is being effected with the old Soviet methods - the same special shares, special distributions, and special privileges everywhere" (Sevastopol 4); "everything is being cut down

- (iv) personal experience - what had actually happened to participants, their close friends or relatives
- (v) past and future - how things had changed since the fall of communism, their expectations for the future, their proposals for reform.

Moderators, however, retained the flexibility to adjust to the flow of the discussion. Participants might spontaneously raise the "scenario" situations, or respond with tales of personal experiences when they had only been asked about "typical" situations, for example, making later sections of the schedule largely redundant. Not surprisingly, this flexibility was used most in the Czech Republic and least in Ukraine. Variations in the sequence of discussion topics have no effect upon our analysis, since we index all comments according to their content, not the point in the discussion where they occurred but the omission of a topic altogether prevents analysis.

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[on the collective farm] in order to reduce the price to a minimum so that certain 'uncles' can buy everything free" (Sevastopol 5); "cut back on production, cut back on workers.... so that they could privatise them at low cost" (Sevastopol 6); "old managers remain in new structures.... they knew that the Soviet Union would be collapsing [and took] a combine harvester or any other machine" (Sholomia 2); "we've got nothing to cultivate land with, there's neither tractor nor combine" (Sholomia 3); "they have given out plots of land that are useless" (Sholomia 4); "the former managers are now directors of banks, private commercial ones" (Sholomia 4); "those in power are the same, but [our] life has become 100 times worse" (Volnovakha 1).

The criticism extended to elected postcommunist politicians. Elected deputies were widely seen as being in politics for their own personal advantage. Comments about elected politicians in Ukraine sometimes alleged indolence or incompetence: "they're far away from us and they don't know our expectations - they don't want to listen" (Nikolaevka 4); "many of them were sincere...but many are just incompetent....we have lots of illiterate people there" (KyivA 1); "there came offended people, they rule more with emotions than with their head" (Stryi 3). But frequently they alleged simple self-interest: "power is necessary for money" (KyivB 6); "even if one honest person finds himself there, he can't change anything because the majority do just so" (KyivB 1); "a good half of them...look more after their own interests" (Horodok 1); "everyone is for themselves" (Volnovakha 3); "why did it take so long to adopt the Constitution? Because all boiled down to the personal interests of deputies.....we've got nothing to buy a piece of bread with, and the comrades travel to Atlanta, can afford cruises" (Khartsyzsk 3); "they're stuffing their wallets" (Nikolaevka 3); "just live well yourself....shielding yourself with the help of deputies' immunity is necessary when your pocket is full" (Volnovakha 1). Such comments were absent from the Czech discussions, possibly because the Czech moderator did not raise this issue explicitly, but in neighbouring Slovakia where the moderator did raise the issue, participants also responded negatively though with a little more humour and less venom: "you couldn't trust them - they themselves do not trust each other...I do not have an opinion and if I did it would be negative" (BratislavaA 8); "it's the worst thing when communists start to build capitalism - they combine the worst qualities of both" "I agree" "I feel offended by being represented by people like this" (BratislavaB 4,8,1 successively); "everybody defends their own interest" "I strongly agree" "me too" (Dolny Kubin 6,7,1 successively); "here politicians strive to get into the cabinet in order to gain financially...it's like 'first of all we will steal everything, as for what happens afterwards, why worry about the future'" (Zvolen 7). In Slovakia there were a few more ambiguous comments however, which makes them at least relatively positive: "they only think about themselves...first themselves and only then the others" (Presov 5); "they are interested in people but only in the pre-election campaign" (Dolny Kubin 2); "they may strive to do something but I think they are very slow in doing it" (Presov 2).²⁹

The impact of the transition on the behaviour of officials

Attitudes towards officials generally, were more negative than positive in both countries. We systematically indexed all text-units which mentioned officials according to whether they revealed positive or negative attitudes towards them: many comments were neutral, non-evaluative, or combined praise and criticism, but in the Czech Republic the balance was negative by 38 percent to 11 percent, and in Ukraine by 27 percent to 7 percent. Even the frequent comment that the behaviour of officials depended on the

"personal quality" of the officials and could not be generalised implied a Laskian rather than Weberian bureaucracy, since one of the ambitions of the latter would be to make its service predictable and impersonal.

On the other hand, indexing text-units by whether they suggested the behaviour of officials under the postcommunist regime was now better or worse than under communism, indicated an improvement in the Czech Republic, even if only by the narrow margin of 31 percent to 23 percent; but a turn for the worse in Ukraine, by the massive margin of 45 percent to 8 percent. Significantly also, the Czech discussions were less critical of postcommunist change when talking about officials than when talking about other aspects of the change; while the Ukrainian discussions were even more critical when discussing the behaviour of officials than when talking about other aspects of the change.

In the Czech Republic the main criticisms concerned inefficiency, incompetence, unhelpfulness and bureaucracy rather than the need to resort to contacts and bribery. At the level of the ordinary citizen, bribery was more associated with the lack of consumer goods and services under communism, than with junior government officials in the postcommunist period. And some participants made excuses for officials: "unfortunately there are also people who really know how to bug an official" (PragueA 1). The minority of Czech text-units which suggested a change for the worse, focused more on increasing bureaucracy than increasing corruption: "the paper work has increased substantially" (Kutna Hora 9); "bureaucracy has grown and one comes into contact with officials more often now than in the past" (PragueA 3); "there's more paper work today as compared with the past...you need so many documents...we need more of these papers than in the past, and for some people it's beginning to be too many" (PragueB 7). And almost half the relevant text-units indicated no change: "they haven't changed, have they?" (Kutna Hora 7); "where new officials have taken over, they are often not experts, so nothing has changed" (Kutna Hora 4); "old structures survive....in relation to officials, those who accepted [bribes] before, accept them today as well, and the newcomers have learned very quickly" (Kutna Hora 5); "maybe it has shifted higher ...because of a type of mafia - in Perlovka [a street in central Prague occupied by prostitutes] they [the authorities] do not pay any attention to it; so it's clear there must be something in that." (PragueB 3).

Complaints about officials went beyond allegations of bureaucratic inefficiency in Ukraine however. Certainly they included inefficiency and unhelpfulness: "nobody gives comprehensive information" (KyivA 5); "low level officials exploit their authority" (KyivA 3); "[officials] choose who they're going to receive....a simple problem always turns into a complicated one" (Striy 3); "you come and there's a chairman but no secretary, or there's a secretary but no chairman" (Sholomia 4); "one has to wait for half a day until he'll look into it there" (Sholomia 1); "reluctance to look carefully into the problem with which a person comes" (Khartsyzsk 6); "you sit in front of a door for two-three hours" (Volnovakha 1); "he doesn't want to bother with it" (Nikolaevka 2). But they also included extortion: "there are decent people [officials]...and it is great to deal with them...but the system lets them take bribes...encourages bribes" (KyivA 2); "if it's urgent you should go with a present, and then your problem will be solved more simply, you'll be treated with respect, the problem will be solved quickly, competently" (KyivB 2); "now...you may be told at every turn which sum of money, whom to give" (Horodok 1); "if you want to

solve [a problem], you have to take something along" (Khartsyzsk 3); "like from a good joke - 'give me a cigarette, give me a match' - 'maybe I could give you my lips too?'" (Khartsyzsk 5).

Moreover the reasons given for why things had got worse under the new regime had a quite different flavour in Ukraine from the Czech Republic. A few text-units mentioned confusion caused by rapid changes in the law: "there's one law today, another tomorrow, a third the day after tomorrow" (Volnovakha 2). Some partially excused officials because their salaries or perks had declined: "they had no bad salaries [in the past]" (KyivB 4); "any junior official [under the communist regime] could get lots of social benefits for himself" (KyivB 5); "the same militia, they [now] get a pittance" (Stryi 5); "you come to a doctor...who doesn't have a salary" (Stryi 4). But the most frequent explanation was that officials were "afraid" under communism, but "afraid" no longer. Afraid of losing their jobs: "they were afraid of losing their place" (Horodok3); "they were afraid of losing their position" (Horodok 1). Afraid of the party: "they were punished...there was discipline. They were afraid of the party organisation" (Stryi 3); "there was a party....they were afraid of it" (Horodok 4); "there was a kind of party discipline" (Sholomia 2). Or simply afraid: "they were afraid, they were just afraid" (Sholomia 6); "maybe then they were afraid" (Volnovakha 1); "fear was at work" (KyivB 5); "it was stricter before" (Volnovakha 5). But no longer: "they aren't afraid [now] and they don't respect the law" (Horodok 3); "[now] they're afraid of nothing, no one - that's why there is no hope for the better" (Khartsyzsk 3). The one or two references to fear in the Czech discussions were tentative and qualified as well as unusual: "depends on the place, but I think they used to be more frightened" (Olesnice 6); "there may be certain institutions where people [citizens] formerly did not dare give a bribe, I mean police or customs authorities" (PragueB 1). But what was tentative and infrequent in the Czech discussions was assertive and frequent in the Ukrainian.

Table 5: Attitudes to postcommunist changes

	Text-units about changes which do not mention officials		Text-units about changes which mention officials	
	Czech Rep	Ukraine	Czech Rep	Ukraine
	%	%	%	%
Better now	27	17	31	8
Neutral	44	52	46	48
Worse now	35	31	23	45
(Total N)	(97)	(378)	(64)	(183)

Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.

Dealing with officials: what and why

What kind of officials did participants talk about? Obviously, in the "projective situations / hypothetical scenarios" section of the discussion, the types of officials were at least partially determined by our schedule rather than the participants themselves. Our standard scenarios included problems with getting a relative into a hospital and getting proper treatment (drugs, painkillers etc.), problems with public housing (repairs, moving), privatisation (housing in the town groups, land in the village groups). In Ukraine we added special scenarios about obtaining internal and external passports; and in the Czech Republic about being stopped by the traffic police for speeding. In discussions with minority groups (Crimean Tatars, Turks and Hungarians) we asked about problems of schooling in the minority language.

But scenarios only accounted for a minority of text-units in which strategies for dealing with officials were mentioned - 20 percent in the Czech Republic and only 12 percent in Ukraine. The bulk of references to officials came in reply to neutrally worded questions about "the typical situation" involved in dealing with officials, or about the participants own experience. Quite naturally, general discussion of the "typical" behaviour of officials often omitted to specify a particular type of official. So 30 percent of relevant text-units in the Czech discussions and 47 percent in Ukraine were not focused on one particular category of official. Amongst the rest, officials in health care, local government, and the police/militia figured especially prominently. They were supplemented by a range of other officials in social security offices, labour exchanges, local authorities and, in some groups, financial, tax and land registry offices.

Perhaps more important than the type of official was the motivation for the interaction. Indexing text-units on dealing with officials according to whether the citizen appeared to be seeking an entitlement or a favour showed that the Czech discussions focused more on seeking favourable treatment than fair treatment by a margin of 45 percent to 34 percent; but in Ukraine they focused more on the minimum objective of obtaining fair rather than favourable treatment by the even larger margin of 50 percent to 18 percent. Fair or unfair treatment typically involved routine processing of documents relating to employment, pensions, child allowances, tax, marriage, passports, land registration, moving flats, or getting in to hospital. It was regarded as an unfair infringement of citizens rights when they were treated unhelpfully, when officials refused to do business long before the formal closing time of the office, refused to authorise repairs to state flats, lost documents, took many months to process an application for a pension or for land restitution, or showed little concern for citizens problems. For example: "[when a man took his wife to hospital in an emergency situation] the nurse goes to wake the doctor up.....he fell asleep three times....she had to wake him up three times (Olesnice 1); "everybody brought the documents for the subsidies...they [the officials] lost all the documents" (Horodok 4); "a water main has broken in the street, the water/sewer office doesn't help" (Khartsyzsk 6); "queues of these old feeble women and old men are staying in order to receive the grant" (KyivB 4); "his passport had been lost....I went to get him [her brother] from the morgue - they gave me the body and said 'we're not giving you any kind of copy [including certificates needed to claim benefits] about the death...[unless you] give us the passport' " (Nikolaevka 4).

Favours often consisted of getting something done faster than could reasonably be expected: "if I pay some extra money they have it ready for me in an instant....an example, I need an extract from the land register and I know they have fixed terms but

I need it today" (Hradec Kralove 4); " some [medical] examinations could be speeded up" (Hradec Kralove 4); "just after closing time there was this other guy and he says, look miss, I will pay you for half an hour's work" (Olesnice 2); "just to make the bureaucratic machine work faster" (Striy 4); "in the passport department they say, 'do you want to get this document faster?'" (Horodok 1); "he has a big pile of work accumulated and I need something done faster" (Nikolaevka 3).

Other favours involved avoiding legal costs in various ways: "I forgot to hand in my tax return by May 3rd, and they, as friends, wrote April 29th" (Olesnice 4); "for a speed of 165 km/h they first threatened legal [proceedings, then it went down to a 2000 crown fine on the spot and finally it changed to 500 crowns which I gave them very quickly" (Kutna Hora 8); similarly, "I paid 200 crowns knowing that it could have been 800" (PragueB 3); "I go for a preventive examination twice a year and since at my age I am only allowed to go once, I always bring them coffee and the dentist turns a blind eye to it and does not charge me anything" (PragueA 6). "if you go through the chief then there would be an official sum of money, and if you would talk it over with the secretary, well, it would be..." (KyivB 1); "the customs officers saw that we had alcohol...we say 'didn't someone tell you about us?'" (Horodok 4).

Others involved something more: "when I tender for a job.....now I need a friend [in the office] who can hold jobs for me" (Olesnice 2); "everybody knows that to get into university he has to give something" (Horodok 6); "gave money...to guarantee [university] admission" (Sholomia 6); "is your son getting bad [school] grades?...well if you bring something" (Khartsyzsk 3); "mum, that girl got an excellant because..." (KyivB 5); "you can even get your foreign passport in a week...without changing this old [internal] passport for the [new] Ukrainian one...there is a law...until you change your [internal] passport to the [new] Ukrainian one, it is impossible to get your foreign passport without a bottle of cognac and a box of sweets" (KyivB 1).

Table 6: Objectives

	Czech Rep	Ukraine
	%	%
Rights	35	50
Favours	45	19
Unclear	25	33
(Total N)	(437)	(1031)

Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.

Dealing with officials: how

How can citizens deal with officials? What coping strategies can they use when faced with unfair (or unacceptable) treatment? There are many possibilities.

Acceptance: They can simply accept the treatment they are given; do what they are told and hope for the best: "pay [the traffic fine] in any case and be very polite and humble and it [the fine] will be less" (Kutna Hora 3); "when you want to afforest a piece of meadow, you spend a year running round offices" (Olesnice 6); "my husband died ...and I applied for a widow's pension....I had to queue for many other things....the worst was ...where I had to queue for four hours....it's a real burden for me and it isn't finished yet" (PragueA 6); "unfortunately they chucked me out" (PragueB 3); "they were old people and they were alone...and people like that do not fight for themselves" (PragueB 4); "you have to stay there for a long while to have your question resolved" (Horodok 1); "they can scream at you if they do not like the way you look, dressed - they can tell you to come some other time...you turn and leave with nothing" (KyivB 4); "one place - you take the paper there, bring it to another place - the communal agency or whatever - take a paper from your employer - there. Just what have we become? We - I have become an ordinary courier" (KyivA 2); "this is the police...if they say you need such and such a paper, then you have to bring it to them, or else they won't lift a finger" (Nikolaevka 1); "without rights, without land, without property" (Sevastopol 5); "without our own land...the return of the property is out of the question" (Sevastopol 6); "I clearly understood from the very beginning that it would not do any good...I came there, turned round, and went home" (Striy 4); "eight months have passed, and nothing I hear" (Volnovakha 1).

Persistence: They can immitate the widow in the bible, faced with an unjust judge, and be persistent in the hope that the official - like the biblical judge - will eventually decide it is more trouble to continue refusing the request than to grant it: "I prefer annoying them by saying a hundred times..." (Hradec Kralove 3); "I stuck to my guns and managed to sort it out, although I had to go there many times" (Hradec Kralove 6); "they throw me out of some places, I have to come another time, but I have to, right" (Olesnice 4); "drop in there every week and when they see me at the door they say to themselves 'Oh God, she's here again, let's give it to her and get rid of her' " (PragueB 6); "it's like by inertia that these elderly people go again and again to the chairman of the executive committee, because there's nowhere else to go" (Khartsyzsk 3); "you have to be there every day...it takes visiting bureaucrats to death - up to when it pesters" (Volnovakha 1); "I was paying a visit to the head of the executive committee every day" (Sholomia 4); and with, we assume, poetic exaggeration "I have the experience of going thousands of times to receive a certificate" (Sholomia 3).

Argue/threaten: They can argue with the official or even threaten them - argument covers everything from quiet reasoning to loud abuse: "I said I must have given you the [old] passport or you wouldn't have given me a new one....she was puzzled. apologized, but if it had happened the other way round, if we made a mistake..." (Olesnice 4); "I stood there like this, grabbed the technician...I swear a bit, like the others do" (Olesnice 2); "I would require that he [traffic cop] could prove it" (PragueB 5); "I did talk them out of fining me several times in the past" (PragueA 3); "I'd say the officials are afraid of them [gypsies]...and when a horde of them march in they [the officials] are completely lost.....but I try to convince them [officials] by the force of my argument" (PragueA 4).

The Ukrainian approach to argument was more robust than that, to say the least: "I raise my voice and emphasise to the person that he or she is not at the place where he belongs" (Horodok 3); "I would probably go crazy" (Volnovakha 4); "make a big fuss...I had to throw a hysterical fit - then they gave it to me" (Khratsyzsk 2) - though "my wife would make a big fuss, but I would probably most likely look for money" (Khratsyzsk 5); "when I yell at someone" (Khratsyzsk 1); "if you do not need a passport urgently, or if you do not have money, you can be rude and shout at them" (Sholomia 4); "I was really mad...when a person enters the office and opens the door with his leg, then the official knows that this is a tough one to deal with, and they will at once give away everything that person wants" (KyivA 1); "we have to take them by their throat" (KyivA 6); "people get nervous, blow up, yell at each other....here my daughter burst into tears...I phoned the KGB and asked 'who are you trying to catch?...we're not in Moscow, we're in Ukraine, on our own land!'" (Sevastopol 6). In the Czech accounts, "argument" sometimes had the character of a parlour game, but in the Ukrainian accounts they consistently had the character of a street brawl.

Appeal: Appeal to higher authority, to the press, or to elected officials: "I would simply go higher" (Hradec Kralove 6); "go up the ladder" (Horodok 2); "to the head doctor...to the District Executive Committee...to the passport department head" (Horodok 1); "to the village soviet" (Nikolaevka 1). Or even higher: "I wrote to the Region executive office" (Volnovakha 1); "just today I have written to the Mayor" (PragueA 7); "a Tartar turns to the Medzhlis first of all" (Sevastopol 4). Or right to the top: "she wrote to the Minister" (Olesnice 3); "she started writing to the Presidential Office, to Parliament and I cannot remember the third institution she turned to, and then the ice broke" (PragueB 1); "my father gave up on it and wrote a letter to the Supreme Council" (KyivA 6); "we have appealed to the Supreme Soviet of Ukraine many times" (Sevastopol 5). Some thought it a useful strategy: "usually, very often, this works, fear of the boss..I go up the ladder" (Khatsyzsk 1); "Kirnos, the head of the executive office spoke on the phone so those guys had to come next day and do everything (Volnovakha 3); "I want to say thank you to comrade Ignatenko for the fact that my problem...was solved right away" (Khatsyzsk 2). But others did not: "then it was easier, when there was the first secretary of the party city committee...now there's no power like that" (Khatsyzsk 3); "we try to appeal for help as little as possible" (Khatsyzsk 4).

Bribery: There remains, however, the use of contacts, influence, and bribery which featured so much both in the academic literature and everyday conversations about the FSU/ECE³⁰. Bribery can vary from a box of chocolates or a packet of coffee - usually described by both donor and recipient as a "present" rather than a "bribe" - to what is called in the Czech Republic "an envelope" and more plainly in Ukraine as "money" or "dollars": "I pay some extra money...another option is a gift" (Hradec Kralove 4); "money as a rule is not 'coupons' [Ukrainian temporary currency]" (KyivB 4); "people give dollars" (Sholomia 4). In general terms this was seen as widespread, especially in Ukraine: "now, anywhere you go, they can even tell you how much, whom to give, and for what sort of matters" (Horodok 1); "they'd better have a price list" (Sholomia 5); and often involuntary: "maybe you wanted to, maybe you didn't want to, but they took it from you - they tell you a specific sum" (Kharstyzsk 6); "if a bureaucrat has even a slight chance to make something on you, he will do everything in order to get it from you" (KyivA 4).

Contacts: "In order to get to any of our authorities you have to be brought to them 'on a tray'" (Striy 3); "we told them the name of the high official of that custom point who could help us get through....we knew each other before...their head told the officers to leave us alone and let us through" (Horodok 4). The contacts needed for influence or bribery may be chosen because they are close to the citizen - family, friends, colleagues from work, school or university, perhaps near neighbours: "I was lucky; I lived in a house where in each apartment lived a lot of people - and I lived with the chief of police" (KyivB 5); or because they are close to the targetted official and therefore known to have access and influence - a secretary or a nurse in a hospital may provide access to a doctor, for example. Some may be old acquaintances of the citizen now pressed into new service; others are "discovered" specially for the occasion. In the Czech Republic, contacts ("znami") were acquaintances of various kinds - "family, friends, former classmates" (Hradec Kralove 3); "friends or relatives" (Olesnice 4); "rather people I know, who help me, but they are not contacts in the true sense of the word" (PragueB 7) - rather than specialist "fixers". In the Czech village of Olesnice the help of friends was important and did not require payment: "tit for tat" (Olesnice 1); "I'll do what he needs next" (Olesnice 4); "she [a nurse who gave treatment on a Sunday] would not take money....she even hesitates over the chocolates, you instead give them to her children" (Olesnice 4). In Ukraine such people were also important though there was rather more emphasis on searching for useful contacts, and on paying them for their services: "of course, acquaintances wouldn't do anything for you without money either" (Sevastopol 6); "if you have to give a rouble, then through a go-between it'll take two roubles because you have to give the go-between something" (Sholomia 5).

Other strategies: In the course of our discussions other strategies were mentioned. There were a very few references to the possibility of forming some kind of protest or action group, or going to court. Rather more frequently participants mentioned various "knowledge" based strategies which ranged from checking up on the law before meeting an official, or even taking a lawyer along to the meeting, to strategies that came close to the use of "contacts" - "knowing the ropes", inside knowledge about how a bureaucracy operated or who had the power of decision, not using a "contact" with a specific person, not doing any favour for an official, but knowing which official (by position rather than by name) to approach. Such knowledge is not the same thing as use of contacts but it merges seamlessly into it. Finally there were a miscellaneous set of other strategies, mainly concerned with personal appearance and behaviour, and frequently described by participants as using "psychology" - a pleasant smile, a word of sympathy for an overworked official, an attempt to establish a degree of human rapport, a style of dress that was neither so slovenly as to fuel the official's arrogance nor so stylish as to excite the official's jealousy: "if a person is courteous" (Horodok 3); "speak politely" (KyivB 3); "I see you have a lot of work here" (KyivA 5); "it depends on sex-appeal or on psychology, yes just that, how to talk the policeman round" (Kutna Hora 7); on appropriate dress "if you go to the revenue office to file a tax return, overalls would certainly be a better choice [than a smart suit]" (Hradec Kralove 4); "when I got dressed up and was wearing something better than the women [officials] there, everything went wrong" (PragueA 3); "act the idiot" (PragueA 5); or, try a joke such as, in response to being stopped for speeding, "I told him [the traffic cop] I usually go much faster here but I couldn't because I was behind a truck...and thanks to that I didn't run you over...he started to laugh too" (PragueB 2); "When I yell at someone, he could even refuse to take the bribe and totally spit on me" (Khartsyzsk 1).

Most of the text-units that mentioned coping strategies referred to what citizens would do, or had actually done, under the postcommunist regime - 85 percent in the Czech discussions and 94 percent in Ukraine. A very few referred to the old regime - usually (though not always) in response to an explicit question about how things had changed since the fall of communism. Rather more, 13 percent in the Czech Republic and 6 percent in Ukraine, were negative statements denying that some strategy was used, would be used, or had been used; nearly all of these denials referred to bribery.

Bribery was the most frequently mentioned strategy in both countries, but it was also the one on which they differed most. It was mentioned in 26 percent of relevant Czech text-units and 42 percent in Ukraine. Argument was mentioned more in the Czech Republic (12 percent versus 5 percent), as were the use of friends and contacts (17 percent versus 11 percent), or "psychology" (8 percent versus 3 percent); but appeals to higher authority were mentioned more frequently in Ukraine (11 percent versus 4 percent). Passive acceptance was mentioned about equally, at around 17 percent, in the two countries.

Within Ukraine contacts got more mentions in west Ukraine (20 percent) and appeals in east Ukraine (19 percent), but the emphasis on bribery was strikingly similar throughout Ukraine: 39 percent in the three east Ukraine discussions, 45 percent in the three west Ukraine discussions, and 50 percent in the two Kyiv discussions. The one discussion with Crimean Tatars - mainly activists, including members of the Medzhlis (a Tartar representative body) - was exceptional: they gave unique emphasis to passive acceptance (40 percent compared to 17 percent in Ukraine generally); and unusually little attention to bribery (23 percent). The Tartar discussion group also mentioned the "appeal" strategy quite frequently (15 percent) both in connection with appeals to the Medzhlis and to the Ukrainian parliament. Correct or not, that was certainly the image of themselves they wished to project.

Table 7: Coping strategies		
	Czech Rep	Ukraine
	%	%
NOW	Now total 85	Now total 94
Accept	16	17
Persist	5	6
Argue	12	5
Bribe	26	42
Contact	17	11
Appeal	4	11
Knowledge	6	3
"Psychology" etc.	8	3
PAST ONLY	Past total 4	Past total 2
Bribe	3	1
DENY	Deny total 13	Deny total 6
Bribe	10	4
(Total N)	(626)	(1053)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.		

Table 8: Coping strategies - by region in Ukraine				
	East Ukraine	West Ukraine	Kyiv	Crimean Tatars
	%	%	%	%
NOW :				
Accept	15	11	16	40
Persist	5	7	5	5
Argue	7	3	6	6
Bribe	39	45	50	23
Contact	6	20	9	9
Appeal	19	6	4	15
Knowledge	5	1	6	1
"Psychology" etc.	1	2	4	5
Court	3	3	0	0
DENY:				
Bribe	5	4	3	3
(Total N)	(343)	(339)	(245)	(126)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.				

Bribes, tokens and presents

Many of the participants in all the discussions would refuse to accept that some of the text-units we have classified as being about bribes were about anything more than "presents" ("darky" in Czech), "tokens" ("pozornosti" in Czech; "viddyaka", "podiaka" in Ukrainian), "little brakes" ("tormozok, tormozka, tormozochek" in Russian); "a gift..I simply make the atmosphere more pleasant" (Hradec Kralove 4); "more as a token" (Kutna Hora 9); "how much I'm grateful" (Kutna Hora 8); "not a bribe, rather a gift" (Olesnice 4); "a token out of politeness" (PragueA 2); "a token out of decency" (PragueA 3). There was some discussion in the focus groups about the semantics of "presents" versus "bribes". According to some participants the critical distinction was between bribes given before the official provided a service, and presents which were given afterwards; or between presents which were given voluntarily and bribes which were extorted by the official. Unfortunately, neither of these distinctions is clear in practice. Citizens may need to keep open the possibility of going back to the official for another service - so a present given after one service is actually a pre-payment for future access. Similarly while extortion may be an open demand for a fee, more often it is achieved by subtle

moral pressure (lamenting an excessive workload, or emphasising what special efforts the official is making to solve the citizen's problem, for example); or by delaying tactics (repeatedly asking the citizen to come back again next week, for example) so that the frustrated citizen is eventually unsure whether they are offering an extorted bribe to get fair treatment or a present in return for a special favour; or by exploiting the confusion between a legitimate charge and a bribe (especially for medical services, for example). In the Czech Republic there were scarcely any references to extortion, though presents were consciously used to build continuous relationships.

Table 9: Type of exchange				
	Czech Rep		Ukraine	
	Now used	Deny use	Now used	Deny use
	%	%	%	%
Friends and contacts	40	13	23	11
Reciprocal favour	3	0	4	4
Small bribe/present	22	30	22	33
Big bribe/ cash	39	70	57	67
(Total N)	(218)	(46)	(433)	(27)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.				

Other participants suggested that presents were small and not monetary: "a flower", a box of chocolates, a packet of coffee, cigarettes, some home-made jam or home-grown potatoes, a meal or "a bottle"; while bribes were larger and usually in cash ("some extra money") though they could be a valuable commodity: "in general a small gift is a chocolate, flower or something small, while a Mercedes would be a clear bribe" (Hradec Kralove 4). On the borderline, one participant suggested he would, if necessary "slaughter a pig, finish off a pig, bring in its hind leg, and say [to the official] 'hey mister'" (Nikolaevka 3). Indexing all text-units about coping strategies according to whether they involved the use of friendship with implications of reciprocal favours, explicit statements about reciprocal favours, presents (defined as small, usually non-monetary) or bribes (larger, usually monetary) shows that Czech participants talked most about the use of bribes and friendship, rather less about presents and very little about an exchange of favours that did not involve friends. In Ukraine they talked far more about bribes than presents and relatively little about friends.

Strategies: targets

Different strategies were mentioned in connection with different kinds of official: participants were over twice as likely to suggest "acceptance" in dealings with the police as in dealings with other officials. Dealings with the police prompted much discussion about the use of "argument" as a strategy: its use was mentioned twice as frequently with the police as with other officials, but participants also really only bothered to deny its use when they were discussing the police. The use of contacts was seldom mentioned in connection with the police, but bribery was mentioned almost as often in connection with the police as with other officials - in the Czech Republic usually in connection with "reduced" traffic fines for which no official receipt was given.

Projective situations

In the Czech discussions there was little understanding or sympathy for the situation of being unable to pay the rent, and certainly not for simple non-payment. In the situation of being forced to move from a flat which was reclaimed by a previous owner (restitution) the general feeling was that the law provided adequate protection (an equivalent flat had to be provided by the landlord) and no hope of getting especially favourable treatment from officials by use of bribes or contacts. The idea of having to use such methods to get a relative into hospital, still less to get the hospital to provide proper treatment including drugs and anesthetics, was regarded as totally unrealistic in the Czech Republic - "hardly possible, absurd" (PragueB 5), "impossible to imagine" (Hradec Kralove 4) - but normal in Ukraine. Passports were easily available in the Czech Republic and a high speed service was provided at an extra, but official, charge: "there's no point in giving them anything there because it's done sufficiently fast" (PragueA 1) - quite different from Ukraine. Czechs might "negotiate" with a traffic cop for a lower "fine" but typically: "I would never try to bribe them, they might charge me with bribing a public official" (PragueA 6); "what? you wanted to bribe me, that's another 1000 crowns [fine]" (Hradec Kralove 4).

In the village discussion in the Czech village of Olesnice, three of the seven participants had got land back from the cooperative farm under the restitution laws but they complained about the bureaucracy and delays involved and alleged that other people had used corrupt methods to get more out of privatisation/restitution than they had themselves. Their own experience of bribery had been less successful: "not really, because the woman [official] didn't take a bribe; he [pointing to husband] even scolded her" (Olesnice 3). Land privatisation had caused more problems in Ukraine where power holders had grabbed assets, as we noted earlier, and also reversed agreements to distribute land.

Strategies: objectives and success

Strategies were clearly related to objectives. Acceptance, persistence, and argument were mentioned much more frequently in connection with attempts to get fair treatment; and conversely, bribes and contacts were mentioned very much more frequently in connection with attempts to get favourable treatment. In the Czech Republic bribes were mentioned in 42 percent of text-units about attempts to get favourable treatment but in less than half as many, 18 percent, about attempts to get fair treatment. In Ukraine bribery was just much more frequent in every context: "Do you mean you need to pay only when you are doing something 'illegal'?" asked the moderator in the Sholomia discussion; "I think when everything is legal people pay less" came the re-

sponse. (Sholomia 2). But even in Ukraine, where bribes were mentioned in 28 percent of text-units concerned with obtaining rights, they were mentioned in far more, 73 percent, of text-units concerned with obtaining favours.

This is a point of some importance. Citizens can reasonably complain when they are forced to take extraordinary measures to obtain their rights, but they cannot reasonably complain when they use bribery to obtain special favours. Complain they may still do, but their complaints lack moral force and they know it. There is no need to take such complaints too seriously - unless, of course, the whole system is so perverse that what are favours within it would be rights elsewhere. For example, if the passport authorities are so slow that they regularly take six months to process a simple passport application, a bribe to speed up the process might be regarded as an attempt to get favourable treatment within an incompetent system, but treatment that might be considered no more that reasonable elsewhere.

Table 10: Strategies by objectives				
	For rights	For favours	For rights	For favours
	%	%	%	%
NOW:				
Accept	25	12	25	3
Persist	13	2	7	2
Argue	20	11	6	1
Bribe	18	42	28	73
Contact	11	15	8	21
Appeal	7	4	17	2
Knowledge	3	3	4	0
"Psychology" etc.	5	8	2	1
Court	0	1	4	0
DENY:				
Bribe	4	10	3	5
(Total N)	(151)	(196)	(512)	(195)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.				

On balance, personal statements about the use of the various strategies tended to indicate an ultimately successful conclusion. Unsurprisingly, since our focus was on unsatisfactory behaviour by officials and no strategy of any kind was involved when the citizen received entirely satisfactory treatment, the coping strategy of "acceptance" (of unfair or unsatisfactory treatment) was associated more with failure than success; not always failure however, because sometimes "acceptance" involved patiently doing what they were told - putting up with unreasonable demands for more documents, or with visits to many different offices, or coming back at a time more convenient to the official, or simply queuing for hours on end - before eventually getting what they wanted. In the Czech Republic, all the other strategies were associated more with success than with failure, the use of contacts most of all: "I think if you have friends they will take care of everything..... I've got friends there...and there's no problem, but when somebody [else] comes there...they don't talk to him at all" (Olesnice 4); "anybody can be managed in this way by using contacts" (PragueA 5); "one knows the path has been already cleared a little" (PragueA 3); "if I had not known the person there I would have waited say five to six weeks, maybe seven, and in this way [by knowing an official] it was ready in two or three days" (PragueB 5). In Ukraine, persistence and argument were less successful - on balance as likely to lead to an unsuccessful as a successful conclusion; but bribery, contacts and appeals were associated with success, bribery most of all: "I put the bag on the table...[he] told me to come next day to get the passport" (Horodok 4); "a small 'little brake' and everything was decided" (Khartsyzsk 3); "they told me to pay a sum of money...and they gave me all the papers that I needed" (KyivB 4); "I gave her the plastic bag. She says than you. Wait five minutes; everything will be done" (Nikolaevkha 4); "I gave him twenty dollars and he signed it" (Striy 2).

Table 11: Success rates in personal statements		
	Czech Republic	Ukraine
	%	%
Accept	26	22
Persist	78	47
Argue	81	50
Bribe	93	*89
Contacts	*96	79
Appeal	66	76
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. In this table relevant text-units are those in which the particular strategy was discussed in a personal statement and the outcome was clearly positive or negative.		

Gossip or dishonesty?

Earlier we referred to the "culture of complaining" that was cynically encouraged by the Soviet authorities. We need to distinguish insofar as we can - and it is not easy - between idle gossip, even if it is based on newspaper scandals, and well-founded personal grievances. To what extent do complaints about officials reflect general gossip and to what extent do they reflect real personal experience? There are many examples of situations in which the public have generalised fears or complaints that are based on media stories, rumour or gossip but which simply do not correspond to the realities of their lives. Hence current publicity campaigns by the British police to point out that those who most fear street violence are often the least likely to experience it.

We indexed all text-units according to whether they were about

- (i) general hearsay / gossip
- (ii) the hypothetical scenarios we put to them
- (iii) statements about friends and acquaintances
- (iv) personal statements.

These categories closely parallel the sections of the original schedule of questions we gave to the discussion moderators, but they are not quite the same. Moderators were not required to stick slavishly to the schedule if the discussion flowed differently; gossip and personal statements could occur at any stage in the discussion, often mixed together; and in particular, firm personal statements could be about willingness or intention as well as past experience, though most often they were about actual experience. Most of the discussion, in both countries focused either on general hearsay and gossip or on personal statements, with less on our scenarios and very little about friends and acquaintances beyond the immediate circle of the family.

Table 12: Styles of talking about officials		
	Czech Rep	Ukraine
	%	%
Hearsay	44	58
Scenarios	20	12
Others	4	6
Personal	44	30
(Total N)	(625)	(1045)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.		

As the discussion moved from general gossip through hypothetical scenarios to personal statements the nature of the discussion changed sharply. First, the balance between seeking rights and favours changed. In the Czech Republic, 29 percent of general gossip, but 41 percent of personal statements focused on rights rather than favours; in Ukraine 37 percent of gossip, but 58 percent of personal statements focused on rights.

More important however, references to different coping strategies also changed as the discussion moved from general gossip through hypothetical scenarios to personal statements. In the Czech Republic the use of bribery was mentioned in 36 percent of relevant text-units about general gossip, but in only 22 percent of those about hypothetical scenarios, and in 16 percent of personal statements; and, in addition, the use of bribes was explicitly denied in only 7 percent of the gossip but 13 percent of the personal statements. Indeed some text-units combined an assertion that bribery existed with a personal denial: "I myself have not used it but you can understand it in this way, why not?...I would not try it, but I know people who have done it" (Hradec Kralove 2); "I have never given a bribe, either under socialism or today, but it's true I have never been after anything attractive" (PragueB 4); "in such a situation I might...condescend to do something like that, but I wouldn't like it" (PragueA 7); "not from our own experience, rather from what I hear" (Olesnice 4).

Table 13: Objectives by talk style				
	Czech Rep		Ukraine	
	Gossip/ Hearsay	Personal statement	Gossip/ Hearsay	Personal statement
	%	%	%	%
Rights	29	41	37	58
Favours	46	38	19	21
Unclear	34	24	44	23
(Total N)	(192)	(204)	(597)	(309)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.				

Conversely only 5 percent of the Czech gossip mentioned argument as a strategy but 21 percent of the scenario responses and 17 percent of the personal statements. Acceptance and persistence were also much more frequent in the text-units about scenarios and personal experience than those based on hearsay. References to the use of contacts was almost as frequent in personal experience text-units as in gossip, however.

Overall there is a striking contrast between the repertoire of Czech coping strategies discussed in terms of gossip and that discussed in terms of personal behaviour: narrowly focused on contacts and bribery in gossip, but involving more frequent references to acceptance, persistence and argument, and less to contacts and bribery, when the discussion took a more personal turn. There were few "dramatic" stories of official misbehaviour in the Czech discussion groups, and those that there were seemed to have been culled from the press.

Not so in Ukraine however. There too, the frequency of references to acceptance, persistence and argument increased while references to contacts and bribery decreased as the discussion took a more personal turn - but not by so much as in the Czech Republic; and denials of bribery did not increase. Thus, in the Czech Republic the excess of positive over negative statements about bribery ran at 29 percent in gossip but at a mere 3 percent in personal statements; while in Ukraine it ran at 41 percent in gossip and still at 29 percent in personal statements.

Table 14: Strategies by talk style						
	Czech Republic			Ukraine		
	Hear-say	Scen-arios	Perso-nal	Hear-say	Scen-arios	Perso-nal
	%	%	%	%	%	%
NOW						
Accept	10	25	18	16	15	18
Persist	3	9	7	4	7	8
Argue	5	21	17	4	4	7
Bribe	36	22	16	46	36	33
Contct	20	16	16	12	14	10
Appeal	3	4	4	8	15	17
Knowledge	7	1	7	4	1	5
Other	11	3	8	2	3	4
PAST:						
Bribe	5	0	1			
DENY:						
Bribe	7	8	13	5	3	4
(Total N)	(277)	(128)	(275)	(612)	(130)	(314)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column						

Indeed, in the Czech Republic, the few references to bribes in personal statements were seldom clear cut. Some were clearly in the token category: "I bowed to them, brought them coffee and in this way prepared them to work in my favour" (PragueA 3). Some were merely about willingness, albeit personal: "only if, say, I had health problems...or my children" (Kutna Hora 5). Some were expressed in terms of bargaining with a policeman or a local authority employee. Some were only implicit admissions: "offering money straight away to a person I don't know on our first meeting, no, not at all" (Kutna Hora 2). And a few text-units spuriously associated assertions of bribery with personal statements by combining personal denials with more general assertions that bribery was used by others - nothing but a misleading technicality unavoidable in this sort of qualitative analysis. But personal admissions of monetary bribes were few in the Czech Republic: while some claimed "you can only speed things up if you've got the dough" (Olesnice 4); "one has to bribe...he who bribes, gets the work" (Olesnice 2); more typical of personal experience were remarks such as "my husband is strongly against it, so I do it without him knowing about it....my grannies give me [money for that]" (Kutna Hora 3);

By contrast, there was nothing misleading, ambiguous or qualified about many of the Ukrainian text-units that linked bribery to personal statements. Every group discussion in Ukraine, apart from the Crimean Tartar group, produced specific personal statements about the use of bribery.

Sometimes it was not clear whether the bribery was to obtain favour or merely fair treatment: "they do collect [customs] taxes on the goods people carry, but also we carry cash, that is the bribes" (Horodok 4); "it was necessary to pay large amounts of money" (KyivB 3); "we also paid money and my grandfather was hospitalised" (Sholomia 6); "he wanted to check me out and take another patient, but if I paid him, he would let me stay" (Sholomia 1).

Sometimes it clearly was for a favour, at least for an unusually prompt response: "I had to get the external passport and I needed it urgently...he says 'take a bottle of cognac and go to the militia'...as soon as he [the militia man] saw the bag he understood why I came" (Horodok 4); "there was another instructor who had a tariff: a bottle of vodka for [an undeserved pass in] the mid-term test" (Khartsysk 1); "I bring him something...he did it for me, he just drops that [other] work for now, and does my thing for me...it's like that everywhere" (Nikolaevka 3); "'do you have a document?' No document. Well, I went, naturally to the market and brought back a plastic bag. Well, what could I do? I brought champagne, chocolate, mandarin oranges, some candy, here you go....I gave her the plastic bag. She says: thank-you, wait five minutes, everything will be done, no problems" (Nikolaevka 4); "they told me to pay a sum of money - about two millions - and they gave me all the papers I needed [even though it was] not in the working hours" (KyivB 4); "when I was taking entrance exams to the university, I knew a guy who gave money to a mediator, and the mediator gave money to a person who was supposed to guarantee the admission, but that person died" (Sholomia 6); "just to make the bureaucratic machine work faster, I brought a box of candy" (Striy 4); "they changed my old passport for the new Ukrainian one just in one and a half weeks...[for] 1.2 million - photos, fees and something else" (Volnovakha 3). Sometimes it was at least partly out of gratitude and relief: "I had an operation last year, a professor did it...we all knew, the patients talked about it, that he only took things after the operation" (KyivA 1).

But on other occasions it clearly was more a case of extortion by the officials than of favours sought by citizens: "I had to give it once to the assistant obstetrician" (Horodok 5); "they put you in a situation that you have to" (Horodok 6); "in the situation where you understand that you have to give" (Horodok 2); "our mother was going to have surgery and the surgeon said that she was to give so much to the surgeon, so much to the neuropathologist, so much to the anesthetist, and so much to the assistant. He directly said how much" (Horodok 4); "it was a paid service, even the operations were paid" (Khartsysk 2); "they told me straight out" (Khartsysk 5); "right away I told her, my wife, 'give them something [for an operation in Donetsk] - it'll be solved right away'. No, she stretched it out until the fourth time...and right away [when at last she did give something] everything was resolved" (Khartsysk 1); "there they say loud and clear, how much for what" (Khartsysk 3); "the communal agency protested - 'what, you couldn't give him [the workman] a bottle?'; but he doesn't want a bottle, he wants 500 thousand - a bottle is easier for me - 200 thousand and that's itthey settled everything" (KyivA 1); "I paid the official...she told me to... 'do you need it immediately?' she had asked earlier...when you bring her some money, she'll have time" (KyivA 3); "I needed an operation...it [would, they said] cost fifty dollars. Okay...when I go in, she looked at me, all very pleasantly, then says 'it'll cost a hundred dollars'...it's already gone up...the doctor was absolutely calm 'I will do this operation....I have this tariff, that [other] doctor takes this much...you do what you want...Shalimov charges 300 thousand, if you want you can go there' " (KyivA 2); "so my sister paid money [after the ambulance had refused to take her to a hospital with a functioning maternity unit] and I was taken to another hospital [which had such a unit in operation]" (Sholomia 3); "I sat in the chair and a doctor started to pull out my tooth...it was so painful...so I took out 100 thousand karbovanets...the attitude changed immediately...but he caught me in a corridor [afterwards] and said 'it is not being done for a thank-you, it has to cost two millions'...he named the price openly" (Sholomia 5); "until I gave a bribe he did not receive me...I gave him 20 dollars and he signed it" (Striy 2); "yes, to have a position at school I have to give up my salary...for this whole year, if not longer, I will be earning money for them [those who appointed her]" (Striy 5); "my husband is in Byelorussia now and who's going to find him there?...I went to the People's Court...and they told me 'let's start looking for him, but you have to pay for it' (Volnovakha 3); "I faced it myself in the notary's office...if you haven't brought anything you will probably sit there for three days minimum if not three weeks...I have been there five or six days. Until you buy something and bring it there, you are given no attention and no service" (Volnovakha 5); "she says 'give me 500 thousand so that I make a labour card for you...and I never heard that you must pay for a labour card" (Volnovakha 2).

And they paid frequently: "for this half-year, two times" (KyivB 1); "family for the last half-year of time, five times probably, not less" (KyivB 3) "I also had to do it frequently" (KyivB 4).

Children were aware of how things had to be "resolved" in Ukraine, not least because school itself taught them the appropriate lessons: "To hide it from the children, is it necessary or not?" asked the moderator - "I think not...I wouldn't want my kids to form some kind of ideal image of me. I'd rather let them know" (KyivB 4) came the reply; "My daughter, you know how it is, she has participated in this...how else?" (KyivA 1); "probably...from the age of fourteen....well how else? Introduce them to real life!" (KyivA 7); "I am sure that they [children] know it...let us take, for example, holiday gifts for their teacher" (Striy 6); "I also think [so]...our children are not as simple as we once used to

be" (Striy 1); "They all know about their teacher's birthday. She tells it to everybody a week ahead...they all run home and tell their moms to find something to give their teacher for her birthday" (Striy 3); "They can see it themselves...the child comes and says 'Mum, that girl got an excellent because her mum...'" (KyivB 5); "my son, for example, knows...he ran into this in school, at the institute" (Khartsysk 2); "I don't have any secrets. We had this problem. He [my son] knows all about...how it was resolved for us. [Also] he met with that in college...he tells us exactly what at home...'until I bring something, nobody even wants to talk to you" (Khartsysk 3).

What is to be done?

Some of our findings might encourage complacency. From the perspective of the citizen, it appears that the situation is not as bad as it at first appears. While allegations about the need to use of bribery or contacts in dealing with officials are widespread, they need to be treated with some scepticism. Such allegations are at least twice as frequent in terms of general gossip as in terms of personal experience; and bribery is associated more with citizens' attempts to get favourable treatment than with their attempts to get fair treatment. To some extent therefore, they have only themselves to blame: "we've taught them this; we ourselves are guilty; we take them things...the first and the second bring something, and the third can't not bring something" (Kharstyszk 3). However, even if the situation is not as bad as at first appears, it is bad enough. This confession of guilt is atypical: rightly or wrongly, most people do blame officials for extorting bribes and forcing them to behave in this way - as many of our earlier quotations have shown.

It would be premature, in the early stages of a research project, to articulate our own proposals for reform, but we can report those that were put forward in the group discussions themselves. A better quality of official was the most popular suggestion in both countries. That was almost, but not quite, so vacuous as it sounds. Comments about better officials were mainly tautologous in Ukraine: "change people's [officials'] psychology" (Horodok 1); "become more responsible" (Horodok 6); with calls for more "conscience" (Horodok 3), "competence" (Khartsysk 6), "skilled personnel" (Sevastopol 5), "understanding" (Volnovakha 3), "culture" (KyivB 5), or - the ultimate in tautologies - "honesty" (Striy 3 and 4). The only positive suggestions for improving personnel were "a book of suggestions" (KyivA 6) or short term contacts; "if the official knew that in a year...the issue of his being re-appointed to that post were to be reviewed" (KyivA 3). But in the Czech Republic comments about better quality officials seemed to imply more qualified entrants and more in-service training - in customer relations as well as in more technical matters: "[officials] should be aware that those coming to them, or their 'customers', are not experts in filling out forms" (Hradec Kralove 3); "their attitude to us" (Kutna Hora 9); "it's the quality of the person [official]" (PragueA 2); "more staff with higher qualifications are needed" (PragueB 1); "there's little professionalism....they are poor souls, typing with just one finger - do not take this literally....I sometimes feel they must have studied at a special university for mentally handicapped students" (PragueA 7); "where new [postcommunist] officials have taken over, they are often not experts" (Kutna Hora 4).

In the Czech Republic, but not in Ukraine, an emphasis on administrative efficiency reflected the burden of Czechs' complaints - that they found the bureaucracy tedious rather than perverse, forcing them to waste too much time on filling out forms,

going to offices, and standing in queues. Their mild complaints produced mild proposals for reform - a better administrative structure, better located offices, or simply longer office opening hours: "[individual departments] are unable to communicate between themselves" (Kutna Hora 7); "[less] useless paperwork which the official cannot influence directly, he's been ordered to do it" (PragueA 1); "fewer useless forms" (Kutna Hora 5); "and above all fewer bureaucrats" (Kutna Hora 4); "simpler paper work" (Olesnice 2); "longer opening hours" (PragueB 4). Although Ukrainians did make similar suggestions - "they should tell you everything you need to bring the first time" (KyivA 6); "it's not everywhere [i.e. in every country] you need such a quantity of certificates" (KyivA 2); "nothing terrible would happen if the official apparatus were cut back by two-thirds" (KyivA 4) - they focussed much less on administrative efficiency.

Table 15: What is to be done?		
	Czech Rep	Ukraine
	%	%
Improve personal qualities of staff	29	31
More efficiency of officials	10	1
Better administrative structure/ office hours	36	8
Better legal framework	21	29
- enforce obedience to the law	-	9
- end discrimination against Tartars	-	10
- simpler, more stable, better known laws	21	10
More pay	7	13
More control	4	16
Impossible to change	0	6
More demanding citizens	0	4
(Total N)	(72)	(271)
Note: Percentages are percentages of relevant "text-units" in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.		

Conversely, Ukrainian discussion groups put more emphasis on other reforms, reflecting the different nature of Ukrainian complaints which were more about extortion rather than mere time-wasting - more pay for officials to make extortion less necessary, and stricter control to make extortion more dangerous: "if I [an official] have no penny and they [citizens] are giving me money under the table, why not take?'....so that at least they [officials] can live in decent conditions" (Horodok 6); "we need to pay that

official as much as he earns...they just don't pay people what they earn, so people stoop to bribes" (Khartsyzsk 3); "he has to live; he doesn't earn enough money, that's why he takes bribes" (Nikolaevkha 3); "if they receive appropriate payment, they will work professionally in their positions and will not take bribes" (Sholomia 4); "I think that the majority of those who take bribes are also compelled to do the same because they do not get salary either..for example, police - they also receive micro-salary" (Striy 5). In wonderfully Marxist language, here explaining not the great sweep of human history but the tendency of Ukrainian officials to take bribes, one participant commented "the economy is primary, but the consciousness is secondary" (KyivB 2). In the Czech Republic there were a very few suggestions that better pay for officials (mainly put forward by quasi-officials such as teachers talking about more pay for themselves), but others were quite explicitly opposed to such a solution: "if they got three times as much they would still behave in the same way" (PragueA 5) Nor were there many suggestions in the Czech Republic that stricter control would improve the situation, which was not seen as any kind of crisis situation anyway.

However Ukrainians' sympathetic attitude towards their officials' salaries was accompanied and often combined with less sympathetic suggestions. One example of such a combination was to cut the number of officials while raising the salaries of those that remained, as in the following sequence: "Nothing terrible would happen if the official apparatus were cut back by two thirds. (KyivA 4) And raise the salaries of the ones who are left. (KyivA 5) Yes, and raise the salaries of the rest. (KyivA 7)". Another combination was that more pay would give officials more to lose: "if...he'll have a big, well-paid job, he'll be afraid for his position" (Khartsyzsk 3); "if the person would receive the normal salary and would be afraid to lose this place" (KyivB 2); "this position should be considered prestigious....they should be afraid to lose their positions" (Sholomia 6).

More typically, Ukrainians just suggested the need for more control: "it is necessary that he simply be afraid that he can lose his place" (KyivB 3); "there should be power in the country" (Khartsyzsk 4); "there was someone to complain to; there was power; now, there's no power" (Khartsyzsk 3); "to regulate stricter" (KyivB 1); "we must do it rigidly" (Volnovakha 3); "a person has to be afraid" (KyivA 6); "there was discipline - everybody was afraid of the party" (Striy 3); "it is not the party [but] we need a control system" (Striy 4); "we need a well worked out system that would control" (Striy 2); "we are missing discipline..there is no fear now" (Striy 1); "I would vote to discharge half of those who take bribes and the other half heed control of a director" (Striy 5). Against the great preponderance of such sentiments, there were only a couple of atypical remarks expressing reservations: "control can be strengthened, but that's not the way out" (KyivA 4); "the innocent suffer" (Nikolaevkha 1).

At first sight, proposals for a better legal framework appear to provide a point of similarity between the Czech Republic and Ukraine - but on further inspection these proposals merely underlined the difference between them. What did they mean by a better legal framework? In the Czech Republic, simpler and more stable laws: "a simpler, easily understandable law" (Olesnice 4); "in the legislation many things were abandoned...'it will all be solved somehow' " (PragueA 7); "in the legislation, it seems that no terms or deadlines have been set for handling individual cases" (PragueA 2); "they pass it and right after they amend it" (Olesnice 7); "with the new legislation now,

officials are unable to explain it" (PragueA 3); "you start from the top, right, there's a lot of laws, rules. It looks like before: with communism or socialism they had red tape. Then this was reduced, but now it's grown by half" (Olesnice 6).

Such suggestions for improved legislation were also voiced in Ukraine: "no developed legislation" (KyivA 4); "already for a long time people actually paid for many services...[but] it is necessary to make [legislate for] social insurance, medical insurance" (KyivB 6); "laws should be formulated on the basis of the nature of human personality...the more you climb, the more gold" (KyivA 7); "market economy has to begin with legislation - and what sort of legislation do we have here?" (KyivA 6); "we've been living in some vacuum...they didn't rely on the old Constitution and we did not have a new one" (Sholomia 2); "there [in the west] people know their laws and they can defend themselves, but we don't know how to defend ourselves" (Horodok 2).

But two thirds of the references to the law in Ukraine did not focus on this need for clearer, simpler and better publicised laws. One third consisted of complaints from Crimean Tartars that the laws of Ukraine were biased against them: "discrimination against nationality" (Sevastopol 4 and 5); "I couldn't get a residence permit here for four years though my husband had it. His official wife [herself] and then his first child and second child couldn't get a residence permit here" (Sevastopol 3); "Ukraine treats our people worse than the Soviet power. At least the Soviet power wrote in our passports that we were Tartars...today nationality is not given in new Ukrainian passports...we automatically become citizens of Ukraine without nationality" (Sevastopol 5). The prominence of Tartar grievances reflected the fact that we devoted one out of nine discussion groups exclusively to them. More typically and equally at odds with Czech suggestions however, the remaining third of Ukrainian suggestions for legal reform concerned enforcement. Soviet laws from Stalin's 1936 Constitution downwards had been utopian, they did not refer to the real world of the Soviet citizen and they were ignored by the state and its officials whenever it suited them. The gap between law and reality in the old Soviet Union was unusually large, and something of this carried over into postcommunist Ukraine: "if some clerk would offend the visitor [meaning the citizen with a problem, not a tourist!] in America...he would pay such fine" (KyivB 5); "there should be organs that would make sure this law was followed" (Khartsyzsk 4); "the laws should be observed but no one does it" (Horodok 2).

End

Notes

- ¹ Indeed, Seweryn Bialer *Stalin's Successors: Leadership, Stability and Change in the Soviet Union* (Cambridge: Cambridge University Press, 1980) pp. 166-7 claims that "low politics" constituted "the very substance of the Soviet system of political participation". As the euphoria associated with the "high politics" of 1989-91 subsides the continuing importance of "low politics" becomes more evident.
- ² See Martin Harrop and William L. Miller *Elections and Voters: a Comparative Introduction* (London: Macmillan, 1987) Chapter 9.
- ³ Gabriel A. Almond and Sidney Verba *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton University Press, 1963; reprinted by Sage, 1989) especially Chapter 7: "Citizen Competence and Subject Competence".
- ⁴ Wayne DiFranceis and Zvi Gitelman "Soviet Political Culture and Covert Participation in Policy Implementation" (*Amer. Pol. Sci. Rev.*, 1984, vol.78 pt.3 pp.603-21) discuss citizen participation in the old Soviet Union in precisely these terms, and present some very interesting findings which, however, relate to the old regime, and were based on a sample of 1161 émigrés.
- ⁵ Quoted by Ferrel Heady *Bureaucracies* in Mary Hawkesworth and Maurice Kogan *Encyclopedia of Government and Politics* (London: Routledge, 1992) p.305.
- ⁶ DiFranceis and Gitelman (1984) p. 613.
- ⁷ A Sogomonov and A. Tolstykh "O nashikh zaborakh" *Kommunist* (1989) no.9. p.75 put "the wide-spread use of pull" in third place on the list of "most pressing problems facing our country today", and in first place if combined with "dependence on officials in solving housing questions" which probably reflected the use of bribes or influence to get better state flats.
- ⁸ DiFranceis and Gitelman (1984), p. 612-614.
- ⁹ For the cultural legacy of the FSU see Stephen White *Political Culture and Soviet Politics* (London: Macmillan, 1979) Chapters 2 and 5 especially.
- ¹⁰ See Andrew Coulson (ed.) *Local Government in Eastern Europe: Establishing Democracy at the Grassroots* (London: Edward Elgar, 1995) especially Chpt 1: 'From Democratic Centralism to Local Democracy' by Andrew Coulson; Chpt 3: 'The Czech and Slovak Republics' by Kenneth Davey; Chpt 6: 'Local Government in Bulgaria' by David Jepson, Valerie McDonnell and Belin Mollov; and Chpt 7: 'Regional and Local Government in Ukraine' by Adrian Campbell. Less recently, see also 'The re-emergence of local self-government in Central Europe' by Ingemar Erlander and Mattias Gustafsson *European Journal of Political Research* 1993 pp.295-322; or Robert J. Bennett (ed.) *Local Government in the New Europe* (London: Belhaven, 1993), 'Ukrainian Local Politics after Independence' by Oleksandr Boukhalov and Sergei Ivannikov, *The Annals of the American Academy of Political and Social Science*, July 1995, pp. 126-36, 'Local Powers and Post-Soviet Politics' by Theodore H. Friedgut and Jeffrey W. Hahn (eds.), 1994 and the Council of Europe's reports on the 'Structure and operation of local and regional democracy' for the Bulgaria, the Czech and the Slovak Republics (1993).
- ¹¹ The former Czechoslovakia passed a law to purge up to 140,000 alleged communist "informers" - see Keith Grime and Vic Duke - A Czech on Privatisation, Re-

- gional Studies*, Vol. 27, No 8, (1993), pp.751-57 at p. 754; and Jirina Siklora "Lustration or the Czech way of screening" *East European Constitutional Review* (1996) 5 (1) pp. 57-62 who notes at p.58 that President Havel opposed the purge law on the grounds that it presumed guilt rather than innocence. However this law was not adopted by the new Slovak Republic when Czechoslovakia split up in 1992. See Quentin Reed "Transition, dysfunctionality and change in the Czech and Slovak Republics" *Crime, Law and Social Change* (1995) vol. 22, pp 323-337 at p.334.
- ¹² Thus, it might be reasonable to expect that countries with a high turn-over of personnel might be less prone to favourable treatment than countries where there has been a lower turn-over. But given the changing tasks of local authorities and the poor legislation by which they have often been accompanied, it might well be that the scope for favourable treatment and taking bribes has increased, rather than decreased. Consequently, it might not matter so much whether an official is 'old' or 'new'.
- ¹³ See for example, Jeffrey Levine - Excuse Me...I've No Machinery, No Money and No Market; How Do I Farm?, *Demokratizatsiya*, vol. III, No 1, Winter 1995, p. 99; or Quentin Reed "Transition, dysfunctionality and change in the Czech and Slovak Republics" *Crime, Law and Social Change* (1995) vol. 22, pp 323-337 at p.326; or Lubomir Faltan - Privatising the Housing Sector: the Case of Slovakia, *Public Administration and Development*, Vol. 15, 1995, pp. 391-96 at p. 394.
- ¹⁴ Lubomir Faltan - Privatising the Housing Sector: the Case of Slovakia, *Public Administration and Development*, Vol. 15, 1995, pp. 391-96 at p. 394.
- ¹⁵ Vladimir Venaceek, Alena Zemplerova - Problems and Environment of Small Businesses in the Czech Republic, *Small Business Economics*, No 7, 1995, p. 442.
- ¹⁶ Alessandro Bonanno, Andrei Kuznetsov, Simon Geletta and Mary Hendrickson - To Farm or Not to Farm: Rural Dilemma in Russia and Ukraine, *Rural Sociology*, Vol. 58, No 3, 1993, pp. 404-23 at p.419; see also Jeffrey Levine - Excuse Me...I've no Machinery, No Money and No Market: How Do I Farm?, *Demokratizatsiya*, vol. III, No 1, Winter 1995, p. 99.
- ¹⁷ In 1993, 31 percent in ECE and 56 percent in the FSU told us they had "believed in communist ideals" at some time, though only 20 percent in ECE and a mere 18 percent in the FSU did so "now". See W.L.Miller, S.White and P.Heywood *Values and Political Change in Postcommunist Europe* (London: Macmillan, 1997, in press) Chapter 4.
- ¹⁸ Tony Verheijen and Antoaneta dimitrova "Private interests and public administration: the Central and East European experience" *International Review of Administrative Sciences* vol.62 (1996) pp.197-218 at p.212.
- ¹⁹ Volodymyr Zvighyanich - Ukraine's Labour Policy: Underemployment, *The Jamestown Foundation Prism. A Bi-weekly on the Post-Soviet States*, vol. II, No 10, Part 3, 17 May 1996, pp. 1-6.
- ²⁰ See for example, Steve Kettle 'Of Money and Morality (in the Czech Republic)' *Transition* (formerly *RFE/RL Report*) 15th March 1995; James Meek 'Scourge of corruption fends off Ukraine's hostile elite' *Guardian* 15th August 1995. Boskholov claims that there has been a growth in the use of bribery in Russia over the last

few years. In 1993 4,500 cases of bribery in government (an increase of 34.8% compared to 1992) involving some 1,500 officials were revealed. 42.7 of these cases involved officials working in ministries, committees and other structures in the provinces. Bribery was also wide-spread in the legal administration, accounting for 25.8% of the cases revealed (Sergei Boskholov - Organized Crime and Corruption in Russia, *Demokratizatsiya*, Vol. III, No 3, 1995, pp. 271-72) Although Russia differs significantly from the Czech Republic, it differs less from Slovakia, Bulgaria, and especially Ukraine. So we might expect the situation to be somewhat similar in these countries.

- ²¹ Alena V. Ledeneva *An Economy of Favours: Informal Exchanges and Networking in Russia* (Cambridge: Cambridge University Press, 1997, in press) Chapter 6.
- ²² See William L. Miller, Stephen White and Paul Heywood *Values and Political Change in Postcommunist Europe* (London: Macmillan, 1997, in press) Chapter 9.
- ²³ *ibid.* Chapter 5.
- ²⁴ *ibid.* Chapter 10.
- ²⁵ For a full length study based mainly on a small selection of Soviet press reports, however, see Nicholas Lampert *Whistleblowing in the Soviet Union: Complaints and Abuses under State Socialism* (London: Macmillan, 1985); for an updated account that focuses somewhat more on policy and less on abuse of power see Stephen White, Graeme Gill and Darrell Slider *The Politics of Transition: Shaping a Post-Soviet Future* (Cambridge: Cambridge University Press, 1993) Chapter 11.
- ²⁶ For a very early example of such a two-level survey approach in the FSU see R.A. Safarov *Public Opinion and State Administration* (Moscow: Yuridicheskaya Literatura, 1975) though the questions in his study were more general and more policy-oriented and hence more collective-oriented than in our proposal.
- ²⁷ For a recent review of this methodology see Eben Weitzman *Computer Programs for Qualitative Data Analysis* (London: Sage, 1995).
- ²⁸ (Prague A 3) indicates that this quotation is from a contribution by participant number 3, in the first focus group in Prague, Prague A.
- ²⁹ But people do not have a high opinion of British politicians either. Our surveys of the British public show that 90 percent trusted ordinary people they met in everyday life, but only 33 percent trusted politicians. See William L. Miller, Stephen White and Paul Heywood *Values and Political Change in Postcommunist Europe* (London: Macmillan, 1997, in press) Chapter 20.
- ³⁰ Anecdotal evidence about the use of presents in return for official favours is given in Konstantin M. Simitis - USSR: Secrets of a Corrupt Society (London, Melbourne, Toronto: J.M. Dent & Sons Ltd., 1982). Political corruption in the Former USSR is covered in depth in Arnold J. Heidenheimer, Michael Johnston, Victor T. Levine (eds.) - Political Corruption. A Handbook (New Brunswick and Oxford: Transaction Publishers, 1989), Leslie Holmes - The End of Communist Power. Anti-Corruption Campaigns and Legitimation Crisis (Cambridge: Polity Press, 1993) and by Aron Katsenelinboigen in Michael Clarke (ed.) - Corruption in the USSR: Some Methodological Notes (London: Frances Pinter Publishers, Ltd., 1983). These works, however, focus on 'high' level corruption, whereas we are interested in the use of bribes and favours at the 'low' level, solid evidence of which is limited.



Extent of Crime and Corruption: Perceptions of Elites in Central and Eastern Europe and the Caucasus

Jaroslav Martyniuk and Nino Japaridze¹

During the Fall of 1998 and the Spring of 1999, InterMedia surveyed a total of 3,600 elites in nine Central and East European countries and the Southern Caucasus.² Although the primary aim of these surveys was to measure media behavior, the questionnaire included questions about perceptions of crime and corruption. In each country surveyed, 400 face-to-face interviews were conducted with leaders and decision-makers, mostly in the capitals of the respective countries. The survey sample consisted of eight groups with 50 representatives from each of the following sectors: the government executive branch, elected officials, the state economic sector, private business sector, public institutions, the military and security, media and culture, and science and religion.

Summary

- The issue of crime and corruption is the focus of considerable discussion among elites in the nine countries surveyed by InterMedia. The level of debate suggests a particularly high degree of concern and sensitivity to the problem. Survey results indicate that the highest overall levels of crime and corruption, as perceived by elites in their countries, are found in Russia and Slovakia, followed by significantly lower levels in Bulgaria and Ukraine. Elites in Romania and the Czech Republic perceived the lowest level of crime and corruption of all the countries surveyed.
- When asked how disturbed they are about the crime and corruption in their respective countries, the elites in Bulgaria and Russia appear to be the most outraged. Indeed, nearly one-quarter of the elites surveyed in Bulgaria and one-fifth surveyed in Russia, respectively, stated that they are "ready to support a strong leader who promises to fight corruption forcefully." Roughly one-third of the elites in these two countries indicate that they are "angered by the level of crime and corruption, but would prefer using democratic means to combat it."
- In contrast to Bulgaria and Russia, about one-half of the elites in the Czech Republic and Slovakia and slightly under one-half in Ukraine favor fighting corruption using democratic means. Particularly noteworthy is Georgia's high (72%) support for a democratic response to fighting corruption.
- A relatively high level of apathy and fatalism towards crime and corruption appears to exist among certain elites in Ukraine and Russia, and to a lesser degree in Azerbaijan and Armenia. One-eighth of the respondents in Ukraine and Russia

* See the notes at the end of the article

and one-seventh in Azerbaijan and Armenia feel that "corruption is inevitable and that there is little that anyone can do about it."

- The perceived level of bribery is highest in Slovakia and Russia and lowest in Romania and the Czech Republic. One of the most salient and striking findings in terms of bribery is that three to four times as many elites in the countries surveyed consider the acceptance of a bribe to be a greater evil than the payment of a bribe.
- The perceived level of extortion and coercion is highest in Slovakia and Bulgaria. The highest perceptions of violent crime (both Mafia- and non-Mafia-related) were registered by elites in Russia; the lowest were among elites in Romania.
- In the Central European countries sampled, two to three times as many elites believe that the non-payment of taxes by enterprises is more widespread than the non-payment of taxes by individuals. In Russia and Ukraine elites feel that the problem of non-payment of taxes by both individuals and enterprises is roughly equally widespread.

Extent of Crime and Corruption: Perceptions of Elites in Central and Eastern Europe and the Caucasus

Salience of Issues

Abundant anecdotal and survey information indicates that crime and corruption in most countries of Central and Eastern Europe and the former Soviet Union pose serious problems for these fledgling democracies. Yet hardly anyone can say with any accuracy how widespread this phenomenon is. Attempts to systematically measure its extent from Central Europe to the Caucasus tend to be too general or incomplete, or suffer from a lack of consistent methodology. Most surveys yield questionable results: quite simply, those individuals who often can reveal the most about the extent of crime and corruption are often hesitant to reveal their honest opinions on such "hot-button" topics when directly confronted with such sensitive questions.

InterMedia's research approach is different. Through the medium of a neutral media survey directed at elites—the main purpose of which is to measure media consumption—InterMedia polled 3,600 decision makers in the government, elected officials, and leaders in the state and private business sectors, media and culture, among others—in other words, individuals most likely to be informed about the level of crime and corruption in their own countries. In the Intermedia elite survey instrument, the respondents were first asked about interests and topics that they like to discuss when they get together and socialize with their friends. The great majority of elites surveyed indicate that they are very interested in politics and international affairs; they generally feel that it is important to stay informed about these subjects. A great majority of these respondents also discuss crime and corruption either frequently or occasionally with friends and colleagues.

Findings

The InterMedia data cover reactions to criminal activities ranging from non-payment of taxes to Mafia violence. The data also include elite reactions to the situations in their countries and how they feel these should be dealt with. This paper presents pre-

liminary findings from the latest wave of elite surveys. The survey findings are presented in three parts: (A) Corruption Perception Indices (bribery, extortion and violent crime), (B) Non-payment of Taxes and (C) Level of Anger and Outrage.

A. Corruption Perception Indices

A total of 11 statements were used to elicit opinions with regard to the incidence of corrupt activities or crimes (the question and statements read to the respondents appear in Appendix A).³ In order to present the results as concisely as possible, responses to a number of related statements were grouped together to form indices of perceived levels of bribery, extortion and violent crime in a country. The indices represent the sum of all of the most extreme responses for each statement read to the respondent.

InterMedia's attempt to develop crime and corruption indices differs from other indices mainly because it draws on the perceptions of elites, leaders and decision-makers who are best positioned to observe and comment on the extent of crime and corruption in their own countries. The InterMedia elite surveys enjoy a special advantage because their primary aim is to measure media behavior rather than crime and corruption. The "sensitive" crime and corruption questions, placed toward the end of the questionnaire, are therefore relatively camouflaged, do not attract undue attention to these issues and generally yield more open and sincere responses from the elite respondents.

1. Bribery

To begin with, a distinction must be made between the so called "petty corruption" or low-level bribery that average citizens in Eastern Europe encounter in their daily lives and the more serious "high-level corruption," such as the use of public office for private gain. The former includes small bribes or gifts paid to a junior civil servant for favors such as expediting a driver's license, while high-level corruption, for example, refers to such transgressions as kick-backs paid to a minister in exchange for specific government contracts or licenses. Most published corruption or bribery indicators do not distinguish between the two.⁴ InterMedia's investigation—because it is directed at the elites—by definition makes the more serious high-level corruption and public sector bribery the context of the research.

Table 1. Bribery Index

Bulgaria	Romania	Czech Republic	Slovakia	Ukraine	Russia
99	66	55	137	109	135

The Bribery Index in Table 1 combines responses to four statements (see Appendix A) that ask about payment/acceptance of bribes to/by bureaucrats or politicians to do the following:

- influence government contracts
- influence the allocation of monetary benefits (subsidies, pensions, privileges)
- reduce taxes

- speed up licensing or permission to carry out legal activities

In Table 1, the higher the number, the greater the level of perceived bribery. The very high level of perceived corruption in Slovakia (137)—matched only by Russia (135)—may be due to an unusually vocal opposition which focused on corruption as an election issue in the Fall of 1998. It may also be a function of its novelty as a political topic, as well as its rapid spread (when bribery has been around for some time, reactions to it are likely to be less intense).

Evidence of the high level of corruption in Russia is particularly abundant. Only recently Russia's acting Prosecutor General, Yuri Chaika, told the State Duma that large-scale corruption among officials has become a widespread and destructive force in Russia. He noted that in the past three years prosecutors have exposed 56,000 crimes against government services, among them 17,000 bribery cases. Over 6,000 bribe takers and bribe givers have been tried.⁵ This, in all likelihood, is merely the tip of the corruption iceberg.

After Slovakia and Russia, the highest level of bribery was perceived by elites in Ukraine (109). For example, 30% of the elite respondents in Ukraine thought that bribes to influence government contracts were rampant. The Ukrainian government's tax collection agency offers a glimpse of the extent of the problem: since 1997 more than 300 officials in the State Tax Administration have faced corruption charges. In most cases, officials have been accused of ignoring tax violations in exchange for discounted prices on houses and cars, as well as cash.⁶ More recently, Pavlo Lazarenko, the former Prime Minister of Ukraine, is spending time in the California Federal Detention Center, facing extradition proceedings by Swiss authorities on charges of massive money laundering. Throughout Ukraine, businessmen complain of having to pay bribes to obtain licenses. Several years ago a large US electronics maker, Motorola, backed away from a multi-million dollar telecommunications project because it was not ready to pay bribes to obtain a license.

The Index also shows a relatively high level of bribery in Bulgaria (99). Survey data shows, for example, that 34% of the Bulgarian elites surveyed believe that bribery to speed up licensing is rampant in their country, where large parts of the economy have been dominated by the Mafia. These are criminal circles who dominate sectors of the economy and also exert an inordinate amount of influence on banks and their loan officers. Similar developments are taking place in Romania.⁷ The Bulgarian financial crisis shows how systematic corruption can ruin a country's promising economy. Many Bulgarian banks were brought to insolvency in 1996 by dubious relationships with criminal business groups and state managers, who drained the profitable activities of state firms.

Which Is the Greater Evil?

The statements measuring the extent of bribery did not distinguish between the payment and acceptance of a bribe. For this reason, InterMedia followed up with a question about which act the elites regarded as a greater evil—the payment of a bribe or the acceptance of one.

Table 2. "Which is the greater evil: the payment of a bribe or the acceptance of a bribe?"

% of Respondents who stated:	Bulgaria	Romania	Czech Republic	Slovakia	Ukraine	Russia	Average
Payment of a bribe	17	21	18	28	14	18	19
Acceptance of a bribe	74	73	67	60	63	61	67
No Answer/DK	9	6	15	12	23	21	14

It is clear from responses in Table 2 that the acceptance of bribes is considered to be the greater evil by a much greater proportion of the respondents than the payment of a bribe—the ratio is approximately three-to-one. In Bulgaria, Romania and Ukraine the ratio is even higher. The responses to this question dispel a common notion that the payment of a bribe is seen as the greater evil. It is noteworthy that in Ukraine and Russia over one-fifth of the respondents did not respond or did not know which to choose, reflecting perhaps a reluctance to take a position or an inability to distinguish between the two.

2. Extortion

Table 3. Extortion Index

Bulgaria	Romania	Czech Republic	Slovakia	Ukraine	Russia	Azerbaijan	Armenia	Georgia
89	46	38	94	68	77	37	44	53

Although similar to the Bribery Index, the Extortion Index is the result of responses to statements that ask about the perceived level of three specific types of extortion or coercion:

- Extortion of small entrepreneurs
- Coercion of businesses to pay "protection money"
- Involvement of business or bankers in questionable activities

As with the Bribery Index, the higher the number, the greater the perceived level of extortion. The perception of extortion is important because it inhibits the level of business activity and investment in a country. The Index in Table 3 suggests that the highest levels of extortion are perceived by elites are in Slovakia (94) and Bulgaria (89).

3. Violent Crime

Table 4. Violent Crime Index

Bulgaria	Romania	Czech Republic	Slovakia	Ukraine	Russia	Azerbaijan	Armenia	Georgia
38	17	26	44	36	65	12	21	35

The Violent Crime Index combines responses to statements about the respondent's perceptions of Mafia-related and non-Mafia-related crime (see Appendix A). The high incidence of the perceived level of violence in Russia (65) is not surprising. According to Yuri Chaika, the acting Prosecutor General, almost 2.6 million such crimes were registered last year, or almost 8% more than in 1997; the growth in the number of violent crimes in Russia was particularly high. Chaika also reported that the rate of premeditated murders in Russia is five times higher than in France, and about seven times higher than in Germany and Finland.⁸

In Central Europe, Slovakia leads with a Violent Crime Index of 44, closely followed by Bulgaria at 38. The president of Transparency International Slovakia indicated informally that Slovakia has the dubious distinction of having fifty-two organized crime groups operating on its territory, most of which are controlled from abroad.

B. Non-payment of Taxes

Besides looking at such issues as bribery, extortion and violent crime, InterMedia inquired about the perceived level of non-payment of taxes. Table 5 presents the perception of the level of non-payment of taxes by enterprises and individuals. The figures in Table 5 below are not an index; they simply present the proportion of respondents that felt that non-payment of taxes was rampant. The findings presented are important because they reflect the ability of the governments to collect revenue to administer the government programs and to provide services that meet society's needs.

Table 5. Non-Payment of Taxes
(% of respondents that responded "rampant")

	Bulgaria	Romania	Czech Republic	Slovakia	Ukraine	Russia
Non-Payment of Taxes by Enterprises	28	41	25	41	35	45
Non-Payment of Taxes by Individuals	11	11	4	8	31	49

Table 5 shows that in the Central European countries sampled, a much greater percentage of elites believe that the non-payment of taxes by enterprises is more widespread than non-payment of taxes by individuals. In Russia and Ukraine, however, elites feel that the problem of non-payment of taxes by both individuals and enterprises is roughly equally widespread. This suggests that in Central Europe enterprises may be avoiding taxes on a much wider scale than individuals, and that perhaps elites in Central Europe take the payment of their own taxes more seriously than elites in either Russia or Ukraine.

C. Level of Anger and Outrage

InterMedia attempted to measure the degree to which the respective elites are angered or outraged by the level of crime and corruption existing in their countries. Respondents were offered five possible responses to the question "Which of the following statements best reflects your attitude toward corruption in general?"

- 1) I accept it because it is inevitable in our country.
- 2) I don't like it, but there is little that anyone can do about it.
- 3) I disapprove of it strongly and think it can be reduced to a reasonable level.
- 4) I am angered by the level of corruption in my country and will support any leader who will fight corruption using acceptable democratic means.
- 5) I am enraged by the level of corruption in my country and will support any strong leader who promises to fight it forcefully.

Table 6. Level of Anger and Outrage
(% of respondents)

	Bulgaria	Romania	Czech Rep.	Slovakia	Ukraine	Russia	Azerbaijan	Armenia	Georgia
1. I accept . . .	1	0	0	1	8	2	3	4	2
2. I don't like . . .	6	5	4	5	7	15	11	10	3
3. I disapprove . .	35	37	37	28	23	25	32	27	13
4. I am angered .	34	41	53	56	48	37	39	39	72
5. I am enraged .	24	16	5	10	13	21	15	15	10
6. No Answer / Don't Know	0	1	1	0	1	0	0	5	0
Total	100	100	100	100	100	100	100	100	100

The responses in Table 6 suggest that elites in all countries surveyed are angered or outraged by the level of crime and corruption in roughly equal degrees. More elites in Bulgaria and Russia, however, are inclined to support a strong leader who promises to fight corruption forcefully. In Bulgaria, this may have already manifested itself in the most recent political changes. In Russia, the relatively high level of outrage among the elites may indicate a possible level of support for authoritarian leaders and perhaps the popularity of centralized "statist" solutions to crime and corruption. Analysis by demographic category reveals that in Russia older (aged 45 or over) respondents are more likely to support the "authoritarian leader alternative" than the younger elites. Moreover, in all countries sampled except for Bulgaria and Slovakia, elites representing the private sector are more inclined to support the authoritarian solution to combating crime and corruption than elites in the public sector.

It is encouraging to see the high level of support for alternative (4) "I am angered . . . but will fight corruption using democratic means" in the Czech Republic (53%) and Slovakia (56%), and to a lesser degree in Ukraine (48%). To some extent this reflects the stronger democratic traditions or vestiges of these traditions in these countries. In

Russia and Bulgaria only about one-third of the elites chose alternative (4). Surprisingly, the highest level of support (72%) for alternative (4), "... democratic means" was found among elites in Georgia, suggesting that the country's elite is very supportive of democratic principles.

On the other end of the scale—in Ukraine and Russia,—there appears to be a disconcertingly high level of apathy and fatalism among elites toward corruption. Fifteen and seventeen percent of the respondents in Ukraine and Russia, respectively, chose responses (1) or (2): "corruption is inevitable" and "there is little that anyone can do about it." The difference between Ukraine and Russia is that in Ukraine the apathy is roughly evenly distributed between older elites (aged over 45) and younger elites (aged under 45). In Russia, however, the level of apathy appears to be higher among the younger respondents. The level of apathy is relatively high in Azerbaijan and Armenia as well.

According to the table, the "level of anger or outrage" may imply that elites in certain countries are more predisposed to take serious steps to combat crime and corruption. The lesser the anger or outrage, the lesser the likelihood of action. A high level of apathy and fatalism, on the other hand, suggests that the situation will not be resolved anytime soon. Where the level of both is relatively high, as in Russia, the situation is uncertain and the direction difficult to predict.

Conclusion

The InterMedia survey data show that the issue of crime and corruption is the subject of considerable debate and concern among elites in all of the countries surveyed. The survey results reveal that elites in these countries perceive high overall levels of crime and corruption in their respective countries. A standard theme emerging from such discussions and studies is that the level of crime and corruption in the majority of these countries is a major cause of the failure to advance toward real democracy and capitalism. A World Bank survey of high-ranking officials also identifies public sector corruption as the most severe impediment to the development and growth of countries.⁹

There is a demonstrated need to study further the issues of crime and corruption. This project represents a work in progress, and in the coming year InterMedia intends to expand the inquiry to other regions, including the Middle East and Asia. The issues of crime and corruption are highly sensitive and pose special methodological problems. Obtaining honest responses remains a challenge. Quantitative surveys provide only a part of the desired information, thus new methods should be explored to better understand these issues. Possible approaches may include focus groups and/or in-depth interviews, methods that have proven to be effective in determining participants' perceptions, feelings, and ways of thinking. A combination of quantitative and qualitative approaches is likely to yield the most meaningful results.

APPENDIX A

Corrupt Activities/Crimes Measured by InterMedia Survey Institute

The following question was read to each respondent prior to identifying the specific corrupt activity or crime listed below: "Crime and corruption, in one form or another, are present at various levels of our society. Below are some ways in which they manifest themselves. In your opinion, how widespread are these activities in your country?"

Possible responses: rare, rather infrequent, neither infrequent nor frequent, rather frequent and rampant.

Bribery

1. Payment/acceptance of bribes to/by bureaucrats or politicians to influence government contracts
2. Payment/acceptance of bribes to/by bureaucrats or politicians to influence the allocation of monetary benefits (subsidies, pension, privileges)
3. Payment/acceptance of bribes to/by bureaucrats or politicians to reduce amount of taxes
4. Payment/acceptance of bribes to/by bureaucrats or politicians to speed up licensing or permission to carry out legal activities

Extortion

5. Involvement of businessmen or bankers in questionable activities
6. Coercion of business to pay "protection money"
7. Extortion of small entrepreneurs

Violent Crime

8. Mafia-related violent crime
9. Other non-mafia-related violent crime

Non-payment of Taxes

10. Non-payment of taxes by enterprises
11. Non-payment of taxes by individuals

Notes

- ¹ The authors wish to acknowledge Stephen Connors's and David Gibson's assistance in editing and data analysis.
- ² In Central and Eastern Europe the countries surveyed were Bulgaria, the Czech Republic, Romania, Slovakia, Russia and Ukraine. In the Caucasus the countries were Armenia, Azerbaijan and Georgia.
- ³ In Armenia, Azerbaijan and Georgia some questions were not asked in the same way. Consequently, results for these countries were not included in the tables.
- ⁴ Paolo Mauro, "Corruption: Causes, Consequences, and Agenda for Further Research," *Finance & Development*, March 1998.
- ⁵ Interfax, 5 March 1999
- ⁶ AP, 17 May 1999
- ⁷ "Bulgarian Crisis Offers Lessons for Romanian Banks," Ron Synovitz, *RFE/RL Newsline*, 4 June, 1999
- ⁸ AP, 17 May 1999
- ⁹ Cheryl W. Gray and Daniel Kaufmann, "Corruption and Development" *Finance and Development*, March 1998.

Workshop #3



LOCAL AND CENTRAL GOVERNMENT: LEGAL FRAMEWORK AND INTERACTION IN THE CONTEXT OF *COALITION 2000*

Jivka Damianova

The legal framework and practical interaction between local and central government authorities in Bulgaria is increasingly becoming subject to discussions - so far at least within municipal associations on a regional and national level and at various forums of NGOs committed to supporting municipal activities. There have emerged a number of problems in the relations between state and municipal institutions stemming largely from flaws in the legislation, inadequately differentiated or duplicate functions, a centralized model of management and financing of municipalities, and others. The resulting environment favors abuse of power, corruption, and unlawful decisions contrary to the public interest. There are those who believe that municipal officials are the most corrupt and that fact is to be blamed for the failures in the government of the country. However, in the ratings of the sociological survey conducted by Vitosha Research - *Coalition 2000*, municipal and public officials in the central institutions have been assigned far more modest positions.

Curbing and preventing corruption in local government and municipal administration is an implicit part of local self-government reform in Bulgaria. In fact, the democratization, emancipation, and modernization of local self-government, while respecting certain traditional Bulgarian traits and positive experience, are among the imperatives of the transition from a totalitarian to a civil society. Since the outset of the reforms, however, municipalities and their problems have only had the peripheral attention of the legislature, except during election campaigns. Only just adopted, the Local Self-Government and Local Administration Act (LSGLAA 1991), the Local Election Act (1995), the Administrative and Territorial Division of the Republic of Bulgaria Act (1995), were all attacked on account of a number of flaws, shortcomings, omissions. The repeated amendments to the laws have been attempting to improve the legal framework of local self-government.

It is not surprising that our international partners have been actively supporting projects by non-governmental organizations aimed at exploring the actual practice and public attitudes, as well as devising public education packages in the sphere of local government. In this respect we could cite, for instance, the project of the Local Government Reform Foundation financed by the Ministry of External Affairs of the Kingdom of the Netherlands - Strong Local Self-Government, or the USAID project, Parliamentarism and Modern Local Self-Government.

In this context, the *Coalition 2000* Anti-Corruption Action Plan, with the proposed coalitions, constructive interaction and partnership between the authorities and the public, is highly relevant and useful. Particularly commendable is the program for regional partnership with local non-governmental organizations implementing the Transparency of Local Government public education campaign. In this way, the idea for broad-based anti-corruption action will reach down from the high levels of the governmental and intellectual elite to the grassroots, to ordinary citizens and the people in the country.

The present paper makes an attempt to outline some aspects of the legal framework and the existing relations between local and central authorities which provide motives or favorable conditions for abuse of power and for corrupt practices. A future comprehensive in-depth study of these aspects could also set forth constructive proposals for ways to improve the interaction and, last but not least, to enhance the anti-corruption environment in local government.

1. In administrative and legal terms, the municipality is the basic administrative and territorial unit where self-government is exercised. At the same time, municipal authorities are bound by the decisions of central institutions in the most important spheres of municipal activity - healthcare, education, social assistance, law and order. According to existing regulations of these activities, it is the central authorities that set the size of the staff, the structure, salaries and management schemes of the respective municipal agencies. In practice, the municipality is implementing various activities but is unable to actually control the management or spending of funds, for instance in the local school or hospital, the farmland commission, the regional police department, tax service, etc. These units are administratively and structurally subordinate to state agencies which in their turn are not immediately involved in addressing specific regional and municipal problems.

In the typical spheres of municipal work - the maintenance of the public water and electric utilities - the municipality is accountable before the citizens but the work itself is carried out by state structures.

In their day-to-day work municipalities interact with, and have to comply with a number of ordinances, regulations, etc., issued by, various ministries: of finances, of labor and social affairs, of agriculture, forests and the agrarian reform, of healthcare, of industry, regional planning and development, of internal affairs, of defense, of transport, of the environment and water, of culture, of trade and tourism, of education, science, and technologies, of justice and legal euro-integration.

This interaction proves to be quite problematic on account, among other factors, of old and new bureaucratic habits and attitudes, lack of modern communications (municipalities are still a long way from computerization), inert public officials, etc. Asked to rate the chief problems encountered in their work, local government representatives assessed as most difficult their relations with structures and agencies of the government (Readiness for Local Self-Government Reform, p.127).

The same study reached the conclusion that the mayors of municipalities want certain changes in the regulations concerning local self-government. Most pronounced were expectations that tax services be placed under operative management by the municipal administration, with municipalities entitled to set the rate of, and collect local

fees and taxes. The other spheres where mayors expected greater independence on a local level were crime prevention, education, healthcare, and the farmland commissions.

A typical example of inconsistency between responsibilities and powers is the interaction between the municipality and the law-enforcement authorities. The mayors typically find themselves at the center of public crime-related concerns. They are expected to ensure peace and order, and the safety of the community members, as laid down in Art. 44 of LSGAA. The law even provides for the possibility for mayors to issue ordinances binding the chiefs of the respective police departments. This possibility, however, is purely theoretical as it has not been backed by adequate provisions and guarantees in either LSGAA, the Law on the Police, or through decrees of the Ministry of Internal Affairs, and mayors have not been given real authority in this respect. In practice, at least as far as we know, this possibility remains unused. It is well-known, on the other hand, that police officers will not respect any orders other than coming from their immediate superiors or their own Minister, and that, according to public opinion polls, police officers are among the most corrupt public officials.

Since the mayor of the municipality is unable to exercise control or rely on the police, he or she is not in a position to ensure public order and effectively fight crime. What is more, as evident from the conducted interviews with mayors, the vast majority of them do not consider public law and order a priority or a very serious concern of the municipality (Readiness for Local Self-Government Reform, pp. 13-14). Despite the rising rate of crime in small, medium, and large municipalities alike, the fight against crime is obviously regarded as a task of central government and its structures. Such an attitude is all the more alarming since crime (and the related corruption) has been declared by the Government to be public enemy number one in this country. And without a coalition between local and central authorities and civil organizations, anti-corruption activity and the fight against crime in general can hardly be successful.

It is not only with respect to crime, but equally as regards addressing economic and social problems, unemployment, healthcare, and the maintenance of the infrastructure, that municipal authorities largely rely on central government. Current expectations run in two directions: more and better regulated subsidies, and changes in the legislation towards greater independence.

2. Financially, the chief problem faced by municipalities remains the centralized management of revenues and expenditures, even though a number of new laws have been adopted (1997): Corporate Income Tax Act, Personal Income Tax Act, Local Taxes and Fees Act.

On the whole, the structure of municipal revenues and expenditures is similar to that in the countries with modern economies: own funds, and subsidies (general and earmarked); there have been attempts to generate resources through participation in capital markets.

The problems are found in the so-called "shared" taxes, in other words income taxes which are "transferred" to the state and contributed to the national budget. In fact the principal source of revenues remains under the disposal of the central government. And while in 1992 municipalities received 70% of income tax revenues, the next year, 1993, their share dropped to 50%. Since 1994 and the introduction of value-added tax, which replaced the turnover tax, all revenues collected from this tax are contributed to

the national budget, meaning further centralization. Exactly the opposite is the case in the countries with advanced local self-government, where personal income tax is a purely local tax. This allows for stability and independence of local finances, and makes it possible to address specific problems of the municipalities.

Local expenditures are formally voted by the municipal councils, but within strictly set limits regulated by the national budget and the ordinances of the respective ministries. It is true that under the conditions of economic crisis expenditures are meant to cover only the most pressing community needs. But it is equally true that, due to the centralized management of finances, the structure of municipal expenditures reveals a number of imperfections, the absence of a differentiated approach and recognition of the specifics of municipalities in different regions.

Under the present grave economic situation in this country and the impoverishment of the population, few municipalities rely on independently generated income. State subsidies are of great importance. But in the opinion of experts, subsidies have not been clearly regulated and allow for subjective decisions. Despite the existence of formal criteria (while they were 5 in 1993, those criteria were increased to 21 in 1997), in practice the mechanism of setting and allocating subsidies is far too complicated and nontransparent. There is no guarantee for just distribution of subsidies, nor are municipalities motivated to make the most efficient use of the funds allocated. A statement by a member of parliament, that mayors should know how to ask for a state subsidy, is quite revealing in this respect.

In a national survey covering 100 municipalities which studied attitudes towards the legal framework and finances, respondents were most critical regarding the regulation of revenues from local taxes and fees, as well as the regulation and timely payment of the subsidies (Readiness for Local Self-Government Reform, Sofia 1998, figures 28 and 29). And when the mayors demand greater autonomy of municipalities it is a matter of seeking adequate balance between constitutional powers and responsibilities before the population on the one hand, and the financial and administrative possibilities to fulfill them, on the other.

Another conclusion, shared by a great many experts, should be noted - namely, that in view of the majority election of mayors and the forming of the municipal councils, the existing financial system does not correspond to the electoral one. As acknowledged by one of the creators of the tax administration, "the mayors are elected not on account of the tax or financial policy they propose for the fulfillment of the goals set, but rather, on a party allegiance principle, and it is but natural that whoever is closer to the executive stands greater chances of success" (Parliamentarism and Modern Local Self-Government in Bulgaria, Sofia 1999, p. 4).

Under the present legislative instability of the economic conditions for the implementation of municipal activities and programs, a good pre-election platform, which has brought victory to a democratically elected mayor, may prove impracticable for reasons which do not depend on the mayor himself. Local government then switches to "manual mode of operation" and enters the maze of the gray sector. Legality cedes its place to the "each-man-for-himself" principle. We have become used to news about mayors of municipalities who have exceeded or abused of their power and who are being prosecuted or taken to court. The accusations typically concern malpractice or misappropriation, whether for personal gain or benefiting close circles, in the spheres of privati-

zation of municipal and state-owned companies, licensing of business activities on the territory of the municipality, public procurement, the sale and lease of municipal property.

Corruption in local government and unlawful decisions to the detriment of the state and public interest are frequently related to gaps in the legislation, duplication of state and municipal functions, or inadequate differentiation of these functions, the centralized administration and financing of the municipalities. The repeated amendments to the laws, the incomplete privatization and land reform further aggravate the situation and favor the proliferation of corrupt practices. They are certain to be limited once the legislation is put in order and the reforms are completed. And that also implies a reform aimed at decentralization of resources or the autonomy of municipal finances, as demanded by most municipalities in this country. Such a reform could be achieved by consensus of the political powers in the National Assembly for the adoption of a new law on setting the rate of local taxes, as required by the Constitution. Bulgaria would then draw closer to the principles laid down in the European Charter of Local Self-Government (Art. 9), according to which local authorities are entitled to sufficient funds of their own, of which they may dispose freely within the framework of their powers; and furthermore, local authorities' financial resources are to be commensurate with the responsibilities provided for by the constitution.



Local Government “Transparency Matrix”: System for Municipal Services Monitoring

Tikhomir Bezlov
Petkan Iliev

1. Public Perceptions

One year of “Coalition 2000” research has shown, that Bulgarian corruption practices can provisionally be divided into mass corruption and elite corruption¹. Disposable demoscopic data suggest that it is the mass corruption that determines the pessimistic attitudes currently prevalent among Bulgarian population. Actually surveys have registered what the average Bulgarian is well aware of in his everyday life – widespread bribability of doctors, policemen, tax officials, telephone technicians, administration and so on. In this connection it should be mentioned that experts believe the gross yearly amount received at low levels by large exceeds what is being acquired at the top. And that does not just account for analogies between lower and upper end markets. Mass corruption widely thriving, justified as people’s survival strategy, grows into being gradually accepted as a social norm. The latter does not merely counter Bulgarian culture and tradition, but is threateningly destructive for country’s economic competitiveness as a whole.

Taking it that to counter mass corrupt behaviors one needs to know about their mechanisms and preconditions, we are putting forward an evaluation approach applicable in one of the spheres of mass corrupt deals — local administration (both central and municipal). The local administration has been selected as the main focus among other things because there, available empirical evidence has found, the average Bulgarian citizen comes into most frequent contact with corruption.

2. Local Government Structures

The collapse of the soviet model of government based on the central system of administration brought to the visible expansion of the rights and resources to be respectively exercised and handled by local authorities in Bulgaria. At the same time, the central government in crisis, regional and national connections broke down and further isolated municipal structures into solitary islands responsible for their survival on their own. Missing developed civil society, independent local media and efficient democratic local structures of major political forces led to the chaotic distribution of property, budget subsidizing, orders. The last eight years have demonstrated that local level administrators have been extremely “short-lived”², which but fosters their apt commitment with various group or personal economic interests. In the light of all this local level corrup-

¹ See the notes at the end of the article

tion has turned into a natural mechanism indispensable for the operation of both the business and the public policy institutions. It permeates almost all segments of local power starting from education and health care and ending up with regional prosecutors, judges and the police. The problem is further aggravated by the fact that unlike on a national scale local corruption is intricately interwoven with family-kinship and friend relationships. It is very hard to discern the vague dividing line between a favor to a friend and a favor for a charge. State services counter corruption have failed in their attempts to intervene — they went as far as to be easily interpreted as "attempts to restore the centralized communist system" or as attempts to tap and reallocate "wealth" for the benefit of the central administration.

Additionally tinging the overall context, and with the missing democratic experience, a strongly negativist public opinion estimation of local administration is established, systematically going into extremes. Locally specific problems arise related with reciprocal accusations of corruption placed by local economic groupings and political coalitions. With time such incessant accusations have come to be perceived as regular social community background noise and tuned the ordinary citizens of the municipality off and indifferent to them in the long run.

3. NGO involvement in anti-corruption initiatives locally

Therefore setting the major action lines in *Coalition 2000* 's "Action Plan Against Corruption" the local government was allotted special place. A main initiative in this connection was the announcement of a special(ised) programme against corruption on the regional level. It was piloted by 14 selected not-for-profit organizations that undertook projects in 10 of country's cities.

Working out the participation of the third sector in anti-corruption initiatives on the local level the idea gradually arose of the design of a common basis to allow juxtapositions of different local authorities in terms of corruption practices spread among their representatives. In many respects this idea was instigated by Robert Putnam's research of Italian local government /Robert D. Putnam. Making democracy work. Civil Traditions in Modern Italy/, where a typology of local government transparency is offered to cover from transparent Northern Italy to as far as notoriously and extremely client Southern Italy.

Instrumental for the implementation of the idea was the so called "transparency matrix" designed for the purpose. Currently local NGO partners are working on the filling up of this matrix. Their projects comprise two parts: a fixed one — the local government monitoring part equal for all the 14 organizations involved and one variable part which is different for different organizations and is to be undertaken on their own.

4. Development of the matrix design

Monitoring matrix was the outcome of several consecutive steps:

- Series of expert analyses and entourage reports were produced³ to describe existing "risk" and "grey" sectors of local government. Expert reports were also supplemented with data coming from interviews with local administration decision makers, as well as from a series of focus groups.

- This analytical material served as grounds for an attempted formalization of registered problems into a general scheme to thus systematically account for individual instances.
- Residual chart covers major sectors of municipal administration (the horizontal axis) – "Health Care", "Education", "Social Care", "Culture", "Investments", "Licensing", "Construction Development Rights" и "Environment and Sanitation". Along the vertical axis come the allocated expenditure figures, including fixed costs not to undergo any changes /like pay-roll costs, social security, subsistence costs — electricity, water and other fixed items/; budgets determined by elected structures — municipal councils, commissions and others; costs devised by appointed officials and decision makers outside local government; patterns of exerting influence over local government – the economic power, political power and sector supervision; the last data offered by the vertical part of the matrix concern the "grey sectors" possibly emerging (See Appendix).
- This sort of a chart called "transparency matrix", in its experimental form records both quantitative data (financial amounts, staff number, number of commission members, etc⁴.), and qualitative findings – description of general and specific features of various sectors, comments and evaluations in regard to problems and their settlement faced by observers.
- The initial matrix design was subject to discussion with the participation of partnership NGOs.
- Presently "local government transparency" matrix has been experimentally employed for two months now by partner NGOs. It has been purveyed by means of expert interviews, expert accounts, entourage interviews and others. Survey necessarily recruited local administration experts in charge of, or working in respective sectors. Very important source of information was also respective municipalities' financial statements and budget balance sheets. Local administration official warning signals were also incorporated as valuable source of information. Under survey arrangements mayors, deputy mayors, heads of departments and sector experts were recruited. The comprehensive survey of local government and corruption would not miss to solicit the opinions of not just municipal officers and administrators, but of the potential consumers of their services. The methods of inquiry and interview were applied to them, too, with all the accounts, responded questionnaires, interviews and reports being entered as circumstantial systemic data about local government.

3. Possibilities for local government transparency data formalization

"Local government transparency" matrix accumulated data that can support various coefficients to give further specific evaluations like, for instance the hazard of corrupt practices within different local administrative structures; or the degree of transparency in different municipal government sectors, etc.

Below is a schematic evaluation formula provisionally called: "Corruption risk coefficient".

I corruption RISK RATE / corruption potential /

$$K_J = \frac{\sum_j^m X_{ij} K_j}{M}$$

Where:

1. $i = 1, \dots, m$ is the number of surveyed municipal sectors
2. X_{ij} is the evaluation of the relative municipal budget share of the i -sector
3. K_i - the evaluation of the relative share of cost and expenses determined by appointed officials out of the total expenditure amount for the i -sector
4. M - the number of sectors.

This formula can be reversed and called:

II RATE OF LIMITING THE RISK

$$A_J = \frac{\sum_i^m X_{ij} F_i}{M}$$

Where F_i is the assessed relative share of the expenses determined by elected or other collective

bodies plus the fixed expenses, that is: $F_i = \left(F_i^1 + F_i^2 \right)$

These formulae are just illustrative of how obtained quantitative data from various local administration offices can produce coefficients on the basis of which relatively objective juxtapositions can be made of, say, 20-30 or more municipalities about the manners of allocating local budgets. Certainly, the simple correlation contained in these formulae between expenses fixed⁵ in municipal budgets and the non-fixed spending (allocated through non-transparent procedures and missing criteria for the choice of this or that decision) cannot by any means be a secure measuring tool. Team's intentions are to develop further the offered scheme and having accumulated reliable amounts of comparable data to come up with considerably more precise formulae for comparison.

6. Ongoing problems

- In the course of data collection it became clear that the financial information supplied by almost all local government structures states all expenditure as fixed. The analysis of facts demonstrated that it was only an attempt to avoid providing concrete information.
- Upon gathering the financial information data by the municipality (budget, expenses and the like) a core problem turned out to be the connection "line mayor — finance department". In many cases the written permission of the mayor did not seem sufficient grounds for the respective clerk to provide required data, despite of the public character of the information. Similar is the situation with almost every other piece of "more sensitive" information like public sale data, granting construction permits, etc.
- Plovdiv posed a special problem with the case of Plovdiv city municipality supplying partial information as different from the regional mayors, who on the whole proved more cooperative. Noteworthy here is that the dominant expenditure portions of regional municipal budgets (up to 100% in some cases) fall under "fixed" expenses, while the "non-fixed" spending is concentrated in a municipal mega-firm "Plovdivinvest" directly accountable to the central mayor.

Regional mayor offices, in spite of all legal premises are unable to thus handle and spend the bulk of the public resource. Hence the largest relative share of sector "Education" spending ranging from 45.88% in Maritza municipality to 62.66% in region "Southern". Due to the large relative share of fixed expenses "big corruption" (budget resource distribution) by appointed officials in regional administration is financially restrained. The so called "small" corruption is what takes place there, related with the execution of certain administrative services (requests, licenses and others).

Notes

- ¹ Various forms of political corruption fall here, illegal commissioning, smuggling into the country of vast quantities of mass consumption goods, evasive contracting over huge income amounts with top tax officials, obtaining various licenses — like for trading, transport, telecommunication activities etc.
- ² There is research evidence that official positions are filled as a result of complicated and temporary group arrangements, and the votable local government positions have proved to be practically one-mandate only.
- ³ It should be mentioned that for fear of unreliability of information the "entourage quota" principle was applied in the collection of part of the data — it came supplied by persons utterly trusting the interviewer (close friend, relative, even family member) whose anonymity was specifically guaranteed.
- ⁴ The integration of various possible forms, lending themselves to quantification, is envisaged — like number of complaints, time of receiving answers to claims, etc.
- ⁵ That is the expenses legally provisioned and practically clearly traceable, like for instance the salaries of doctors, teachers; electricity, heating expenses, etc.

„LOCAL GOVERNMENT TRANSPARENCY“ MONITORING

Municipality profile General features: state subsidy, ratio between subsidy amount and number of municipality population, adequacy of state subsidy to municipal social needs (unemployment rates, minority representation, percentage of active enterprises, infrastructure problems, etc.)								
Description of local government structure (chart and connections within municipality - flowchart)								
	Health Care	Education	Social Care	Culture	Investments	Licensing	Construction Development Right	Environment and sanitation
Amounts of funds allocated (As absolute amount and per cent of municipal budget)								
Fixed expenses not to be changed:								
<i>Pay-roll costs, social security, etc..</i>								
<i>Subsistence costs - electricity, water etc.</i>								
<i>Other fixed expenses</i>								
Comments								

	Health Care	Education	Social Care	Culture	Investments	Licensing	Construction Development Right	Environment and sanitation
Expenses determined by elected bodies (Municipal Council, commissions...)								
Expenses determined by appointed officials:								
Heating and food								
Repair work and current maintenance								
Special expenses:								
Outgoing decision makers and domain of their responsibility								
Lowest level officials								
Problems:								
Criteria for recruiting Commissions to allocate resources								
Criteria for appointment municipal officials; contests, etc.								
Business interest in the sector								

	Health Care	Education	Social Care	Culture	Investments	Licensing	Construction development right	Environment and sanitation
Schemes of exerting influence over local authorities								
Economic influence: Sponsorship, grants, joint activity								
Political influence: Party recruitment, lobbying for financing								
Sector supervision (bodies, regulation and procedures)								
Supervision over mayor and deputy-mayor decisions (scheme)								
Supervision over municipal council decisions (scheme)								
Supervision over municipal officials (scheme)								
Possible „grey“ sectors								

Best Practices and Case-Studies



The Students' Town of Sofia: a Corruption-Free Area

**Vessela Shaleva,
"Anti-Corruption Society"**

1. The Problem

At the present moment Bulgarian society is facing an exceptionally complicated social problem – corruption. This social evil has become one of the most serious challenges to the process of democratization by placing a substantial obstacle to the introduction of market mechanisms in the economy as well as by obstructing competition and equal opportunity in the other areas of societal activities.

One of the basic problems for a significant number of university students in Sofia is dormitory lodging in the student town of "Hristo Botev." The existence of widespread corruption and insufficient control of the housing process is a public secret among the students. Some of the students are unable to hire a private room, because the market price of the rent is too high for them and their families. Since for these students the only chance for security and ease during the academic year is dormitory housing in the student town, they are often inclined to compromise and accept the rules of the dirty game called corruption. The rules of control are an alternative to corruption. The students, however, are suspicious toward the obsolete models of control. The information deficit and the long waiting lines in front of the offices of the bureaucrats are still other factors creating conditions for corruption. The educational process itself is undermined by systematic bribing.

It is undeniable that the young people in Bulgaria, especially the university students, are playing a crucial role for the acceleration of reforms. After early 1997 the degree of public confidence delegated to youth is exceptionally high. This trust could be transformed into real measures for corruption minimization that would attract support from the general public. The combination of academic knowledge, youth's potential for applying innovative approaches in corruption counteraction, and the will for promoting the values of civil society could be converted into a model and an accelerating factor for curbing corruption in other public spheres and state institutions. It should be noted, however, that only a small number of the students and the young people in general have accepted their share of responsibility for combating corruption and for the restoration of moral values in society.

2. The initiative

Association "Corruption-Free Society" took its responsibility in this process by starting to implement measures for curbing corruption at the universities, which should represent not only centers for academic learning, but also an environment of new civil culture and morality. The pilot program "The Student town – A Corruption-Free Area" is part of the campaign realized by association "Corruption-Free Society" and is targeted at the problems of the students; it is also being implemented in the framework of the *Coalition 2000* initiative. This campaign is structured along two basic lines of work:

- Completing a professional analysis and searching for actual strategies for curbing corruption in the area of the student town.
- Involving a large number of students in the process of solving their own problems.

3. Developing solutions

In the context of the first working line of the program on April 27th, 1999 a round table discussion titled "The Student town – A Corruption-Free Area" took place at the Center for the Study of Democracy. This round table organized by Association "Corruption-Free Society" and *Coalition 2000* was attended by representatives of the following organizations: Bulgarian Democratic Youth, Association "European Law," European Youth Movement, *Coalition 2000*, the coordinators of association "Corruption-Free Society" from Sofia and Blagoevgrad, National Association of the Political Science Students, National Association of the Junior Clubs of the United Nations, "Transparency International" – Bulgaria, "Open Society" Student Clubs, Student Councils of Sofia University "St. Kliment Ohridsky," The University of Medicine, the Technical University, the University of Chemistry and Technology, The University for National and Global Economy, Union of the Youth Academic associations of the Movement for Rights and Freedoms, Federation of the Independent Student Associations. In the work of the round table there was also participation on the part of representatives of the administration of this municipality /at the level of deputy mayor/, as well as citizens interested in the problem under consideration.

The round table discussion focused on two basic groups of corruption practices – associated with dormitory housing and with academic examinations. Petar Yakimov, Head of the Student Council at Sofia University "St. Kliment Ohridsky," gave a short presentation on the structure and the working organization of the Commission on Social and Housing Services at Sofia University. Fundamental problems for discussion were also posed by the reports of Vesselina Shaleva, Head of the Board of Directors of Association "Corruption-Free Society" /"Normative settlement of the organization and conditions for the use of dormitory facilities of Sofia University "St. Kliment Ohridsky"/, and of Bogomil Nikolov, member of the National Association of the Political Science Students /"Fundamental factors of corruption in the Student town"/.

These major conclusions were made as a result of the discussion that followed:

- The normative settlement for accommodating the students in the university dormitories is unknown to a great number of the students, which creates conditions for discretionary intervention of the administration in the housing process.

- There is a lack of transparency in the process of accommodating students in the university dormitories, which creates preconditions for corruption.
- The commissions on social and housing services are working in the conditions of constant threats and bribe offers.
- There is not a working mechanism for removing from the university dormitories students who have accommodated themselves there without permission.
- The organization of the examinational system creates preconditions for corruption.

The following suggestions for the resolution of the existing problems were made:

- Preliminary announcement of the available places in the dormitories of the corresponding university, as well as periodic update of the information for available places
- Abiding by the competition principle in all housing procedures, including those conducted after the deadlines of the housing campaigns in the beginning and at the end of the academic year.
- Realization of better coordination in the work of the commissions on social and housing services for the students in the universities for the purpose of providing updated information about the available places in the dormitories.
- Development and distribution of pamphlets containing information about the students' rights in the process of accommodation in the university dormitories and opportunities for contact with Association "Corruption-Free Society" and other anti-corruption initiatives and organizations.
- Establishment of a "hot" telephone line for signaling instances of corruption and for legal consultations about the process of accommodation in the student dormitories.
- Introduction of remuneration for the members of the commissions on social and housing services for the students, as well as a reasonable payment for applying for student housing.
- Transition to a system of written examination in which the written exams of the students of a given university are evaluated by professors from a different university.

In conclusion, the participants in the round table discussion proposed to Association "Corruption-Free Society" to summarize the suggestions made, to correlate them with the participants in the discussion, and to send them in the form of a report to all interested institutions in the country.

4. Mobilizing support: rock concert/happening

On April 27th, 1999 Association "Corruption-Free Society" with the support of *Coalition 2000* organized a concert titled "The Student town – A Corruption-Free Area." The concert took place outdoors near "Hristo Botev" hall and was attended by more than 7000 spectators. The goal of the organizers was to pose the problem of corruption in the focus of the student community.

This activity was widely advertized with the use of posters placed in the Student town, in the most animated central locations, and in the rectories and corpses of the schools of higher education in Sofia. Besides the trivial information about the names of the participants and the place and time of the activity, the posters presented the campaign title and the logo of the organizers. Information about this concert was broadcast on the most popular radio stations – Bulgarian National Radio: program "Horizon", program "Hristo Botev," "Tangra" radio, and "Vitosha" radio. Information about the anti-corruption campaign in the Student town was announced simultaneously with the concert details. The transparent slides displaying the logo and the slogan of *Coalition 2000* /"Clean Future"/ and of Association "Corruption-Free Society" /"Honesty Wealth, Morality in Politics"/, and with the campaign motto /"The Student town – A Corruption-Free Area"/ additionally served to focus the audience's attention on the problem of corruption.

Although it was a non-traditional form of this type of anti-corruption campaign, the concert appeared to be an especially successful way for attracting the attention of a wide range of representatives of the young audience, whose majority does not take interest in participating in public activities of this type. Any other form of popularizing the problem "corruption" among the students would have a much more limited impact in relation to the number of students reached, as well as to the heterogeneity of the audience.

This concert focused the attention of a wide range of students who are not experts in the area of anti-corruption efforts, but are sensitive to or directly affected by instances of corruption. The involvement of the students was caused also by the severity of the problem, as well as by the fact that the cause "Corruption-free Student town" was joined by six of the most popular rock bands. The rock bands stated their support for the organizers and the objective of the concert. The students were informed about the opportunities for participation in the program for curbing the instances of corruption in the Student town. There were announcements about the establishment of a "hot" telephone line during the housing campaign in the Student town and about the distribution of brochures containing information about the students' rights in this campaign.

Simultaneously with the concert, a happening was organized – drawing a portrait of corruption. With the assistance of Liudmil Vesselinov – a fifth-year student at the National Academy of Fine Arts – those who were interested had the opportunity to visualize their conception of corruption on the white canvas. This activity involving over 40 "dilettante painters" was again aimed at focusing the students' attention on the problem of corruption, but at the same time it presupposed the expression of their attitude towards this social evil. The completed work will be presented at the upcoming seminars on the problem and will be utilized in the future activities of the Association aimed at building an anti-corruption attitude among the young people.

Anti-corruption information

In the process of developing the project "The Student town – A Corruption-Free Area" the Association envisaged as its objective not only focusing the students' attention on the problem of corruption, but also suggesting effective mechanisms for its overcoming. Undoubtedly, one of the strategies for curbing corruption is maximizing the

students' awareness of their rights and securing maximal transparency in completing the list for housing and the distribution of the available places. These conclusions were confirmed also during the round table discussion.

In early June the brochures providing information about the students' rights in the process of dormitory accommodation were prepared. Their distribution will be initiated simultaneously with the beginning of the campaign for filing requests for university housing, the purpose of which is to reach virtually every student for whom the information about university housing and the students' rights in this process is of significant importance. The brochures are placed in the offices where housing requests are filed, in the dormitories, and at the universities. The brochures include information about contacting Association "Corruption-Free Society," as well as details about the "hot" telephone line. A working group composed of students will investigate the signals for instances of corruption and will prepare suggestions to the local government, as well as to the universities and the Ministry of Science and Education for improving the effectivity of anti-corruption strategies and minimizing the instances of corrupt practices in the Student town.

7. The proposed anti-corruption mechanism

A "hot" telephone line for signaling instances of corruption and for legal consultations for the process of accommodation in student dormitories was opened at the beginning of the campaign for filing housing requests. The collected information will be analyzed and presented as a report to the specialized authorities. The report will contain suggestions for improving the administrative and legal organization of the student towns.

After a profound analysis of the results of the actualized project Association "Corruption-Free Society" envisages the development of similar anti-corruption programs in other academic centers – for instance in the student towns of Blagoevgrad and Shumen, where the Association has members and friends. The successful implementation of these programs could create a real model for an anti-corruption strategy which could be applied in other sectors of public life.

8. Project progress

The progressive implementation of the project envisages organizing round table discussions on the results of the pilot program. Youth and student leaders from the entire country will be invited to these discussions to share their experience and conception of the participation of civil youth organizations in joint anti-corruption initiatives. The participation of youth and academic organizations from Blagoevgrad, Shumen, Veliko Turnovo, Haskovo, Plovdiv, and Sofia is forecast. The discussions will be centered on the problems of the social and housing services for the students and the related instances of corruption, considering the specific characteristics of each university center. The possibilities for developing suggestions for improving the administrative and legal organization of the student towns will be discussed as well.

Association "Corruption-Free Society" will familiarize the participants with its project for establishing an academic commission for fighting corruption as an independent public agency whose activity will be focused on curbing corruption in university centers. The fundamental direction in the commission's work will be investigating signals for

instances of corruption /including those received on the "hot" telephone lines/ and the preparation of reports containing recommendations for the measures which should be taken in each case. The Association will present its proposal for creating mechanisms amplifying the opportunities for informing the commission not only about actual cases of corruption, but also about the conditions facilitating its existence in the universities and more specifically in the student towns. An example of such a mechanism is placing post office boxes in easily accessible places with the help of which signals will be received. In this way it will be possible to consider the recommendations of the students themselves and to represent their understanding of the issue. The feedback thus received will facilitate the work of the commission itself.

For the purpose of maximal involvement of the students in the fight against corruption, the information collected with the means of the "hot" telephone lines and the post office boxes will be made available to journalism students so that they could conduct journalist investigations of instances of corruption. These investigations will not be pursuing a sensational effect, but instead will contain analyses and conclusions about improving the efectivity of the anti-corruption measures. It follows that the successfully conducted journalist investigations will show that the emphasis usually placed on the difficulty of proving cases of corrupt practices can and should be moved to the public capacity for non-tolerance of the instances of corruption left with no subsequent consequences – undisclosed and non-penalized.



ANTI-CORRUPTION CIVIC INITIATIVES ON MUNICIPAL LEVEL

Borislav Tsekov

*President of the Association of Young Lawyers of Bulgaria,
Member of the World Jurist Association*

More than ten years ago an American politician had to resign as Chairman of the House of Representatives because of numerous accusations in corruption. People talked in these years that when individuals, lobbyists or civil rights activists had contacted him with proposals for certain legislative measures he usually showed the white wall in front and said "Do you see what is written on this wall?". While his interlocutors stared in wonder he continued "It's written: for nothing – nothing!".

I question myself - is there a citizen both in Bulgaria and in the region who has never seen this invisible sign in any public institution? In the years of transition towards market based democracy, corruption has become one of the most significant threats to successful implementation of political and market reforms. But fortunately, in the last 2-3 years, a more pragmatic and purposeful efforts aimed at enhancing of transparency and restricting of corruption pre-conditions could be noted in Bulgaria both in terms of measures taken by the government and in terms of NGO sector initiatives. When talking about NGO sector in Bulgaria it is worth mentioning "Coalition 2000" and the results of its anti-corruption activities on national level – a Plan for combating corruption has been prepared, the public debate on these issues involving the state authorities, NGOs and the businesses has been activated. And now, the time has come for Bulgaria to focus anti-corruption efforts also on the lowest levels of administrative hierarchy and to implement civic anti-corruption initiatives on municipal level.

In this respect the Association of Young Lawyers of Bulgaria /AYL/ created last year an expert team on anti-corruption issues and initiatives related with combating corruption. At this stage the program, which we have called "Civic initiative "Anti-corruption" consists of projects implemented on municipal level /in four municipalities/, funded by the US Embassy in Sofia and Coalition 2000. The program has also its international dimension – AYL will host a conference of the World Jurist Association on October 1, 1999 in Sofia: "Legal Instruments for Enhancing of Transparency, Openness and Accountability of Governments". Prominent legal professionals from the USA, Germany, Russia, Ukraine and other countries will take part in this conference. Among the foreign speakers will be Prof. Garry Hunter, Director of Law, City of Athens, USA and Mr. Nihal Jayawickrama – Transparency International Executive Director, Mr. Jack Streeter, President of the World Association of Lawyers, Mr. Valerij Yevdokimov, Chairman of the High Council of Justice of Ukraine and other distinguished jurists and lawyers.

Association, Center for the Development of the Zlatograd District, Business Centre Devin, "Partnership for Local Development" Association, Madan District, Union for the Protection of the Rhodopi - Chepelare Municipality, "Care and Charity" Association - Smolian.

Media:

The Editors in Chief of the newspapers "Otsvuk", "Rhodopski Vesti", "Rhodopski Pregled"; the "Foton-K" Cable TV, the "Rhodopa" Radio, and journalists - correspondents of the Bulgarian National Radio, Bulgarian News Agency, the newspapers "Standart" and "Maritsa".

Business:

The Executive Directors of the Bulgarian Economic Chamber and the Trade-NN Palace

Free-lance Lawyers:

Attorney Ivan Apostolov, Attorney Vassil Vassilev, Attorney Peter Malamov

Culture:

Valia Balkanska - Folk Singer, Slavka Ivanova - Poet, Nikola Gigov - Writer

STRUCTURE OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - DISTRICT SMOLIAN

The Regional Anti-Corruption Public Council has a three-level structure.

Regional Public Forum:

Structure:

It has an open structure and consists of all the members of the Council.

Sittings:

The sittings are held at least once in three months, and are convened by the Chairman.

Tasks:

Defines the strategic program, the conception and actions of the Council.

Adopts the Action Plan Against Corruption. Makes an analysis and an estimate of the corruption situation in the country.

Makes proposals to the responsible institutions and bodies for possible changes in the legal framework.

Coordination Council

Structure:

A seven-member Council:

Chairman: Mr. Peter Malamin, lawyer, Mayor of Momchilövci

Deputy Chairman: Mr. Deyan Ashkov - economist, Chairman of the Bulgarian National League "Stefan Stambolov"

Secretary: Miss Siika Zabilova, Spokesperson for the District Directorate of Internal Affairs

Members: Mr. Georgi Krumov - District Prosecutor

However, it provides for certain mechanisms, procedures and obligations for the authorities to answer to signals for corruption and proposals regarding improvements in the administration submitted by citizens or organizations. Let me say that we are planning to draft proposals for a new, modern law to guarantee the right of citizen to petition and will submit these draft proposals to the standing parliamentary committees and to the Council of Ministers. We consider that the work of our Intermediary Groups so far is quite satisfactory - more than 200 citizens have been consulted for the last two months in the four municipalities we are working in.

Another priority of the Intermediary Groups is monitoring the activities and policies of the local authorities with regard to restricting of corruption and maladministration violating the rights and lawful interests of the citizens. The monitoring process will result in special reports and recommendations for improvement of the organization and procedures of the municipal bodies. These reports will be presented to the local authorities, the media and local NGOs. With a view to increasing of transparency of the local authorities and enhancing of the role of the NGOs in public policy making, the Groups will gather and announce information about important local projects, funded by the municipal budgets.

We consider as very important publishing of Citizens' Handbooks presenting legal regulations of a wide scope of municipal administrative services (e.g. certificates, authorizations, licences) in a synthesized and understandable for the citizens way. The handbooks will be distributed within the local communities - citizens, businesses and NGOs. I do believe that the handbooks concerned will be an efficient assistant to the citizens and a real guide in the labyrinth of the administrative services, bodies, documentation and procedures.

Mail boxes have been announced where citizens, whose anonymity is guaranteed, have the opportunity of sending signals for corruption in the local authorities. It is also provided for popularizing through the media of the forms and opportunities for civil stand against the corruption aimed at raising awareness and also creating of a public attitude of intolerance towards the corruption as well as improving of the legal culture of the citizens.

We are in permanent dialogue with local authorities through a number of workshops and round table discussions on issues like functioning of the municipal authorities, access to information and amendments in local regulations aimed at reducing of the licencing procedures. Practical results of this dialogue is the participation of representatives of AYL in working groups on drafting of local plans for combating corruption in two of the municipalities.

This mediation between the citizens and local authorities, civic control and improving of the legal knowledge are the basic instruments for NGOs in combating corruption. In this sense the process "Coalition 2000" should be directed even more to working on local level. Local NGO coalitions, consisting of both organizations committed to the anti-corruption issues and also NGOs with other areas of activity should be created in the municipalities. They should work in close cooperation with Coalition 2000. This is the way for enhancing the space for public debate and for demonstrating of the common will of the NGO sector to deal with anti-corruption issues through their specific instruments. The Association of Young Lawyers of Bulgaria consider that Bulgarian NGOs have the capacity and potential for efficient work in this field.

June 19, 1999
Bulgaria

I would like to present you in brief the modest experience we have got in working on corruption issues on municipal level.

I remember, the official opening of our program in one of the municipalities. More than two hours before our pressconference, groups of people from two villages within this particular municipality had arrived and asked the mayor – “Where is this citizens’ commission for complaints against the municipal bodies?”. Citizens in another municipality we are working in submitted in our office signals for corruption in local authorities. After hearing the information my colleagues told them to come again in two days in order to examine this case and consider how to react. “But you should not do anything but get the corrupt gyes in the police?”, insisted the citizens...

These two stories are indicative for at least for two points:

- there is a necessity of independent civic structures to assist citizens in their relations with the local authorities and to monitor the activities of the municipal bodies;

- there is such thinking that combating corruption means only law enforcement and punishment for the guilty, and not enhancement of transparency, awareness building and improving of citizens knowledge about their rights and the functions and powers of the public bodies.

Guided by such observations and by our understanding about the role of NGOs in combatting corruption we have concentrated our efforts in creating a model for action on municipal level through which:

- citizens to be assisted in realizing their rights and their legal knowledge to be enhanced as far as the administrative services provided by the local authorities are concerned;

- civic control on the local authorities aimed at restriction of the corruption, to be executed;

- public awareness to be built and a public intolerance towards the corruption to be fostered;

- transparency of the local authorities regarding important local projects, funded by the municipal budgets or related with lending of municipal property to be improved.

These projects provide for realizing of concrete anti-corruption initiatives on municipal level, implemented by organized groups of experts, named “Intermediary Groups”. They fight corruption by creating offices for consultation of affected citizens. Their basic role is to make a stand against maladministration, unlawful or unreasonable acts or actions, delays of process, negligence or any other bureaucratic abuses, which on a mass scale compell the citizens to hand out bribes to the local officials in order to realize their rights and lawful interests. This is a general practice, which besides all, undermines the citizens’ confidence in the institutions and the legal order in this country. The Intermediary Groups consist of lawyers, journalists and volunteers, and designed to mediate between the citizens and the local authorities as far as the administrative services are concerned. In case of unlawful or unreasonable acts or actions of the local administration or in case of unlawful delays of process, the Groups assist the citizens through preparation of documents, legal advice and advocacy before the municipal administrative bodies, and if necessary they help the citizens to file complaints before higher municipal bodies according to the Proposals, Signals, Complaints and Petitions Act. This Act has been adopted before the 1989 and is not adequate to the contemporary social realities.



REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - SMOLIAN, BULGARIA

DEYAN ASHKOV

1. STATUTE AND COMPOSITION OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - DISTRICT SMOLIAN

The Regional Anti-Corruption Public Council is a volunteer civil forum and has no legal statute. It was established on 19 May 1999 in the framework of the anti-corruption project of the Bulgarian Youth League "Stefan Stambolov", and is part of the Coalition 2000 process.

The Council is an open institution, and a place for dialogue among the state and municipal institutions, NGOs, business, media, and citizens. It unites their anti-corruption initiatives and works for the realization of those initiatives in full transparency.

The Council consists of representatives of:

State Institutions:

District administration, District Prosecutor's Office, District Court, Regional Directorate of Internal Affairs, Regional Customs Office, Ministry of Finance's Office for the Prevention of Tax Violations, State Financial Control, and others.

District Institutions:

Smolian Municipality - the Deputy Mayor and the Secretary of the Smolian Municipality, Heads of Departments at the same municipality, the Mayor of the Momchilovci village, representatives of the municipalities Rudosem, Dospat, Devin, Borino, Chepelare, Madan, Zlatograd, Nedelino, Banite;

Trade Unions:

The Chairman of the Labor Confederation "Podkrepa", Chairman of the Federation of the Independent Trade Union in Bulgaria, Chairman of the Independent Association "Promiana", Chairman of the Regional Doctor's Association at the Bulgarian Doctor's Union.

NGOs:

Bulgarian Youth League "Stefan Stambolov", Bulgarian Association for Fair Elections and Civil Rights, Association of the Rhodopi Municipalities, Initiative for Protection and Development of the Middle Rhodopi, Agency for Regional Development at the Phare Program, "Open Society" Club, "Lady Diana - World Without Tears" Fund, Center of the Not-for-profit Organizations, Center for the Sustainable Development of the Mountain, Union of the Rhodopi Hotel and Restaurant Managers, Union "Unique Rhodopi", "Civil Forum" Association, "Rhodopi XXI Century"

Mr. Bisser Goranov - Secretary - Smolian Municipality

Mr. Vassil Vassilev - Attorney

Sittings:

The sittings are held at least once a month, and are convened by the Chairman.

Tasks:

Implements the decisions of the Regional Public Forum.

Guides the implementation of the Action Plan Against Corruption.

Effectively manages all the aspects of the fight against corruption - political, institutional, economical, legal, informational, as well as the international relations.

Through its work fosters consensus and cooperation between the state and private sector, and among the trade unions, media and NGO institutions, as a key prerequisite for the success of the fight against corruption.

Prepares the program and organizes the sittings of the Regional Public Forum.

Examines the citizens' signals and takes the necessary actions in cooperation with the respective institutions and bodies.

Secretariat

Composition:

The Secretariat of the Regional Anti-Corruption Public Council is presented by the Bulgarian Youth League "Stefan Stambolov".

Sittings:

Permanently functioning executive body.

Tasks:

Provides constant cooperation with the Coordination Council.

Fulfills the daily activities.

Reports its actions to the Coordination Council.

Receives the corruption signals and submits them to the Coordination Council and the respective institutions and bodies.

Observes the establishment and development of other anti-corruption initiatives at local and international level and contacts the respective institutions; informs the Coordination Council with a view towards establishing cooperation between them.

Organizes meetings and visits, thus helping the Coordination Council.

**AIMS OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - DISTRICT
SMOLIAN**

To reach such a level of influence in the fight against corruption, that will lead to a change in peoples' system of values, attitudes, and behavior that will lead to accepting the corrupt behavior as inadmissible and unworthy.

Transparency and openness in the actions of the state and government institutions and local authority.

Improvement of the economic and social environment.

TASKS OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - DISTRICT SMOLIAN

To establish partnership among the civil associations, business and NGOs on one hand, and the state and municipal institutions on the other, aiming at the development of a successful strategy for the fight against corruption.

To create prerequisites for the rule of law in society.

To collect information and take action on citizens' signals for acts of corruption in cooperation with the respective institutions and bodies.

To raise public awareness of the citizens' rights and their problems with corruption.

To work for the establishing of political, economic and social culture, based on trust and respect for the state and government institutions.

To prepare proposals for the improvement of the work of the state and municipal administration.

To implements studies for the establishing of the level of corrupt behavior in the district and to take the necessary action.

To monitor the transparency of the municipal and state authority.

To prepare proposals for the introduction of changes in the legislation aiming at the maximal possible limitation of the possibilities for corrupt behavior.

TERRITORY OF ACTION OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - DISTRICT SMOLIAN

The activities of the Regional Anti-Corruption Public Council are aimed at the Smolian district, which comprises of 10 municipalities: Smolian, Rudosem, Dospat, Devin, Chepelare, Madan, Zlatograd, Nedelino, Banite.

TIME LIMIT FOR THE ACTION OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL FOR THE FIGHT AGAINST CORRUPTION - DISTRICT SMOLIAN

The Regional Anti-Corruption Public Council for the fight against corruption is a permanent body and has no time limit for its activity.

ACTIVITIES OF THE REGIONAL ANTI-CORRUPTION PUBLIC COUNCIL - DISTRICT SMOLIAN

04.04.1999 - Press conference with journalists from the local media (the newspapers "Rhodopski vesti", "Otsvuk", "Rhodopski pregled"; the "ARO" magazine of the Association of the Rhodopi municipalities, radio "Smolian", radio "Vitosha", "Foton-K" cable TV), the Bulgarian News Agency, the Bulgarian National Radio, the newspapers "Standart", "Maritsa", and "24 hours".

The aims, philosophy, Program and Action Plan Against Corruption were presented before the journalists.

The local printed and electronic media, the Bulgarian National Radio, the "Standart" and "Maritsa" newspapers published information for the Regional Anti-Corruption Public Council.

A special column for the corruption problems was established:

- "Rhodopski vesti" and the local newspapers (6 publications to present)
- electronic media (2 broadcasts on the "Foton-K" cable TV, two interviews on the "Rhodopa" radio and two interviews on the "Smolian" radio)
- radio "Rhodopa" broadcasts daily (two times a day) information on the activities of the Regional Anti-Corruption Public Council

04.04.1999 - An office for free legal consultations for the citizens on their signals and corruption problems was opened. At the office were opened:

- PRIEMNA, (Smolian district administration, office 516, every weekday 17:00 - 18:00)
- Telephone hotline for citizens' signals (tel. 0301/2-46-01, every weekday from 09:00 to 18:00 o'clock)
- P. O. Box for signals of corrupt behavior (P. O. Box 111, Smolian Central Post Office, daily)

Up to now the services of the Office were used by:

- PRIEMNA, 12 people
- Telephone hotline - more than 200 calls from people supporting the aims of the project and 11 signals on which the necessary measures were taken.
- P. O. Box - 30 letters

The legal consultations office is headed by the lawyer Peter Malamin, who is also a former officer from the District Directorate of Internal Affairs.

Most of the received signals for corruption concern the health services, the road police, the sanitary inspection bodies, and the municipal and state administration in the form of unlawful appointments and dismissals. However the people do not present themselves and do not present facts and evidence, which makes the cases of corrupt behavior difficult to prove.

Our main purpose is to convince people that changes can be made, to provoke the citizens' activities and a position of intolerance to corrupt behavior.

This should be the main aim of the fight against corruption.

A monitoring on the "Transparency of local administration" was performed by Radka Anastasova, Head of Department "Information" to the Regional Inspectorate of the Ministry of the Education and Science; Dimitar Costadinov - economist, former university professor and a socially active person; and Malin Bombalov - expert and consultant at the Federation of Independent Trade Union.

Through the monitoring process the possible gray sectors, giving potential possibility for corrupt behavior, were established:

health services:

buying of medical equipment, supply of medicines, food, fuel, performance of current renovations, prescriptions of free medicines, issuing of medical records and certificates

education:

conclusion of contracts for the supply of fuel, food, supplementary school materials, renting school buildings for trade activities, writing higher marks to students in school and at exams for attending university, and paying for signing pupils out of school.

social services:

possibilities for people, which income is not declared, to receive social assistance for central heating and food, contracts for the supply of foods, clothing and fuel, illegal distribution of donations from Bulgaria and abroad.

culture:

auctions for current renovations, conclusion of contracts for the organizing of festivals and celebrations, which costs are considerably higher than that of the cultural product, conclusion of contracts by the directors of museums, galleries, libraries, operas, and theaters for the renting of rooms and outdoor spaces for trade activities, supply of books, pictures, museum exhibits, and possibility for their change with imitations.

investments:

contracts for the planning and building of infrastructure objects, privatization of municipal property, low control of the fulfillment of the concluded contracts, submitting of classified information of strategic importance at competitions and auctions.



The Case of Shell Petrol Station in Vratsa

Maria Moleshka, InfoEcoClub, Vratsa

Background

With order No. **524** of June 1998, Vratsa Municipality designated a **place** for the building of a petrol station in the suburb of Medkovets. However, no mandatory Environmental Impact Assessment (EIA) of the partial change to the town plan was carried out (in accordance with Article 20, Paragraph 1, indent 2 of the Environmental Protection Act (EPA), and Article 2, Paragraph 1, indent 3 of Ordinance 1 (repealed State Gazette, No. 84/89). In addition, the Regional and Urban Planning Act (RUPA) was also violated in Article 6, indents 6 and 7 which require public discussion.

In this way, without consulting the public and in violation of the laws, the town's mayor and chief architect "**allow**" the construction of a petrol station in a suburb located in the dangerous hygiene-protection zone (3,000 m) of the Chimco chemical plant. Ordinance No. 7 of the Ministry of Health demands that local government ensures maximum grassing of the area, but in practice all that the unlawful decision for the construction of the Shell petrol station ensures is **additional pollution** from daily emissions of **leaded** petrol and the exhaust fumes of an average of 90 cars an hour.

The ecological and health situation in Vratsa

The Vratsa public and InfoEcoClub protested against this decision. They reminded that Medkovets suburb is located in the first group of hazardous hygiene-protection zones. Vratsa itself figures in the Environment Ministry's list of towns and cities with ecological and health problems ("hot ecological point No. 7"). The situation in the town is characterized by the following indicators:

- **several-fold exceeded concentrations of ammonia**
in 1997: five and six times above the admissible limit (maximum admissible concentration = 0.2 mg/m^3).
and average daily concentration exceeded
on 06.02.97 - 10 times,
on 24.01.97 - 12.75 times - the maximum admissible concentration (0.04 mg/m^3).
- several-fold increased incidence of disease, especially among children (malignant tumors, respiratory diseases, congenital malformations, asthma)
- in 1991 the sickness rate was **35,940** people, in 1996 - **64,869** people.
- **tripled incidence** of pneumonia, 1.6-fold increase of asthma and skin diseases.

Specialists are already talking about the so-called "Vratsa lung", permanent damage caused to the lungs of children. When X-rayed their lungs resemble those of a 40 or 50-year-old smoker suffering from chronic bronchitis. (The information is provided by the Regional Environmental and Water Inspectorate (REWI) and the Regional Health Center in Vratsa).

The National Center of Hygiene and Nutrition also established that "Vratsa's great air pollution with ammonia, hydrogen sulphide and sulphur dioxide has an immediate **unfavorable effect on the population's health (and children in particular)** - the incidence of diseases of the **respiratory tract** is increasing (acute respiratory infections, chronic bronchitis, rhino-pharyngitis, tracheobronchitis) and **allergies** (asthma, urticaria, conjunctivitis)". (Problems of Hygiene, Vol. 17/93, Medical Information Center). The same conclusion was reached at a number of environmental conferences devoted to these problems.

The initiative of InfoEcoClub

The Vratsa public and NGOs insisted that the municipal government guarantees the rights of its citizens by guaranteeing the observance of the laws:

- civil claim No. 370/99 was filed to declare the order of the mayor invalid, due to neglected legal procedures.

Yet already before the case was brought to court, the Ministry of Environment and Waters allowed the next procedure to take place - EIA of the Shell petrol station. During the public discussion of the report on the Shell petrol station, prepared by presumably independent experts, the representative of the Ministry of Environment, instead of acting as an unbiased arbiter, clearly took the side of Shell. The discussion resembled a dialogue between deaf people. Whilst representatives of the public cited the unlawfulness of the decision on the location of the future petrol station, experts stressed its advantages. Their position is easily explained when keeping in mind that their fees are legally paid by the investor himself, i.e. Shell. And when even an "independent" expert is thus dependent, his decisions are predictable.

After the discussion, InfoEcoClub and the Bulgarian Royal Automobile Club in Vratsa presented a well-founded stand on the **change of location** of the Shell petrol station to the Regional Environmental and Water Inspectorate in Vratsa, the Ministry of Environment and Waters, the Ministry of Health and the National Centre of Hygiene, Medical Ecology and Nutrition, asking for an objective interpretation of the facts and norms.

In turn, the Board of Experts of REWI-Vratsa used the maximum legal term to announce the decision - three months. Thus, on 6 January 1998, following a meeting of the REWI Board of Experts, the Director of REWI-Vratsa announced decision No. 01-01 of 01.99. Thereby he returned the EIA report asking for the inclusion of additional health and hygienic aspects and prognoses on the Shell project.

In this way, the Director of REWI-Vratsa actually enabled the procedure to be subsequently legalized and the project implemented.

This caused InfoEcoClub to file a second suit, No. 408/99, on 25.05.99 - this time against REWI-Vratsa. We consider that the Director of REWI-Vratsa was obliged by law to terminate the procedure on the project's realization. We insist that the implementation of the project be stopped because the mandatory procedure for determining the **location** of the petrol station (EIA of changes in built-up areas) was not carried out.

The first session on the case against REWI-Vratsa was scheduled for 25 May 1999 but had to be postponed due to failure to subpoena a Shell representative.

Meanwhile, InfoEcoClub also came across other strange omissions and mistakes linked with the Shell project.

1. Title deed No. 86, Vol. III (case No. 1781/95, District Court Vratsa) - issued for a property of 3,396 sq m in the suburb of Medkovets, in violation of the Land Act (Article 10, Paragraph 7) and Regulations (Articles 11, 13, 14, Paragraph 1, indent 1) (with a special decision of the Supreme Court which nobody has seen), as a result of which the Municipality restores the same property, sold to Shell for **73,200,000 leva** - title deed 135, Vol. II, case 2685/25.06.98, but which has already been restored by the land commission.

Once the "**mistake**" becomes known, the owners "voluntarily" reject the compensation of the land commission.

2. As a result of an incorrect enquiry about the type of petrol station, specifying a minimum distance to a housing facility, a "suitable" answer was received from the Ministry of Health - letter No. 26 00 947a/10.11.97.
3. The SANITARY CONCLUSION of the Hygiene and Epidemiology Inspectorate (HEI) in Vratsa is similar: "hygiene standards and requirements and sanitary rules have been observed". No remarks, no corrections on a 14-folder-large project and without anyone noticing that the state of health of an ecologically threatened region is assessed in one single sentence: "**No information available**". (Exactly HEI has information about the incidence of disease).

Corruption hypothesis

In our view, the violations of the law in this case can be explained not only with the incompetence of the respective employees, but also with the financial gains of some of them. Although we lack the necessary proofs, we strongly suspect:

- Vratsa Municipality (chief architect, mayor, etc.)
- the Hygiene and Epidemiology Inspectorate in Vratsa
- the Regional Environmental and Water Inspectorate - Vratsa
- the Ministry of Environment and Waters
- EIA experts.

Proposals for limiting corruption in the sphere of ecology

The aim of InfoEcoClub in the concrete case is to maximally use the possibilities provided by the country's environmental legislation to protect the interests of citizens. At the same time, this case can be used as a model for the solution of similar problems.

We consider that the efforts of civil society for protecting the environment and people's health should be channelled in the following directions:

1. Civil pressure on state and municipal bodies for observance of the laws. This means demanding the necessary information and transparency in decision-making regarding:
 - the state of the environment and the population's health (Constitution, EPA);
 - plans and projects which could create economic and health problems (EPA, RUPA, Ordinance 4).
2. Participation of citizens organizations in environmental decision-making (EPA and Ordinance No. 1 on EIA).
3. Changes in legislation:
 - to demand personal responsibility and sanctions for violations from the respective employee, and not from the institution he represents.
 - legal guarantee of the independence of EIA experts whose activity should not be financed by potential environmental polluters (changing Article 23 of the EPA).



Foreign Citizens as a Target of Corruption: a Survey in Bourgas Municipality

**Plamen Bakalov,
Black Sea Legal Community**

An opinion poll among foreign citizens staying in Bulgaria was conducted on the territory of Bourgas Municipality between 1 and 10 June this year regarding the existence and forms of corruption against them.

In view of the complexity of the problem and the sensitive position of people in a foreign country, the questionnaire was completely anonymous and the questions in it were formulated in such a way as to maximally guarantee the secret of the identity of respondents.

The poll covered a random sample of 20 foreigners, half of whom were approached whilst tanking up their cars at a petrol station, the other half being businessmen who were interviewed in their offices. With a view to greater accuracy in interpreting the questions and overcoming the language barrier, the poll at the petrol station was conducted in the form of a standardized interview.

From the point of view of the survey's procedural characteristics, two factors stood out in particular:

1. The degree of willingness to respond and the sincerity in answering the questions increased once respondents realized that the poll was being conducted by an NGO, rather than by a state-run organization.
2. Foreigners are more inclined to share their troubles on this acute problem with a mature person, inspiring confidence and respect through his very presence, rather than with a young and inexperienced pollster.

With regard to content, it is indicative that the majority of the polled foreign citizens - 11 persons or 55%, have been faced with situations in which civil servants demanded money or other material valuables from them for performing or speeding up certain services which, as a rule, form part of their official duties.

Five of the other nine respondent, i.e. 25%, deny having had any such problems and four respondents, or 20%, refused to answer. It should be noted that seven of these nine foreigners were interviewed at the petrol station, the assumption being that they are people who have only recently arrived in Bulgaria, are not very familiar with the situation in the country, and are asked to express their views in the conditions of time deficit and a limited chance to establish confidential contact with them.

Secondly, the answers to the question in which area of administrative services they came across manifestations of corruption are also interesting. Four persons, or 20% of all respondents, cited customs officers and another four respondents policemen - one a border police officer and three traffic policemen, respectively. Two of the respondents or 10% cited the Hygiene and Epidemiology Inspectorate (HEI) in connection with the issue of licenses for trade with alcohol, cigarettes, etc. and one respondent cited the Municipal Council concerning the issue of a trade license.

Two of the respondents also described how this was done. In one case the foreign citizen was forced to make a present to a female HEI employee in order to speed up the procedure for the issue of the necessary license, in the second case the respondent had to pay a certain amount of money in order to have his stolen car returned to him.

Regarding the ways in which civil servants derive personal benefits, the survey revealed three main ones:

- cash (three instances)
- presents (two instances)
- present plus a treat (one instance).

With regard to this question it should be noted that half the foreigners who otherwise admitted to problems with corrupt civil servants, refused to specify the way and manner in which this happened. This could possibly be explained with the fact that in such circumstances both the person who takes and the person who gives a bribe is acting unlawfully.

The respondents showed the greatest unanimity with regard to the question: "Why did you give the bribe demanded of you?" Seven or 64% of the respondents who had problems with corruption said they did so because they lacked the necessary information of how to achieve their aim legally. Another four respondents or 36% of the same group of foreigners did so in order to save themselves unnecessary trouble and difficulties.

The collected information warrants the following general conclusions, whilst taking into account the small number of respondents:

1. The phenomenon of corruption in the state administration is widespread in Bulgarian conditions and has a negative reflection on the country's image abroad - with all the consequences proceeding from this.
2. There is marked distrust in the willingness and ability of state institutions to efficiently counteract such manifestations.
3. A strong restraining factor causing foreign citizens to reject and/or report acts of corruption is their fear of any possible negative consequences and their vulnerability due to the lack of sufficient information about legal standards for the solution of their problems in Bulgaria.
4. NGOs can play a significant and growing role in familiarizing, motivating and mobilizing the broad public, including the media, experts and specialists in different spheres, young people and others in the struggle against corruption.

5. The reasons behind this phenomenon are very complex: economic, political, legal, psychological, etc. They have both common features and the specific characteristics of each of the concerned state institutions - customs, police, HEI, etc.

On the other hand, the factors of corruption can be studied (and on this basis find ways to counteract it) as external for the respective organizations: e.g. common economic, social, moral and other dimensions of current social realities, as well as internal factors linked with the structure, functions, staff, organization and control systems in every concrete state administration team.

However, all these questions need further and thorough study, analysis and prognosis. This is will be one of the priorities in the future activity of the Black Sea Legal Community within the framework of the *Coalition 2000* initiative.

Regional Anti-Corruption Cooperation



SMUGGLING CHANNELS AND CORRUPTION PRACTICES IN BULGARIA

Yovo Nikolov

1. INTRODUCTION

In 1998, in a sheltered part of the beautiful Bulgarian Rhodope Mountains, police officers discovered a settlement of completely new houses, able to rival the homes of film stars in Beverly Hills. Eighty percent of them turned out to be owned by ordinary Bulgarian customs officers. The average monthly wage of Bulgarian civil servants during the last 10 years has never exceeded 250 German Marks.

All public opinion polls conducted during these years, invariably and unconditionally place the profession of customs officer at the head of the list of corruption. The sociological studies of Coalition 2000 conducted in 1998 and 1999 show that customs officers are unrivalled in venality among other professions in the state sector. The public attitudes mirrored in these sociological surveys show the scale of corruption among the border administration where taking bribes has become a normal thing. What is more, civil servants regard border checkpoints as their own private property, as a privatized mechanism for deriving personal benefits. This does, of course, have its economic and social prerequisites, caused by the changes in the state. Precisely these prerequisites served to create the model of the criminal economy with its three basic forms of smuggling, corruption and threat (racket).

According to the Bulgarian Penal Code, "smuggling is the across-border transfer of goods without the knowledge or permission of customs authorities".

Bulgarian legislation does not provide a concrete definition of the concept of "corruption". Some analysts of the phenomenon define it as follows: "Corruption is abuse with power - economic, political and administrative - which leads to personal or group benefits at the expense of the rights and legitimate interests of the individual, of a concrete community or of the whole of society." Smuggling and corruption, despite their diverse forms, are inseparably linked and interdependent.

2. Types of smuggling

Several types of across-border smuggling can conditionally be listed.

- 2.1. Small-scale smuggling whose success, despite its deliberate nature, is the result of accidental circumstances. In recent years this type of smuggling has come to be known as "shuttle trade". Small-scale smuggling is realized through public, friendly or family connections in the border administration.

- 2.2. Local or conventional smuggling. It, too, is based on relations of friendship or family connections, regulated at local level.
- 2.3. Smuggling channels which involve a highly organized system of employees in the coordination system of state administration.

3. Types of corruption practices ON the border

Corruption practices on the border, too, can be divided into three basic types:

- 3.1. Corruption of the customs administration in order to quickly fill out, or not fill out at all, certain documents which enable businessmen to sell their goods as quickly as possible. This kind of corruption could also be called forced corruption.
- 3.2. Corruption to cover up violations of customs laws and standards.
- 3.3. Complicity of the border and customs administration in creating and operating smuggling channels across the border.

Clearly, a direct dependence exists between conventional smuggling and corruption for covering violations of the customs regime. It is not always organized though.

4. Genesis of SMUGGLING channels

The present report focuses on smuggling channels and corruption practices which have emerged in Bulgaria during the last 10 years because they present a particular threat to countries with a fledgling market economy.

- Smuggling channels are one of the main sources enabling political elites, shadow businessmen and organized crime to amass economic power.
 - Smuggling channels enable certain groups of people who control them to gain a significant advantage in a real market situation.
 - They represent an exceptional danger to local producers of goods whom they stifle with their disloyal competition and cheap imports.
 - Smuggling channels rob the national budget of billions of leva to.
 - The organized smuggling of goods is the main source of the mafia's financial power. The across-border smuggling of goods, in which the avoidance of customs duties and charges takes place with the protection and participation of officials, amounts to a take-over of state structures by criminal groups and individuals.
 - Smuggling channels are created and operated on the basis of corrupt state administration along the borders and eat away at the system like a cancer.
- 4.1. It has repeatedly been underscored that organized crime in Bulgaria was largely created by the state. This claim generally contains two basic elements.
 - 4.1.1. Bulgarian organized crime is an agglomerate of former State Security cadres, criminal elements and the former nomenklatura of the Bulgarian Communist Party (BCP).

The slow reforms and economic crises enabled a small group of people to rob the banks through different schemes and to drain still state-owned enterprises.

4.1.2. In the transition from totalitarianism to democracy, the state relinquished a number of control functions and made room for power groups which gained strength during the preceding period.

The weak state system and corruption created prerequisites for the functioning of smuggling rings which are part of organized crime.

Illegal traffic would be unthinkable without the participation and assistance of state administration representatives on the border - customs officers, policemen and special services, tax and standardization officers.

4.2. Origin of smuggling channels

The party nomenklatura's hesitant or deliberate stalling of the economic changes in the country during the 1991-1996 period, the maintained administrative and legal chaos, enabled the functioning of smuggling channels, inherited from totalitarian times, which were controlled mainly by the repressive BCP apparatus.

It is an open secret that before 10 November 1989, smuggling channels were controlled by the state and by State Security, in particular. Unfortunately, there is absolutely no proof of this criminal activity in the National Security Service. All that is left are the stories of anonymous participants in these smuggling rings and indirect evidence. Bulgaria was repeatedly accused by the western states of arms and drugs traffic and the smuggling of medicines and excise goods. It is no secret that the so-called "Third Directorate", also known as "Hidden Transit", was created with the Kintex arms export company in the late 1970s, its main object being arms traffic to third countries. Its operative management was in the hands of a group of employees of the Second General Directorate of State Security. Besides for arms and drugs, the channels were also used for the illegal traffic of people - mainly people persecuted in their own countries for communist or terrorist activity and smuggling of historic valuables. (The "Slav-Bulgarian History" was smuggled out via such a channel, and our country was often visited by well-known terrorists such as Carlos the Jackal, leaders of the Red Brigades, Baader-Meinhof, the Grey Wolves, etc.).

To enable the unimpeded passage of goods and its secrecy, a special department was set up with the General Customs Directorate, staffed by undercover State Security agents and employees. Usually, the contraband goods left from or arrived in the ports of Bourgas and Varna, and more often in naval bases and military airfields.

The traffickers included citizens or emigrants of Palestinian, Syrian, Kurdish, Turkish, Iranian or Albanian origin. Most of them had contacts with fundamentalist, terrorist or communist groups in their own countries and abroad, helping them to establish reliable channels across several state borders, both to the Middle East and Asia, as well as to Western Europe. In order to facilitate and regulate payments, a number of companies were set up abroad. Part of the functions of these companies was to skirt the restrictions of COCOM in the illegal import of techniques and technologies stolen from western countries.

Between 1987 and 1989 certain persons were given part of these channels and enormous rights to secretly control these companies, making them their natural successors. It should be emphasized that in socialist times it was quite difficult for civil servants

to derive benefits from these smuggling channels due to the tight control of the totalitarian system. Only after 1987 did the employees of these companies start diverting funds to their personal accounts.

4.3. Structure of smuggling channels

One of the theories of the Interior Ministry is that the liquidation of the agency apparatus in trade, tourism and transport is the reason for the poor results scored against smuggling during the period of transition. The truth is exactly opposite: this agency apparatus was inherited by cops who were banished and sacked from the system. On this basis they were able to inherit contacts, possibilities and operating mechanisms for overcoming the border administration by using the power of corruption. Nor should it be forgotten that many of these policemen had been working under cover on the border. Precisely this apparatus continued to control state smuggling channels at horizontal level, enabling their continued unimpeded function for personal benefits.

No matter how well structured a network at horizontal level may be, it cannot function without control and protection along vertical lines. It is the vertical level - senior civil servants and party functionaries - which ensures the protection of smuggling in return for large commissions or a share of the profits.

Supervision at the vertical level is usually inherited by the authorities who continue to use the channel for their own needs. This is evidenced by the smuggling channels, discovered last year, which have been operating for years, despite the change of political parties and the government of the state. On the other hand, every ruling party replaces part of its employees in the border checkpoints with its own loyal men. In this way it uses and controls traffic along already operating channels.

4.4. Inheritance of smuggling channels

After the disintegration of the totalitarian system and the subsequent purge in dismantling the bodies of State Security during the 1990-1993 period, thousands of policemen poured out of the Interior Ministry. They left the system taking with them the whole archives of agents' files, connections and mechanisms for skirting border laws.

The transition from planned to market economy, the liberalization of the market and public relations, the lack of funds for emerging private business caused a genuine shortage of goods between 1989 and 1991. If, before 10 November, State Security took part mainly in illegal traffic to other countries or the transiting of drugs and other banned goods, after this date the same smuggling channels began being used for the illegal import of anything that can be sold in Bulgaria, and partly for export. By dodging customs duty, charges and excise, a certain strata of former policemen and party functionaries derived illegal benefits and amassed enormous wealth.

It should be noted that in the conditions of democratizing economy, the subjects in state smuggling channels shift to a different kind of relations which are adapted to the new economic situation and make use of the gaps in market competition. The pressure of the totalitarian state and party discipline against small privileges was replaced by cash bribes. Whenever cash proved insufficient as an argument, the pressure mechanism of being discredited in society was employed. The democratic metamorphosis of

the former employees of the repressive apparatus also included the possibility of blackmailing and coercing State Security agents. The corruption of the state administration was not a single act, it continued for a number of years.

Legal and institutional chaos gripped the state between 1991 and 1993. It was used by the former cops and former BCP nomenklatura to exploit the connections and possibilities of smuggling rings. Unbelievable quantities of cigarettes, alcohol, sugar, fuel, etc. were imported in Bulgaria at the time, without the state getting a single penny. The inherited contacts of the former Bulgarian secret services with some terrorist organizations in the Middle East, Turkey and Africa were transformed into private smuggling channels, operating in favor of one group or another, serving one party or another.

There are dozens of examples to show that former State Security agents and employees took part in exploiting smuggling channels. The illegal channel for the import of cigarettes and alcohol discovered in the Atia military base near Bourgas is one of the most telling examples. It is an open secret that before 10 November 1989 arms were illegally shipped to third countries from military bases.

The "Atia" case

Smuggled cigarettes for millions of dollars were discovered in the Atia military base in 1993. The Greek vessel "Vati" loaded 4,500 masterboxes for Novorossiysk in Bourgas port, crossed the bay and unloaded the goods in the military base onto five trucks which re-entered Bulgaria and then disappeared. The state lost close to one million dollars in unpaid excise and customs duty. It was established that the channel had been operating for nearly two years, 10 fuel tankers being unloaded through it. The operations were masterminded by a former State Security employee and Syrian citizen of Kurdish origin, a State Security agent until 1989 and owner of a company registered in Munich in 1988. The commander of the military base was also implicated. According to the statement of then prime minister Lyuben Berov, the Greek vessel probably entered the military base against "one or two million paid to the proper person". The case has still not been brought to court. The smuggling operation through the Atia military base is a classical example of a privatized smuggling channel.

4.5. Privatization of smuggling channels by organized criminal structures

State smuggling channels create prerequisites for integration between (semi-)legal economic subjects and criminal structures which thrive only in the corrupt environment they create. Usually traffic is realized with the aid of shadow groups. The corrupt activities in this cooperation often exceed the framework of its definition: power - bribe - permit, cover. Occasionally it acquires the characteristic features of organized crime: threat, blackmail, murder. Although different in character, quite often, without this being the rule, financial relations between criminal structures and civil servants are the original cause of these criminal actions.

One of the most laconic definitions of the mafia is that "criminal organizations consist of people, money and political connections". Every single element of this definition is valid for both smuggling channels and corruption as a phenomenon.

Tangible organized crime took shape in Bulgaria between 1990 and 1995. It is a conglomerate of former State Security employees, former nomenklatura figures and former sportsmen. Whereas the first two groups exist and prosper on the basis of smuggling and the draining of state enterprises, the third group quickly started amassing money from stolen car traffic and racket against small and medium-sized businesses. In stolen car traffic across the border, the power groups made up of former sportsmen started establishing parallel smuggling rings. They are frequently duplicated and often

involve the same customs and border officers. In fact, the power structures bought the smuggling channels created by others. The dirty money amassed by the power groups was utilized and multiplied with the violation of the Yugo-embargo which emerged as a catalyst for the structuring and strengthening of Bulgarian organized crime.

Contrary to general opinion, corruption, rather than violence is the basic tool of organized crime. It is often thought that violence and murder are the means for establishing a given structure. For established and tangibly operating criminal groups this is the last resort for solving problems because corruption acts silently and quietly, undermining the institutions from within. Corruption is a constantly recurring process, whereas as we all know, death comes but once. The corrupt employee himself becomes the hostage of the corrupting party, this being a far more effective way to ensure his "loyalty" to the smuggling ring. The domination of different power groups under different governments in Bulgaria are a proof of this.

4.6. Smuggling during the embargo - state policy

Between 1993 and 1995 the violation of the Yugo-embargo had become tacit state policy. The government of Lyuben Berov which was accused of close connections with the shadow groups which called themselves "nationally responsible capital" did nothing to stop the illegal enrichment of a certain group of people. The oil embargo was again violated under the control and according to the schemes of the former State Security and employees of the then active special services. Until 1997, Interior Ministry control along the border was realized mainly by employees of the National Security Service, the successor of the Second General Directorate of State Security.

In order to realize criminal deals, however, it was necessary to corrupt a long chain of civil servants who ensured railway cisterns, transport corridors, fuel loading and unloading terminals, customs officers and ministry employees. This kind of organization cannot be guaranteed without the involvement of senior political figures and interior ministry employees. The caravans of cisterns which were escorted by police cars to the border and trains which passed incognito the customs border at Dragoman, the tankers which travelled to the Serb port of Prahovo are only too well known. According to information of the Council of Ministers, over 400 big smuggling operations with various goods for Yugoslavia were recorded during that period, robbing the revenue of over 250 million dollars, and dozens of instances of fuel smuggling, causing losses for millions of dollars. Such large-scale smuggling is impossible without the participation of state structures and people in the highest echelons of power.

The unimpeded passage of shipments through Bulgarian territory was ensured by acting and former employees of the secret services. In order to realize their deals, the power groups which until then had ranked lower in the structure of the shadow economy, also began using the mechanisms created for violating the embargo against a percentage. Whereas during the early 1990s the former employees simply inherited the smuggling channels from the party-state, the power groups privatized them by bidding for them. In 1995, in a sensational interview for the Bulgarian media, the notorious criminal boss Ivo Karamanski complained in this connection: "I too pay 100,000 dollar bribes, but my cisterns are delayed at the border for a whole month, whilst those of other groups are immediately ushered through the checkpoints."

And whilst organized crime was busy shipping oil and nitrogen fertilizers for re-maining Yugoslavia, traditional arms channels, too, continued operating. Arms for Bosnia continued to pass through Bulgaria from Russia, Ukraine and other former Soviet re-publics. A telling example that the Bulgarian secret services were also involved is the notorious

"Albanian deal"

which was realized with the participation of two Defense Ministry employees and one Interior Ministry employee. The deal which was realized with the aid of the Macedonian secret services and an Albanian colonel involved 100 mortars and 10,000 mines. Later the investigation into the scandal revealed that the weapons were transferred to the Serb Army in Bosnia. The details of the deal evidence the classical structure of a state smuggling channel used for personal benefit, involving the secret services of three states. The six trucks carrying weapons crossed unimpeded the borders of Bulgaria, Macedonia and Serbia closely guarded by the respective police units. The state was again robbed of millions of dollars and nobody has as yet been convicted.

Thus, in realizing hundreds of deals in violation of the Yugo-embargo, by buying state smuggling channels Bulgarian organized crime developed flawless corruption mechanisms which continued to function even after the sanctions against Yugoslavia were lifted, yielding immense profits and inflicting enormous damage on the Bulgarian economy.

4.7. Traffic after the Yugo-embargo

The enterprise of organized crime has never left room for doubt. Besides tradi-tional excise goods, after the Yugo-embargo other quickly salable products such as sugar and spirits also began being smuggled. In mid-1998, the Interior Ministry uncov-ered the mechanisms of the sugar imports of a number of Bulgarian factories. The affair became known as the "Bartex" affair, named after the sugar company of Multigroup. The damage done by the channel via Bourgas port which had been operating for more than five years was calculated at 52 billion leva. According to Interior Ministry informa-tion, some 240,000 tons of sugar entered the country via this channel. The contraband sugar was sold on the domestic market. The ministry claims that the channel was watched by senior officers of the special services and even by deputy ministers in the BSP gov-ernment. Two officers from the regional team of the National Security Service and 16 Bourgas customs officers were also implicated.

Early this year a channel for the import of alcohol through several customs was also discovered, apparently operating for a number of years. It turns out that not a single ton of ethyl alcohol for which all customs dues have been paid has entered the country between 1994 and 1998.

5. Schemes of organized smuggling

Dozens of illegal traffic schemes involving state administration employees were tested on the state borders during the period of transition. Here are just some of the most frequently used mechanisms for skirting the law:

- 5.1. Plain smuggling: import or export of goods without the knowledge or with the involvement of customs and border officers. In the first case smuggling is a purely criminal act which is not organized. Whenever an element of organization exists, the authorities are usually presented with documents for different kinds of goods

and the bribed official guarantees unimpeded passage across the border.

The second case is a classical example of a state smuggling channel. It is used mostly in small border checkpoints staffed by a small number of employees working shifts, involved in smuggling through bribes. The cigarette smuggling channel uncovered last year in Novo Selo border checkpoint near Haskovo is a perfect example. Here the traffic was not even recorded in the customs journals.

- 5.2. "Temporary import" regime: under this scheme import is organized by a phantom company which, once the term expires, cannot be traced to pay the sums due to the budget. In accordance with the statutory documents for organizing temporary import, the importing company pays guarantees of 10 to 20 percent. Most cases in which the minimum limit is set are suspect of smuggling. Another way is to use fake re-export documents. In this way the goods or raw materials stay in the country, although the documents say they have left it. Attempts to trace the goods are futile.
- 5.3. "Transit" regime: the goods enter the country as a transit shipment for a third country but are unloaded in Bulgaria. The documents are fictitiously processed by the exit customs.
- 5.4. Changed customs number: the tariff is drawn up in such a way that different kinds of goods whose customs duties differ greatly often have a similar customs number which is deliberately being confused. In this way smaller tariffs are paid and the mistake is difficult to catch.
- 5.5. Reduced import parameters: the importer presents fake documents that the imported raw material, for example ethyl spirit, has a lower alcohol content and standardization officers turn a blind eye.
- 5.6. The use of foundations, parties, agencies and other organizations, exempt from customs duties and charges. This practice was widely used in the first few years after 10 November 1989. It was later terminated, yet even now precedents exist, such as the import of fuel through the Agency for International Aid, for example.
- 5.7. Domestic smuggling, fictitious import: excise goods are declared for export and then proven to have left the country with false documents. The paid VAT is reimbursed and the goods are sold on the domestic market - the most frequently used mechanism for locally produced cigarettes and alcohol.

6. Smuggling channels and political elites

It should be noted that Bulgaria has had two caretaker and six regular governments during the above-mentioned periods. Channels for smuggling cigarettes, alcohol, food products and other quickly salable goods were also periodically uncovered during that time.

Every change of government causes a certain smuggling channel to lose its political support. Through existing illegal routes politicians control the country's economic elite rallied round a given party by ensuring (naturally not selflessly) an advantage in the market environment and eliminating the principles of free competition. The illegal import of goods and raw materials discovered last year and the changing domination of economic groups over the years show that despite the change of the ruling parties, smuggling channels have continued to operate. They are exploited by planting people loyal to

the party with the border administration, frequently without the necessary qualifications. Thus it not only uses but also controls traffic along already operating channels in the interest of a given economic subject.

An attempt to intercept operating smuggling channels controlled by the former State Security was made in 1997. At that time the functions of the Interior Ministry along the border were shifted from the National Security Service, the successor of the Second General Directorate of State Security, to the National Border Police Service. But the continued across-border smuggling of goods raises the question of whether those who are now ruling the state are not creating their own, new smuggling channels in favor of economic subjects that are close to them.

The ten-year postponement of the passage by parliament of an act on the funding of parties, the lack of transparency on the raising and spending of funds during election campaigns and the upkeep of the party apparatus give rise to suspicions of every government condoning unregulated ways to support political subjects. The following recurrent phenomenon is observed in Bulgaria: once a party falls from power, its structures are declared bankrupt in just a few months.

The analytical review of "Transparency Without Borders" published last year lists seven forms of corruption in the political process. In addition to nepotism, patronage and unlawful lobbying, it also lists unregulated party funding which is linked to the "creation of illegal fundraising procedures" for politically influential formations. They are consciously admitted to public wealth, rival circles being destroyed by means of political or party pressure. The establishment of monopolies and/or an unrivalled position of certain economic structures is a process of mutual exchange of wealth.

7. Conclusion

The purpose of the present analysis is to show the creation, structure and functioning of smuggling channels in post-totalitarian Bulgaria and the influence of shifts in political layers on them. Due to the hidden nature of smuggling, it is very difficult to calculate the damage done to the national economy. What is beyond doubt is that they destroy market principles by favoring economic shadow structures. The toleration of organized smuggling channels presents a threat to the country's national security and its economic development along the road of market economy.

They create an unacceptable investment climate for foreign businessmen, facing them with disloyal competition and the absence of market principles. Analyses of the phenomenon show a statistical link between corruption and low foreign investments. One study conducted last year shows that investing in a relatively corrupt country compared to investing in an uncorrupt country is equal to paying an additional 20 percent in taxes.

Smuggling channels destroy the fledgling local production through cheap imports and prevent the creation of an environment conducive to the development of small and medium-sized businesses and a normal business class in Bulgaria.

In the context of the latest initiatives for the stabilization and integration of South-east Europe and the creation of regional economic structures it should be noted that regional criminal structures are already a fact. Their elimination will protect the region from a permanent undermining of the state system.

Annexes



Resume

European Commission and Council of Europe:

2,4 Mio EURO dedicated to the fight against corruption and organised crime in Central and Eastern Europe

On 4 February the European Commission and the Council of Europe launched OCTOPUS II, an ambitious programme which aims at strengthening the capacity of countries of Central and Eastern Europe to combat organised crime and corruption efficiently.

With this programme the European Union intends in particular to help the associated countries of Central and Eastern Europe to prepare for accession. The Council of Europe views Octopus II as an important contribution to the strengthening of legal and constitutional reforms, the rule of law and democratic security in some of its more recent member countries. Organised criminal groups, often operating transnationally, use corruption as a means of avoiding law enforcement, influencing decision-making, including in the political sphere, and infiltrating the legal economy.

Corruption and organised crime have been identified over the past few years as major threats to the stability of democratic institutions, the rule of law, the market economy and the social and economic progress. Octopus II will contribute to the setting up of a legal and institutional framework enabling each of these countries to react appropriately against these dangerous phenomena. It will thus foster the implementation of recommendations addressed to participating countries under the first phase of Octopus (1996-1998).

In addition, the Octopus II programme is intended to be an important element of the preparation for accession for the ten Eastern and Central European countries that have applied for EU membership. Following the priorities of the Accession Partnerships, it will assist them in incorporating the *acquis* of the Union and its Member States in the field of Justice and Home Affairs, including relevant Council of Europe instruments, and will assist them in bringing their domestic legislation and practice in line with EU standards and requirements.

Intensive training and assistance – seminars, workshops, study visits strategically interconnected – will be organised for the benefit of public officials, judges, prosecutors, police officers involved in the fight against corruption and organised crime. The activities will cover subjects like investigating techniques, sharing of information, inter-agency cooperation, protection of vulnerable persons, economic crime and international cooperation in criminal matters.

Representatives of the beneficiary countries will be invited to analyse their domestic law, institutions and practice and to identify in cooperation with their EU counterparts and with reference to the acquis the amendments that appear necessary. Each group of representatives will include officials who are involved in the drafting of legislation so that proposals for legislative changes can be appropriately channelled.

Sixteen Central and Eastern European members of the Council of Europe – including 10 candidates for accession to the EU – will participate in this programme. Octopus II will run until the end of the year 2000.

A political organisation set up in 1949, the Council of Europe promotes democracy and human rights continent-wide. It also develops common responses to social, cultural and legal challenges in its 41 member states.

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Working Paper

CORRUPTION - A CHALLENGE TO BE FACED

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CORRUPTION - A CHALLENGE TO BE FACED

Introduction

We should accept the fact that corruption phenomenon is a complicated one. It becomes more complicated when it comes out that it is a matter of definition and legislation as well. Things that periods ago were quite normal are in nowadays unacceptable. The evolution of society values has forced the evolution of corruption phenomenon as well.

Corruption is closely linked not only vertically with the deepest structural conditions, moral and ethic norms, but also even horizontally with the daily practices of certain cultures and societies. Unfortunately this brings the fact that the laws against corruption can not be applied according to a unique model. It can be said that even between similar cultures and societies, the effectiveness of combating corruption can differ in a considerable way. So, if the principles of the combating are the same, their implementation is a matter of some differences. Obviously when we talk for the corruption in post-socialist countries which at least politically started from the same point, the fact that these countries have common development characteristics makes the corruption phenomenon in these countries very similar. On the other hand we should be aware of the fact that the different velocity towards development in these countries (for different reasons) requires some specific measures, apart of principle action against corruption.

Corruption and beginnings of transition

In actual conditions of a transition country corruption is a way to overpass the uncertainty created by a weak state and a low developed market economy. Often in transition countries can be seen a fragile political stability which mines totally the basis of the legal state. It is obvious at least for my country, but I'm convinced that for some other post-socialist countries as well, that has been a confusion in the terms state and power.

For the simple citizen in Albania it was difficult to get his bearings towards the democratic transformation space. The majority of people were dominated by the basic concepts of French revolution: Liberty, Equality, and Fraternity, while the market economy was considered only from the point of view of consumption. The Albanian citizens demonstrated against communism with slogans against privileges and corruption of communist nomenclature, wanting to fight it, starting from the social equality mentality. It seemed sometime that in Albania and in some other countries as well people took the building of capitalism with the same enthusiasm as they were building socialism time ago. As a consequence of self-isolation and isolation Albanians experienced within half a century under the communist regime and a centralized economy, the knowledge on institutions and their role in a normal functioning of the society and economy were completely unknown or rather naive. A foreign aid was identified with donations, the country had profited from the Great Powers of that time, for political purposes, and no idea of

imagination existed about the way of the integration in the world economy and constant ways of increasing the people's welfare.

The geographical position favored the illegal and criminal economic activities (clandestine traffic, marihuana cultivation, fuels' export during the period of Embargo versus Yugoslavia, etc.). In the conditions when, to some consecutive generations, was negated the participation in the political life, it is clear that the transitional beginnings could be accompanied not only by the wide presence of the old mentality remaining, but also by the errors in the concept and carrying out of political co-existence. Political clanning and the lack of its internal democracy were two main features that made possible the extension of corruption in the country. On the other hand, the monopolization of political parties direction and the narrowing of the alternatives space within them, made up the bases of a new state, very similar to the former one. The difference between state and power was completely wiped out, and favoritism, through using the power to ensure profits for the political class or group, representing the government, became dominating. So, corruption was evident, but no one ever mentioned it. Another important factor, influencing on the actual size of corruption, in Albania, was the political instability. This instability has brought about the variability in the public leading structures, thus paving the way to corruptive practices' penetration, being later infiltrated in every level of governmental pyramid.

Coming out from a system where everything was owned by state and everybody was working for the state, people in Albania were too slow in understanding clearly the concepts of conflict of interests.

For all these reasons, corruption phenomenon won the citizens' / voters' trust step by step, until the crisis broke out, and the total anarchy embraced the country.

Necessity of developing Anti-Corruption Institutional Schemes in Albania.

Seeing that, in the majority of the Albanian citizens, as well as in many donating organizations, dominated the opinion that corruption was one of the main motives of the crisis of the beginning of 1997, as well as a serious barrier to the economic growth of the country, the anti - corruption initiative project was undertaken with the initiative of the World Bank and the support of AID and SOROS Foundation. Divided in two main fronts: the survey performance on corruption among public officials and enterprises and the preparation of anti-corruption institutional schemes, the project involved some native and foreign organizations and institutions, and almost all interested governmental institutions.

The outcomes of this survey and a series of governmental measures, proposed to minimize corruption in the country, were made known in a national conference, held in Tirana on June 30, 1998.

The survey enlightened the public and business concern on corruption in some key sectors - especially in judicial organs, customs and tax agencies and public services, including public hospitals and in some institutions and main procedures especially procurement and employment based on professionalism in public services.

It was made evident the widespread perception that corruption undermines the business trust, regardless the current situation; that this situation influences negatively on the business future (the survey indicated that firms would be unprepared to pay 10 per cent of the added tax if they faced less corruption).

The complete program of reforms, proposed by the main anti-corruption group, gives in details a series of actions for the identified issues from the survey - the majority of which must / are expected to achieve obvious results within the first four months, following the conference. This program was developed on many essential improvements, which now are in the process of their accomplishment.

The program of reforms determines the recommended actions, responsibilities and deadlines for the accomplishment of complete reform actions, and proposes some essential reforms in the following areas:

- Support to the judicial power and its deeper renovation.
- A full renovation of tax and customs' offices.
- Budget transparency for schools, hospitals and other, public services, facilities versus consumer's complaints.
- Further improvements in public procurement, financial audit and professionalism in public services.

A vast publicity campaign involving the government, to publish the latest data Of the survey, o undertake valid surveys in the future and cooperate with NGO-s in observing the noted progress in carrying out the pre-determined action plan.

Some of the main and more general findings in this project are:

As in other countries, corruption is brought about by institutions and weak public policies, especially in sectors or areas like: legislation and governmental institutions, civil rights, financial system and lack of professionalism in public services. Addressing these sectors and formulating respective anti-corruption policies makes up the essence of anti - corruption schemes in Albania.

Empirical facts, collected during our survey, show that corruption creates a very high cost in sectors seriously affected by it. Corruption, directly, impedes economic growth, investments, social development, and equality in incomes and productivity.

In an international comparative prospective, Albania is found in a difficult position regarding corruption indexes, rules of legal institutions, integration in the world economy and productivity.

3. Albanian Experience in Carrying out Anti-Corruption Schemes

It is one year now, since the anticorruption conference, held in Tirana. According to a superficial survey, performed by home media, on the implementation of anti-corruption steps, there are noticed some results. They can be classified in two main groups: negative and positive. From the point of view of negative features of this campaign, we mention:

First, the extreme politicization of debate and efforts for political profits, done by position and opposition, to the detriment of the opponent, addressing him the political bill i. e. the responsibility for the current situation.

Second, it is easily noticed a kind of campaign, i.e. publication of declarations that, until this or that year (the latter was 2001), the fight against corruption will be definitively won. The experience of other countries, having carried out institutional and economic reforms, attests that an important progress in reducing corruption can be achieved within 5-10 years.

Third, the individual as the conveyer of changes under the example of the enlivening political struggle in the country, is still not included in the game, as he should, because the battle is fought in the air and not near the spring and factors, serving as catalysts of corruption.

Fourth, in the long battle against corruption institutions are not yet seen to take part, as factors providing future stability and a real fight against corruption. Perhaps this is the most negative aspect of the up to now progress of the fight against corruption in Albania. The effects of the insufficient game, played by institution, risks to compromise the good intention of fighting corruption.

Here it should be mentioned that even some extraordinary events that have happened in Albania have caused a stopping of the necessary steps to combat corruption. So, September of 1998 caused the fall of government and although the new government declared their commitment in continuing the implementation of Anti-corruption Institutional schemes it was a shift in time program. On the other hand the conflict in Kosovo that produced some half a million refugees in Albania made all priorities of government left behind and focused on the crisis.

On the other hand, in the case of Albania, some positive features, regarding this strategy, are:

First. It shows that, Albanians, who were afraid to speak about corruption and its consequences, now address this phenomenon openly. Press has become very aggressive compare to previous period regarding to corruption activities.

So, another taboo was finally broken, marking a step forward to the individual freedom

Second, the citizens' attention is focused on those institutions, resulting as "most corrupted compared to others". In other words, nowadays Albanians address corruption as a common evil, which should be eradicated by every means and without losing time. Generally speaking, the extension of corruption among governmental bodies has already been defined.

Third, governmental organizations and the country's leadership of all levels are not any more "eternally protected" and their cuirass can not be impermeable. This is explained by the denunciations, sparing no one, without speaking of the pressure of various party members on their leaders, in order to increase transparency in the activity of party or governmental leading structures of the past and present position.

Fourth, native public became more aware than before, that they are paying the burden of corruption in all levels, that, who robs the state, has robbed him, has seriously damaged our common future. Thus, there is an increase in the number of people who think that corruption influence more negatively in increasing transaction cost than as a punishable moral phenomenon of the society.

Perhaps, the latter is the most important outcome of the current battle to combat corruption in Albania, designing respective schemes, joining political forces of position and opposition, as managers of the country's destiny, of civil society, as a guarantee to democratic values during this management etc.

MEASURING CORRUPTION

Taking in account the fact that during the totalitarian period, people in Albania were under a strong ideological pressure, for the common citizen, combating corruption based on ethics and good behavior becomes a bit difficult. The process of implementing ethic principles is long and difficult. Without underestimating this very important process I think that people in a transition country understand better if you talk of the costs that they have to pay in a corrupted environment. These high costs which often become big barriers for development should be measured and explained to the participants of the society. Until recently it has been qualified as impossible the systematic measuring of the corruption in governmental institutions and the evaluation of the social and economic costs. But recent studies on this issue have improved our understanding and have helped in identifying of the potential problems in countries with a high level of corruption. The experience in measuring the economic and social costs is relatively new. The direct financial cost is one of key points to be measured and based on it to build the proper instruments in combating corruption. Corruption now is not being treated as part of low moral and anti - ethical, but in the same time as a barrier with a high cost to development.

The newest front against corruption is to survey, in a direct and consistent manner, the parts in corruption - households, managers and public officials- asking them for the costs of the private profits in exchange of public services or privileges. Until recently the skeptics believed the parts in corruption are predisposed to hide the deal. But with new proper survey instruments and interview techniques, the interviewed people are ready to discuss for corruption with sincerity. Even if they don't respond to some questions, the results offer an evaluation of the corruption low limit.

The limits measured with different empirical methods testify the need of using multiple methods and getting data from different sources. The results based on these methods obviously improve the trust and acceptance of the empirical facts as well as the action proposed.

HOW CORRUPTION CAN BE LESSENEED?

Corruption is a symptom of basic economic, political and institutional causes. To treat corruption effectively means to reduce the effects of these causes. It should be stress that the priority should be prevention, which means reforming policy, institutions and economic incentives. On the other hand the efforts to improve the anti-corruption legislation can not be reached only with policemen, ethical offices or special agencies within government to control corruption. A lot of work remains for NGO's, public participation and public education institutions.

WHAT DOES IT MEAN TO REDUCE CORRUPTION?

This is a concept not very well defined. It may imply a reduction in the price not in the cases of corruption. It may imply a reduction in cases but not in price. It may imply even reduction of the negative impacts of the corruption in the society. Right here is the point we should focus on. Enthusiastic declaration of eliminating corruption until this or that year should be avoided. We should be aware that when we talk for action against corruption we talk for progress in this field not for a total victory.

Some of important changes in economic policies, which would bring a reduction of corruption possibilities, would be:

- Reduction of tariffs and other barriers for international trade
- Unification of exchange norms and interests defined by market.
- Eliminating enterprises subventions
- Minimizing state interventions
- Minimizing the requirements for licenses and other barriers for the new enterprises and investor to enter in the market.
- Demonopolizing and the continuation of the state property privatization
- Designing and implementation of new proper banking regulations in a transparent process as well as establishing high standards of financial control.

The reform in civil service should include:

- Improvement of designing, calculating and implementing state budget.
- Improvement of financial management and tax administration
- Strengthening the legal and juridical system.
- Developing and strengthening public administration based on meritocracy and ethical norms. This would imply a special and guaranteed status of the public employee.
- Encouraging internal competition within the state structures.

As complementary of these reforms should be implemented with transparency even the penal prosecution, as it could be penal prosecution of public known figures implicated in corruption.

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NOTES ON ANTI-CORRUPTION STRATEGIES IN ALBANIA

1. The fight against corruption had a good start thanks to the support that Albanian Nano government gave to World Bank report and the admission of ACER survey results;
2. Anti-corruption institutional scheme, although theoretical to some extent, seems to address all the issues related to this phenomenon;
3. Due to the continuation of all the reforms, which have been interrupted in 1997, the implementation of anti-corruption schemes faced the governmental resistance that is more corrupted in base rather than in center.
4. The events of September 1998 was a one more reason for the reduction of corruption fight in Albania;
5. The new government (Majko's), in spite of the good will to combat corruption in real terms, is facing more challenges in this process. Among them, we can mention:
 - * The state apparatus that is corrupted and fed with the "permanent task" feeling;
 - * The lack of clear rules on the function, tasks, and responsibilities of this apparatus as well as the high level of interference in it;
 - * High poverty, low wages of public administration employees and the negative implications of political debate in the country.
6. In my opinion, the deepening of the fight against corruption requires:
 - The continuation of reforms in the judicial system, accelerating the formation of new attorneys, the training of the existing one and the improvement of the system image through the increase of public control (Is there any possibility to gradually change the way of appointment of judges giving priority to the selection of them by the citizens)
 - Setting up a studied strategy and public policies that will help in minimizing informal sector of economy and reducing cash transactions in economy (compiling appropriate strategy for SMEs is a prior need). (*)
 - Deepening fiscal decentralization process through increase of local government autonomy and competencies in these field. (Parallel development of local government management capacities: training/public education/public participation in governance). (*)
 - The continuance of banking reform through encouraging not only legal framework completion but also it's proper functioning (preparing/approval draft law on deposit protection(*)/the approval of law on collateral/encouraging credit unions/establishment of basics of stock markets/public education, etc.
 - Supervising and monitoring law implementation in any level of governance/encouragement the citizen's participation in decision-making/public education through mass-media/development of investigative journalism. (*)
 - Periodical report with ACER type surveys as well as further improving of methodology and survey instruments. (*)
 - Institutional development of business associations and their involvement in designing public policies. (*)
 - The establishment of controlling/supervising/monitoring agencies out of the government that can control the commitment of the government in the anti-corruption campaign.

(*) The topics, in which ACER can develop specific projects

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A focus group study of bribery

and other ways of coping with officialdom

in postcommunist Eastern Europe

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Introduction

Good governance is not just a matter of high politics. Free elections should do more than offer an often confused or misleading choice of programmes and leadership: they should affect the general political culture, set the tone of democratic government, legitimate voters individually as well as collectively, turn officials and bureaucrats into 'civil servants' and encourage government to respect individual citizens as well as the collective decision of the whole electorate.¹ In their analysis of democratic culture, Almond and Verba² drew attention to the importance of what they called 'citizen competence' and 'subject competence', both of which, they claimed, were required for a healthy functioning democracy. In terms of perceptions, Almond and Verba distinguished between citizen competence (% who say they can do something about an unjust law on both the national and local level) and subject competence (% who expect serious consideration both in a government office and from the police).

Communist regimes were traditionally depicted as bureaucratic, in Laski's sense of that word rather than Weber's: 'a system of governmentso completely in the hands of officials that their power jeopardises the liberties of ordinary citizens.'³ Citizens could expect neither serious consideration nor fair treatment without some means of 'interesting' the official in their case. Dependence upon the use of bribes and contacts was notorious. Like the Tsarist regime before it, parodied so well by Gogol in *The Government Inspector*, the Soviet regime could reasonably be described as an 'autocracy tempered by corruption' if nothing worse. A majority of respondents in DiFranceisco and Gitelman's survey of émigrés from the old USSR regime, suggested bribery or connections could be used to change an unwelcome work assignment or to get a dull child into a good university department⁴; and surveys of those still living in the USSR tended to corroborate these findings.⁵ Yet it was never quite clear whether the use of bribes and contacts reflected a lack of 'subject competence' and the ability of officials to dominate citizens, or an excess of 'subject competence' and the ability of citizens to manipulate officials. In this connection, DiFranceisco and Gitelman found that university graduates were only a little less likely than others to suggest bribery but far more likely than others to suggest using connections; and, moreover, they found graduates were overwhelmingly in favour of a system of unequal treatment - which they could manipulate to

their advantage.⁶ Even after the transition to democracy at the top such aspects of the political culture may be resistant to change.

Or they may have changed for the worse. Since 1989 there have been several changes in the institutional and social context which might be expected to impact upon the behaviour of postcommunist officials - an uneven mix of reform and chaos. Of the countries in our study only the former Czechoslovakia has implemented a far reaching purge of officials from the old regime⁷, and any improvements there have been offset by the loss of more competent officials to better paid jobs in the growing private sector. So the issue is essentially one of 'new thinking', the location of officials within a new more democratic structure, a new working environment and new relationships, rather than 'new people'.

Local government reforms have been characterised as a move 'from democratic centralism to local democracy'⁸ which should have encouraged more respect for citizens. But privatisation and restitution have encouraged more self-interested action by citizens and officials alike. They were designed in principle to widen consumer choice and provide fair treatment for the formerly persecuted, but they also provided enormous opportunities for officials to enrich themselves. Privatisation or restitution is usually 'a lengthy and tedious bureaucratic process, complete with audits and appraisals that generate legal quagmires'⁹; so that 'it is often only a (substantial) bribe or an offer to share the property that can speed up the procedure'¹⁰. Farmers operate in 'a climate dominated by clientelism and distrust for public institutions' and 'the dependence of the private sector on selected individuals in the collective and state farm system' for access to equipment and supplies¹¹.

Finally, there is the impact of a general climate of economic and moral chaos. The transition to democracy has been accompanied by a collapse both of the old communist economic system, and of belief in the old communist value system.¹² Verheijen and Dimitrova point to 'the general deterioration of values' and the 'moral wasteland' in postcommunist countries as a prime cause of increasing corruption amongst officials.¹³ The end of communism brought unemployment, poverty, a sharp decline in health and welfare services, a rise in nationalist tensions, and a general climate of aggressive, often desperate, individualism and communalism, all of which are likely to affect the relationship between citizens and officials adversely. Economic dislocation made many entrepreneurs and senior officials conspicuously - and not always legitimately - rich, while putting the incomes of junior officials under severe pressure. So while democratisation in itself should have encouraged junior officials to behave better, the moral chaos and economic pressures of the transition may have encouraged them to behave worse. How these contending influences are balanced is an empirical question.

In her study of the use of 'blat' (contacts and influence) in Soviet and post-Soviet Russia, Alena Ledeneva suggests that the transition from communism to a market economy had two effects upon the use of contacts and bribery in the FSU: first, the predominant use of 'blat' shifted from the everyday life of ordinary citizens up to the networks of former nomenklatura now turning themselves into quasi-criminal businessmen, from the mass to the elite - which takes it out of the range of our research; but second, in the everyday life of citizens - which is what concerns us here - crude monetary bribes increasingly supplemented or even replaced the subtle and sometimes civilising use of contacts.¹⁴ Our focus group discussions lend some support to both those conclusions.

ECE and the FSU

Our previous surveys of public opinion and democracy in five countries of the FSU/ECE showed relatively modest differences between the FSU and ECE on Almond and Verba's first aspect of democracy: citizens in the FSU were only 10 percent less likely than in ECE to agree that regular elections had at least some effect in making politicians do what ordinary people want for example.¹⁵ But there were much larger on 'subject competence'. We used a slight variant of Almond and Verba's original questions: 'Suppose there were some problems you had to take to a government office - for example, a problem about tax or housing. Do you think you would be treated fairly by the officials in that office?' We found citizens in the FSU were 39 percent less likely than those in ECE to expect fair treatment without recourse to bribes or contacts¹⁶; and Members of Parliament in the FSU 59 percent less than those in ECE.¹⁷ Ukraine and the Czech Republic were at the extremes: citizens in Ukraine were 49 percent less likely to expect fair treatment without recourse to bribes or contacts than those in the Czech Republic; and Ukrainian MPs 58 percent less than Czech MPs.

Expectations of fair treatment correlated with trust in 'the government' but those who 'completely distrusted' the Czech or Slovak governments nonetheless expected fairer treatment from officials than those who 'completely trusted' the governments in Russia or Ukraine. Similarly those who described themselves as 'opponents' of the government in Slovakia or the Czech Republic were much more likely to expect fair treatment from officials than those who described themselves as 'supporters' of the government in Russia or Ukraine. So expectations of fair treatment by officials reflected more than general political satisfaction or dissatisfaction.

Methodology

To investigate the interaction between postcommunist officials and citizens in more depth we have chosen the countries that differed most in our previous surveys, Ukraine and the Czech Republic. We have added Slovakia and Bulgaria, because they are close geographically and culturally to the Czech Republic and Ukraine respectively, without being quite the same in either case.

Our full study involves four phases - focus group discussions¹⁸, followed by one-to-one in-depth interviews¹⁹, then large-scale surveys of public-opinion²⁰ and of junior officials²¹. The focus-group discussions were designed to see whether people were willing to discuss such a sensitive topic openly and, if so, how they did so - in their own words and with a minimum of prompting. The corresponding in-depth interviews were designed to see whether they said different things in the context of a semi-public group discussion or a more private and confidential one-to-one discussion. Since these are small-sample techniques, large scale public opinion surveys are necessary both to provide representative findings for each country and to permit detailed analysis of patterns within countries, while interviews with officials will provide a 'right of reply'.

We completed 26 focus group discussions, each approximately two hours long, in the second half of 1996. Since no more than 187 people participated in our focus group discussions, and there were never more than 55 focus group participants in any one country, we cannot be sure that they are fully representative of the countries in question. Moreover, only those who had had some recent personal contact with officials were invited to participate. Nonetheless the design (see Appendix for details) ensures that the discussion

groups in each country ranged from capital cities down to villages, that they ranged widely across the regions of each country, and that they were inclusive of ethnic Ukrainian and Russian areas in Ukraine, as well as concentrations of small ethnic minorities in Ukraine, Bulgaria and Slovakia. Although we cannot assume that they were strictly representative of the entire population in each country, it would be equally wrong to assume that they were wildly unrepresentative and insofar as strict representativeness is critical our large scale follow up surveys provide the necessary check.

The focus group discussions were video-recorded and computer-readable transcripts produced in both the original language and English. There is a popular but fundamentally misconceived dictum that 'qualitative data should not be subjected to quantitative analysis'. Findings based upon the limited numbers of participants in focus groups may be unrepresentative of the country as a whole. Alas, that is equally true, whether the findings are expressed in words or in numbers. Analysis of focus group material is usually based on the reviewer's impressions supported by selected quotations. Unfortunately that compounds the problem of representativeness rather than solving it, because the selected quotations may not even be representative of the discussions. Quantitative analysis is entirely valid and appropriate as a precise description of the discussions; it is the assertion that the discussions are necessarily representative of the country as a whole that is not valid - irrespective of whether the description of the discussions is expressed in words or numbers. To provide an accurate description of what people actually said in the discussions we shall use numbers as well as sufficient representative quotations. The QSR:NUD•IST package provided a convenient method of selecting those quotations as well as quantifying them.²²

But what are we to quantify? We have chosen the 'text-unit' as our unit of analysis, defined as the contribution made by one person at one point in the discussion, starting when that person starts speaking and ending when the next person intervenes. Such text-units could be as short as a word or as long as a paragraph, though typically they extend to about two lines of text. We read through the transcripts, indexing each text-unit according to various classification schemes reflecting, for example, whether the text-unit referred to generalised hearsay and gossip or something more personal, whether it mentioned arguing with an official or bribing them, whether the purpose was to obtain fair treatment or favourable treatment, and so on. This allows us to calculate how much of the actual discussion fell into various categories and combinations of categories. It is important to note that all percentages in our focus group analysis are percentages of text-units, not percentages of participants. They tell us about the discussion itself, rather than about the participants.

It is also important to note one essential difference between text-units in focus group discussions and the answers given in a typical opinion survey: a single text-unit can answer several questions, or give several answers to the same question: for example, 'I have heard that some people give large bribes, but I have never given anything more than a box of chocolates as a token of appreciation' would be classified as both 'general hearsay' and a 'personal statement', because it talks about both. This need for 'double indexing' means that the percentages of text-units in different categories usually sum to a little over 100 percent. Similarly it would be classified as referring to 'large bribes' and mere 'tokens'; and in a statistical analysis it would count, misleadingly, as referring to both a 'personal statement' and 'large bribes'. In practice, however, such pathologies do not cause major problems for our analysis, since most - though not all - text-units do, in fact, make a single integrated point.

We drew up a detailed schedule of suggested questions which was translated into the local languages and used by moderators to guide the focus group discussions. It had five sections, raising increasingly personal and sensitive questions about:

- (i) attitudes towards the transition - both to democracy and to a market economy
- (ii) general expectations - how officials would 'typically' treat citizens, and how citizens would typically respond
- (iii) projective situations - what participants 'would do' in certain specific scenarios
- (iv) personal experience - what had actually happened to participants, their close friends or their relatives
- (v) past and future - how things had changed since the fall of communism, their expectations for the future, their proposals for reform.

Moderators retained the flexibility to adjust to the flow of the discussion, however. Participants might spontaneously raise the 'scenario' situations, or respond with tales of personal experiences when they had only been asked about 'typical' situations, for example, making later sections of the schedule largely redundant. Variations in the sequence of discussion topics have no effect upon our analysis, since we index all comments according to their content, not the point in the discussion where they occurred.

Perspectives on the transition

While there was wide support for the transition from communism, there was also wide criticism of the way the transition had been handled: 'it is a good thing but I think it should not be the way it has started in this country' (Ky-B 1) - the code in brackets indicates that this is a quotation from respondent 1 in focus-group B in Kyiv (see the Appendix for details); 'they broke everything apart and haven't built anything' (Se 1). In Bulgaria especially, there was a degree of economic pessimism that bordered on despair: 'democracy is something very nice, but we misinterpreted it....instead of achieving...we kept destroying' (Te 4); 'a country this beautiful and nice...it has all been ruined.' (Stral 1).

There was also a perception, especially in Ukraine, that the transition was itself the final criminal act of the communist regime and its officials. That perception was bound to encourage, or at the least excuse, corrupt behaviour by ordinary citizens in their dealings with the state. 'It's clear that [the transition] is being effected with the old Soviet methods - the same special shares, special distributions, and special privileges everywhere' (Se 4); 'those in power are the same, but [our] life has become 100 times worse' (Vo 1).

Elected deputies were widely seen as being in politics for their own personal advantage: 'power is necessary for money' (Ky-B 6); 'we've got nothing to buy a piece of bread with, and the comrades travel to Atlanta, can afford cruises' (Kh 3); 'shielding yourself with the help of deputies' immunity is necessary when your pocket is full' (Vo 1).

Indexing text-units by whether they suggested the behaviour of officials under the postcommunist regime was now better or worse than under communism indicated an improvement in the Czech Republic, even if only by the narrow margin of 8 percent, but a turn for the worse elsewhere - by a margin of 20 percent in Slovakia, 32 percent in Bulgaria and 37 percent in Ukraine.

***** TABLE 1 ABOUT HERE *****

Strategies for dealing with officials

How can citizens deal with officials? What coping strategies can they use when faced with unfair, or simply unacceptable, treatment? Participants in our discussions mentioned a range of possibilities.

Acceptance: 'I clearly understood from the very beginning that it would not do any good...I came there, turned round, and went home' (Striy 4); 'Circumstances made me give up, because if somebody else were in my position...it's no wonder why there are structures of force, racket, batons.' (Ya 4).

Persistence: '...drop in there every week and when they see me at the door they say to themselves "Oh God, she's here again, let's give it to her and get rid of her".' (Pra-B 6).

Argue/threaten: 'I succeeded in persuading them - maybe they were in good moods, it was just after lunch.' (Do 5); 'I phoned the KGB and asked "who are you trying to catch?... we're not in Moscow, we're in Ukraine, on our own land!".' (Se 6); 'I had to throw a hysterical fit - then they gave it to me' (Kh 2).

Appeal: 'Go higher' (Hr 6); 'up the ladder' (Ho 2); to 'her superior' (Br-B 7); 'the MP Boncho Rashkov' (Te 1); 'the village soviet' (Ni 1); 'the Region executive office' (Vo 1); 'the Mayor' (Pra-A 7); 'the Minister' (Ol 3); or even 'the Supreme Council' (Ky-A 6); but 'it was easier, when there was the first secretary of the party city committee...now there's no power like that.' (Kh 3).

Bribery: Bribery could vary from a 'present' of box of chocolates or a packet of coffee to money: and 'money as a rule is not "coupons" [Ukrainian temporary currency]' (Ky-B 4); 'people give dollars' (Sh 4). 'Now, anywhere you go, they can even tell you how much, whom to give, and for what sort of matters.' (Ho 1); 'they'd better have a price list.' (Sh 5); 'maybe you wanted to, maybe you didn't want to, but they took it from you - they tell you a specific sum,' (Kh 6); 'if a bureaucrat has even a slight chance to make something on you, he will do everything in order to get it from you.' (Ky-A 4).

Contacts: Although contacts could be useful on their own, they were often a necessary precondition for successful bribery: 'I know roughly the price, plus the friend in the appropriate position.' (So-B 2); 'I had the best entrance exam results, but they only admitted people according to their contacts...my mum...knew someone there who knew the Dean. Money was even involved.' (NZ 8). And even contacts might require payment in the new market economy: 'of course, acquaintances wouldn't do anything for you without money either.' (Se 6).

Other strategies: There were a very few references to forming a protest group, or going to court. More frequently participants mentioned knowledge based strategies, from checking up on the law to 'knowing the ropes'. Finally there was a miscellaneous set of other strategies, mainly concerned with personal appearance and behaviour, and frequently described by participants as using 'psychology' - politeness, a pleasant smile: 'It depends on sex-appeal or on psychology, yes just that, how to talk the policeman round' (KH 7); or a

style of dress that was neither so slovenly as to fuel the official's arrogance nor so stylish as to excite the official's jealousy: 'when I got dressed up and was wearing something better than the women [officials] there, everything went wrong.' (Pra-A 3).

Bribery was the most frequently mentioned strategy in all countries - in 26 percent of relevant text-units in the Czech Republic, 36 percent in Slovakia, 35 percent in Bulgaria and 42 percent in Ukraine. It was also the most frequently denied. But other strategies were also mentioned frequently - including contacts, argument (especially in the Czech and Slovak Republics), and appeal to higher authority (especially in Ukraine). Bulgarians were the most likely to mention passive if frustrated acceptance.

Strategies for objectives

Indexing text-units on dealing with officials according to whether the citizen appeared to be seeking an entitlement or a favour showed that the Czech discussions focused more on seeking favours than on fair treatment - by a margin of 10 percent. But everywhere else discussions focused more on the minimum objective of obtaining fair rather than favourable treatment - and by even larger margins of between 25 and 31 percent.

Strategies were clearly related to objectives. In all countries strategies of passive acceptance, along with strategies of persistence, argument or appeal, were mentioned much more frequently in connection with attempts to get fair treatment than to get favours. Conversely, bribes and contacts were mentioned much more frequently in connection with attempts to get favourable treatment. 'Do you mean you need to pay only when you are doing something illegal?' asked the moderator in the Sholomia discussion; 'I think when everything is legal people pay less' came the response. (Sh 2). Even in Ukraine, where bribes were mentioned in 28 percent of text-units concerned with obtaining rights, they were mentioned in far more, in 73 percent of text-units concerned with obtaining favours. This is a point of some importance. Citizens can reasonably complain when they are forced to take extraordinary measures to obtain their rights, but they cannot reasonably complain when they use bribery to obtain special favours. Complain they may still do, but their complaints lack moral force and they know it. There is no need to take such complaints too seriously - unless, of course, the whole system is so perverse that what are favours within that system would be rights anywhere else.

*****TABLE 2 ABOUT HERE*****

General gossip versus specific personal experience

To what extent do complaints about officials reflect general gossip and to what extent do they reflect real personal experience? We indexed all text-units according to whether they were about: (i) general hearsay or gossip about how people typically behaved; (ii) what people might do in various hypothetical scenarios; (iii) the experience of friends and acquaintances; and (iv) more personal experience.

As the discussion moved from general gossip through hypothetical scenarios to personal statements the nature of the discussion changed sharply. First, the balance between seeking rights and favours changed: personal statements focused much more on rights, and much less on seeking favours, than did general gossip. In parallel with this, references to

different coping strategies also changed: bribes were always mentioned much less in personal statements than in general gossip, and they were usually denied rather more. The use of contacts was also mentioned less in personal statements than in gossip, though the margin was not so large as with bribes. Conversely, passive acceptance was mentioned more in personal statements than in gossip, especially in Bulgaria. But much more important, other more active strategies like persistence, argument or appeal were also mentioned twice as frequently in personal statements as in gossip. Overall therefore, there is a striking contrast between the repertoire of coping strategies discussed in general gossip and that reported in personal experience.

***** TABLE 3 ABOUT HERE *****

Personal experience of bribery

Since assertions of bribery always fell as the conversation moved from general gossip to specific personal statements, and denials usually increased, the net difference between assertions and denials of bribery fell sharply. The fall was particularly sharp in the Czech Republic. When people were talking in general terms, net assertions of bribery were about as frequent in Slovakia and Bulgaria as in Ukraine - and only around ten percent less in the Czech Republic. But when people began to talk about their personal experiences, net assertions of bribery occurred only half as often in Slovakia and Bulgaria as in Ukraine, and sank almost to zero in the Czech Republic.

Particularly in the Czech Republic, but also in Slovakia, a number of text-units actually combined a general assertion that bribery existed with a specific personal denial: 'I would not try it, but I know people who have done it' (Hr 2); 'not from our own experience, rather from what I hear' (Ol 4); 'everybody waits for something to be slipped into his or her pocket, a bribe....[but] I would never bribe anybody, I would not know how....am I really supposed to add to their salaries if I want something settled?' (Prv 6).

In Slovakia, references to bribery were more frequent than in the Czech Republic. Some were, in the donor's eyes at least, not a bribe but 'just a little token' (Prv 2). From the standpoint of the official however, even 'tokens' might add up: 'My cousin cannot praise it enough, being a customs officer. He says: "Yesterday I brought home slippers for the whole family. I get so many chickens that I don't know where to put them - I need a second fridge." These are tokens for customs clearance.' (Zv 5). Slovaks also listed monetary bribes quite explicitly, especially bribes to the traffic police and the health services: 'Sometimes [the police] give you a penalty without a receipt - sometimes this satisfies both parties - this has already happened to me.' (Br-B 9). Bribery to get medical attention was mentioned particularly frequently: 'special deliveries, paid-for, fast, painless, and naturally the attitude of nurses to those patients was different' (Zv 1); 'When my wife went to the maternity ward, the obstetrician said 3000 crowns for treatment and 1000 for the delivery. I felt it would be better, that he would take care of her...I felt life was at stake' (Br-B 4). But other Slovak officials were also mentioned: 'The housing office - we could have had a flat but only if we had given 30,000 crowns - that is 30,000 crowns to the officials there...my husband had started a business...he had to give something to the officials there in order that we could get a flat.' (Zv 1).

On balance Bulgaria was somewhat similar to Slovakia, though some of the stories of extortion were more horrific even if no more frequent. Most references to the Bulgarian police involved real or imaginary traffic offences: 'I had enclosed in my passport 1000 levs...He took 200 levs...and recommended for me a brush-up course of driving.' (So-A 5). One particularly attractive and smartly dressed young woman claimed she had never paid a fine or a monetary bribe to the police: '...so far I haven't paid a single penalty. When they stop me I start deviating their attention... "Let's go and have a cup of coffee"...I might call the coffee "friendly".' (Ya 5) - to which an older woman in the group added wryly: 'Your youth is your advantage. If they stopped me, even if I offered them whisky, they wouldn't be lenient to me.' (Ya 6). But there was one more serious allegation against the police. A gypsy woman reported: 'My daughter was raped a year ago, at the age of 17. Three months ago she was taken away [again]...the bar girl told me "Your daughter cried her head off" ...[I] went to the police department, beside myself, and they said "Maybe she wanted a man and that's why they took her." But if I provided 2,000 lev for petrol they would go looking for her...I did not have the money so I went on my own.' (Stral 5).

Health care was the other main focus of allegations about bribery: 'The fee of the midwife was 15,000 levs, whereas the fee of the doctor was 30,000 levs.' (Ya 6); 'In my room I saw it - doctors took money from those in the beds next to mine.' (Ku 5); 'Some time ago my father had to be placed in a hospital. We had to offer a bribe....it was a question of 30,000 levs - a year and a half ago that was quite a sum...I don't know where this sum of 30,000 levs sank, but two hours later a doctor came and my father was placed in the hospital.' (So-B 8).

Bribery was not restricted to police and health workers: 'I know the price is 300 dollars, but I haven't given any mark without examining the student. So I've become the "black sheep" among my fellow lecturers and they've become nasty to me.' (So-B 5). '[My friend's] son...is serving at a distance of 15 klms from Sofiya...every two or three days he comes home - but that has its price, too.' (So-B 3). Even MPs were involved: 'In accordance with the Law of Restitution, friends of mine...are entitled to the real-estate [but the Municipality would not hand it over]...so they decided to contact their MP. The MP found the guts and told them how much it would cost them for the favour...10 percent of the cost of the real-estate.' (Ya 4).

Sometimes, especially in small villages, Bulgarians reported: 'People know each other. Bribes are not expected.' (Te 1). Some could not afford the bribe: 'When I was in hospital, a guy whose father had to undergo an operation was told he had to give 20,000 levs. He said he could afford only 10,000 levs...and two days later his father died.' (Te 5); 'I knew the price of my case in the hospital...plus the friend in the appropriate position...but I cannot afford it.' (So-B 2). More surprisingly, there were some tales of Bulgarian officials refusing to accept bribes. That even surprised and slightly disconcerted those who had offered them: 'I underwent two operations at Medical Academy in Plovdiv. I was ready to pay, but the doctor I ran into turned down my money offer....Upon leaving I hinted about money, but he felt pained. Then he accepted, most unwillingly, a bottle of grape-brandy as a token of gratitude.....Now I am not sure what's going on there.' (Ya 4).

Every group discussion in Ukraine, apart from the Crimean Tatars, produced specific personal statements about the use of bribery. Sometimes it clearly was for a favour: 'there was another instructor who had a tariff: a bottle of vodka for [an undeserved pass in] the mid-term test' (Kh 1). Sometimes it was at least partly out of gratitude and relief: 'I had an operation last year, a professor did it...we all knew, the patients talked about it, that he only

took things after the operation.' (Ky-A 1). But on many occasions it clearly was simply a case of extortion: 'they put you in a situation that you have to.' (Ho 6); 'the surgeon said that she [the patient] was to give so much to the surgeon, so much to the neuropathologist, so much to the anaesthetist, and so much to the assistant. He directly said how much.' (Ho 4); 'there they say loud and clear, how much for what.' (Kh 3); 'I needed an operation...it [would, they said] cost fifty dollars. Okay...when I go in, she looked at me, all very pleasantly, then says "it'll cost a hundred dollars"...it's already gone up!' (Ky-A 2).

Extortion was not limited to health care: 'until I gave a bribe he did not receive me...I gave him 20 dollars and he signed it.' (Striy 2); 'yes, to have a position at school I have to give up my salary...for this whole year, if not longer, I will be earning money for them [those who appointed her].' (Striy 5); 'I faced it myself in the notary's office...if you haven't brought anything you will probably sit there for three days minimum if not three weeks...I have been there five or six days. Until you buy something and bring it there, you are given no attention and no service.' (Vo 5); 'she says "give me 500 thousand so that I make a labour card for you"...and I never heard that you must pay for a labour card.' (Vo 2). And they paid frequently: 'for this half-year, two times.' (Ky-B 1); 'family for the last half-year of time, five times probably, not less.' (Ky-B 3) 'I also had to do it frequently.' (Ky-B 4).

What is to be done?

Some of our findings might encourage complacency. From the perspective of the citizen, it appears that the situation is not as bad as it at first appears. While allegations about the need to use bribery or contacts in dealing with officials are widespread, they need to be treated with some scepticism. Such allegations are at least twice as frequent in general gossip as in reports of specific personal experience; and bribery is associated more with citizens' attempts to get favourable treatment than with their attempts to get fair treatment. To some extent therefore, they have only themselves to blame. Indeed some recognise this: 'we've taught them this; we ourselves are guilty; we take them things...the first and the second bring something, and the third can't not bring something.' (Kh 3). But this confession of guilt is atypical. Rightly or wrongly, most people blame officials for extorting bribes; they interpret the present situation as a problem; and they propose solutions. Very few comments suggested that it was impossible to change the relationship between citizens and officials - the percentage ranged from zero in the Czech Republic to only 6 percent in Ukraine.

A better quality of official was a popular suggestion: between 24 and 32 percent of relevant text-units in each country mentioned it. That was almost, but not quite, as vacuous as it sounds. Comments about better officials were often tautologous: 'Pleasant people should work there - a private businessman would not hire a waitress or a shop assistant who would turn her back on a customer.' (Br-B 2). In Ukraine especially there were calls to 'change [officials'] psychology' (Ho 1); for 'more responsible [officials]' (Ho 6); 'conscience' (Ho 3), 'competence' (Kh 6), 'understanding' (Vo 3), 'culture' (Ky-B 5), and - the ultimate in tautologies - 'honesty' (Striy 3 and 4).

But other comments about better quality officials suggested better systems of selection, more qualified entrants, and more in-service training - including training in customer relations as well as in more technical matters. Selection could be improved: less 'so-called nepotism' (So-B 1). Czechs and Slovaks especially, but others also, emphasised qualifications and training: 'higher qualifications [are needed]' (Pra-B 1); 'better training' (Br-B 5); 'there's little professionalism....they are poor souls, typing with just one finger - do

not take this literally...I sometimes feel they must have studied at a special university for mentally handicapped students.' (Pra-A 7). And a course in customer relations might help: '[officials] should be aware that those coming to them, or their "customers", are not experts in filling out forms.' (Hr 3).

In the Czech Republic, 46 percent of text-units - far more than anywhere else - mentioned a need to improve administrative efficiency and organisation - which reflected the burden of the Czech participants' complaints: that they found the bureaucracy tedious and unhelpful rather than corrupt, forcing them to waste too much time on filling out forms, going to offices, and standing in queues. So they proposed a better administrative structure, less bureaucracy, better located offices, or simply longer office opening hours: '[individual departments] are unable to communicate between themselves' (KH 7); 'fewer useless forms' (KH 5); 'and above all fewer bureaucrats' (KH 4); and 'longer opening hours' (Pra-B 4). Slovaks made similar but less frequent suggestions for administrative reform: 'less bureaucracy, more flexibility' (NZ 3, with noises of agreement from NZ 1 and NZ 2); 'premises - people cram in there and the clerk gets irritable...slightly more human conditions would do.' (Br-B 2). They wanted more information: 'at all these offices where most people have to go, there should be one person whose sole responsibility it is to provide information.' (Zv 4); and a 'one-stop shop' such as they had enjoyed under communism: 'formerly everything was in one place [at 'National Committees'], it was a well-established system and ...people there knew their jobs' (Br-A 2). There were also a few similar suggestions in Bulgaria and Ukraine: 'There should be everywhere computers.' (Ya 5); 'they should tell you everything you need to bring the first time.' (Ky-A 6); 'it's not everywhere [i.e. in every country] you need such a quantity of certificates.' (Ky-A 2).

Conversely, discussion groups outside the Czech Republic put more emphasis on other reforms, reflecting the different nature of their complaints which were more about extortion and rather less about mere time-wasting - more pay for officials to make extortion less necessary, stricter control to make extortion more dangerous, or some combination of the two.

More pay was a popular suggestion in Slovakia: 'insufficient salaries, that's the cause of all that bribing.' (Br-B 8). Sometimes there was special pleading however: 'because they are not actually rewarded in any way, they don't care....the system of doctors' remuneration should be quite different in my opinion.... my husband is a doctor.' (Prv 8). Sometimes the idea was qualified: 'I think salaries should be raised in health care and in education....[though] not to all of them without any discrimination.' (Zv 9). Or even resisted: 'but even if they got more money, they would behave in the same way.' (Br-A 6).

Similarly in Bulgaria: 'perhaps they are underpaid' (So-A 4); 'if the inspectors within this system were well-paid, they wouldn't give way to tipping of 500 levs or 5,000 levs - they wouldn't be tempted so easily.' (So-A 1). But again the suggestion for more pay was sometimes linked to performance: 'I think people should be paid according to their performancefor an operation made our doctors get small change, and when a plumber screws in a bolt in his house, he asks for money, worth ten operations.' (So-B 4). And occasionally resisted: 'I don't think the explanation lies only in the low salaries. Salaries will be raised, and they will become corrupt again....there are no moral values.' (So-A 6).

Ukrainians too, sympathised with underpaid officials: 'he has to live; he doesn't earn enough money, that's why he takes bribes.' (Ni 3); 'if they receive appropriate payment, they will work professionally in their positions and will not take bribes.' (Sh 4).

***** TABLE 4 ABOUT HERE *****

Stricter control was seldom mentioned in the Czech Republic but quite frequently elsewhere. Slovaks complained that 'it's worse now than under the rule of communism...you could lodge even an anonymous complaint and now there's no one to complain to....now they are not afraid of anything.' (Do 4). One Slovak wanted: 'really harsh conditions, strict sanctions...we would have to start from the top and proceed downwards.' (Prv 6). In Bulgaria participants complained: 'there used to be some order...' (Ya 2); 'Now the situation is very bad - perhaps because we have no one to take our complaints to for injustices.' (Ya 1). 'There should be control.' (So-A 3).

Ukrainians also emphasized the need for control, even fear: 'it is necessary that he simply be afraid that he can lose his place' (Ky-B 3); 'there should be power in the country' (Kh 4); 'there was discipline - everybody was afraid of the party' (Striy 3); 'we are missing discipline... there is no fear now' (Striy 1). Against the great preponderance of such sentiments, there were only a couple of atypical remarks expressing reservations: 'control can be strengthened, but that's not the way out.' (Ky-A 4); 'the innocent suffer.' (Ni 1).

Sticks and Carrots. Sympathetic attitudes towards officials' salaries were accompanied and often combined with less sympathetic suggestions. Pay rises could be combined with stricter control or a cut in the number of officials: 'If it were up to me they should be controlled.' (Stral 2); 'Nothing terrible would happen if the official apparatus were cut back by two thirds'. (Ky-A 4) 'And raise the salaries of the ones who are left.' (Ky-A 5) But one pessimist dismissed both ideas: 'I disagree on the score of salaries....appetite grows in the course of eating, [and] sanctions won't do - they will be carried out by people who might perhaps have the same weaknesses.' (So-B 8).

At first sight, the frequency of proposals for a better legal framework appear to provide a point of similarity between the Czech Republic and Ukraine. But what did they mean by a better legal framework? In the Czech Republic, simpler and more stable laws: 'a simpler, easily understandable law' (Ol 4). In Bulgaria too, there were also references to simplifying the laws: 'Legislation should be simplified and made clear to the people.' (So-A 7); 'Laws should be clear. At the moment I have the feeling we are ruled by decrees and regulations.' (So-A 1). But in Bulgaria there was also a plea for laws to replace anarchy, to fill a vacuum, and thereby exert control over officials: 'There are no laws, they say. When will these laws be passed?' (Stral 6). And there was some emphasis on simply enforcing obedience to the law: 'In a West-European country, corruption is controlled...the penalty is serious...We all have to work towards creating a normal state, a law-abiding state.' (So-A 6).

Suggestions for improved legislation were also voiced in Ukraine: '[we have] no developed legislation' (Ky-A 4). But two thirds of the references to the law in Ukraine did not focus on this need for clearer, simpler and better publicised laws. One third consisted of complaints from Crimean Tatars that the laws of Ukraine were biased against them: 'discrimination against nationality' (Se 4 and 5). More typically however, the remaining third of Ukrainian suggestions for legal reform concerned enforcement rather than clarification: 'there should be organs that would make sure this law was followed.' (Kh 4).

Bulgarians in particular placed some responsibility on citizens themselves: 'There's a rule - the more you are informed, the less corrupt the official' (So-A 7); 'When I know my legal rights...I can defend them and I can demand.' (Ya 4). This is of course, just another

perspective on the need for more information about citizens' rights which was mentioned in other countries, but now with the onus placed upon citizens to inform themselves.

Inevitably the solutions proposed by ordinary citizens in our focus group discussions are less complex and sophisticated than those prescribed by public administration specialists²³ and they differ considerably in the details but both highlight the importance of a mix of encouragement, control and public information.

Discussion

No doubt our focus group participants held something back. We do not suppose that they revealed all. But it is remarkable how much they were willing to say in front of the video-cameras at our focus groups. Partly that reflected the expertise of our focus group moderators, all of whom had extensive experience in leading group discussions. But it also reflected the openness of the participants themselves. Most did not seem over-inhibited by the long years of life under communism. On the contrary they seemed to revel in their new freedom to criticise the state.

Of course the opposite danger is that people will tell extravagant but untruthful stories to impress their fellow participants or to please the investigators. We did find a sharp difference between allegations made in general terms and those based on more personal experience. In the Czech Republic general gossip about widespread corruption simply did not correspond to more personal accounts of experience and behaviour. But by contrast, the discrepancy between general allegations and personal experience was less elsewhere, and much less in Ukraine. We think it unlikely that this reflected greater reticence, more fear, or less openness in the Czech Republic than elsewhere. And that has important implications: the difference between Czech and Ukrainian experience of interacting with officials was actually greater than was implied by more superficial questions about the general climate of corruption. A climate of exaggerated suspicion and criticism in the Czech Republic, influenced no doubt by press reports of high-level corruption, actually obscured the extent of the difference between Czech and Ukrainian citizens' own, immediate and direct personal experience.

We found evidence of a gradation in official corruption from the Czech Republic through Slovakia and Bulgaria to Ukraine. In terms of how citizens dealt with officials, there were clear differences between the Czech Republic and Slovakia - both, to varying degrees, 'Catholic' and both former Hapsburg territories; and on our data 'Catholic' west Ukraine was actually more inclined to bribe officials than 'Orthodox' east Ukraine. That contradicts any notion that we should simplistically divide the world into Catholic, Orthodox and Muslim cultures - or, more locally, into former Hapsburg, Romanov, and Ottoman cultures.²⁴ While we do not suggest that long established culture and history have no continuing impact other factors may be still more important. Differences in the interactions between citizens and officials in the different postcommunist countries may reflect more recent differences in the way these states have actually treated their citizens - the half century of direct experience of Soviet bureaucracy that applied equally to east and west Ukraine for example. They may also reflect variations in contemporary postcommunist circumstances: economic collapse in Bulgaria and dislocation in Ukraine but better living standards in the Czech Republic; and a greater discontinuity both of personnel and ethos in the administration of the Czech Republic, contrasting with more continuity elsewhere. Indeed, insofar as any one of our postcommunist

countries stands out very much from the others in terms of the behaviour of its officials, it is the Czech Republic.

It is worth drawing attention, once again, to the infrequency of suggestions that it was impossible to improve the relationship between citizens and officials. And also worth recalling the widespread allegation that, except in the Czech Republic, the behaviour of officials had changed for the worse since the fall of the communist system. Both those findings imply movement and change, whether for better or for worse; so both contradict the thesis that the relationship between citizens and officials is determined by an unchanging and unchangeable culture. Ironically, recent changes for the worse show that change is possible and therefore hold out the possibility of change, perhaps for the better, in the future.

Does low level corruption matter? To ordinary citizens going about their daily business it does. That is the level of corruption which makes the most immediate and most visible difference to their lives. In his study of rampant corruption in the British colony of Hong Kong, Wing Lo found wide support for repressive measures against corrupt, usually junior, civil servants through much less for similar action against corrupt millionaire businessmen because 'the public do not always feel as threatened by corrupt businessmen as they do by corrupt public servants...public sector corruption is often related to extortion and solicitation of bribes by civil servants...[which is] far more annoying and disturbing to the daily lives of people.'²⁵ We found that same public resentment of 'extortion and solicitation' in our group discussions.

Corruption may have helped to lubricate the creaky old machinery of communism. Huntington, amongst others, once argued that 'corruption may thus be functional to the maintenance of a political system in the same way that reform is...and both corruption and reform may be substitutes for revolution'.²⁶ By improving both the economic efficiency and the human rights record of a dictatorship, public sector corruption may well be functional to the maintenance of such a regime. But public sector corruption degrades both the economic efficiency and the civil rights record of a free market democracy, and contributes to its instability. Democracy is founded on the principle of political equality, and public sector corruption is founded on the principle that the state will treat its citizens arbitrarily and unequally. In a democracy, political equality offsets inequalities of wealth and power; but public sector corruption reinforces those inequalities. That is why Almond and Verba defined a well-functioning democracy not only in terms of citizen influence over high policy, but also in terms of fair and equal treatment by junior state officials.

Moreover, low level corruption is not divorced from high level corruption. A corrupt example at the top is likely to encourage corruption at the bottom. Conversely, however, it is unlikely that a junior official trained by experience in bribery and extortion will suddenly give it all up when he or she gets promoted. Wider horizons simply present new opportunities. So-called 'zero-tolerance policing' is now fashionable in Britain and America. It is based upon the assumption that a permissive attitude to low level crime not only degrades the living environment and life style of ordinary citizens but also encourages low level criminals to graduate to higher level crime. The analogy with corruption is close.

What is clear from our focus group discussions is that citizens in Bulgaria and Ukraine do not regard official corruption any more kindly than in the Czech Republic; they do not regard it as a curse in the Czech Republic but a blessing in Bulgaria or Ukraine. It may be a necessity for the individual citizen perhaps, but an unwelcome one: extortion not a facility. And that also has implications for the possibility of reform. There is no dispute anywhere about the direction of 'improvement', no deep cultural attachment to corruption as a systemic

virtue in postcommunist circumstances as it arguably may have been under communism; and no shortage of sensible suggestions for reform that take account of the specific circumstances and contemporary problems in each country. The concrete reality of variations in official behaviour disguises more uniform aspirations amongst the citizens of different countries.

---- end text ----

Appendix: Design of the focus group study

	<u>Ukraine</u>		<u>Bulgaria</u>	<u>Former Czechoslovakia</u>	
	<u>East</u>	<u>West</u>		<u>Slovakia</u>	<u>Czech Rep</u>
<u>Capital city (higher educ)</u>	Kyiv-A		*Sofiya-A	*Bratislava-A	Praha-B
<u>Capital city (lower educ)</u>	Kyiv-B		*Sofiya-B	*Bratislava-B	Praha-A
<u>Medium town</u>	*Khartsysk	*Striy	*Yambol	Zyolen	*Hradec Kralove
<u>Small town</u>	Volnovakha	*Horodok	*Straldja	Presov	*Kutna Hora
<u>Village</u>	Nikolayevka	*Sholomia	*Tenevo	Dolny Kubin	*Olesnice
<u>Ethnic Minority</u>	Sevastopol (Tatars)		*Kurdjali (Turks)	*Nove Zamky (Hungarians)	----
<u>Total participants in Focus Groups</u>	55		45	49	38

Notes:

1. Focus groups were organised by USM (Ukrainian Surveys and Market Research) of Kyiv, CSD (Center for the Study of Democracy) of Sofia, and OPW (Opinion Window Market Research and Analysis) of Praha - covering both the Czech and Slovak Republics.
2. All 26 FG discussions were video-taped. Computer readable vernacular and English-language transcripts were made from these tapes. In addition, simultaneous translation was provided by Marichka Padalko in Ukraine, Mitra Myanova in Bulgaria, Zuzana Vrstiakova in Slovakia, and Klara Flemrova in the Czech Republic during the 16 FGs marked with an asterisk which were all attended by the authors.
3. FGs in East Ukraine were located in the Donetsk region, those in West Ukraine in the Lviv region, all chaired by Alexander Fedorishin, using the language chosen by the participants - Russian in Kyiv, Sevastopol and East Ukraine, Ukrainian in West Ukraine. FGs in Bulgaria were chaired by Andrej Nonchev (except for the one in Straldja which was chaired by Elena Lazarova), all in Bulgarian. FGs in Slovakia were chaired by Patrik Minar in Slovak (except for the one in Nove Zamky which was chaired by Ladislav Koppl speaking in Czech while participants responded in Slovak). FGs in the Czech Republic were chaired by Ladislav Koppl using Czech.
4. Underlining indicates the short form of town names used to identify respondents in the text. Thus, for example, (Ky-B 1) in the text indicates a quotation from the first participant in the focus group Kyiv-B.

Table 1: Perceptions of postcommunist changes in official behaviour

	<u>Text-units about changes which mention officials</u>			
	<u>Czech Rep</u>	<u>Slovakia</u>	<u>Bulgaria</u>	<u>Ukraine</u>
	%	%	%	%
Better now	31	10	15	8
Neutral	46	60	38	48
Worse now	23	30	47	45
Diff: better -worse	+8	-20	-32	-37
(Total N)	(64)	(30)	(34)	(183)

Note: Percentages are percentages of relevant 'text-units' in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.

Table 2: Coping strategies by objective

<u>Objective: when citizens seek</u>	<u>Czech Rep</u>		<u>Slovakia</u>		<u>Bulgaria</u>		<u>Ukraine</u>	
	<u>rights</u>	<u>favours</u>	<u>rights</u>	<u>favours</u>	<u>rights</u>	<u>favours</u>	<u>rights</u>	<u>favours</u>
	%	%	%	%	%	%	%	%
<u>Refer to use of:</u>								
Accept	25	12	26	7	28	12	25	3
Persist, argue, appeal	40	17	35	14	27	11	30	5
Bribe	18	42	22	55	30	60	28	73
Contact	11	15	5	25	15	37	8	21
<u>Deny use of:</u>								
Bribe	4	10	8	7	7	3	3	5
(Total N)	(151)	(196)	(205)	(100)	(252)	(125)	(512)	(195)
Net assertion of bribery (% use - % deny)	14	32	14	48	23	57	25	68

Note: Percentages are percentages of relevant 'text-units' in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.

Table 3: Coping strategies by talk style

<u>Talk style:</u>	<u>Czech Rep</u>		<u>Slovakia</u>		<u>Bulgaria</u>		<u>Ukraine</u>	
	<u>Gossip</u>	<u>Experience</u>	<u>Gossip</u>	<u>Experience</u>	<u>Gossip</u>	<u>Experience</u>	<u>Gossip</u>	<u>Experience</u>
	%	%	%	%	%	%	%	%
<u>Refer to use of:</u>								
Accept	10	18	14	19	21	31	16	18
Persist, argue, appeal	11	28	18	29	15	27	16	32
Bribe	36	16	47	29	42	27	46	33
Contact	20	16	10	10	23	17	12	10
<u>Deny use of:</u>								
Bribe	7	13	9	15	3	9	5	4
(Total N)	(277)	(275)	(192)	(215)	(235)	(236)	(612)	(314)
Net assertion of bribery (% use - % deny)	29	3	38	14	39	18	41	29

Note: Percentages are percentages of relevant 'text-units' in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.

Table 4: What is to be done?

	Czech Rep	Slovakia	Bulgaria	Ukraine
	%	%	%	%
Improve personal qualities of staff	29	32	24	31
Better administrative organisation	46	18	15	9
More pay	7	18	14	13
More control	4	20	22	16
Better legal framework	21	15	15	29
More demanding citizens	0	3	17	4
Impossible to change	0	4	2	6
More funding	0	0	7	0
(Total N)	(72)	(99)	(152)	(271)

Note: Percentages are percentages of relevant 'text-units' in the focus group discussions, not of participants. The total number of relevant text-units on which percentages are based is shown in brackets at the foot of each column.

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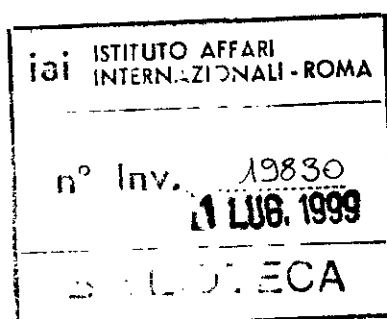
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SHORT VERSION

Victims or accomplices? extortion and bribery in Eastern Europe

William L. Miller, Åse B. Grødeland and Tatyana Y. Koshechkina

Thank God they're corruptible. They're human and after money like the rest of us. They're not wolves. As long as there's corruption, there's hope. Bribes! They're man's best chance. As long as judges go on taking money, then there's some chance of justice. – Bertolt Brecht, *Mother Courage and Her Children*, Scene 3.¹

Mother Courage clearly felt that bribery and corruption had their advantages for ordinary people. But Brecht's point was that although she seemed so worldly wise in the short term she was completely and tragically wrong in the longer term. Our purpose is to explore public attitudes towards low-level corruption in Eastern Europe – to see how many praise it with *Mother Courage*, and how many condemn it with Bertolt Brecht.

We focus on the way ordinary citizens use presents and bribes to influence the officials they meet in day-to-day life. Our principal concern is not with high-level corruption involving senior politicians and officials or top businessmen, but with the role of corruption in these everyday interactions between citizens and the state. We look in particular at Ukraine, Bulgaria, Slovakia and the Czech Republic – near neighbours with a common commitment to democratisation in the 1990s but very different historical and bureaucratic traditions. Our findings are based on 4778 interviews between November 1997 and February 1998 with representative national samples of the public: 1003 in the Czech Republic, 1056 in Slovakia, 1519 in Bulgaria, and 1200 in Ukraine. Where appropriate we have illustrated these findings with verbatim quotations taken from 26 focus-group discussions and 136 in-depth interviews that we commissioned in the summer and autumn of 1996.

For every bribe-taker there must be a bribe-giver, but the relationship is not necessarily an equal one. If citizens take the initiative, pressing their bribes - and their demands - upon reluctant but perhaps badly paid officials, then we might describe citizens as the source of corruption. If the opposite happens, and officials abuse their position to extort unofficial payments from weak, powerless and reluctant citizens, we might describe citizens as victims. And if the relationship is more equal, if citizens want to give and the officials are happy to take, than we might describe citizens as accomplices.

1)

2)

3)

A climate of petty corruption

People in all countries were inclined to suggest that even when a person 'asks an official for something to which he/she is entitled by law' they would probably have to approach the official 'through a contact', or 'offer something' in order 'to get a successful outcome'. Perhaps they exaggerated, in casual gossip, the need to use contacts, presents and bribes. As we shall see, in their own personal experience, they tended to report rather less need to use presents and bribes.

Nonetheless the figures are very high: between 76 and 90 percent in different countries said it 'was likely' a person would have to approach the official 'through a contact'. Between 62 and 91 percent said it 'was likely' that a 'small present' would be necessary. And between 44 and 81 percent said it 'was likely' that 'money or an expensive present' would be necessary. These were considered most necessary in Ukraine and least necessary in the Czech Republic; and the difference between Ukraine and the Czech Republic grew from 14 percent on contacts, through 29 percent on small presents, to 37 percent on 'money or an expensive present'.

Table 1: Likely that person would have to...

Suppose a person asks an official for something to which he/she is entitled by law. Q85-7: To get a successful outcome, is it likely or not likely that he/she would...	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
Q85: approach official through a contact	76	87	86	90
Q86: offer a small present	62	80	84	91
Q87: offer money or an expensive present	44	62	72	81

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

There was a wide consensus that people would be more likely to use contacts, presents and bribes now than they did under communism. Once again, such claims were most frequent in Ukraine and least frequent in the Czech Republic. Over 80 percent in Ukraine said people were more likely to offer officials 'money or an expensive present' now than they were during the communist period.

Table 2: More likely now than under communism that a person would...

Q93-5: Compared to the period (UNDER COMMUNISM) do you think it is now more likely, or now less likely, that people in (COUNTRY) would...	Czech Republic	Slovakia	Bulgaria	Ukraine
% more likely now:	%	%	%	%
Q93: approach the official through a contact?	77	87	79	88
Q94: offer a small present?	64	83	82	88
Q95: offer money or an expensive present?	50	69	76	80

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

In gossip at least, there was a climate, an atmosphere, of petty corruption. In the Czech Republic at one extreme, there were limits to allegations of official corruption; but in Ukraine at the other extreme, perceptions of official corruption were pervasive and unqualified.

Attitudes towards corruption

We asked whether people considered 'the use of money, presents, favours or contacts to influence officials':

- (i) 'bad for (the country), and for those involved?'
- (ii) 'bad for (the country), but unavoidable for people who have to live here?'
- or (iii) did they 'prefer it that way because, when you need a favour from an official, you can get it?'

The first answer corresponds to simple and unqualified condemnation of corruption, whether on moral, egalitarian, economic or other grounds. 'Corruption...causes a distinction...[but] every citizen is equal before any administrative official...that is what equality should mean.' (Sofia-1, FG-6)². The second answer combines condemnation of corruption with some excuse for those who practice it. 'You can't do anything another way in this situation.' (Horodok, FG-2). And the third expresses a positive preference or approval: 'Someone needs a passport in two months and someone else in two days. For the first person it's not so important as to have to give a gift, but for someone else it may be crucial if he/she needs it immediately.' (Hradec Kralove, FG-3). That does make citizens at least accomplices and often corrupting agents.

Faced with these three options however, relatively few expressed a positive preference for a corrupt system, but a large minority was willing to excuse it. Taken together, 31 percent were willing to excuse or approve corruption in the Czech Republic, 40 per cent in Slovakia, and 42 percent in Bulgaria or Ukraine.

Table 3: Attitude to the use of money, presents, favours or contacts to influence officials				
Q153: Which comes closest to your view about the use of money, presents favours and contacts to influence officials?	Czech Republic	Slovakia	Bulgaria	Ukraine
(i) it is bad for (COUNTRY) and for those involved; (ii) it is bad for (COUNTRY) but unavoidable for people who have to live here; or (iii) I prefer it that way because when you need a favour from an official you can get it?				
	%	%	%	%
- bad for (COUNTRY) and those involved	69	60	58	58
- bad for (COUNTRY), but unavoidable for citizens	25	28	34	31
- prefer it that way	7	12	8	11

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

At one level, people may feel that the use of money, presents and favours is part of their national tradition, part of their culture. Surprisingly, we found that it was the people in the Czech and Slovak Republics who were by far the most willing to accept that corruption was a 'permanent part of their country's culture'. By contrast, in Ukraine, only 16 percent saw it as 'a permanent part of Ukraine's culture' and most people blamed the use of presents, bribes and favours on a 'moral crisis in a period of transition'.

People in Ukraine were far more critical than those in the Czech Republic of falling standards in public life: 89 percent said that 'most officials' now behaved worse than under communism. 'During the Communist regime [we got] better assistance. There was more order...[officials] were afraid of something.' (Sholomia, IDI-2). Such a very recent fall in the standards of behaviour of officials could not be attributed to a 'permanent national culture'; and it was explicitly attributed to the postcommunist 'transition'.

Table 4: 'A product of the crisis of transition, or a permanent part of our culture?'

Q187: Which comes closest to your view? The use of money, presents, favours and contacts to influence officials in (COUNTRY) is...

	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
- a product of the communist past	23	23	17	23
- or of moral crisis in a period of transition	31	30	49	62
- or a permanent part of (COUNTRY'S) culture	46	47	34	16

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

Attempts at extortion

What was 'the main reason why officials take money or presents', we asked: was it (i) because 'the officials are greedy', (ii) because 'the government does not pay officials properly', or (iii) because 'people are desperate to buy favours from officials'? In the Czech and Slovak Republics our respondents most frequently blamed the people themselves for seeking to buy favours. In Bulgaria, they most frequently blamed the government for not paying officials enough. But in Ukraine they most frequently blamed the extent of low-level bribery and corruption on extortion by greedy officials.

If we exclude those who blamed governments for paying officials badly, the balance of public opinion between blaming bribe-giving citizens and bribe-taking officials was firmly on blaming corrupt citizens in the Czech and Slovak Republics, but on blaming corrupt officials in Bulgaria and Ukraine.

Table 5: Greedy officials

Q177: Which comes closest to your view? The main reason why officials take money or presents is...

	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
- the officials are greedy	37	30	39	48
- the <u>government</u> does not pay officials properly	12	19	47	23
- <u>people</u> are desperate to buy favours	51	50	14	30
Difference: % 'officials' - % 'people'	-14	-20	+25	+18

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

Similarly, we asked for the most important reason 'why people might be more willing to give money or a present to an official now than under communism?'. People in the Czech Republic were most likely to complain that 'people push harder for special favours now' while a large majority in Bulgaria and Ukraine, along with a narrow majority in Slovakia, complained that 'officials expect more now'.

Table 6: Why people are now more willing to give				
Q107: Here are some reasons why ordinary people might be more willing to give money or a present to an official now than (UNDER COMMUNISM). Which do you feel is the most important?				
	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
- people are more able to pay now	12	10	7	5
- people push harder for special favours now	50	38	21	31
- officials expect more now	38	52	72	63
Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.				

Officials may extort presents and bribes by making direct and explicit demands. 'They say what is the price of each thing.' (Sevastopol, FG-1). More subtly – and more safely for them – officials can convey their expectations or demands by hints, by complaints about their workload, or by comments about the special efforts they are making. 'In the case involving the militia it was their hints that made me do it.' (Horodok, IDI-4).

According to our respondents, officials made direct demands relatively infrequently, though 11 percent in Ukraine as compared with only two percent in the Czech Republic reported that they had been 'asked directly' for 'money or a present'. But one way or another officials often managed to convey the impression that they expected a special gift for their trouble. Almost half in the Czech Republic and Bulgaria, and two-thirds in Slovakia and Ukraine had either been asked directly or made to feel that some gift was 'expected'.

Table 7: Did an official ever ask you or your family directly?				
Q144: In these last few years, did an official ever ask you or your family directly for money or a present, or not ask directly but seem to expect something?				
	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
- asked directly	2	4	7	11
- seemed to expect	44	64	39	56
- neither	54	32	54	33
Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.				

And we are not talking about mere 'body-language' here: almost half in the Czech Republic and Bulgaria, over half in Slovakia and two-thirds in Ukraine reported that officials had 'made unnecessary problems in order to get money or a present for solving them'. 'Bureaucrats propose to do it "unofficially" - mentioning the difficulties of solving the problem.' (Kyiv, IDI-9).

Table 8: Unnecessary problems				
Q132: How often did these officials make unnecessary problems for you or your family in order to get money or a present for solving them...				
	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
- usually	3	8	4	14
- sometimes	16	22	20	28
- rarely	25	27	25	25
- never	56	44	52	33
Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.				

Actual experience of giving presents and bribes

A majority in every country suggested that it was 'likely' that a citizen would have to give at least a small present to get something he/she was legally entitled to, from an official.

But what had they actually done? We asked a battery of questions about their actual experience of using eight different strategies for dealing with officials 'in the last few years – let's say approximately the last four or five years'. This time span was designed to focus attention on the mid to late 1990s, well after the fall of the communist system. Two of these strategies are relevant here: had they actually offered an official 'a small present?', and 'money or an expensive present?'.

Many who admitted offering a 'small present' claimed they had done no more than that and they denied ever giving 'money or an expensive present'. But almost all those who had offered 'money or an expensive present' had also offered 'small presents' as well.³ So we can usefully divide people up into those who had offered an official:

- (i) nothing, not even 'a small present'.
- (ii) 'a small present', but nothing more than that
- (iii) 'money or an expensive present'

A majority in Bulgaria and the Czech Republic claimed to have offered nothing, but a majority in Slovakia and Ukraine admitted they had offered at least 'a small present' and perhaps more. The numbers admitting that they had offered 'money or an expensive present' ranged from 11 percent in the Czech Republic, through 19 percent in Bulgaria, to 31 percent in Slovakia and 36 percent in Ukraine.

Table 9: Giving presents and bribes

In dealing with officials in the last few years did you or your family usually, sometimes, rarely or never have to...	Czech Republic	Slovakia	Bulgaria	Ukraine
Q141: offer a small present?				
Q142: offer money or an expensive present?				
% ever gave (ie usually, sometimes or rarely)...	%	%	%	%
Q141 and Q142: nothing	76	42	66	43
Q141 and Q142: small present only	13	27	15	21
Q142: money or expensive present	11	31	19	36

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

Does condemnation matter?

Earlier we found that a majority in every country condemned 'the use of money, presents, contacts, or favours to influence officials' as 'bad for (the country), and bad for those involved'. Whatever their grounds for condemning corruption, did condemnation really matter? Did people really mean it? Were their answers merely ritual condemnation without much thought or much relationship to their actual behaviour?

There was some consistency in their answers. People who condemned the use of presents and bribes were much more likely to opt for an austere, rigid, Weberian system in which 'officials never accepted presents and never did favours for people', rather than one in which 'officials sometimes accepted presents and in return did favours for people'. In Ukraine for example, the austere option was chosen by 64 percent of those who condemned the use of presents to influence officials, by 46 percent of those who excused it, and by only 27 percent

of those who preferred it that way. The degree of consistency was far less than perfect but it was significant nonetheless.

Table 10: Prefer rigid system (without presents and favours) – by condemnation				
Q156: Prefer rigid system (without presents and favours)	Czech Republic	Slovakia	Bulgaria	Ukraine
BY Q153	%	%	%	%
Amongst those who say the use of money, presents and favours to influence officials is...				
- bad for (COUNTRY) and for those involved	95	85	71	64
- bad for (COUNTRY) but unavoidable for people	85	79	53	46
- preferable, because you can get favours	(68)	(52)	23	27
Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.				
() means percentage based on less than 100, but at least 50, respondents.				

Moreover, those who condemned the use of presents and bribes to influence officials were much more inclined to refuse to pay them, and much less tempted to accept them.

Although some of our percentages are based upon fairly small numbers of respondents, they suggest that condemnation increased resistance to paying bribes by 36 percent in the Czech Republic, by 30 percent in Slovakia, and by 29 percent in Bulgaria, though by a mere three percent in Ukraine. Amongst those who condemned the use of bribes, two-thirds in the Czech Republic, and half in Slovakia and Bulgaria but only a quarter in Ukraine said they would refuse to pay even 'if asked directly' and even 'if they could afford to pay'.

Table 11: Would refuse to pay if asked – by condemnation				
Q145: Would refuse to pay if asked	Czech Republic	Slovakia	Bulgaria	Ukraine
BY Q153	%	%	%	%
Amongst those who say the use of money, presents and favours to influence officials is...				
- bad for (COUNTRY) and for those involved	67	48	51	27
- bad for (COUNTRY) but unavoidable for people	53	38	31	23
- preferable, because you can get favours	(31)	(18)	(22)	(24)
Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.				
() means percentage based on less than 100, but at least 50, respondents.				

These questions about willingness to pay bribes were hypothetical. But condemnation also correlated with actual behaviour over the past five years. In practice, condemnation increased the numbers who never gave even a small present to an official by 37 percent in the Czech Republic, by 18 percent in Slovakia, and by 29 percent in Bulgaria, but by only 10 percent in Ukraine. And condemnation increased the numbers who had never given money or an expensive present to an official by 23 percent in the Czech Republic, by 20 percent in Slovakia, and by 26 percent in Bulgaria, but by only seven percent in Ukraine.

Condemnation, whether motivated by moral, ideological or economic considerations, did matter. It mattered in terms of actual reported behaviour, as well as in terms of what people 'would do' in hypothetical situations. And it mattered in every country, though it mattered less in Ukraine than in the other countries. If they condemned the use of presents and bribes to influence officials, people in Ukraine were somewhat less likely to have actually

given presents or bribes. But they were scarcely any less willing to submit to extortion if an official 'asked directly'.

Table 12: Never gave presents or bribes – by condemnation				
Q141-2: Never gave presents or bribes BY Q153	Czech Republic	Slovakia	Bulgaria	Ukraine
Never gave anything	%	%	%	%
Amongst those who say the use of money, presents and favours to influence officials is...				
- bad for (COUNTRY) and for those involved	81	45	74	46
- bad for (COUNTRY) but unavoidable for people	64	33	60	35
- preferable, because you can get favours	(44)	27	45	36
Never gave money or expensive present	%	%	%	%
Amongst those who say the use of money, presents and favours to influence officials is...				
- bad for (COUNTRY) and for those involved	91	73	87	66
- bad for (COUNTRY) but unavoidable for people	84	60	77	60
- preferable, because you can get favours	(68)	53	61	59

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

() means percentage based on less than 100, but at least 50, respondents.

Did attempts at extortion succeed?

Between 37 percent (in the Czech Republic) and 74 percent (in Ukraine) said they would pay a bribe 'if asked directly' and 'if they could afford it'. But what happened in practice? How many of those who had real experience of attempted extortion did actually submit to it?

There was a remarkable similarity between the numbers who said they had actually given something when an official either 'asked directly or seemed to expect something', and the numbers who said they would do so if asked. Some people had given voluntarily without pressure of course, but the effect of this pressure was to increase the numbers who had actually given something by 27 percent in the Czech and Slovak Republics, by 42 percent in Bulgaria, and by 38 percent in Ukraine. Such pressure also increased the (smaller) numbers who had actually given 'money or an expensive present' by 18 percent in the Czech Republic, by 21 percent in Slovakia, by 29 percent in Bulgaria, and by 34 percent in Ukraine.

Similarly, those who felt officials had made unnecessary problems in order to extort presents and bribes were much more likely to have given them. 'Unnecessary problems' increased the numbers who had given something to an official by 28 percent in the Czech Republic, by 34 percent in Slovakia, by 33 percent in Bulgaria, and by 35 percent in Ukraine. And 'unnecessary problems' increased the (smaller) numbers who had given 'money or an expensive present' to an official by 17 percent in the Czech Republic, by 31 percent in Slovakia, by 26 percent in Bulgaria, and by 26 percent also in Ukraine.

So although citizens' condemnation of bribery had relatively little, if any, effect on their actual behaviour in Ukraine, officials' attempts at extortion clearly had as much effect in Ukraine as anywhere else. People in Ukraine were responsive to pressure from officials, and frequently found themselves under such pressure.

Table 13: Gave presents or bribes – by whether officials asked for, or seemed to expect, a bribe

	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
Q145: would pay if asked	37	57	58	74
Q141-2: Gave presents or bribes BY Q144				
Gave something				
Amongst those who say officials...				
- asked directly, or seemed to expect something	39	68	58	74
- neither asked nor seemed to expect	12	41	16	36
Gave money or expensive present				
Amongst those who say officials...				
- asked directly, or seemed to expect something	21	39	35	50
- neither asked nor seemed to expect	3	18	6	16

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

() means percentage based on less than 100, but at least 50, respondents.

Table 14: Gave presents or bribes – by whether officials caused unnecessary problems

Q141-2: Gave presents or bribes BY Q132	Czech Republic	Slovakia	Bulgaria	Ukraine
	%	%	%	%
Gave something				
Amongst those who say officials caused unnecessary problems in order to extort a bribe...				
- usually, sometimes, or rarely	40	73	51	70
- never	12	39	18	35
Gave money or expensive present				
Amongst those who say officials caused unnecessary problems in order to extort a bribe...				
- usually, sometimes, or rarely	21	45	32	46
- never	4	14	6	20

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

() means percentage based on less than 100, but at least 50, respondents.

Did official pressure outweigh condemnation?

Clearly, both condemnation and extortion seem to have influenced actual behaviour though to varying degrees in different countries. We can usefully summarise our findings by calculating (Pearson) correlation coefficients between giving presents and bribes on the one hand, and condemnation or extortion on the other.

In a highly compressed way these correlation coefficients show what we have already discovered from the more detailed tables: condemnation sharply reduced bribe-giving in the Czech and Slovak Republics, and in Bulgaria, but had much less influence in Ukraine. The correlation declined in power from minus 0.25 in the Czech Republic to minus 0.09 in Ukraine. Correlations with preferences for a rigid Weberian system (no presents, no special help) showed a broadly similar pattern – significant in every country except Ukraine.⁴ By contrast the correlation between giving presents and bribes on the one hand and our indicators of extortion by officials on the other, was strong in all four countries. It ranged from a minimum of 0.26 up to a maximum of 0.43.

Table 15: Correlations between giving, condemnation and extortion

Correlation between Q141-2: 'gave bribes', and...	Czech Republic R x100	Slovakia r x100	Bulgaria r x100	Ukraine r x100
Q153: 'bribes are bad'	-25	-17	-21	-9
Q156: prefer rigid system	-16	-17	-21	-5
Q144: 'official asked for, or expected, bribe'	33	26	43	39
Q132: 'official made unnecessary problem'	36	40	36	33

Note: r x100 is (Pearson) correlation coefficient times 100.

'Gave bribes' coded: 0=not, 1=only small present, 2=money or expensive present.

'Prefer rigid system' coded: 0=prefer reciprocal presents and favours, 1=prefer no presents, no special help.

'Bribes bad' coded: 0=prefer flexible system, 1=unavoidable, 2=bad for country and those involved.

'Officials asked for, or expected, bribes' coded: 0=neither, 1=expected, 2=asked directly.

'Officials made unnecessary problem to extort bribe' coded: 0=never, 1=rarely, 2=usually or sometimes.

Indeed these correlations with attempts at extortion are so strong that they raise the question whether anything else mattered. But tabulating the numbers giving bribes by a combination of condemnation and pressure from officials shows that both condemnation and pressure had an independent influence on behaviour. The effect of condemnation (visible in the columns of the table) was clearly less than that of pressure (visible in the rows of the table) but significant nonetheless.

Amongst those who had been put under pressure by officials seeking gifts, condemnation reduced overall giving by at least 16 percent in the Czech Republic, by 13 percent in Slovakia, and by 17 percent in Bulgaria, though by only seven percent in Ukraine. Typically, one Czech IDI respondent (Prague IDI-15) felt '50 percent of officials expected to be given' something but their 'salaries were adequate' and she 'did not feel she should give them anything'. Condemnation also reduced the (smaller) numbers giving 'money or expensive presents' by at least seven percent in the Czech Republic, by 17 percent in Slovakia, by 23 percent in Bulgaria, and by 11 percent in Ukraine.⁵

Table 16: Gave bribes – by condemnation and pressure to give

Q141-2: BY Q153 BY Q144

	<u>Czech Republic</u>		<u>Slovakia</u>		<u>Bulgaria</u>		<u>Ukraine</u>	
	Did official ask for, or seem to expect, a gift?		Did official ask for, or seem to expect, a gift?		Did official ask for, or seem to expect, a gift?		Did official ask for, or seem to expect, a gift?	
	Yes	No	Yes	No	Yes	No	Yes	No
% who gave anything	%	%	%	%	%	%	%	%
If say bribes etc are...								
- bad	32	10	65	36	51	12	71	32
- unavoidable	48	(16)	75	(45)	61	19	75	(42)
- preferable	na	na	(78)	na	(68)	na	(78)	na
	<u>Czech Republic</u>		<u>Slovakia</u>		<u>Bulgaria</u>		<u>Ukraine</u>	
	Did official ask for, or seem to expect, a gift?		Did official ask for, or seem to expect, a gift?		Did official ask for, or seem to expect, a gift?		Did official ask for, or seem to expect, a gift?	
	Yes	No	Yes	No	Yes	No	Yes	No
% who gave money or an expensive present	%	%	%	%	%	%	%	%
If say bribes etc are...								
- bad	17	3	35	14	28	4	47	17
- unavoidable	24	(3)	46	(23)	36	7	51	(15)
- preferable	na	na	(52)	na	(51)	na	(58)	na

Note: 'don't know', 'mixed/depends' etc answers were recorded if given spontaneously, but never prompted; they have been excluded from the calculation of percentages.

() means percentage based on less than 100, but at least 50, respondents. na means less than 50.

Similarly, amongst those who had experienced officials making 'unnecessary problems' in order to get a present or bribe, condemnation reduced overall giving by at least 22 percent in the Czech Republic, by nine percent in Slovakia, and by 33 percent in Bulgaria, though by less than four percent in Ukraine. And it reduced the (smaller) numbers giving 'money or expensive presents' by at least 11 percent in the Czech Republic, by 16 percent in Slovakia, and by 30 percent in Bulgaria, though by less than four percent in Ukraine.⁶

Amongst those who condemned the use of bribes, and who had not experienced attempted extortion by an official making unnecessary problems, only three percent in the Czech Republic, four percent in Bulgaria, nine percent in Slovakia, and 14 percent in Ukraine had given 'money or an expensive present' to an official in the last five years.⁷

Discussion

We found very widespread allegations that ordinary people offer presents and bribes to the officials they meet in day-to-day life in Eastern Europe, and that the officials accept them. Using presents and bribes to influence officials was widely condemned but widely practised. Yet a majority in every country condemned the practice as 'bad for their country, and for those involved', and most of the rest said it was 'bad for the country, but unavoidable for people who have to live here.'

Our evidence does not support the view that the people were the source of corruption, pressing their bribes - and their demands for favours - upon reluctant officials. But there remains the question whether the people were victims of the officials or accomplices. Did officials abuse their position to extort unofficial payments from weak, powerless and reluctant citizens, or were citizens as happy to give as officials were happy to accept?

It is a question of some practical as well as theoretical importance. If ordinary people are the victims of extortion by officials then it may be possible to reduce public sector corruption by reforming the administration in one way or another.⁸ Reform would then 'go with the grain' of public opinion and, if well planned, should win public support. But if the public are in essence accomplices in petty corruption then reform is likely to be more difficult and less effective: it would be necessary to reform the people as well as reform the administration.

People in the Czech and Slovak Republics were most likely to blame their fellow citizens 'desperate to buy favours' rather than 'greedy officials'. Conversely, people in Bulgaria and Ukraine were more likely to blame 'greedy officials' than their fellow citizens (though people in Bulgaria were even more likely to blame their government for failing to pay officials properly). Similarly, when asked why people might be more willing to give things to officials now than under communism, people in the Czech Republic were most likely to blame their fellow citizens, but in Bulgaria and Ukraine where they were most likely, by far, to blame 'officials who expect more now'. Opinion in Slovakia fell between these two extremes.

Taken at face value, these findings suggest that people who gave bribes to officials in the Czech Republic and, to a lesser extent in Slovakia also, were not victims but accomplices or worse. Reforms in those countries might therefore aim as much at bribe-givers as bribe-takers.⁹

In Bulgaria and Ukraine however, people were inclined to place the burden of guilt on the shoulders of their officials rather than on their fellow citizens. To a greater or lesser extent they claimed to be victims of the administration though many in Bulgaria felt that junior officials were also victims – victims of a government that did not pay them properly. But in Ukraine, people pictured themselves unambiguously as the victims of officials high and low. In their own view, the people of Ukraine were the passive and guiltless victims of rapacious officials. Reforms targeted at bribe-givers in Bulgaria and more especially in Ukraine might only make people feel that they were the 'victims twice over' – victims of the low-level officials who extorted bribes from them, and of high officials who then punished them for their submission to extortion.

In the absence of pressure from officials, behaviour did not contradict principle to a very large extent. It was the frequency and effectiveness of extortion – the combination of officials' greed and citizens' submissiveness – that produced high levels of bribery despite opposition to it in principle. In the Czech Republic only 19 percent had experienced attempts at extortion 'more than rarely' and, amongst those who condemned bribery, only 16 percent submitted to it. In Ukraine at the other extreme, 42 percent had experienced attempts at extortion 'more than rarely' and, amongst those who condemned bribery, 44 percent submitted to it – twice the frequency of extortion by officials, and three times as much submission by citizens, as we found in the Czech Republic.

Finally, we must stress the counter-intuitive nature of our findings. It is natural to imagine that where bribery is most common, citizens are most likely to be willing accomplices rather than victims. Our findings suggest the exact opposite. They suggest that where bribery was least common (in the Czech Republic), the relatively small number of people who gave bribes were more likely to be accomplices or even corruptors. And where bribery was most common (in Ukraine), the much larger numbers of people who gave bribes were much more likely to be victims of extortion.

¹ Bertolt Brecht *Mother Courage and Her Children*, translated by David Hare for the National Theatre, (London: Methuen/Random House, 1995) p.44.

² Bratislava-2 was the second focus-group discussion held in Bratislava. Two focus-group discussions were held in each capital city.

³ A negligible one percent said they had offered 'money or an expensive present' but not 'a small present'.

⁴ In the Czech Republic, the negative correlation between bribe-giving and preference for a rigid system was weaker than between bribe-giving and condemnation. But in the Czech Republic 91 percent expressed a preference for a rigid system. Such a degree of consensus tends to limit the size of correlations.

⁵ Amongst those who had been put under pressure by officials seeking gifts, a preference for a rigid Weberian system (Q156) reduced overall giving by 12 percent in Slovakia, and by 20 percent in Bulgaria, though by only one percent in Ukraine. And the (smaller) numbers giving 'money or expensive presents' were reduced by 13 percent in Slovakia, by 25 percent in Bulgaria, but by only two percent in Ukraine. The consensus in favour of a rigid system in the Czech Republic makes it impossible to gauge the effect of such preferences there.

⁶ Amongst those who had experienced officials making 'unnecessary problems' in order to get a present or bribe, a preference for a rigid Weberian system (Q156) reduced overall giving by nine percent in Slovakia, and by 29 percent in Bulgaria, though by only four percent in Ukraine. And it reduced the (smaller) numbers giving 'money or expensive presents' by 11 percent in Slovakia, and by 31 percent in Bulgaria, but not at all in Ukraine. As before, the consensus in favour of a rigid system in the Czech Republic makes it impossible to gauge the effect of such preferences there.

⁷ Amongst those who expressed a preference for a rigid Weberian system (Q156: no presents, no special help), and had not experienced attempted extortion an official making unnecessary problems, only three percent in the Czech Republic, four percent in Bulgaria, 10 percent in Slovakia, and 19 percent in Ukraine had given 'money or an expensive present' to an official in the last five years.

⁸ For a discussion of possible reforms and the degree of public support for them, see William L. Miller, Åse B. Grødeland and Tatyana Y. Koshechkina. 'What is to be done about corrupt officials? Public opinion in Ukraine, Bulgaria, Slovakia and the Czech Republic.' *NISPAcee (Networks of Institutes and Schools of Public Administration in Central and Eastern Europe) 6th Annual Conference*, March 1998, Prague.

⁹ When asked explicitly, a majority in all countries said bribe-givers should be punished less severely than bribe-takers, but this ranged from a bare majority of 53 percent in the Czech Republic to a massive 80 percent in Ukraine. See Miller, Grødeland and Koshechkina. 'What is to be done about corrupt officials?'

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Confessions: a model of officials' perspectives on accepting gifts from clients in post-communist Europe*

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There is widespread criticism of the behaviour of junior officials in post-communist Europe where they are often accused of treating citizens unfairly and soliciting presents or bribes to solve citizens' problems. Across four countries – Ukraine, Bulgaria, Slovakia and the Czech Republic – we found that a majority of the public thought it was more 'likely' than not that 'a person seeking something to which they were entitled by law' would nonetheless 'have to offer money, a present or a favour' to get help from most kinds of officials or from government employees in education and health care. And at a more directly personal level, over half the public reported that in their own recent personal experience officials had 'seemed to expect' money or a present from them.¹

The same criticism comes from above. Milos Zeman, leader of the Czech Social Democratic Party (CSSD), promised an 'Italian-style clean hands campaign' to combat corruption which he blamed for the 'Czech economic transformation [having] been unsuccessful.'² Ukrainian President Leonid Kuchma, who unveiled his own 'Operation Clean Hands' in April 1997, has identified power abuse, bribery and extortion by bureaucrats as the main obstacle to developing enterprise in his country.³ In Bulgaria, the anti-corruption campaign *Coalition 2000* links high state officials with NGOs.⁴

Given these criticisms from below and above, it would be odd not to allow officials to speak for themselves. The obvious procedure is to interview a sample of post-communist officials about their relationships with their clients. But such studies still seem rare. Interview-based studies of officials' democratic or ethical values are more frequent, both in post-communist Europe and in other democratising countries. Steel, Davenport and Warner looked at support amongst officials for technocratic rather than democratic rule in various newly democratising countries.⁵ Lui and Cooper interviewed senior Hong Kong civil servants about their general ethical values.⁶ Kutuev and Svintsitsky interviewed officials in post-communist Kyiv about their autonomy in decision making.⁷ And Stewart, Sprinthall and Siemienska interviewed local officials in post-communist Poland about their reaction to hypothetical stories containing ethical dilemmas.⁸ But none of these combine an analysis of officials' values with reports of their actual dealings with clients. Ensor and Savelyeva report that 'discussions with medical practitioners suggest that for certain specialities in certain Kazakstan hospitals a doctor might obtain many times his [sic!] official income. Yet little empirical work has been done in this area'.⁹ Commenting on the practice of informal payments, they claim that 'Most practising doctors or hospital directors will deny their existence in public but admit their presence in private'. Unfortunately, as these quotations make clear, their evidence from doctors themselves is imprecise and anecdotal.

Perhaps there is an understandable reluctance to ask officials and public employees directly about their relationship with clients in survey interviews, and especially to confess their own gift or bribe-taking. Nonetheless we thought it worth the attempt, although it would require a sensitively constructed questionnaire. In our interviews we asked over 100 questions about officials' attitudes and their problems with their employers, with their clients

and with other officials before we put a direct question about their own experience of accepting gifts from clients. Then we put it in three variant forms in rapid succession. Our pilot studies revealed more nervousness amongst officials about the confidentiality of their replies about party preference than their replies about gift taking.

In each of Ukraine, Bulgaria, Slovakia and the Czech Republic we aimed to interview nationwide quota samples of 300 officials – 60 in each of five public services. More precisely we aimed for 20 interviews in each of three narrowly defined occupations within each service: hospital doctors, nurses, and hospital administrators (in health); university teachers, university administrators, and school teachers (in education); officials in pensions, benefits, and housing offices (in welfare); traffic police, ordinary police, and police administrators (in the police); and court officials, customs officials, and passport officials (in legal services). From our focus group discussions we knew that, to the public, these represent the face of the state, irrespective of whether they might be technically classified as 'civil servants'.

Since our interviewers usually exceeded their targets in each category and occupation, producing 1307 interviews in total, we have down-weighted the data to have the equivalent of exactly 20 interviews in each specific occupation in each country. That facilitates comparisons between different countries and between different kinds of official by ensuring that there is no correlation between types of official and countries.

Giving

Officials are themselves citizens. Each of them has to deal with other officials in their role as citizens: teachers get stopped by traffic police, traffic police fall ill and have to go to hospitals, and so on. Before we asked officials to talk about their relations with clients, we asked them about their perspectives on officials in general, and about their own personal experience as citizens and clients in dealing with other officials. Although interesting in themselves, these questions were designed in part to set the scene for our later questions about their behaviour towards their own clients.

Officials themselves had very much the same perceptions as the public about the likely need to 'offer money, a present or a favour' to officials even if the client sought something to which they were 'entitled by law'. On average 69 percent of the public and 70 percent of officials said it was more likely than not. Naturally enough, officials took a less critical view of similar officials – but only of very similar officials. When hospital doctors were asked about hospital doctors, school teachers about school teachers, or customs officials about customs officials, and so on, only 51 percent instead of 70 percent (on average) said presents or bribes were likely to be necessary. But even slightly different professions were highly critical of each other. Thus, 75 percent of nurses said it would be necessary to give something to a hospital doctor, 68 percent of school teachers said it would be necessary to give something to university staff, and 84 percent of passport officials said it would be necessary to give something to customs officials.

Table 1: Willing to give

	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
Would give a bribe if asked directly, and could afford it	%	%	%	%	%
- views expressed by the public	56	37	57	58	74
- views expressed by officials	53	31	53	52	77
<i>Difference: officials – public</i>	-3	-6	-4	-6	+3

Note: Figures for the views expressed by the public are based on 4778 interviews with representative national samples of the general public in Ukraine (1200), Bulgaria (1519), Slovakia (1056), and the Czech Republic (1003).

If they needed help 'to solve an important problem' officials themselves were just as willing as the general public to give money to an official 'if they were asked directly and could afford it'. Officials had a measurable advantage over the general public in terms of their knowledge of their rights or useful contacts in the bureaucracy. But in terms of giving presents and bribes they were hardly distinguishable from ordinary citizens.

Taking: temptations and inhibitions

Various factors encouraged officials to accept or reject presents and bribes from their own clients. Their clients frequently made offers and many officials felt their government was willing to turn a blind eye to the practice. On the other hand, they had their own moral doubts backed up by fears of punishment.

Offers from clients

Officials reported that their clients used different strategies towards them with varying frequency. A simple indicator is the percentage of officials who said that clients used a strategy frequently – that is 'usually' or 'sometimes', in contrast to 'rarely' or 'never'. We asked about nine strategies. Significantly, the frequencies with which officials reported that their clients had used these different strategies correlated exactly with the frequencies with which the public confessed that they had used them.

Officials said clients had most frequently 'accepted their decisions', 'behaved in a friendly way just to get better treatment', or 'argued' with them. Somewhat smaller numbers reported that clients had frequently 'approached them through a contact' (43 percent) or offered 'a small present' (30 percent). Relatively few reported that their clients had frequently 'threatened violence' (13 percent) or offered 'money or an expensive present' (10 percent). However, on at least rare occasions, 37 percent of officials had been 'threatened with violence' and 27 percent had been offered 'money or an expensive present'. Both officials and their clients reported considerably more frequent offers of presents and bribes in Slovakia and Ukraine than elsewhere.

Table 2: Frequent offers					
	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
'More than rarely in last few years'...	%	%	%	%	%
OFFICIALS REPORT: client offered 'a small present'	30	24	43	23	30
PUBLIC REPORT: confessed to offering 'a small present'	25	11	34	15	39
OFFICIALS REPORT: client offered 'money or an expensive present'	10	7	14	9	11
PUBLIC REPORT: confessed to offering 'money or an expensive present'	13	6	17	7	24

Perceptions of government toleration for bribe-taking

On average, less than half the officials (only 36 percent in Ukraine) thought their government regarded low-level officials accepting 'money or expensive presents' from clients as 'a corrupt practice which it must liquidate'. Over a third thought their government took the view that it was 'unfortunate but unavoidable until it could pay officials better salaries'. And one fifth even thought their government regarded it as 'an informal way of charging for state services and paying officials'.

Table 3: Officials' perceptions of government toleration for bribe-taking

	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
	%	%	%	%	%
The government regards low-level officials accepting money or expensive presents from ordinary people as ...					
- a corrupt practice which it must liquidate	46	54	47	48	36
- unfortunate but unavoidable until it can pay better salaries	35	37	23	38	42
- an informal way of charging for state services and paying officials	19	9	30	16	22

Moral condemnation

Officials were 18 percent more likely than the public to say that people 'should obey' even a 'very unreasonable and unjust law'. Other things being equal, greater support for obedience to the law should have translated into greater condemnation of bribery. But it did not. Officials were 5 percent less inclined than the public (19 percent less in Ukraine) to condemn 'the use of money, presents, favours or contacts to influence officials' as 'bad for the country and for those involved'. Nonetheless that meant a majority of officials in every country except Ukraine unreservedly condemned the practice.

Table 4: Bad for the country and for those involved?

	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
	%	%	%	%	%
The use of money, presents, favours or contacts to influence officials is bad for the country and for those involved ...					
- views expressed by the public	61	69	60	58	58
- views expressed by officials	56	71	59	55	39
<i>Difference: officials - public</i>	-5	+2	-1	-3	-19

Fear and shame

What emotions would officials feel if they accepted a gift of 'money or an expensive present' from a client? Would they be most likely to feel 'happy, angry, worried or ashamed'? The public were sceptical: 66 percent said officials would be most likely to feel 'happy' and only 12 percent said 'ashamed'. But 53 percent of officials said they would be most likely to feel 'ashamed' and only 6 percent 'happy'. And two-thirds of officials said 'a person in a job like theirs who did accept money or a present' from a client would be punished: 29 percent said they would suffer something 'more severe than confiscation' and a further 33 percent said they would be 'dismissed'.

Taking: excuses and justifications

Officials themselves had a ready set of excuses and justifications. They were 26 percent less likely than the public to blame 'greedy officials' as the basic cause of bribe-taking, and 30 percent more likely than the public to blame 'the government because it does not pay officials properly'.

Table 5: Greedy officials?

The basic cause of bribery is greedy officials	%	%	%	%	%
- views expressed by the public	39	37	30	39	48
- views expressed by officials	13	15	16	7	12
<i>Difference: officials - public</i>	-26	-22	-14	-32	-36

Officials also had a self-flattering view about why clients generally offered gifts to officials. Officials were around 12 percent more likely than the public to attribute such gifts to gratitude or politeness rather than clients feeling pressured to give.

At the same time, many officials thought it was quite proper to expect, even demand, unofficial payments from clients. In return for 'some extra work' to solve a client's problem an average of 60 percent of officials thought it would be right to at least 'accept' something if offered. And 15 percent thought it would even be right 'to ask' for something from the client. Similarly, for solving the client's problem 'faster than normal', an average of 53 percent of officials (rising from 40 percent in the Czech Republic to 64 percent in Ukraine) thought it would be right to at least 'accept something if offered'.

Table 6: Officials' justifications for 'extra' payments from their clients

	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
<u>For extra work...</u>	%	%	%	%	%
- right to ask for something	15	11	14	19	18
- right to ask, or at least to accept, something	60	53	59	61	67
<u>For solving client's problem faster than usual...</u>	%	%	%	%	%
- right to ask for something	9	5	10	9	13
- right to ask, or at least to accept, something	53	40	51	56	64

Confessions

Before asking officials about their experience of bribe-taking we put a hypothetical question. 'If a member of the public offered you a small present for solving their problem would you:

- welcome it as a token of thanks
- reluctantly accept it because it would be impolite to refuse
- reluctantly accept it because salaries are so low that you could not afford to refuse
- feel offended and refuse
- refuse for other reasons'

On average, 47 percent said they would accept a small present if offered. We then repeated the question with reference to a large gift of 'money or an expensive present'. Only an average of 17 percent (ranging from 9 percent in the Czech Republic to 25 percent in Ukraine however) said they would accept 'money or an expensive present' if offered.

Table 7: Officials' self-declared willingness to accept

	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
<u>Reaction if client offered a small present ...</u>	%	%	%	%	%
- keep as token of thanks	20	11	24	33	11
- impolite to refuse	18	26	28	5	14
- could not afford to refuse	9	2	6	8	19
<i>Total accept</i>	47	39	58	46	44
- feel offended and refuse	17	14	11	24	19
- refuse for other reasons	36	46	31	30	37
<u>Reaction if client offered money or an expensive present...</u>	%	%	%	%	%
- keep as token of thanks	4	2	5	5	4
- impolite to refuse	4	4	6	3	5
- could not afford to refuse	9	3	7	10	16
<i>Total accept</i>	17	9	18	18	25
- feel offended and refuse	27	27	24	37	21
- refuse for other reasons	56	65	59	45	54

The cross-national variation in motivations was as striking as the variation in the totals willing to accept. There was a steady rise in the numbers who 'could not afford to refuse' both large and small presents from the Czech Republic through Slovakia and Bulgaria to Ukraine. Only 2 percent of all officials in the Czech Republic 'could not afford to refuse' a small present and only 3 percent a large one. But in Ukraine, 19 percent of all officials said they 'could not afford to refuse' a small present and 16 percent 'could not afford to refuse' a large one. Put another way: only a small minority of those who would accept money or an expensive present in the Czech Republic would do so out of necessity, and less than half in Slovakia, but just over half in Bulgaria, and two-thirds in Ukraine.

We then asked three questions about actual experience of gift-taking. First, 'In the last few years – say the last five years – did you ever accept a present from someone whose problem you dealt with as part of your official duties?' Of those who gave a straightforward 'yes' or 'no' answer, 30 percent said 'yes'. We then asked all officials, including those who had originally denied accepting anything: 'If you did accept something, was that only after you had solved the client's problem?' And: 'If you did accept something, was that only a small present – flowers, chocolates, or a bottle for example – or was it something more than that?' In answer to the first of these supplementaries, 43 percent confessed that they had accepted something either 'before' or 'after' solving their client's problem. And in answer to the second, 58 percent confessed that they had accepted either 'a small present' or 'something more' – almost twice as many as had originally confessed to accepting a present of any kind.

Table 8: Officials' confessions

	Average	Czech Rep	Slovakia	Bulgaria	Ukraine
Confessed to accepting a present from a client in the last five years	%	%	%	%	%
Confessed - 'yes, did you accept?'	30	28	33	34	26
Confessed - 'only after'	35	36	32	42	31
Confessed - 'sometimes before'	8	5	13	5	8
Total confessed ('only after' + 'sometimes before')	43	41	45	47	39
Confessed - 'only a small present'	53	53	64	51	45
Confessed - 'something more'	5	2	7	4	6
Total confessed ('a small present' + 'something more')	58	55	71	55	51

The numbers who actually confessed to accepting at least 'a small present' (58 percent) actually exceeded the numbers who were willing to accept a small gift 'if offered' (47 percent). On the other hand the numbers who confessed to actually accepting 'something more' (5 percent) were much smaller than the numbers who were willing to accept a large gift 'if offered' (17 percent). But some officials had never accepted a gift simply because they had never been offered one. Amongst those who said earlier in the interview that they had 'never' been offered 'money or an expensive present' by a client, less than one percent later confessed to accepting such a gift. Amongst those who had received such offers only 'rarely', 10 percent confessed they had accepted. And amongst those who had received such offers more frequently, 25 percent confessed they had accepted. And these rates of confessions look fully consistent with the 17 percent of all officials who were willing to accept large gifts 'if offered'.

There was also a degree of consistency between self-declared willingness or unwillingness and confessions about actual behaviour. Only one percent of those who had said they 'would refuse' a large gift of 'money or an expensive present' confessed to accepting one. Amongst those who would only accept because they 'could not afford to refuse', confessions rose to 13 percent. Amongst those who would accept only out of

'politeness' it rose to 22 percent. And amongst those who would 'welcome' a large gift without reservation 39 percent confessed they had actually done so.

Why did some officials accept while others did not?

Why were some officials willing to accept presents and bribes 'if offered' while others were not? And why did some officials actually accept them while others did not? The cross-national dimension was clearly important, whether that reflected national economic conditions, long term 'national cultures', or simply different cultures in different institutions – the Czech health service as distinct from the Ukrainian health service, for example.

But beyond these cross-national differences were there important within-country differences? More specifically were there consistent within-country tendencies that might unambiguously link certain types of official to bribe-taking?

To focus on consistent within-country tendencies we carried out separate within-country analyses but present only the results averaged across the four countries. That not only eliminates any potential confusion between cross-national and within-country effects, it also directs our attention away from those within-country effects which vary from country to country and towards more general and consistent within-country tendencies.

Social background

Age, gender, education, religiosity, and a rural, urban or metropolitan milieu reputedly indicate significantly different social and intellectual 'cultures' with pervasive influences upon individual behaviour. No doubt that is true. But did these differences include a differential willingness to accept gifts or differential experience of actually taking them? Younger officials for example had been less exposed to communist influences and might therefore think and behave differently from older 'communist era' cohorts. But whether they represent a less corrupt or a more aggressively individualistic and acquisitive generation (or a self-cancelling mixture of the two) is an open question.

We looked for evidence of a distinctively 'post-communist generation' of officials. We asked officials about their occupation under the communist regime. Most had served the state in some capacity. Nearly all of the rest had been students. So we have extracted those officials who had been students rather than employees in communist times – let us call them the 'post-communist generation' for brevity – and then divided the remainder, the 'communist generations', into the younger (aged under 40) and the older. Only one percent of the 'post-communist generation' told us they had been members of the Communist Party, compared with 14 percent of the younger 'communist generation' and 34 percent of the older.

So a 'post-communist generation' of officials is fairly easy to identify. But it did not prove to be distinctive on issues of bribe-taking. Old, young, and post-communist officials never differed by more than four percent on their declared willingness to accept large or small presents 'if offered' by a client, nor on their confessions about actually taking them. (For what it is worth, the postcommunist officials were very slightly more willing than the older generation to accept a large gift, yet very slightly less likely to have done so.)

Male and female officials also differed little on whether they were willing to accept a present 'if offered' by a client, and only slightly more in whether they had actually accepted them. Female officials were about 8 percent more likely than their male colleagues to confess to having accepted a gift of some kind from a client but it tended to be only a small gift and they were four percent less likely than their male colleagues to admit having accepted a large

one. Divorced, separated and widowed officials were also very slightly more likely than others to admit receiving 'only a small present' but no more likely to admit receiving anything more than that. Similarly, the most actively religious officials were about 5 percent more likely to admit accepting a gift than those who 'never attended' a place of worship, but four percent less likely to admit receiving a large one.

Neither education nor residence in a large town or city had much influence on whether officials would accept presents 'if offered' by a client, nor on whether they had actually accepted one in recent years.

In short, social background had remarkably little influence, either on officials' willingness to take bribes or on their actually confessing to taking them.

Ideology

Those who opposed the move to a market economy were 11 percent more willing than others to accept a large gift 'if offered' but only slightly more likely to confess that they had actually done so. Those officials who favoured voting for a 'socialist or communist party' were 8 percent more willing to accept large gifts than those who favoured 'the most pro-free-market party', but only very slightly more likely to confess that they had actually done so. Similarly, those who supported nationalist claims on neighbouring states' territories were 11 percent more willing than others to accept a large gift but scarcely any more likely to confess they had actually done so. So socialist and nationalist values also appear to have had little effect upon accepting gifts.

We asked officials two questions designed to tap authoritarian values. First, did their country need 'more order and discipline' or 'more freedom from control'? Second, would 'a strong leader with a free hand solve the problems of our country' or 'be dangerous for our country'? Neither revealed any correlation between authoritarian attitudes and a refusal to accept gifts.

But a specific emphasis on strict observance of the law had some influence. Those officials who said people 'should obey even a very unreasonable or unjust law' were 12 percent more likely to claim they would refuse an expensive gift and 18 percent more likely to claim they would refuse a small gift. In the event they were also 15 percent less likely to confess to accepting a small gift, though scarcely any less likely to confess to accepting a large one.

In short, like social background, ideology (except for specific attitudes towards strict obedience to the law) had little influence either upon willingness to accept gifts from clients or upon actual behaviour.

Institutional cultures, specific occupations and bargaining strength

Specifically job-related characteristics had far more impact. Compared to the average across all services, health service employees were 18 percent more willing to accept a small gift 'if offered' and 11 percent more willing to accept money or an expensive gift. They were 20 percent more likely to admit having received a gift recently and, although the absolute numbers were small, twice as willing as the average official to admit having received money or an expensive gift.

Conversely, those who worked in our somewhat heterogeneous category of legal services (court, customs and passport services) were 10 percent less willing than the average

official to accept a small gift 'if offered', and 11 percent less likely to confess having done so recently.

Those who worked in the police services were 11 percent less willing than average to accept a small gift 'if offered' and also 11 percent less likely to confess they had accepted one recently. But paradoxically they came second only to health service employees in confessing that they had recently accepted money or an expensive gift from a client.

Table 9: Institutional cultures

	<i>Average: all services</i>	<u>Health services</u>	<u>Education services</u>	<u>Welfare services</u>	<u>Police services</u>	<u>Legal services</u>
	%	%	%	%	%	%
would accept a small present if offered	47	65	50	48	36	37
would accept money or an expensive present if offered	17	28	13	14	15	14
accepted a gift from a client recently	58	78	58	59	47	47
accepted money or an expensive gift from a client recently	5	9	3	2	6	2

In addition to these sharp differences between institutions there were also sharp differences within institutions, related to the specific occupation of the employee.

Within the health services: Hospital doctors were almost twice as likely as nurses or administrators to report that clients frequently offered them small gifts, and much more than twice as likely to report frequent offers of money or expensive gifts. Compared to hospital administrators, doctors were 24 percent more willing to take a small gift 'if offered', and 19 percent more likely to confess that they had accepted a gift recently.

Nurses were almost as willing as doctors to take gifts, and they were the most willing to justify extra informal payments in return for 'extra' or 'faster' work. But at the same time they were the least likely to confess they had actually accepted money or an expensive gift from a client. Only two percent of nurses compared to 16 percent of doctors confessed they had recently accepted 'money or an expensive present' from a client.

Within education services: University teachers were 17 percent more likely than school teachers to report that clients had frequently offered them small presents. And although the absolute numbers were small, university teachers were twice as likely as school teachers to report that clients had offered them money or expensive gifts. Whatever the behaviour of their clients however, it was the school teachers rather than the university staff who were most likely to justify accepting gifts from clients and also the most likely to confess they had accepted some kind of gift recently. Yet they were like nurses in some respects. Although school teachers accepted small gifts relatively frequently they seldom accepted money or expensive gifts which, within education, mainly went to university teachers.

Within welfare services: Relatively few welfare officials of any kind admitted accepting money or expensive gifts.

Within police services: Traffic police were by far the most likely to report that clients frequently offered them gifts – about 14 percent more likely than other police. Since the absolute numbers who reported offers of money or expensive presents were small, that meant such offers were reported by over twice as many traffic police as ordinary police, and by over three times as many traffic police as police administrators. They were also more willing than other police to accept small or large presents 'if offered'. And compared to ordinary police, traffic police were 19 percent more likely to confess that they had accepted a small present

recently, and six times as likely (12 percent compared to 2 percent) to confess accepting money or an expensive present.

Within the more heterogeneous category of legal services (court, customs and passport services): Customs officials were the most distinctive. They were almost twice as likely as court officials to report frequent offers of both large and small presents. And while they were only a little more likely than passport officials to be offered small presents, they were four times as likely to be offered money or an expensive present. Customs officials had a lot in common with doctors and traffic police, while passport officials had more in common with nurses. Within our category of legal services those who confessed to taking money or an expensive gift from clients were limited almost exclusively to customs officials.

It is difficult to believe that such narrowly defined occupations as traffic police or doctors had an institutional culture distinct from the more general police or health services culture. What these specific occupations had was power and opportunity vis-à-vis clients. Indeed, doctors accepted bribes within an institution (the health service) which was broadly sympathetic to bribe-taking, but traffic cops accepted bribes within an institution (the police) which was particularly unsympathetic to bribe-taking. And although nurses worked in an institutional culture that was sympathetic to gift-taking and came near the top of the list of those who had accepted small gifts, they came very low down the list of those that had accepted more than a small present. All of which points to occupational opportunity rather than institutional culture.

Table 10: Differences between specific occupations within the same institution

	<i>All services average %</i>	<u>Health services</u>			<u>Education services</u>			<u>Welfare services</u>			<u>Police services</u>			<u>Legal services</u>		
		Doctors			Univ. Teachers			Pensions			Traffic Police			Courts		
		Nurses			Univ. Admin			Benefits			Ordinary police			Customs		
		Administrators			School-teachers			Housing			Administrators			Passports		
		D	N	A	UT	UA	S	P	B	H	T	O	A	Cts	Cust	P
would accept a small present if offered	47	75	70	51	52	45	53	51	45	49	42	31	36	29	39	42
would accept money or an expensive present if offered	17	31	27	26	15	10	14	13	12	18	19	11	14	10	20	14
accepted a gift from a client recently	58	89	75	70	59	50	67	59	62	56	56	37	49	44	48	49
accepted money or an expensive gift from a client recently	5	16	2	10	5	1	1	1	3	3	12	2	5	1	6	0

Inadequate salaries, job insecurity and job expectations

More personal aspects of employment were also important – inadequate salaries, job insecurity and job expectations. We might guess that poor pay, job insecurity and expectations of a move out of the public sector might make officials less committed to their present jobs and perhaps therefore less committed to treating their clients well. Expectations of promotion might have the opposite effect.

Inadequate salaries: Compared to those officials who said they could live on their salary, those who said they could not live on their salary were 11 percent more willing to accept a small gift 'if offered'; and over twice as willing to accept money or an expensive gift. In the event, they were 13 percent more likely than those with adequate salaries to confess accepting a small present recently but two percent less likely to confess accepting a large one. Unlike hospital doctors, traffic police or customs officials the inadequately paid were notably willing to accept money yet not specially favoured by offers of money from their clients. They had motivation but not opportunity.

Salary levels also influenced motivations in detail. Amongst adequately paid officials, a majority (6 percent) of the 10 percent who were willing to accept money said they would 'welcome it as a token of thanks' or because it would be 'impolite to refuse'. But amongst inadequately paid officials, a majority (13 percent) of the 22 percent who were willing to accept money claimed they would accept only because they 'could not afford to refuse'.

Job insecurity: Compared to those who felt fully secure in their job, those who felt it was 'very likely' that they might lose their job 'through cuts in the next two years' were 11 percent more willing to accept a small gift 'if offered'. And they were also one-and-a-half times as willing to take money or an expensive gift 'if offered'. They were 13 percent more likely than those with secure jobs to confess having taken a small present recently but no more likely to confess having accepted money or an expensive present. In general the effects of job insecurity were similar to those of inadequate pay but smaller in scale, perhaps because insecurity was hypothetical while inadequate salaries were a real and present problem.

Table 11: The impact of inadequate salaries, job insecurity and job expectations

	Can live on salary?		Likely to lose job through cuts in next two years?		Job expectations in five years?		
	Yes %	No %	Not %	Very %	Same %	Higher %	Private %
would accept a small present if offered	42	53	43	52	48	44	59
would accept money or an expensive present if offered	10	22	14	21	14	17	31
accepted a gift from a client recently	51	62	52	65	57	51	69
accepted money or an expensive gift from a client recently	6	4	4	4	5	1	7

Job expectations over the next five years: In general, expectations of a switch to the private sector had more influence than expectations of promotion. Those who expected to quit the public sector were 13 percent more willing than others to accept a small present 'if offered' and twice as willing to accept money or an expensive present. They were twice as likely to report frequent offers of money as those who expected to stay in the same job. And they were the most likely to confess accepting money while those who expected promotion were the least.

The frequency of opportunities and temptations

Officials who were exposed to more frequent offers from clients were much more willing to accept gifts and much more likely to confess that they had actually done so. Compared to those whose clients 'never' offered them even a small gift, those who received frequent offers (i.e. 'usually' or 'sometimes' rather than 'rarely' or 'never') were 45 percent more willing to accept a small gift, and 41 percent more likely to confess to taking one. The numbers involved in offers or acceptances of 'money or an expensive gift' were much smaller of course. But compared to those who 'never' received an offer, those who received frequent offers were 28 percent more willing to accept an expensive gift, and 22 percent more likely to confess to taking one.

Table 12: The impact of frequent opportunities/temptations

	If clients offered a small gift...				If clients offered money or an expensive gift...		
	frequently %	rarely %	never %		frequently %	rarely %	never %
Small gifts				Large gifts			
would accept if offered	70	49	25	would accept if offered	39	29	11
accepted recently	76	63	35	accepted recently	23	9	1

Fear of punishment

Fear of punishment had a strong effect in the opposite direction. Compared to those who thought the likely outcome for someone 'in a job like yours' who took 'money or a present' from a client would be 'dismissal', those who thought 'nothing' would happen were 42 percent more willing to accept a small present and 34 percent more likely to confess that they had actually done so recently. They were also 25 percent more willing to accept money or an expensive gift, and four times as likely to confess that they had actually done so.

Table 13: The impact of the likely penalty for being caught

	What would happen if caught taking money or a present from a client?		
	nothing	severe penalty	dismissal
	%	%	%
would accept a small present if offered	71	40	29
would accept money or an expensive present if offered	33	12	8
accepted a gift from a client recently	75	58	41
accepted money or an expensive gift from a client recently	8	5	2

Personal culture

Although it could be described as getting close to the end of the 'funnel of causality', we might expect that those officials who made excuses, defended or even justified accepting extra payments or presents from clients, would actually accept them more frequently than other officials.

Officials who thought their government regarded taking gifts as 'a corrupt practice, which should be liquidated' were 16 percent less willing than others to accept a small present, 14 percent less willing to accept an expensive one, and 18 percent less likely to confess that they had actually accepted a gift from a client.

Officials' own personal views about whether taking gifts was 'bad for the country and for those involved' had a similar effect. And officials who preferred a system in which 'officials never accepted presents and never did favours for clients' were 21 percent less willing to accept small gifts, 15 percent less willing to accept expensive ones, and 20 percent less likely to confess that they had actually accepted a gift recently.

Table 14: The impact of condemnation

	Govt regards gifts as		Official regards gifts as		Official prefers system	
	corrupt	unavoidable etc.	bad	unavoidable etc.	without bribes and favours	with bribes and favours
	%	%	%	%	%	%
would accept a small present if offered	40	56	38	58	40	61
would accept money or an expensive present if offered	9	23	11	25	13	28
accepted a gift from a client recently	50	68	53	66	54	74
accepted money or an expensive gift from a client recently	2	7	2	7	4	7

Compared to those officials who said it would be 'wrong' to accept payments from clients for 'extra work', those officials who said it would be 'right to ask' for such payments were 38 percent more willing to take a small gift and 25 percent more willing to take an expensive one. They were 46 percent more likely to confess that they had actually accepted some gift recently and six times as likely to confess to accepting an expensive one. Officials who justified extra payments for 'faster than usual work' responded in a similar way.

Table 15: The impact of moral justification for extra payments

	For extra work.....			For faster than usual work.....		
	right to ask %	right to accept %	wrong to accept %	right to ask %	right to accept %	wrong to accept %
would accept a small present if offered	66	59	28	66	64	28
would accept money or an expensive present if offered	33	21	8	33	25	7
accepted a gift from a client recently	75	70	39	70	73	42
accepted money or an expensive gift from a client recently	12	6	2	12	6	2

A causal model for confessions of gift-taking

Our findings suggest that even a highly simplified model of bribe-taking should take account of national and institutional culture, economic pressures, opportunities or temptations, fear of punishment, and personal culture (moral positions).

The influences fall naturally into a sequence of cause and effect. We take the country, institution and occupation of the official as given. Other factors depend on them. Economic pressures on officials reflect their particular occupations and the performance of their national economies. Their exposure to temptation and fear of punishment may reflect not only broad national cultures but also the particular institutional culture of the service in which they are employed, and the bargaining power vis-à-vis clients which is associated with their very particular occupation within that institution. Their 'personal culture' may reflect national, institutional and occupational cultures that encourage or discourage bribe-taking. But it may also reflect the economic pressures of inadequate salaries. Whether officials are willing to accept a gift 'if offered', and whether they confess to having accepted one recently, is likely to reflect their feelings about whether such behaviour is justified. But it might also reflect temptations, opportunities and fears as well as the economic pressures upon them

That sequence implies a 'recursive' model defined by three sets of variables, with each set dependent on some or all of the preceding sets. For simplicity we have operationalised the variables as follows:

Set 1: Country, institution and occupation

country	CZ, SLVK, BULG, UKR: coded 1 if in the respective country, 0 otherwise
institution (broad category of official)	5 categorical variables: coded 1 if in the respective institution, 0 otherwise
occupation (narrow type of official)	15 categorical variables: coded 1 if in the respective occupation, 0 otherwise

Set 2: Economic pressures, opportunities, fear, and personal culture

economic pressures	LOWPAY: coded 1 = possible to live on salary, 2 = very difficult, 3 = not possible LATEPAY: coded 1 = always paid on time, 2 = usually, 3 = rarely or never POORPAY = LOWPAY + LATEPAY
opportunities / temptations	OFFER(S/L): coded 1 = clients never offered gifts, 2 = rarely, 3 = sometimes, 4 = usually
fear of punishment	FEAR: what would likely happen if official took money or a present coded 1 = 'nothing', 2 = 'confiscated', 3 = 'more severe penalty', 4 = 'dismissal'
personal culture	JUSTIFY: coded 3 = right to ask client for 'extra' payments, 2 = right to accept, 1 = neither

Set 3: Willingness and confessions

willingness to accept a gift	WILLING(S/L): coded 1 = would accept if offered, 0 = would not WILL-WEL(S/L): coded 1 = welcome or accept out of politeness, 0 = otherwise WILL-CNR(S/L): coded 1 = could not afford to refuse, 0 = otherwise
confess to accepting a gift recently	CONFESS(S/L): coded 1 = took gift from client in recent years, 0 = did not

(S/L): S = small gift, L = large gift, money or an expensive present

Influences on economic pressure, opportunity, fear, and personal culture

By far the best predictor of inadequate or late salaries was the country in which the official worked.

Opportunities or temptations were far less predictable than economic pressures, and cross-national differences much smaller however. Three occupations stood out for the frequency with which they reported clients offering gifts: traffic police, customs officials and, most of all, hospital doctors (beta = 16 for small gifts, and beta = 12 for money or expensive gifts). Institutions proved insignificant. There could hardly have been a clearer indication that such offers reflected the bargaining power of specific occupations rather than a more general institutional culture.

Fear of punishment primarily reflected institutional cultures however. It was exceptionally low in the health services (beta = -35) though not quite so low amongst hospital administrators as amongst doctors and nurses. It was also relatively low in the education services (beta = -12) but relatively high in police services (beta = +17).

Table 16: Regressions predicting economic pressures, opportunities, fear, and personal culture

<u>Economic pressure</u>		<u>Opportunity / temptation</u>		<u>Fear of punishment</u>		<u>Personal culture</u>		
	<u>POORPAY</u> beta x100		<u>OFFER(S)</u> beta x100	<u>OFFER(L)</u> beta x100		<u>FEAR</u> beta x100	<u>JUSTIFY</u> beta x100	
<u>Occupations:</u>								
nurses	9**	doctors	16**	12**	hospital admin	11**	hospital admin	-11**
		traffic police	7*	11**	customs off	9**	traffic police	9**
		customs off	6*	10**				
		school teachers	-8**					
<u>Institutions:</u>								
legal services	-12**				health services	-35**	health services	28**
police services	-6*				education serv	-12**	education serv	12**
					police services	17**		
<u>Countries:</u>								
UKR	66**	SLVK	18**	7**	SLVK	-13**	UKR	10**
BULG	38**				BULG	-10**	BULG	7*
SLVK	9**							
RSQ:	38		7	4		19		7

Notes: Entries are 'betas' (x 100), i.e. standardised regression coefficients, calculated by SPSS-PC 'stepwise' regression. A single asterisk indicates conventional statistical significance at the 95 percent level, a double asterisk at the 99 percent level, though statistical significance tests are not strictly applicable for quota samples. All variables from Set 1 were used as predictors. Those not shown had too little impact for inclusion in the 'stepwise' regression.

Institutional cultures were also an important influence on 'personal culture'. Those who worked in the health service, particularly as doctors and nurses rather than as administrators, were very much more inclined than other officials to justify accepting extra payments from clients (beta = 28 for the health services, offset somewhat by beta = -9 for hospital administrators). To a much lesser extent, those who worked in the education services were also unusually inclined to justify 'extra payments' from clients (beta = 12). But although the police were particularly fearful of punishment, they were not particularly adverse to the principle of 'extra payments' from clients.

Influences on willingness to take small gifts, and on actually accepting them

Officials' willingness to accept small gifts 'if offered' was influenced most strongly by the opportunities or temptations provided by frequent offers of small gifts from clients

(beta = 28). It was also influenced strongly by their personal culture, that is whether, as a general principle, they thought it right that clients should make 'extra payments' for 'extra work' (beta = 21), and negatively by their fear of punishment (beta = -22).

Table 17: Regressions predicting willingness to accept, and actual acceptance of small gifts

	----- Willing to accept a small gift -----			Actually took any gift (mainly small) CONFESSION(S) beta x100
	overall willingness	welcome / politeness	could not refuse	
	WILLING(S) beta x100	WILL-WEL(S) beta x100	WILL-CNR(S) beta x100	
Personal culture:				
JUSTIFY	21**	17**	8*	20**
Economic pressure:				
POORPAY		-13**	24**	
Opportunity / temptation:				
OFFER(S)	28**	23**	12**	24**
FEAR	-22**	-19**		-16**
Occupations:				
ordinary police			7*	
court officials	-10**			
Institutions:				
health services				8*
police services	-7*	-12**		
legal services		-10**		
Countries:				
UKR		-8*	9*	
SLVK				9**
RSQ:	27	21	12	21

Notes: All variables from Sets 1 and 2 were used as predictors. Those not shown had too little impact for inclusion in the 'stepwise' regression.

Significantly, inadequate or late-paid salaries did not have an influence upon overall willingness to accept small presents. But we found it very illuminating to distinguish those who were willing to take small gifts 'out of politeness' or even 'welcome them as a token of thanks' on the one hand, from those who would accept small gifts only 'because they could not afford to refuse them'. The patterns of influence underlying these two kinds of willingness were radically different.

'Welcome' small gifts or accept out of 'politeness': The strongest influences on this kind of willingness were the frequency of offers from clients (beta = 23), personal culture (beta = 17), and fear of punishment (beta = -22). Officials in the police or legal services were significantly less willing to accept small gifts without reservation or merely 'out of politeness'. So also were those officials who complained most about inadequate or late salaries (beta = -13). Thus it was the better paid officials who were more likely to 'welcome' small gifts or accept them 'out of politeness'.

'Could not afford to refuse': This second kind of willingness was influenced most strongly by inadequate or late salaries (beta = +24). This strong, positive influence from poor salaries contrasts very sharply with the negative influence of poor salaries on the first kind of willingness. It was the worse paid officials who were more willing than others to accept small gifts because they 'could not afford to refuse'.

But there were other contrasts between the influences on these two kinds of willingness to accept small presents. Willingness to accept because they 'could not afford to refuse' was influenced only modestly by the frequency of offers (beta = 12 instead of 23) and not at all by fear. Personal culture exerted only a slight influence (beta = 8 instead of 17). Employment in the police or legal services exerted no influence – positive or negative – on

this second kind of willingness. And while officials in Ukraine were slightly less likely than others to 'welcome' small gifts or accept 'out of politeness' ($\beta = -8$), they were slightly more likely than others to accept because they 'could not afford to refuse' ($\beta = +9$).

The pattern of influence underlying actually taking small gifts broadly mirrored the pattern that underlay overall willingness to accept. The strongest influences were the opportunities or temptations provided by frequent offers from clients ($\beta = 24$), personal culture ($\beta = 20$) and fear of punishment ($\beta = -16$).

Influences on willingness to take large gifts of money or expensive presents, and on actually accepting them

Officials' willingness to accept money or expensive gifts 'if offered' was influenced almost equally strongly by the opportunities or temptations provided by clients' frequent offers of money or expensive gifts ($\beta = 20$) and their fear of punishment ($\beta = -21$). Personal culture ($\beta = 16$) and inadequate or late paid salaries ($\beta = 17$) were also important.

Table 18: Regressions predicting willingness to accept, and actual acceptance of money or expensive gifts

	---- Willing to accept a large gift ----			Actually took large gift money / expensive gift CONFESS(L) beta x100
	overall willingness WILLING(L) beta x100	welcome / politeness WILL-WEL(L) beta x100	could not refuse WILL-CNR(L) beta x100	
Personal culture:				
JUSTIFY	16**	10**	11**	13**
Economic pressure:				
POORPAY	17**		25**	
Opportunity / temptation:				
OFFER(L)	20**	25**		31**
FEAR	-21**	-16**	-12**	
Occupations:				
doctors				14**
hosp. admin		8*		9**
traffic police				7*
Institutions:				
education services			-8*	
RSQ:	19	13	11	17

Notes: All variables from Sets 1 and 2 were used as predictors. Those not shown had too little impact for inclusion in the 'stepwise' regression.

Again it was illuminating to distinguish those who were willing to take money or expensive gifts 'out of politeness' or even 'welcome them as a token of thanks' on the one hand, from those who would accept money or expensive gifts only 'because they could not afford to refuse them'.

'Welcome' large gifts or accept out of 'politeness': The strongest influences on this first kind of willingness were the frequency of offers from clients ($\beta = 25$), fear of punishment ($\beta = -16$) and, to a lesser extent, their personal culture ($\beta = 10$).

'Could not afford to refuse': In very sharp contrast, this second kind of willingness was influenced most by inadequate or late salaries ($\beta = 25$) although poor salaries had no significant influence on the first kind of willingness. Conversely, although the frequency of offers from clients was the strongest influence on the first kind of willingness, it had no significant influence on the second. Fear of punishment ($\beta = -12$) and personal culture ($\beta = 11$) continued to exert a modest influence however.

The pattern of influence underlying actually taking money or expensive gifts was dominated by the opportunities or temptations provided by offers from clients ($\beta = 31$). Personal culture had a much smaller influence ($\beta = 13$). Poor salaries and fear of punishment had no significant influence. Similarly, countries and institutions were not significant. But specific occupations were: doctors ($\beta = 14$), hospital administrators, and traffic police were more likely than others to confess to taking money or expensive presents, even when other influences had been taken into account.

It is worth emphasising the differences between the patterns underlying willingness to accept expensive gifts and actual acceptance. Occupation had little influence on willingness but a marked influence on actual acceptance. Conversely, inadequate or late salaries had a marked influence on willingness to accept, at least on grounds that the official 'could not afford to refuse', but no significant influence on actual acceptance. And the opportunities or temptations provided by frequent offers from clients had a considerably greater influence on actual acceptance than on willingness. The balance between economic pressure and temptation, which had roughly equal effects upon willingness, tilted decisively towards temptation when we looked at the influences on actually taking money or expensive presents.

A four-step model of confessed bribe-taking

Earlier we noted that only one percent of those who said they would refuse an offer of money or an expensive gift went on to confess to actually accepting such a gift. And amongst the remainder of officials, their actual rate of acceptance correlated strongly with their degree of willingness to accept. So perhaps we should refine our causal model by treating 'willingness to accept' as an influence on actual acceptance – splitting our third and final set of variables into a third (willingness) and a fourth (actual acceptance). And for these revised regressions we should distinguish between willingness to accept only because the official 'could not afford to refuse' (WILL-CNR) and less uninhibited willingness, either a completely uninhibited 'welcome' or acceptance 'out of politeness' (WILL-WP).

Table 19: Regressions acceptance of small and large gifts

	<u>Actually took any gift</u> (irrespective of size but mainly small)		<u>Actually took large gift</u> (money or an expensive gift)	
		CONFESS(S) $\beta \times 100$		CONFESS(L) $\beta \times 100$
<u>Willing to take:</u>				
	WILL-WEL(S)	40**	WILL-WEL(L)	30**
	WILL-CNR(S)	25**	WILL-CNR(L)	12**
<u>Personal culture:</u>				
	JUSTIFY	11**	JUSTIFY	7*
<u>Opportunity / temptation:</u>				
	OFFER(S)	14**	OFFER(L)	22**
	FEAR	10**		
<u>Occupations:</u>				
			doctors	10**
			traffic police	8*
			hospital admin	8*
<u>Countries:</u>				
	SLVK	7**		
	RSQ:	34		24

Notes: All variables from Sets 1 and 2, plus both measures of 'willingness' were used as predictors. Those not shown had too little impact for inclusion in the 'stepwise' regression.

In this four-step model, the strongest influence on actually taking a small gift was willingness, whether relatively uninhibited ($\beta = 40$) or based on feeling that they 'could not afford to refuse' ($\beta = 25$). Over and above the influence of willingness however, there remained some significant additional influence from opportunity or temptation ($\beta = 14$), fear of punishment ($\beta = -10$), and personal culture ($\beta = 11$).

The strongest influence on actually taking money or an expensive gift was also willingness, but the degree of willingness was more critical. The balance tilted towards uninhibited willingness ($\beta = 30$) rather than the mere feeling that they 'could not afford to refuse' ($\beta = 12$). Over and above that however, there was a stronger additional direct influence from opportunity or temptation ($\beta = 22$), though none from fear of punishment. In addition, hospital doctors still confessed to taking expensive gifts significantly more frequently than others even when all other influences had been taken into account.

Discussion

Our causal model of influences leading to the acceptance of large and expensive gifts can be summarised in a diagram. In the interests of simplicity and statistical robustness we have excluded from the diagram all pathways of influence with β coefficients smaller than 10, even if they are statistically significant. Omitting such minor influences may cost something in terms of comprehensive description, but it does allow clear theoretical conclusions to emerge.

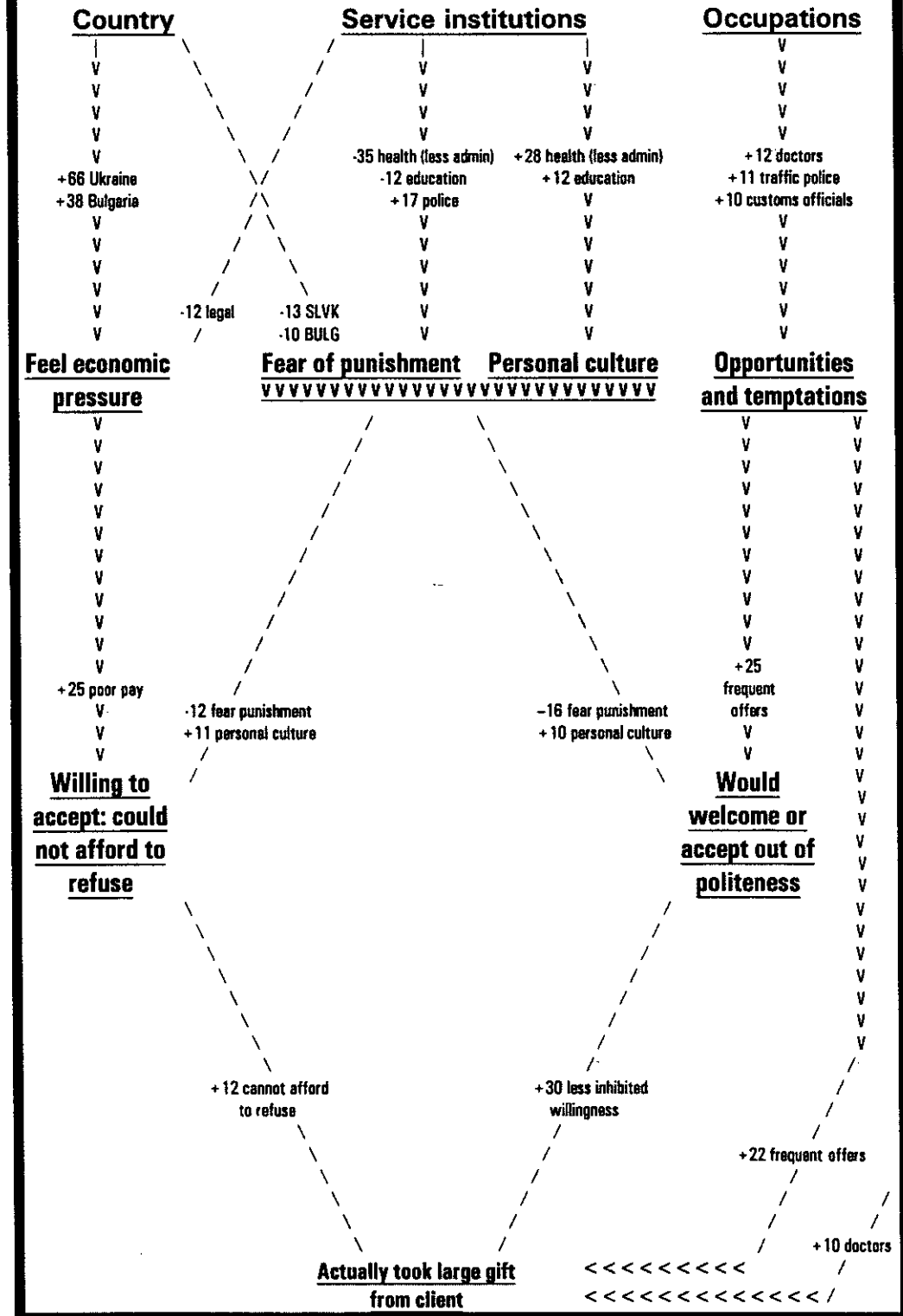
Flowing down the left-hand side of the diagram there is a chain of influence that runs strongly from country through economic pressures to willingness to take large gifts, but only because officials feel they 'could not afford to refuse'. Significantly, this chain exerts a relatively weak influence upon actually taking large gifts from clients ($\beta = +12$).

Flowing down the right-hand side of the diagram is an entirely separate chain of causation that runs from specific occupations, through opportunities and temptations which reflect the bargaining power of these occupations vis-à-vis clients, and then on to uninhibited willingness to welcome large gifts. Significantly, this chain exerts a far stronger influence upon actually taking large gifts from clients – partly through uninhibited willingness ($\beta = +30$) but also through the direct influence of opportunities and temptations ($\beta = +22$).

Flowing down the centre of the diagram is a third chain of influence that runs strongly from institutions with their peculiar institutional cultures, through personal culture and fear of punishment, and then on to both kinds of willingness. Both the causes and the consequences of personal culture and fear of punishment are similar, though whatever is associated positively with a personal culture is associated negatively with fear of punishment.

This diagram highlights a key question concerning the balance of influence between the economic pressures on officials and their bargaining opportunities vis-à-vis clients. Directly or indirectly, whether we omit or include intervening variables in the model, our analysis suggests that the predominant influence on taking large gifts was bargaining power vis-à-vis clients. Economic pressures on officials encouraged them to express a willingness to accept large gifts but only because they 'could afford to refuse' and that did not translate very well into actually taking large gifts. Perhaps the expression of willingness to take because they 'could not afford to refuse' was itself more a comment on their poor salaries than on any realistic intention to accept large gifts. Perhaps the jobs that went with low salaries also went with such a weak bargaining position that they were indeed willing, but actually unable to 'collect'.

A CAUSAL MODEL FOR CONFESSIONS OF TAKING LARGE GIFTS FROM CLIENTS



Surprisingly perhaps, our analysis of officials' own confessions has not located the core of gift-taking in national cultures, and only to a modest degree in institutional cultures or the personal culture and fears of officials. Instead it has located it in the frequency of offers from clients and in the specific occupations that presented certain officials with unusually frequent and unusually large offers. Some of these occupations (doctors perhaps) were consistent with the possibility of unusual levels of client gratitude, but others (traffic police and customs officials) quite unambiguously reflect bargaining power vis-à-vis clients. And both our quantitative¹⁰ and qualitative¹¹ studies of the general public suggest that even clients' attitudes towards doctors owed more to their sense of powerlessness than to their sense of gratitude.

END

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¹ William L. Miller, Åse B. Grødeland and Tatyana Y. Koshechkina 'Are the people victims or accomplices? The use of presents and bribes to influence officials in Eastern Europe' *Crime, Law and Social Change* (1998) vol. 29, pp.273-310 at p.286.

² *RFE/RL Newslines*, vol. 2, no. 108, Part II, 8 June 1998.

³ *Fakty*, 23.6.98, quoted in *Corruption Watch (Kyiv)*, vol.1, no. 9, 8 July 1998.

⁴ See for example *Coalition 2000's* newsletter *Clean Future* no.2 spring 1999 available at www.online.bg/coalition2000.

⁵ Brent S. Steel, Sally Davenport, and Rebecca L. Warner 'Are civil servants really public servants? A study of bureaucratic attitudes in the USA, Brazil and Korea' *International Journal of Public Administration* vol.16 no.3 (1993) pp.409-442.

⁶ Terry T. Lui and Terry L. Cooper 'Values in flux: administrative ethics and the Hong Kong public servant' *Administration and Society* vol. 29, no. 3 (1997) pp.301-324.

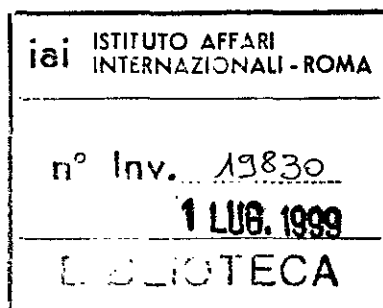
⁷ Pavlo Kutuev and Volodymyr Svintsitsky *Institutions of the Executive Power in Ukraine: Current Situation and Prospects for Democratisation* (Kyiv: Centre for Comparative Politics, 1995).

⁸ Debra W. Stewart, Norman Sprinthall and Renata Siemienska 'Ethical reasoning in a time of revolution: a study of local officials in Poland' *Public Administration Review* vol. 57, no. 5 (1997) pp. 445-453.

⁹ Tim Ensor and Larisa Savelyeva 'Informal payments for health care in the Former Soviet Union: some evidence from Kazakhstan' *Health Policy and Planning* vol.13 no.1 (1998) pp.41-49.

¹⁰ Miller, Grødeland and Koshechkina. *Crime, Law and Social Change* (1998).

¹¹ William L. Miller, Tatyana Y. Koshechkina and Åse B. Grødeland. 'How citizens cope with postcommunist officials: evidence from focus group discussions in Ukraine and the Czech Republic' *Political Studies* (Special Issue 1997) 45:3 597-625



Bulgaria
Czech Republic*
Hungary
Poland*
Romania
Slovakia*

How widespread do you think bribe-taking and corruption are in this country?

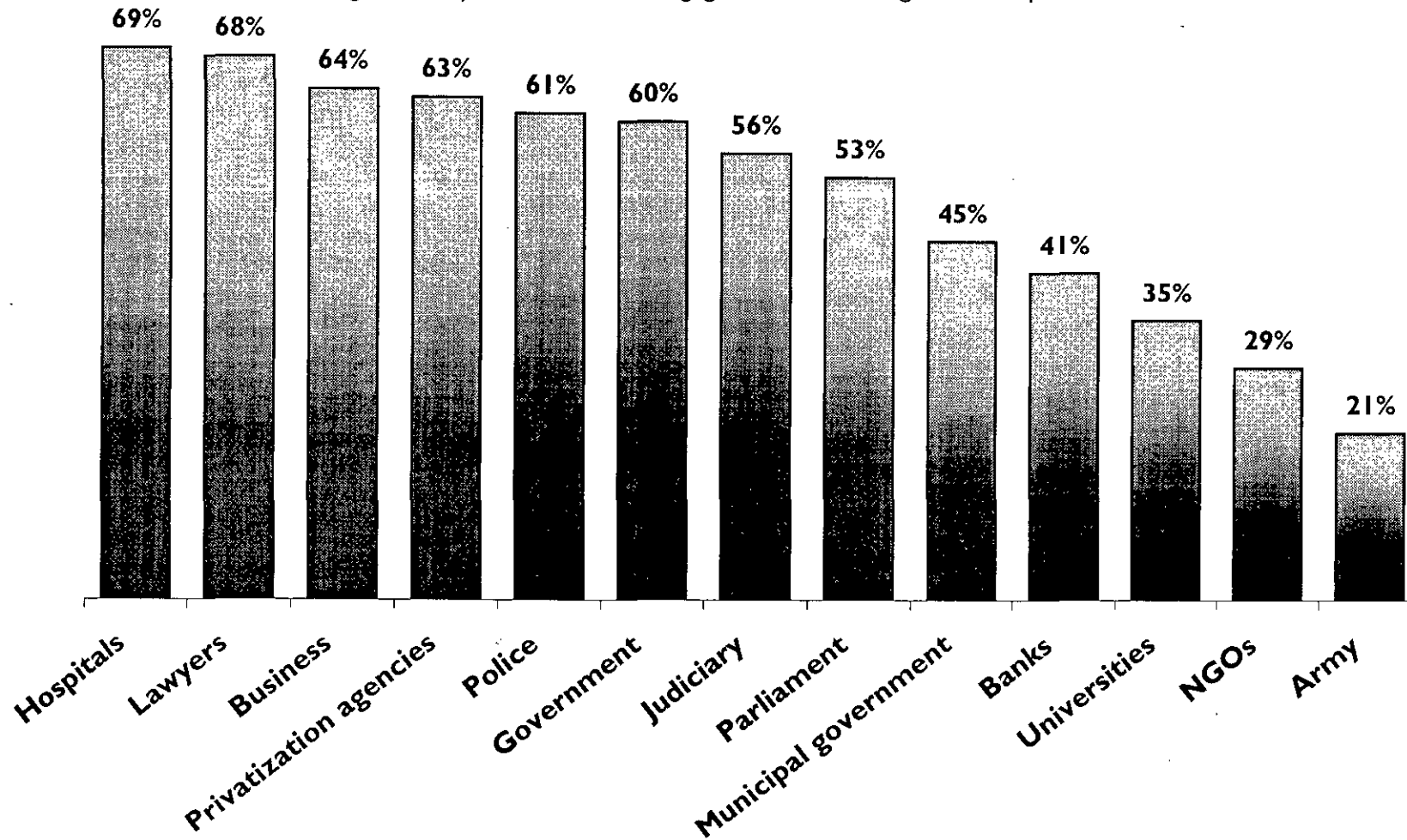
	All/Most officials are engaged in it	Few/No officials are engaged in it
Slovakia	79%	14
Poland	69%	29
Bulgaria	67%	24
Czech Republic	67%	31
Hungary	67%	31

How widespread do you think bribe-taking and corruption are in this country?

	All/Most Officials	Few/No Officials	CPI
Turkey	80%	18	3.4
Slovakia	79%	14	3.9
Poland	69%	29	4.6
Italy	68%	26	4.6
Bulgaria	67%	23	2.9
Czech Republic	67%	31	4.8
Hungary	67%	31	5.0
France	66%	31	6.7
Germany	36%	51	7.9
Britain	35%	57	8.7

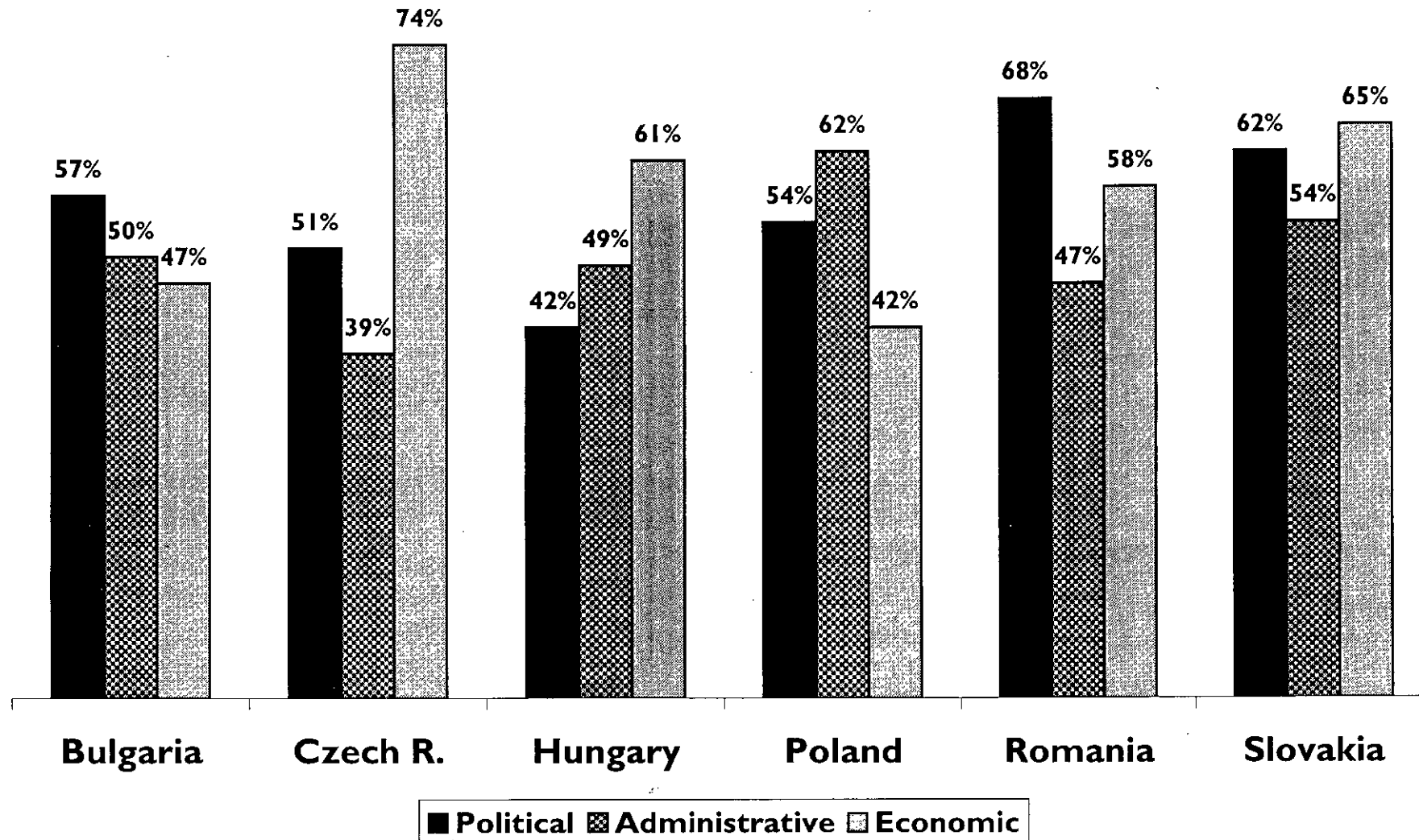
Average Public Perception of Corruption in Central and Eastern Europe

Percentage who say most or all are engaged in bribe-taking and corruption in:



Perception of Corruption in Various Areas

Percentage who say most or all are engaged in bribe-taking and corruption in:



Political Corruption



Parliament
Government/State
Administration
Judiciary

Administrative Corruption



Municipal Government
Police
Universities
Hospitals
Lawyers
NGOs

Economic Corruption



Banks
Businesspeople
Privatization Agency

Main source of impressions about corruption

	Bulgaria	Czech R.	Hungary	Poland	Romania	Slovakia
From personal experience	21%	17%	31%	29%	22%	28%
From relatives, friends, people you know	40	15	17	31	20	24
From the media	30	59	46	27	48	35
Other	2	7	5	6	3	11

Most Frequently Mentioned Reasons Why Corruption Exists

- People in power are out for their own financial gain
- Low salaries
- Imperfect legislation
- Lack of strict administrative control
- Inefficient judicial system
- Official duties mingled with personal interests
- Poor law enforcement

Personal Approval of Illicit Behaviors

	Bulgaria	Czech R.	Hungary	Poland	Romania	Slovakia	Britain	France	Germany	Italy
Accepting a bribe in the course of a person's duties										
Sometimes justified	10%	18%	15%	15%	10%	24%	10%	25%	17%	12%
Never justified	86	81	84	85	85	75	89	72	79	86
Buying something a person knows was stolen										
Sometimes justified	20%	31%	26%	18%	12%	40%	17%	30%	22%	23%
Never justified	76	67	72	81	81	58	82	68	74	74
Claiming benefits which one is not entitled to										
Sometimes justified	21%	49%	21%	32%	22%	51%	17%	38%	37%	27%
Never justified	72	48	78	67	73	45	81	59	58	68
Not paying one's taxes										
Sometimes justified	26%	44%	32%	30%	24%	47%	26%	49%	43%	33%
Never justified	70	55	66	67	73	52	73	50	53	65
Using the company's equipment or supplies for work outside the company										
Sometimes justified	20%	58%	52%	37%	19%	59%	44%	53%	40%	33%
Never justified	75	38	47	60	77	38	56	44	54	63

*Tolerance
of
illicit
behaviors*

If an official wanted cash to solve a personal problem of mine, I would pay.

	Bulgaria	Czech R.	Hungary	Poland	Romania	Slovakia
Agree	22%	22%	39%	33%	35%	33%
Disagree	69	72	55	54	58	59

Please tell me if during the past *ten* years whether you have done each or any of the following: Had to pay a bribe in order to receive a social service to which you were entitled.

	Bulgaria	Czech R.	Hungary	Poland	Romania	Slovakia
Yes	9%	6%	22%	13%	14%	16%

In thinking about corruption in this country, which of the following statements comes closest to your view?

	Bulgaria	Czech R.	Hungary	Poland	Romania	Slovakia
The spread of corruption cannot be confined	8%	15%	23%	15%	19%	20%
Corruption will exist, yet it can be limited to a degree	46	57	54	50	43	53
Corruption can be substantially reduced	31	23	17	25	18	23
Corruption in can be eliminated	6	3	3	8	12	3

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

**DIRECTORATE FOR FINANCIAL, FISCAL, AND ENTERPRISE AFFAIRS
CENTRE FOR CO-OPERATION WITH NON-MEMBERS
PRIVATE SECTOR DEVELOPMENT UNIT**

ANTI-CORRUPTION NETWORK FOR TRANSITION ECONOMIES

**Coalition Building and Monitoring to Counter Corruption
June 19th- 20th, 1999**

Background Information

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Anti-Corruption Network for Transition Economies

What is the Anti-Corruption Network?

The anti-corruption Network is a forum where all parties interested in reducing public sector corruption can exchange information about anti-corruption programmes as well as collaborate on regional, national, and sub-national initiatives. The co-ordinating body for the Network is a Steering Group composed of several international organisations and major NGOs. Ideas and information will be exchanged across the Network so as to allow all constituencies to participate in the design, implementation, and monitoring of anti-corruption activities.

Who participates in the Network?

The Network is focused primarily at Eastern Europe and Former Soviet Union. Stakeholder groups which could be represented in these countries include the executive, legislature, judiciary, media, private sector, labour unions, sub-national government, international business, international non-profit organisations, and donor agencies.

What does the Network do?

The action of the network would include:

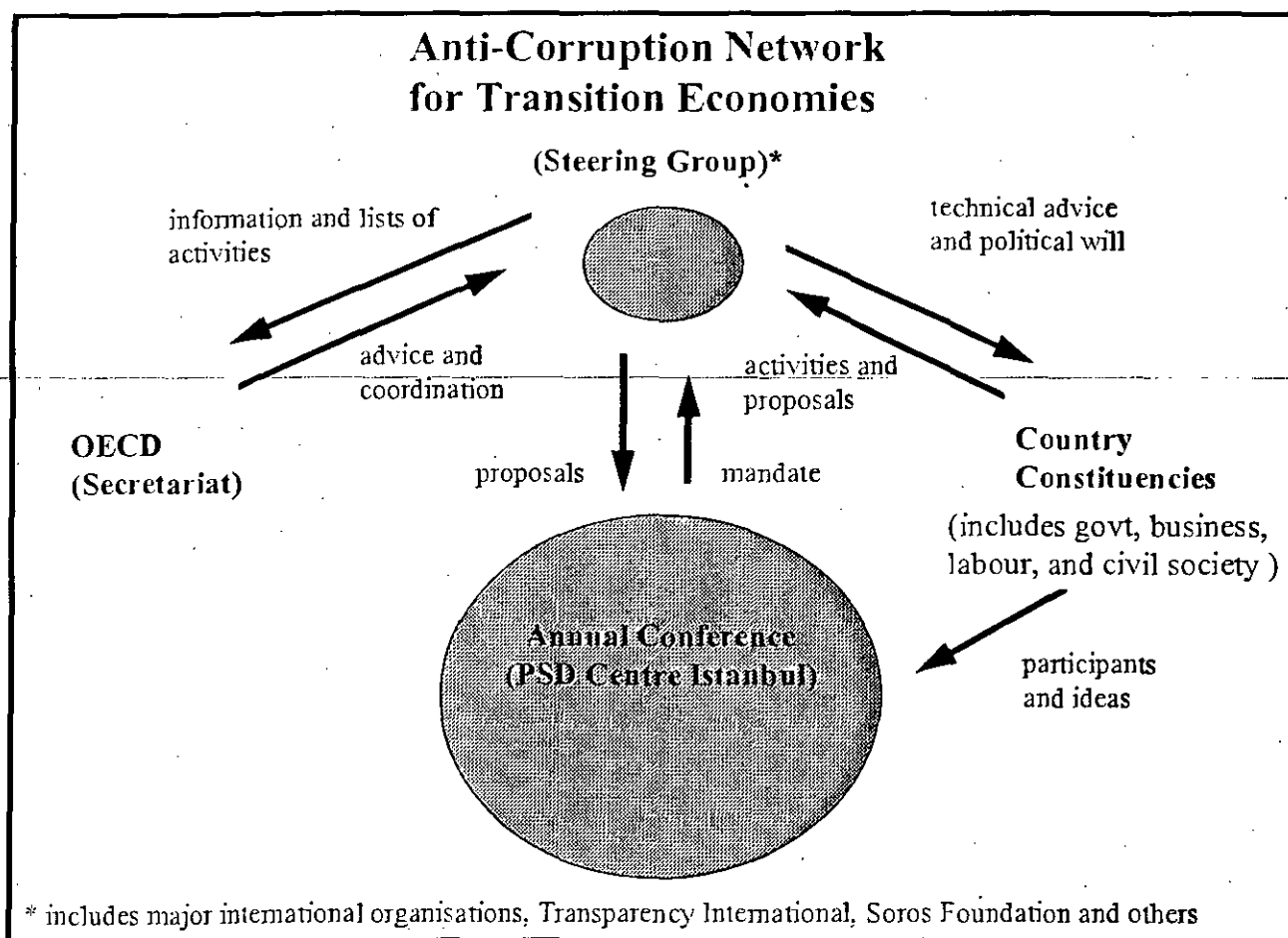
- organising yearly and special Network meetings which would: (a) review progress achieved in national and sub-national anti-corruption programmes, (b) provide support for the implementation of relevant international instruments in particular the Convention and Recommendations of the OECD and the Council of Europe, (c) encourage synergy and co-operation among national and international institutions providing assistance for anti-corruption programmes, and (d) make proposals for follow-up actions;
- exchanging information through an electronic network, through journals and other fora aimed at bringing issues to the attention of the public. Such information would include activities at various levels (public, private, sectoral, regional, and extra-regional). It would also include topic specific activities such as: government procurement, public auditing, judicial strengthening, civil service reform, public sector financial systems reform, awareness raising activities and international instruments;
- promulgating proposals to Governments about the development, implementation, and review of anti-corruption programmes;

Who coordinates the Network?

A Steering Group of several international organisations and major NGOs is responsible for overseeing and co-ordinating the work of the Network. The Steering Group: i) identifies key in-country, working level, decision-making members for the Network, ii) assists with the coordination of activities and dissemination of information for Network members, and iii) helps set meeting agendas and programmes for discussion.

Start-Up Activities

1. The Steering Group was established and met in January 1999 to identify Network members and encourage participation in the Network.
2. The OECD, in co-operation with the other donors, acts as the Secretariat of the Network. As an immediate step, the OECD Secretariat is organising the information exchange (Internet and journals) which will serve as part of the Network.
3. The first annual Network meeting will be held in fall 1999 to bring together various participants representing various parts of society from the Network countries.



Workshop on Combating Corruption in Transition Economies
Istanbul, Turkey October 1998
Objectives and Results

Objectives:

- (i) establish a common understanding of the problems in fighting corruption, share anti-corruption experiences, and identify cross-border issues; as well as initiate pilot monitoring techniques;
- (ii) obtain country and donor assessment of existing international instruments and anti-corruption programmes, identify needed changes, and develop recommendations and action plans; and
- (iii) propose, define and launch a regional anti-corruption network of countries and donors.

Key Workshop Conclusions

strengthening government institutions	business and civil society involvement	international donors
establish competitive public procurement systems	establishment of informal public-private partnerships	improve internal controls in procurement and contracting
simplify business licencing procedures	further liasons with the donor community	concentrate further on institutional development programmes
enforce public sector Codes of Ethics	creation of "islands" of integrity	promote the use of international instruments such as the OECD Anti-Bribery Convention
adopt freedom of information laws	adoption anti-bribery pacts	establish an Anti-Corruption Network
increase dissemination of information about legislation		
implement an open appeals process for legislation enacted		
strengthen independent audit and investigative functions though training		

Country Studies with specific recommendations:

Albania, Bulgaria, Latvia, Georgia, Russia, and Ukraine.

Anti-Corruption Network for Transition Economies Steering Group Members' Meeting

Date: 29 January 1998

Location: OECD Paris Office

Objectives: The Anti-Corruption Network's Steering Group held its first meeting to discuss Network activities undertaken since the October 1998 meeting in Istanbul, to choose country counterparts for the Network, to identify key issues for future discussion, and to exchange information about present anti-corruption activities in the Eastern Europe/Formal Soviet Union region. It also gave the participants the opportunity to collaborate on upcoming projects in the region.

Attendees: Representatives from the Business and Industry Advisory Committee to the OECD (BIAC), Council of Europe, EBRD, European Union, IMF, OECD, Soros Foundation, Trade Union Advisory Committee to the OECD (TUAC), Transparency International, United Nations, USAID and the World Bank.

Summary of Discussion: The decisions taken at the meeting were the following:

a) Country contacts. The Network would be composed in each member country of individuals representing government, business, and civil society. Further work needed to be done to identify the country contacts as the success of the Network depended on the selection of the appropriate members. It was decided that due to country specificity, no standard methodology could be applied for the selection of Network participants. A residual product of the meeting was the formation of a database of anti-corruption practitioners which will be distributed once it has been finalised.

b) Key issues for the Network. Some key issues mentioned for further discussion include the role of: i) government in building transparent and accountable public sector institutions, ii) the private sector in combating corruption, iii) municipal authorities in fostering transparent central and decentralised systems of administration, iv) the link between organised crime and administrative corruption, and v) action against bribery in accordance with national legislation and international instruments.

c) Network Activities. In preparation for the meeting, a list of activities building on the TI-SIGMA list was compiled and will be put on the Internet. Besides presentations of Steering Group members activities, six activities were agreed to:

- **Internet Project** will allow users to find detailed project information, a calendar of activities, and contact people for projects. The project will be modified over the year to respond to client needs. The web site can temporarily be found at www.afr-sd.org/acn until it is finalised.

- **Network Brochure and Newsletter** are being created to inform partners in international and national institutions about the Network and to update them on its work bi-annually.

- **Regional Public-Private Partnership Workshop** currently planned for May - June 1999 in Sofia, Bulgaria. This workshop will highlight the achievements of Bulgarian government and non-government actors in fighting public sector corruption. Other public-private partnerships, such as Transparency International, will discuss regional approaches to this problem.

- **Challenge to Private Sector Development and Corruption in Russia.** The purpose of this June workshop in St. Petersburg is to focus on the licensing, regulation, and actions taken by the private sector to reduce bribe opportunities. Other issues will include how corruption discourages entrepreneurial spirit and discriminates against SMEs as well as the role of business associations in fighting corruption. Finally, the OECD instruments on bribery in international business transactions will be presented and discussed as well as the private sector's role in promoting them and other national efforts aimed at improving transparent and accountable government. Participants will include government officials (including municipal authorities), 8 business associations, and NGOs.

- **Network's Preparatory Meeting** to be held either in Brussels or Helsinki from July 13th to 15th. This July workshop will bring country contacts together with business associations involved in the policy-making process. They will identify some key areas where the private and public sectors can act to reduce corruption and consider implementing specific actions (such as delicensing, corporate codes of conduct, private sector monitoring of public sector transactions, and other concrete actions). This workshop will be in preparation for the Annual Meeting.

- **Annual Meeting**, to be held at the PSD Centre in Istanbul from October 5th-7th, will bring together the network members to: a) evaluate both anti-corruption programmes and priorities for 1999, and b) design of a set of anti-corruption activities.

- **Second Annual Steering Group Meeting** to be held in January 2000 will discuss Network outputs in 1999 and develop the programme for the upcoming year.

d) Institutional support. All the Steering Group members pledged to contribute time and staff resources toward supporting the Network. In addition the Network Secretariat was encouraged to submit financing requests to Soros Foundation, the EBRD, European Union, and the World Bank. Finally, greater involvement of the business community and NGOs in the Network was stressed. In this respect, the International Chamber of Commerce will be invited into the Steering Group.

Reports and documents available upon request:

Meeting Documents: i) Meeting Agenda, ii) Background Information on Combating Corruption in Transition Economies Workshop, iii) List of Steering Group Meeting Representatives, iv) Country Contacts, v) Anti-Corruption Activities in the Region, vi) Activity Calendar.

Other documents: i) Private Sector Development Journal Supplement (in English and Russian) on the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, ii) Selected Articles on Ethics and Corruption: Appearing in Public Management Forum, iii) Information on the Audit and Control Information Exchange for Central and Eastern European Countries, iv) Facts about the United Nations, v) Information on the UN NGO Resource and Training Centre, vi) 1998 Transparency International Annual Report, vii) Agenda for Fighting Corruption in Developing Countries and Emerging Economies: The Role of the Private Sector, viii) UN's Global Programme Against Corruption, ix) EBRD presentation on Anti-Corruption activities, and x) Private Sector Development Unit's Programme of Activities for 1999.

Results of the Pilot General Participant Survey Combating Corruption in Transition Economies

Summary

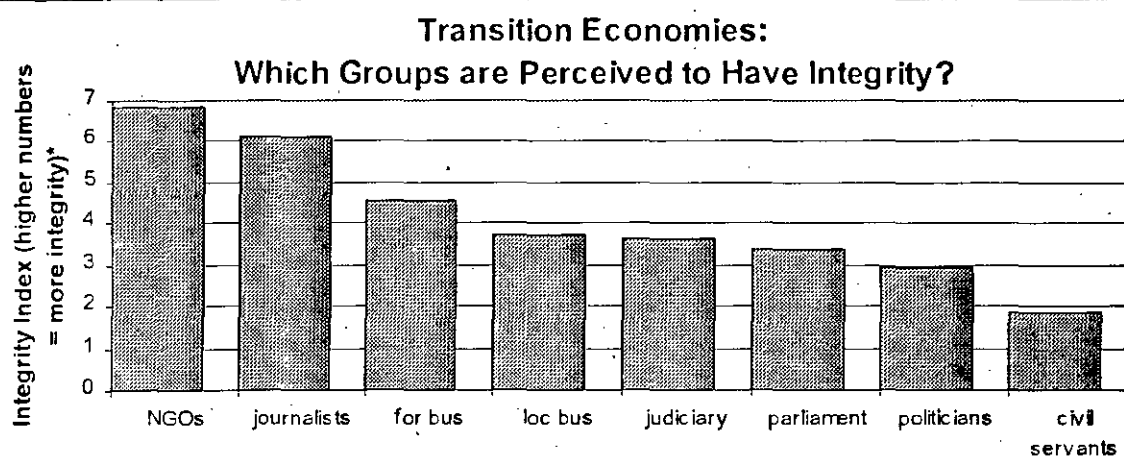
In a recent informal poll of participants at the October OECD/USAID Workshop Combating Corruption in Transition Economies, civil servants and politicians were perceived as being the most open to corruption. When one looks at government institutions, customs, police, and tax authorities were seen as the most corrupt government service providers. Indeed, it was estimated that between 20%-60% of government resources are lost to corruption depending on the country and institution. Judicial reform, civil service reform and strengthening the anti-corruption unit topped the list of actions which should be taken to reduce corruption. However, some constraints identified include lack of commitment by politicians and civil servants, lack of law enforcement, and lack of a comprehensive programme. Nevertheless, if these constraints are overcome, governments and their citizens might expect to see corruption reduced to "acceptable" levels in under a decade. The basic conclusion one might draw from these data is that much more in-depth work will need to be done to deepen the analysis and address the priorities identified.

Who were the respondents?

The 63 participants of the Workshop, which was held on October 7th-9th in the OECD Private Sector Development in Istanbul, were drawn from over 11 countries of Eastern Europe and the countries of the Black Sea Economic Co-operation. Of these 63 participants, 24 answered the questionnaires. The most significant groups of respondents included 38% who came from the NGO community, 17% from central government, and 13% who were politicians. These numbers roughly correspond to the relative distribution of participants attending the Workshop.

Which groups are involved in corrupt transactions?

According to the Workshop respondents, NGOs had the most integrity while civil servants were the most prone to corrupt incentives. Some of the reasons given during the Workshop by the participants include underpayment of civil servants and pressure by superiors to engage in corrupt activity. Further, another key Workshop conclusion, that civil society and non-governmental actors must become more involved in anti-corruption efforts, is reflected by perceptions that these institutions have more integrity (roughly three times more on a subjective scale) than government actors.



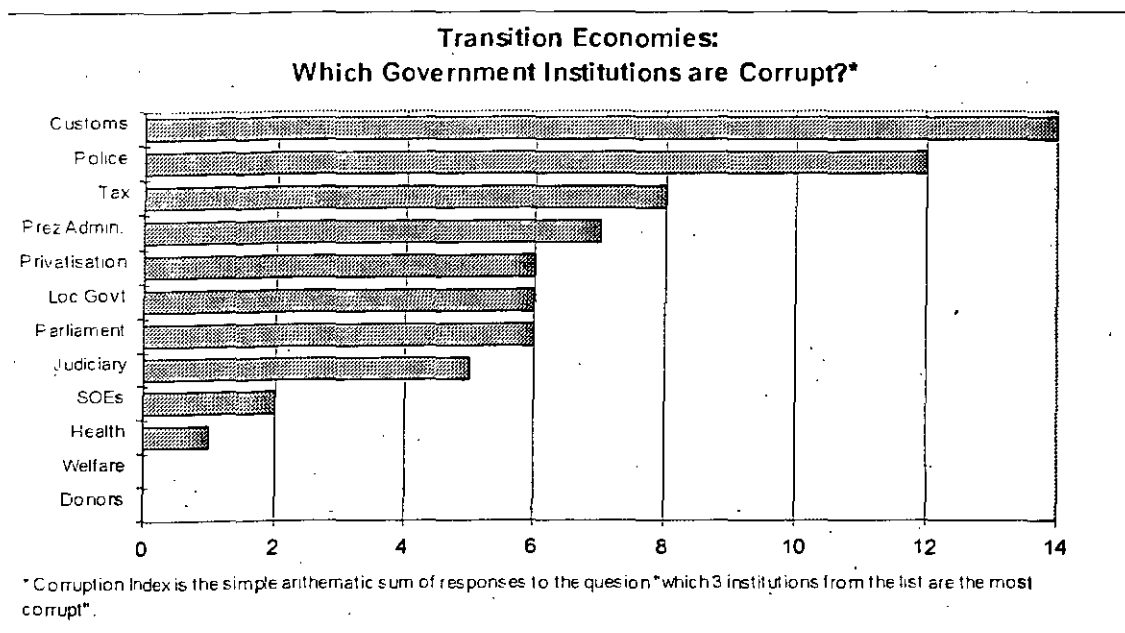
Coalition Building

8

Survey Results: The integrity index is the simple arithmetic average of responses to the question "on a scale of one to ten, which groups are most involved in corruption (one represents most corrupt and ten least corrupt)".

Which government institutions are in most need of reform?

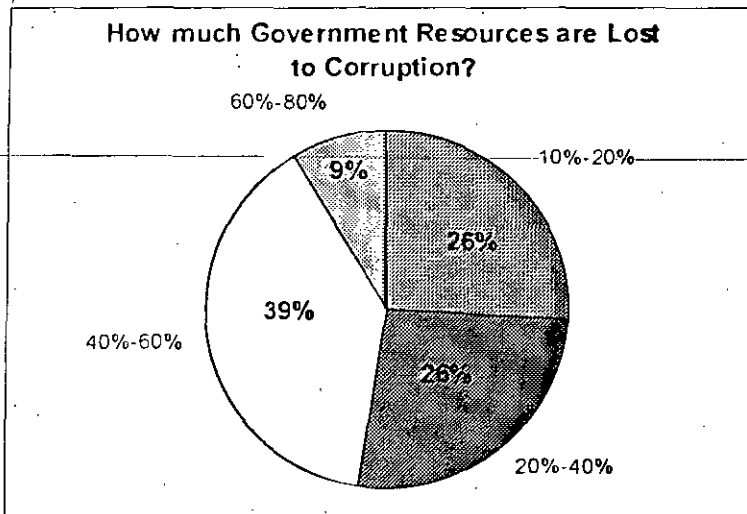
A quick overview of government institutions indicated that Workshop participants believed that customs, police, and tax authorities (the three governmental bodies which are most involved in dealing with money) are the most prone to corruption institutions. On the other hand, health, State Owned Enterprises, and judiciary systems came out as the least corrupt institutions.



So the question remains, how much does the government lose due to institutional misconduct? The majority of Workshop participants tended to believe that between 20%-60%.

Actions and Constraints

Even with a very broad diagnosis of the corruption problem in these countries, the question becomes what can be done to reduce corruption and what are the constraints to these actions? Judicial reform was seen as the number one priority for these countries followed by civil service reform and strengthening the anti-corruption unit. These actions, according to the scale used, were considered to be almost TWICE as important as other institution-building actions such as public sector financial sector reform, campaign finance reform, or



devolution of government responsibilities toward less centralised entities. Such actions were even more important than increased civil society action.

By far, the most important constraint to reform is lack of commitment by civil servants and politicians (about twice as important as other constraints such as lack of coordination). Lack of enforcement of laws was seen as a constraint - which is logical considering that judicial and legal reform were identified as priority actions. The third most important constraint identified in the aggregate was lack of a comprehensive anti-corruption programme.

Action	Importance
judicial reform	2,7
civil service reform	3,1
Anti-corr. unit	4,6
NGO develop.	4,7
economic reform	4,7
legal reform	5,0
restructure of govt.	5,2
public awareness	5,2
financial reform	5,3
camp. fin. reform	6,1
devolution	6,3

* scale of 1-12 (one being the largest priority)

lower numbers represent
greater importance

higher numbers represent
less importance

Constraint	Importance
lack of commitment	3,5
shortcomings in enforce. of laws	4,1
no programme	4,2
unstable situation	4,4
no enough civil society action	4,8
entrenched business interests	5,3
intl firms interests	5,6
lack of legal framework	5,9
lack of coordination	6,6
culture/history	8,4
fear of brutality	8,8

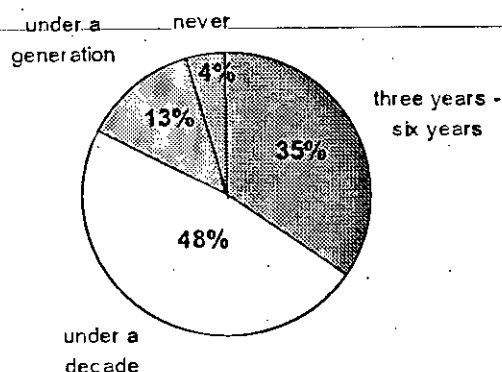
* scale of 1-14 (one being the most severe constraint)

Nevertheless, assuming that these constraints could be overcome, respondents were rather optimistic about how long it would take to reduce corruption to "acceptable" levels. Namely, the majority of participants believed that such reductions could be made in under a decade.

Conclusions and Questions

So, how do these data help devise a programme and ultimately reduce corruption? It must be kept in mind that these data only represent subjective perceptions and are aggregated over a very wide geographical area. However, when taken with other data and information which emerged from the Workshop and during the course of periodic government data collection activities, the following tentative conclusions emerge.

How Long will it Take to Reduce Corruption?



1. More work should be done on a national level but also on a regional level, to further identify the mechanisms responsible for the corruption problems identified in the survey. As customs, police and tax authorities were identified as institutional priorities, further consultation might be conducted in these target areas.
2. As judicial reform, civil service reform, and strengthening of the anti-corruption unit were seen as priorities for action, Governments and donors might consider re-evaluating these programmes (in consultation with their clients), and look for regional synergies.
3. One key constraint was lack of commitment. Indeed the other two major constraints, (lack of enforcement of laws, lack of a comprehensive anti-corruption programme) might be seen as a function of the first problem. The question remains how to build political will in these countries. One solution identified during the Workshop is to exert non-governmental and external pressure on Government. However, more thinking will need to be done to determine how politicians and civil servants can be shown it is in their interest to support an anti-corruption initiative.

The Workshop survey raises more questions than answers. Are these trends correct? What are the causes? How do we engage in further identification exercises? How do we begin to act to address the priorities identified? What are the regional specificities? Much more work will need to be done to identify what a comprehensive programme might consist of.

This note was compiled by Bryane Michael and Debbie Binks of the OECD. Please forward all comments or observations to the authors.

Programme Details

PROMOTING PUBLIC PROCUREMENT IN EASTERN EUROPE AND FORMER SOVIET UNION

Title: Promoting Public Procurement in Eastern Europe and Former Soviet Union

Dates for seminar: May 27th - 30th, 1999

Participants: Heads of public procurement agencies and training in public procurement, and/or representatives of other entities responsible for procurement (where no public procurement agency exists). Some private sector representatives will also attend. All participants shall speak fluent English.

Countries: All Phare beneficiary countries and several TACIS beneficiary countries (depending upon the existence the of public procurement agency in TACIS countries).

Objectives:

- i) increase knowledge about concrete and specific actions which countries have used to successfully set up new public procurement systems;
- ii) broaden knowledge and political will toward sound public procurement and training practices;
- iii) share best practices for promoting public procurement.

Description

Sound public procurement systems are vital for safeguarding an efficient and effective public administration. They are also key to promoting accountability and transparency in the way that the public sector uses its scarce resources. Due to the current transition, however, the benefits are not fully understood and knowledge of specific actions needed to move toward good procurement systems remains incomplete.

This workshop will bring together policymakers and public procurement heads from PHARE and TACIS beneficiary countries to understand the actions which have been successfully used in other countries which are setting up a new public procurement programme. The advantages of good public procurement are difficult to conceptualise. Therefore, sensitisation toward these advantages must be considered as part of promoting public procurement and training in a broader sense. High level policymakers must also be sensitised to the advantages of an efficient and transparent public procurement system. Promoting good procurement is important because awareness raising activities also can be used to inform the general public and the private sector (in particular) about the procurement process as well as details of how to obtain information about tenders and participate in bidding exercises.

Speakers with experience in successfully setting up new public procurement systems will lecture and answer questions. Data from the region will be used whenever possible to elucidate key weaknesses to be addressed and attendee participation will be sought to the greatest extent possible so as to put into specific contexts the information being transmitted. Discussions will be held to consider key actions which should be taken by governments to encourage and promote public awareness and support for a good public procurement system.

Promoting Public Procurement in Eastern Europe and Former Soviet Union

Some participant views?

All comments welcome and may be addressed to
byvane.michael@oecd.org

Promoting Public Procurement OECD SIGMA

Some Survey Numbers

- For both regions, there was agreement that prices paid were around market prices.
- In Eastern Europe, more than a majority said that 40%-60% of businessmen know how to find bidding documentation. In FSU, almost all said that over 40% of businessmen knew how to find bidding documents.
- In Eastern Europe, 80% of respondents said 20%-40% of procurements involve undue influence. In FSU, more than a majority said that 40%-60% of procurements were involved in undue influence.

Promoting Public Procurement OECD SIGMA

Extent of Awareness about procurement information

Access to neighbors' information	EE: 83%
	FSU: 71%
Aware of publications for foreign bid	EE: 80%
	FSU: 57%
Unit dealing with complaints	EE: 50%
	FSU: 71%
Unit dealing with suggestions	EE: 66%
	FSU: 85%

Promoting Public Procurement OECD SIGMA

Actions Identified and Extent of Implementation

Key Action Identified	Extent of Action Undertaken (5 is greatest extent possible)	
	EE	FSU
Seminars & publications about benefits of good procurement to upper and mid-level government officials	3.00	3.67
Education about procedures to business	2.86	3.50
Simple explanations of procurement to journalists/NGOs	2.29	3.29
Governmental technical training programmes	3.59	3.33
Study of foreign procurement practices	3.29	3.80
Study Tours to other countries	3.30	4.23
Regular evaluation of procurement practices	3.83	4.50
Dissemination of tendering info. (how to bid, winners, etc.)	3.29	3.30
Enforcement of procurement laws/regulations	3.71	4.00

Promoting Public Procurement OECD SIGMA

Other Actions (1)

Identified during Focus Group

- Certification of procurement specialists (courses)
- Internal exams on laws and specialised skills
- Put procurement into legal, business, and economic training
- Put law on internet and allow for feedback

Promoting Public Procurement OECD SIGMA

Other Actions (2)

Identified during Focus Group

- Formal Outreach programme to local bidders (not always by PPO)
- Contact information for international public procurement professors
- Basic education on benefits and techniques

Promoting Public Procurement OECD SIGMA

What is an "Ethics Infrastructure"?

Public servant ethics and standards of conduct are regulated in some form in all OECD countries. However, it is impossible to regulate for every contingency. Standards in public life are managed through a range of formal and informal factors. These could be described as representing an "ethics infrastructure" comprised of eight elements.

Without genuine **political commitment** -- clear messages from government leaders that unethical conduct will not be tolerated -- initiatives to improve public service ethics will fail. Recent attempts to improve public sector ethics in OECD countries have been sponsored at the highest political levels, such as in Norway (1998), Italy (1998), the UK (1994), Portugal (1993), Netherlands (1995), and the United States (1991). Of course, leaders also provide important role models. They should set an example.

Laws and regulations should define standards of behaviour and enforce them through investigation and prosecution. In reviewing its **legal framework** for ethics management, countries must first take stock of existing criminal codes, civil service laws, conflict of interest statutes, and regulations, which apply to public servants. They should be made clear and consistent.

Accountability mechanisms include internal administrative procedures, (requirements that activities or requests be recorded in writing), and comprehensive processes such as audits and evaluations of an agency's performance. They might also be external to the public service -- oversight mechanisms such as legislative or parliamentary committees. Whistle-blowing provisions are also important (procedures for public servants to say no when asked to do something inappropriate or to expose wrongdoing committed by others).

Codes of conduct remain important even in OECD countries. Some countries (e.g. Australia, New Zealand) now have a broad and wide code of conduct from which individual agencies design a purpose-built code to reflect their particular objectives and mission. In other countries (Netherlands, Norway) codes are all agency-based. Developing these codes with the civil servants involved reduces the chances that they will be too specific or too general, unworkable, unused, unknown or simplistic.

Professional socialisation mechanisms allow public servants to learn and inculcate public service values. Training (induction and refreshers) is an essential element, as are good role models (especially managers).

Supportive Public Service Conditions are important because if public servants are feeling underpaid, overworked and insecure, then they are less likely to embrace initiatives to improve performance -- including ethics. However too much job security can also result in complacency. And low pay is no excuse for illegal or unethical behaviour.

Ethics Co-ordinating Bodies take various forms like parliamentary committees, central agencies, or specially created bodies. They also assume various functions such as investigative "watchdog" functions (such as the New South Wales Independent Commission Against Corruption), "counsellor and advisor" functions (such as the United Kingdom Committee on Standards in Public Life which Prime Minister Major has referred to as an ongoing "ethics workshop"), or "general promoter" of public sector ethics (such as the New Zealand State Services Commission). But the existence of a co-ordinating body should not allow departments and managers to absolve themselves of responsibility for ensuring ethical conduct within their jurisdictions. Ethics is everybody's responsibility.

An Active Civic Society (including a probing media) allows citizens to act as watchdog over the actions of public officials. Access to information provisions are an important factor in this function.

The rapidly changing environment requires regular review of policies, practices and procedures effecting public sector ethical conduct. The OECD Council adopted a Recommendation on Improving Ethical Conduct in the Public Service on April 1998, which includes a set of principles for managing ethical conduct in the public service. These principles are designed to be a tool for managers carrying out reviews and to check the validity of existing functions and elements of the ethics infrastructure.

To learn more about the OECD ethics work and explore how institutions in your country might learn more about creating and enforcing the ethics infrastructure, please contact:

For ethics work:

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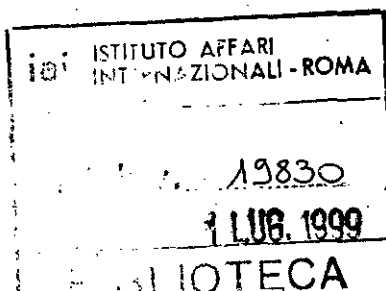
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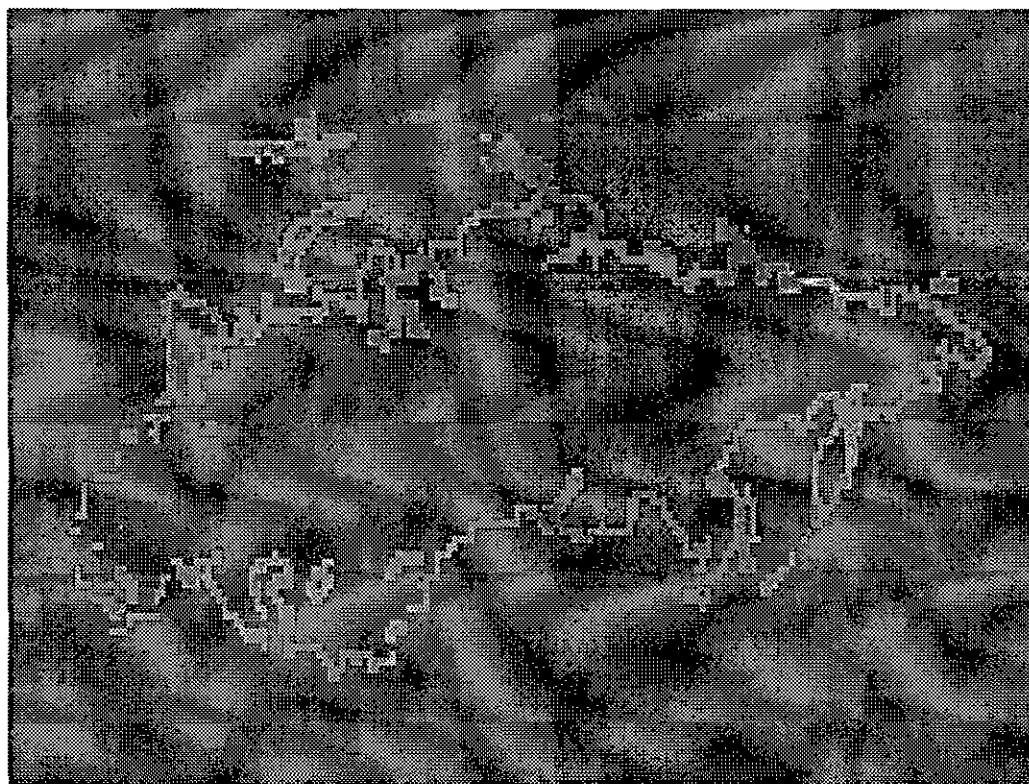


The Ethics infrastructure work is conducted by the OECD's Public Management Service (PUMA) and is made available to members of the Anti-Corruption Network for Transition Economies by the Private Sector Development Unit of the OECD's Directorate for Financial, Fiscal and Enterprise Affairs.

Anti-Corruption Network for Transition Economies

Member Countries

Albania
Armenia
Azerbaijan
Bulgaria
Croatia
Estonia
Georgia
Kazakhstan
Kyrgyzstan
Latvia
Lithuania
Moldova
Mongolia
Romania
Russian Federation
Slovak Republic
Slovenia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan



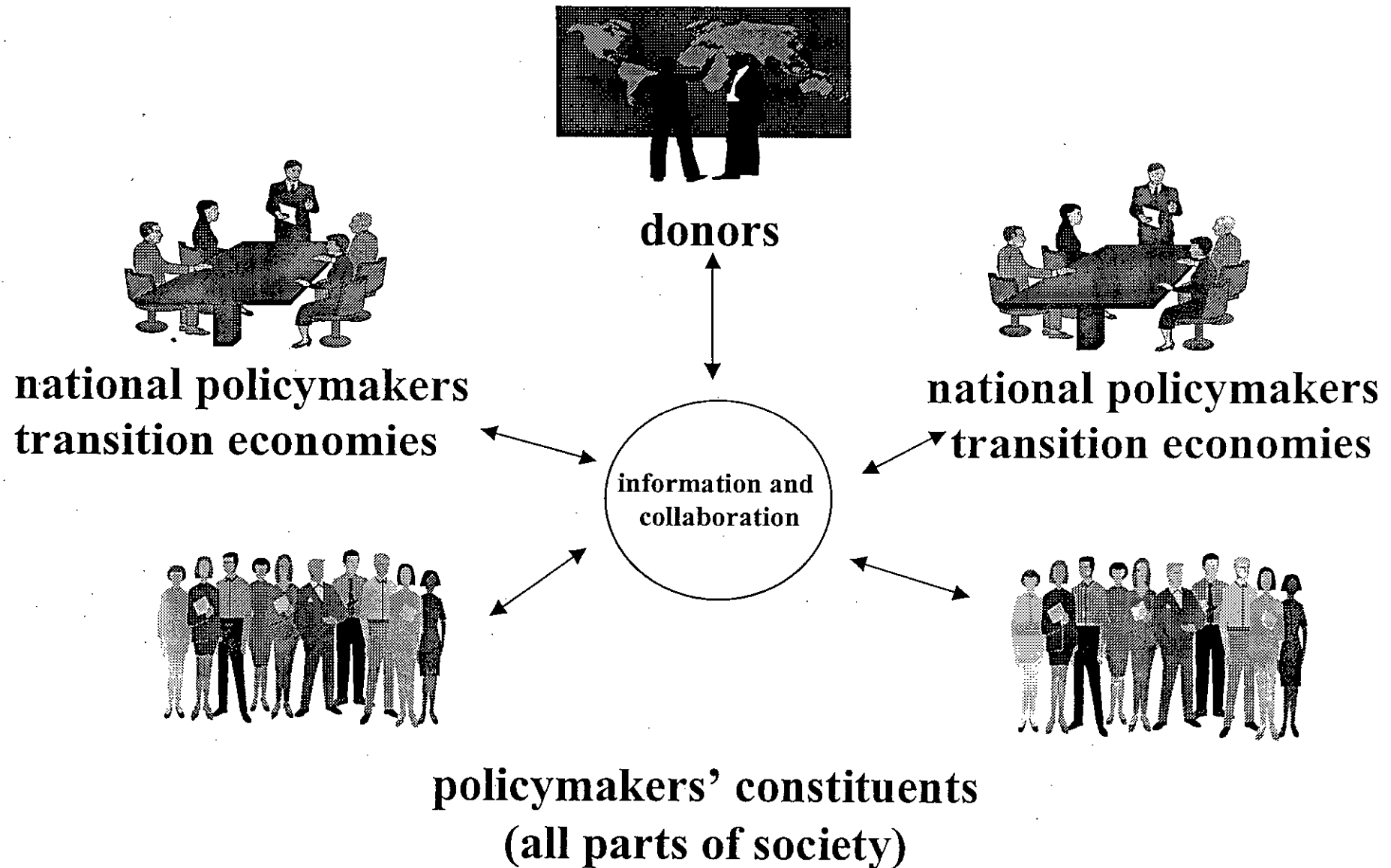
Steering Group Members

Council of Europe
European Bank for Reconstruction
and Development
European Union
International Chamber of Commerce
International Monetary Fund
Organisation for Economic
Co-operation and Development
Soros Foundation
Transparency International
United Nations
US Agency for Intl Development
World Bank

Presentation for the workshop on
Coalition Building and Monitoring to Counter Corruption

...providing action-oriented information

What is the Anti-Corruption Network?



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1 LUG. 1999

Press Release:

**EMBARGO !
NOT TO BE PUBLISHED BEFORE
22 SEPTEMBER, 3 P.M. CEST !**

Transparency International ranks 85 countries in largest ever Corruption Perceptions Index

Berlin, 22 September

Transparency International (TI) today publishes its 1998 Corruption Perceptions Index. This is the most comprehensive index of perceptions of corruption ever published by the global anti-corruption organisation, ranking 85 countries.

The Corruption Perceptions Index (CPI) is a „poll of polls“ drawing upon numerous distinct surveys of expert and general public views of the extent of corruption in many countries around the world. „The 1998 CPI is a wake-up call to political leaders and to the public at large to confront the abundant corruption that pervades so many countries,“ said Dr. Peter Eigen, Chairman of TI.

He added: „We hope that the publication of the CPI will be an incentive to governments to confront the corruption in their countries. The poor scores received by many countries in the new index illustrates just how serious the global cancer of corruption really is. This has to change.“

Mr. Eigen noted that, „directly confronting corruption must be a top priority for most national governments and the international organisations concerned with development, economic growth and human progress. The 1998 Transparency International CPI covers 85 countries with the ones seen as having the least corruption obtaining scores of close to 10. Scandalously and sadly there are about 50 countries that do not even achieve a score of 5, and there are numerous countries with a score of less than 3.“

TI Vice Chairman Frank Vogl pointed out: „The CPI scores, with their shocking portrayal of so many countries perceived to be home to rampant corruption, will spur Transparency International to be even more aggressive in mobilising initiatives to counter corruption world-wide. Securing democracy, alleviating poverty and human suffering, and sustaining investment and commerce, are inextricably dependent upon curbing corruption in most of the developing nations and across Central and Eastern Europe.“

Media contacts:

1/7

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Mr. Frank Vogl, Vice Chairman of TI, tel. +1-202-331 8183
CPI 1998 in the Internet: <http://www.transparency.de/documents/index.html#cpi>

„Our ability to include more countries in the CPI than ever before will ensure that the public discussion of corruption will become even more widespread. Governments that have sought to brush this debate aside can no longer do so, as the whole world sees how their nations rank,” said Mr. Eigen.

While the CPI covers a record of more than 80 countries, TI stressed that there are numerous countries not included because there is insufficient reliable data available. „It would be wrong for the press to run a headline declaring any country in the CPI as the most corrupt in the world, because we do not have data on all countries,” said Dr. Johann Graf Lambsdorff of Göttingen University, Germany, who is the lead expert advising TI on the compilation of the CPI. „It must also be stressed that this is an index of perceptions of corruption,” he added.

„The 1998 CPI shows that corruption is by no means perceived to be a plague confined to the developing countries. Numerous countries in transition in Central and Eastern Europe have very low rankings, while a number of leading industrial countries have scores that highlight the serious corruption problems that they must address,” said Peter Eigen.

He stressed that the governments of the industrial countries „have a double responsibility - they must clean up their own houses, and they must forthrightly act to prevent their corporations from paying bribes around the world. These governments must now move with speed to enact domestic anti-corruption legislation to give effect to the Anti-Corruption Convention signed last December by the 29 members of the OECD (the Organisation for Economic Cooperation and Development) and five additional countries.”

The impact of the CPI

TI noted that since its inception in 1995, the CPI has served the constructive purpose of stimulating public debate about corruption. In some countries it has also led to substantive anti-corruption reform. It needs to be emphasised, though, that it can take some time for these actions to influence international perceptions, and be consequently reflected in the CPI.

„Many of the world's poorest nations are perceived to be among the most corrupt,” noted Mr. Eigen. „The CPI helps to draw attention to this link and it represents a challenge to leading foreign aid granting agencies to make fighting corruption a key priority. We are delighted that an increasing number of these agencies now see the CPI as a valuable tool and are evolving constructive anti-corruption strategies for developing nations.”

In the last three years many leading international organisations, such as the United Nations, the World Bank, the International Monetary Fund, the Council of Europe, the

European Union, the Organisation of American States, the OECD and the Global Coalition for Africa have articulated anti-corruption policies, often with TI involvement.

The annual CPI sensitises public opinion world-wide to the corruption issue, influences the policies of major aid agencies and is a factor in the foreign investment decisions of multinational corporations.

The Transparency International 1998 Corruption Perceptions Index

Country Rank	Country	1998 CPI score	Standard deviation	Survey used
1	Denmark	10.0	0.7	9
2	Finland	9.6	0.5	9
3	Sweden	9.5	0.5	9
4	New Zealand	9.4	0.7	8
5	Iceland	9.3	0.9	6
6	Canada	9.2	0.5	9
7	Singapore	9.1	1.0	10
8	Netherlands	9.0	0.7	9
	Norway	9.0	0.7	9
10	Switzerland	8.9	0.6	10
11	Australia	8.7	0.7	8
	Luxembourg	8.7	0.9	7
	United Kingdom	8.7	0.5	10
14	Ireland	8.2	1.4	10
15	Germany	7.9	0.4	10
16	Hong Kong	7.8	1.1	12
17	Austria	7.5	0.8	9
	United States	7.5	0.9	8
19	Israel	7.1	1.4	9
20	Chile	6.8	0.9	9
21	France	6.7	0.6	9
22	Portugal	6.5	1.0	10
23	Botswana	6.1	2.2	3
	Spain	6.1	1.3	10
25	Japan	5.8	1.6	11
26	Estonia	5.7	0.5	3
27	Costa Rica	5.6	1.6	5
28	Belgium	5.4	1.4	9
29	Malaysia	5.3	0.4	11
	Namibia	5.3	1.0	3
	Taiwan	5.3	0.7	11
32	South Africa	5.2	0.8	10
33	Hungary	5.0	1.2	9
	Mauritius	5.0	0.8	3
	Tunisia	5.0	2.1	3
36	Greece	4.9	1.7	9
37	Czech Republic	4.8	0.8	9
38	Jordan	4.7	1.1	6
39	Italy	4.6	0.8	10
	Poland	4.6	1.6	8
41	Peru	4.5	0.8	6

EMBARGO !!

**TUESDAY,
22 SEPT. 98
3 P.M. CEST**

1998 CPI Notes

1998 CPI Score -

... relates to perceptions of the degree of corruption as seen by businesspeople, risk analysts and the general public and ranges between 10 (highly clean) and 0 (highly corrupt).

Surveys Used -

... refers to the number of surveys that assessed a country's performance. 12 surveys were used and at least 3 surveys were required for a country to be included into the 1998 CPI.

Standard Deviation -

... indicates differences in the values of the sources: the greater the standard deviation, the greater the differences of perceptions of a country among the sources.

42	Uruguay	4.3	0.9	3
43	South Korea	4.2	1.2	12
	Zimbabwe	4.2	2.2	6
45	Malawi	4.1	0.6	4
46	Brazil	4.0	0.4	9
47	Belarus	3.9	1.9	3
	Slovak Republic	3.9	1.6	5
49	Jamaica	3.8	0.4	3
50	Morocco	3.7	1.8	3
51	El Salvador	3.6	2.3	3
52	China	3.5	0.7	10
	Zambia	3.5	1.6	4
54	Turkey	3.4	1.0	10
55	Ghana	3.3	1.0	4
56	Mexico	3.3	0.6	9
	Philippines	3.3	1.1	10
	Senegal	3.3	0.8	3
59	Ivory Coast	3.1	1.7	4
	Guatemala	3.1	2.5	3
61	Argentina	3.0	0.6	9
	Nicaragua	3.0	2.5	3
	Romania	3.0	1.5	3
	Thailand	3.0	0.7	11
	Yugoslavia	3.0	1.5	3
66	Bulgaria	2.9	2.3	4
	Egypt	2.9	0.6	3
	India	2.9	0.6	12
69	Bolivia	2.8	1.2	4
	Ukraine	2.8	1.6	6
71	Latvia	2.7	1.9	3
	Pakistan	2.7	1.4	3
73	Uganda	2.6	0.8	4
74	Kenya	2.5	0.6	4
	Vietnam	2.5	0.5	6
76	Russia	2.4	0.9	10
77	Ecuador	2.3	1.5	3
	Venezuela	2.3	0.8	9
79	Colombia	2.2	0.8	9
80	Indonesia	2.0	0.9	10
81	Nigeria	1.9	0.5	5
	Tanzania	1.9	1.1	4
83	Honduras	1.7	0.5	3
84	Paraguay	1.5	0.5	3
85	Cameroon	1.4	0.5	4

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TUESDAY,
22 SEPT. 98
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The methodology of the CPI

TI has recently been reviewing the impact of the CPI and ways to improve the application of surveys to raise public understanding of corruption. The methodology was discussed extensively by the members of the CPI Steering Committee.¹ One result has been the inclusion of 85 countries this year, compared to 52 countries in 1997.

Dr. Lambsdorff noted that the methods used to compile the CPI ensured that no individual subjective perspectives on individual countries entered the system. „The data in the 1998 CPI may disappoint some governments, especially in countries where distinct efforts to curb corruption have been initiated. In these cases, we have to admit that the CPI may well not fully capture important recent anti-corruption actions in countries and we encourage researchers to seek additional information, to complement the CPI rankings, before drawing conclusions about corruption in individual countries. This especially applies to countries that are on the CPI for the first time and for which there is not a good base for historical comparisons.

Dr. Lambsdorff noted that the 1998 CPI is the product of all data available from the key sources noted below. The data this year cannot be exactly compared with that used in previous years, but, „the sources continue to show a high degree of correlation and, thus the impact of differing samples and methodologies on the outcome appears to be small. Moreover, a strength of the CPI is that it is based on the concept that a combination of sources into a single index increases the statistical robustness of each individual figure.”

CPI Sources

The sources used in the 1998 „poll of polls” to establish the new CPI include data from:

- Economist Intelligence Unit (Country Risk Service and Country Forecasts),
- Gallup International (50th Anniversary Survey),
- Institute for Management Development (World Competitiveness Yearbook),
- Political & Economic Risk Consultancy (Asian Intelligence Issue),
- Political Risk Services (International Country Risk Guide),
- World Bank (World Development Report & Private Sector Survey), and,
- World Economic Forum & Harvard Institute for International Development (Global Competitiveness Survey)

Dr. Lambsdorff added that, „the reliability of the new data in the CPI is improved by including only countries that have been included into three polls at the minimum. A minimum of four surveys was used in 1997, but rechecking the data this year and using some historical comparisons convinced us that we had a high level of credibility by just using three surveys and by this means we could include more countries. The idea of combining data implies that a malperformance of one source can be smoothed by the inclusion of at least two other sources. This way the likelihood of misrepresenting a country is reduced.”

¹ A list of the members of the Steering Committee is included in the Framework Document.

For further information:

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Please also contact TI in Berlin.

Background information on the CPI:

TI also published today a report explaining in detail the methods used to compile the CPI and the sources that TI draws upon for the annual rankings. It is available at the TI website along with a document on frequently asked questions at

<http://www.transparency.de/documents/index.html>

The CPI on the TI website:

The CPI is fully available on the TIK website at: <http://www.transparency.de/documents/index.html>, including a framework document explaining the methodology behind the index and background information on frequently asked questions.

TI National Chapters:

A complete list of National Chapters (including addresses) can be obtained through the TI website at: <http://www.transparency.de/organisation/chapters/index.html>

Transparency International (TI) is a coalition that works through a growing network of national chapters to mobilise civil society, business, academia and government, to increase government accountability and curb corruption both nationally and internationally. TI, founded in 1993, now has more than 60 National Chapters around the globe, with an International Secretariat based in Berlin, Germany. Dr. Peter Eigen is TI's Chairman. The Hon. Olusegun Obasanjo is Chairman of TI's International Advisory Council.

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**TRANSPARENCY
INTERNATIONAL**

TI Newsletter

1 LUG. 1999

June 1999

Civil Society to take centre stage

Our movement is taking a fresh look at harnessing the energies of civil society. To date, we have focused largely on the actors on the corruption stage, on building our coalitions, that is to say the public and private sectors. Most governments, international organisations and many companies have now pledged their commitment to fight corruption. Those which have not, need to be convinced or pressured into doing so. More importantly, however, those that have committed themselves publicly need to be watched with a careful eye to see whether their actions match their words and moreover, that this is carried forward in a sustainable way. After all, they remain part of the problem until corruption is firmly under control. Monitoring is as much the job of civil society as is campaigning for change. Many organisations represent the victims of corruption or carry the burden of having a large amount of trust placed in them.

Associations of small businesses suffering from powercuts, drivers' associations complaining of poor roads, parents forced to pay over and above official school fees, labour-unions hit by capital outflow and religious communities finding the base of their work being torn apart, all these groups constitute key strands in the fabric of society. As positive examples have proven, mutual co-operation between TI and these groups can boost the effectiveness on all sides to pressure both the public and the private sector to deliver. TI National Chapters should not feel that it is the committed few who are left to carry the banner alone. Through joint action with other partners, TI can profit from the expertise and energy of other civil society organisations, both professionally and organisationally. In return, through working with National Chapters, these organisations benefit from the international experience and tools which our movement offers. Such a mutually symbiotic relationship means that all parties have something to gain.

Peter Eigen, Chairman, Board of Directors

Corporate News

Former Thyssen managers arrested

The investigations against German businessman Karlheinz Schreiber in connection with bribes allegedly paid to politicians and managers, have led to the arrest of two former Thyssen managers. The arrests are related to a delivery of 36 tanks to Saudi Arabia by Schreiber in 1991 which allegedly also involved bribery payments worth millions of Deutsch Marks. According to a public prosecutor in Augsburg, a former Thyssen board member is accused of having received bribes worth millions of DM which he never reported to his company or to the internal revenue service.

dpa (Germany), 1 May 1999

Drug giant Zeneca paid bribes to doctors

One of the world's leading drug companies, Zeneca, is facing a bribes scandal after claims by a whistleblower that it set up a £100,000 slush fund to make illegal payments to doctors. Tom Moore, a former Zeneca general manager, has accused the firm of paying tens of thousands of pounds to doctors to encourage them to prescribe its anti-cancer and heart drugs to patients. The bribery allegations will severely embarrass the British multinational, which had £5 billion drug sales last year. Moore was a senior manager at Zeneca's London headquarters and ran its offices in Ireland and Switzerland. In an affidavit, he says that the bribes ranging from £600 to £2000 were made between

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TI Internal

1991 and 1995 to doctors in France, Belgium, and Italy. The firm accepted that irregular payments did take place; however, it claimed that these cash transactions were bonus payments for sales representatives and management, not doctors.

Sunday Times (United Kingdom), 21 February 1999

Leading industrial group adopts code of conduct

India's leading industrial group, the House of Tata, has formally adopted a code of conduct for its companies and employees which includes the commitment not to pay or accept bribes. On December 8th, Tisco, Telco, Tata Tea, Tata Chemicals, Tata Electric Companies, Tata International, Tata Industries and the divisions of Tata sons signed the agreement. These companies and divisions represent 66% of the group's turnover in 1997-98. Mr. Tata said: "Of all the various initiatives we have undertaken in recent years, the development of this Code is perhaps the most significant." The two points of the code relating most to corruption are: to neither give nor take any illicit payment, remuneration, gift or comparable benefit to obtain business; and to not give any donation to any government agency to obtain any favourable performance of official duties.

Bulletin of Lok Sevak Sangh and TI India, February 1999



TI Chairman Peter Eigen speaking at Lufthansa, which has recently become a TI Corporate Member.

Novartis fined for mis-reporting income in Japan

The Swiss pharmaceutical group Novartis is the latest in a number of cases where drug companies have been charged by the Japanese tax authorities with misreporting income in Japan. By overstating the transfer prices for raw materials used to manufacture goods delivered by parent companies and thus increasing their expenditures, the local subsidiary can evade taxes in high tax countries. After fining Roche (Switzerland), Yamanouchi (Japan) and Monsanto (US), the present case will further alarm foreign drug companies, whose operations in Japan are usually highly profitable, but which tend to report low earnings.

Financial Times, March 1999

Shell says some European Suppliers "unethical"

Royal Dutch Shell says it would like to cut its worldwide links with several large European-based suppliers because of unethical behaviour, but is constrained from doing so for legal reasons. In several cases, employees of European suppliers had tried to secure contracts through bribe offerings to Shell's employees. "I would dearly love to strike them off the list, but we would probably get in trouble with the European Union" said chairman Moody-Stuart as he deemed it difficult to impose a global blacklist of

such companies. Shell has cancelled 69 contracts last year due to what it called failure to adhere to its ethical policies. Moody-Stuart said that unethical behaviour outside the relationship with Shell would not result in termination. If that were to be the case, "there are some big oil companies we couldn't be in partnership with".

Financial Times, 21 April 1999

SEC calls for improved quality of US corporate financial statements

The boards of American companies should adopt more stringent safeguards to ensure the quality of their financial statements, said a high-level panel set up by the Securities and Exchange Commission. The committee, set up by the SEC last September, produced ten recommendations for how companies should set up and run their audit committees. These include a requirement that all members of the committee should be totally independent from the company, and that members should be "financially literate". The new controls have already received strong support from the New York Stock Exchange and the National Association of Security Dealers, making it likely that companies will eventually be forced to follow them.

Financial Times, 9 February 1999

International Organisations

European Union: Corruption high on European Parliament agenda

Corruption was highlighted as a key issue at an inter-parliamentary conference that took place at the initiative of the Committee on Civil Liberties and Internal Affairs of the European Parliament. The Brussels meeting on March 24 and 25, 1999 focused on elaborating an "Action Plan to establish an area of freedom, security and justice in Europe". A number of topics crucial to the objective of complementing EMU were discussed, ranging from the free movement of persons to combating crime through judicial, police and administrative co-operation. Under the latter heading, the fight against corruption appeared several times in the action programme. Participating were some 400 MEPs, parliamentarians from EU-member states, international organisations and representatives of civil society. Five NGOs took the floor in the first plenary meeting for short statements. Among them, TI was represented by Mr. Dieter Frisch who stressed the key role of criminalising transborder corruption and judicial co-operation in this area. He also made a strong appeal for a quick ratification of the May '97 EU-Convention criminalising active and passive intra-European corruption and its transposition into national law.

TI Brussels, 26 March 1999

European Union: Council of Ministers in court on Access to Information

MEP Ms. Hautala (Greens, Finland) has sued the Council of Ministers for denying her access to documents on criteria for arms export. In 1996, Ms. Hautala had made a written request for clarification of the eight criteria for arms export defined by the European Council in 1991 and 1992. The Council replied that a group of experts had drawn up a report on the implementation of the criteria, but repeatedly refused Ms. Hautala access to this report when she asked to see it. Ms. Hautala is now suing the Council, since she considers it the citizen's right to be able to scrutinise the activities of the Council, including on matters of Common Foreign and Security Policy. "If

continued on page 4

Corruption in the arms trade

A subject which still suffers from a relative dearth of information, corruption in arms trade procurement is examined in the book highlighted below, the result of a project begun by the Stockholm International Peace Research Institute.

Arms and corruption is an almost breath-taking combination, certainly one that is obscured by much rumour, marked by a near total absence of transparency. Ravinder Pal Singh's book comprises a series of case studies which strike the right balance between confidentiality and accountability in some of the most important decisions that any government has to take. National security is the most important area of policy-making for governments, and an area in which they tend to be least critical of the budget. Military spending is one of the largest items in the budget, and arms procurement accounts for 30-40% of it. In a truly democratic state, decisions determining security, strategy and arms procurement would be openly taken and openly debated. But there are few countries of which this is true, even in the democratic West. Most exist on a continuum stretching down from sub-optimal to non-existent.

Security is the province primarily of the military, in which a passion for secrecy is a professional deformity. It is administered by civil services that are no less (but rather more sinisterly) deformed, by instinct preferring to operate out of sight of the public they serve. Decisions are taken by unadvised heads of state, isolated professionals, self-serving cliques and the elite the "iron triangles" – who may have other agendas to pursue and very often cannot be called to account for them. These are conditions in which decisions can all too easily be poor, wasteful and inefficient. They are also the conditions in which corruption flourishes. The reviewer's conclusions, in a book to be published jointly with TI, are that the arms trade is probably the most corrupt of all legal international trades. This adds to the pressures on the decision making system with the result that too much money is spent on the wrong sort of arms, increasing the supply in an already over-supplied world.

The question of corruption arose almost as a sideshow to its main concern, which is to analyse arms procurement in six countries and to compare them. The intention is to identify the structures and processes that result in good decisions. The book is the first fruit of a

project, begun in 1993 by the Stockholm International Peace Research Institute (SIPRI). Hitherto, defence analysis had tended to concentrate on the USA and a few western European countries, and such studies which did exist on the non-western buyers of major weapons systems were written by Western experts. The SIPRI project was set up to examine the demand side factors which influence arms procurement, using experts in the countries concerned. The primary rationale for this study is the attempt to understand the barriers to the promotion of accountability, the assumption being that a more open debate would result both in better decisions and in restraint in arms procurement, and would contribute to a more stable world.

Furthermore, it is assumed that an examination of the tension between the public's 'right to know' and the military's interpretation of confidentiality based on an exclusive 'need to know' will provide lessons for other areas of public policy making in which the ruling elite controls and manipulates public information. Successive Indian governments have denied information to the people under the assumption that, if this is shared, what is in consequence being shared is also power. Hardly less important is preserving the decision makers' grip on a major element of government spending, and masking what happens with the money behind a cloak of secrecy and obfuscation. Waste, fraud and abuse of power in the policy-making process reinforce secrecy and, one might add, vice versa.

It would be impossible to do justice to the results of the enquiry in a short review since its strength is the factual detail in the description of decision-making structures and process. The committees, lines of command and the steps by which they reach decisions are laid out and the importance of informal networks as a means of controlling events is repeatedly stressed. In South Korea, for example, the concentration of power in the hands of the President results in poor and arbitrary decisions. In Israel, the military elite have a grip on decision making that is conceded by the political system in the face of great need. In Japan, the bugbear is consensus; in Thailand it is deference to the military. China remains impenetrable.

In the editor's study of decision-making in his native India, he comments on inefficiency, waste and corruption fairly openly. Secrecy appears to be sanctified by appeal to the

national interest which helps the Government to withhold or release information according to its perception of its own interests, carrying perhaps shades of the Scott Report and the abuse of secrecy by the British civil service. But the analyses of decision making elsewhere, even in countries that have been riven by scandal, are notable for their reticence.

The SIPRI focus is on the need for structures and processes that lead to better procurement decisions. However, openness and accountability are central to that endeavour, both inimical to corruption. The process starts with the first of the headings under which the analyses are organised: rational and well-informed assessment of threats and the development of long-term strategies. Only Israel comes out well in this section. Deng Xiaoping is quoted as telling the Chinese Communist Party, rather disarmingly, "War is not going to break out, so there is no need to fear it and no problem of risk." (Good basis for a strategic review.) Secondly, defence budget planning is seen to be a matter of political horse-trading. Where the military is politically active (ranging from very strong to dominant) it tends to get what it wants. Thirdly, the need to remain abreast of technological development in the design and evaluation of new weapons systems tends to be thwarted by political agendas, particularly where protection of an indigenous arms industry is at stake. The cases of Israel, where a major project was cancelled, and India, hopelessly entangled in costly fantasies of self-sufficiency, are exemplary. Lastly, the efficiency of the process depends crucially on the openness of the discussion, legislative oversight, availability of information and opportunities for criticism. In all cases, the decisions are taken behind closed doors by a political and military elite for whom secrecy is essential.

The lack of much-needed transparency in the arms trade and in the decision-making processes involved all lead to conditions in which corruption is inevitable. Inefficiency and waste are inevitable by-products of this process, for a corrupt society renders rational decision-making impossible.

The above is an abstract of
Arms Procurement Decision Making
Vol I: China, India, Israel, Japan, South Korea and Thailand
Edited by Ravinder Pal Singh
SIPRI/OUP 1998. ISBN 0-19-829279-1

continued from page 2

citizens are not informed of the principles of the Common Foreign and Security Policy," she says, "they will have no means of verifying whether governments and EU institutions abide by the common rules."

The Greens Press Release, 23 February 1999

European Union: Journalist sacked for investigating EU corruption

Jean Nicolas, a free-lance journalist based in Luxembourg and working for "La Meuse" (part of the leading francophone newspaper group in Belgium) has been sacked for the part he took in exposing the EU corruption scandal. Nicolas had been at the forefront of the investigation and had identified the corruption link between the commission and Luxembourg fixer Claude Perry. Michel Fromont, the group director, has acknowledged in a letter to the editor of "La Meuse", that he was under pressure from allies of the former commissioner Edith Cresson and unable to protect Nicolas any longer. In Paris, Cresson denies being involved in any way in Jean Nicolas' dismissal.

The Guardian (United Kingdom), 26 March

Frankfurter Allgemeine Zeitung (Germany), 27 March 1999

European Union: New fraud prevention office created

The Commission has adopted a decision to create a new Fraud Prevention Office. The Office will replace the present Task Force for Coordination of Fraud Prevention (UCLAF). The decision to create a new Office will enter into force on 1 June 1999. The director of the Office will be able to launch an investigation on his/her own initiative, or on the demand of the institution, body, organism or member state concerned. The Office will have access instant to all information held by the institutions and bodies as well as access to their premises. All members, officials and servants have a duty to co-operate with and supply information to the agents. Information obtained by the Office shall be subject to professional secrecy and to the provisions of data protection. The investigative work of the Office will be monitored by a five-person Supervisory Committee, appointed by common accord of the Parliament, the Commission and the Council.

TI Brussels, 10 May 1999

United Nations: New attack on money laundering

A new attack on money laundering to be launched in Vienna proposes a league of internationally approved offshore centres with acceptable standards of control over their use by the financial industry. Governments responsible for centres which fail to reach the league standards within five years would, come under international pressure to close them. The league would in effect, be a "white list". However, the United Nations Global Programme Against Money Laundering which is launching the scheme - the Offshore Initiative - is wary of using the term because of political sensitivities. The Isle of Man, Cayman Islands, Gibraltar and Malta, which have all brought in substantial anti-money laundering measures, have begun talks with the Global Programme about becoming autho-

the three British-registered corporations (Crown Sakura Ltd.; Chase Berkeley Cavenish Ltd. and Amani BP Ltd.) is permanent and was ordered by World Bank President James Wolfensohn who acted on the recommendation of the Bank's Sanctions Committee. The move comes as part of the Bank's overall anti-corruption plan. Although the charges were disputed, the Sanctions Committee found that procurement guidelines had been violated. The allegations concerned fraudulent activities which occurred in 1995 regarding procurements involving the supply of computer equipment to agencies of the Government of Turkmenistan.

World Newspaper Association: Corruption lethal for journalists

According to the World Newspaper Association (WNA), 28 journalists were killed in 1998. Most of these journalists were not victims of war but were killed during the course of their investigations of corruption cases, especially when highlighting the existing links between authorities and organised crime. The media NGO Reporters Sans Frontières mentions the case of Russian journalist Larissa Youdina, assassinated while investigating a case implicating the President of the Republic of Kalmoukie. The WNA reports the murder of Saiful Alam Mukul, a Bangladeshi journalist known for his corruption investigations. In Africa, the assassination of Norbert Zongo, director of the



The Economist, 28 February 1998

rised centres. The UN believes that offering an opportunity for inclusion in a "white list" is thought more likely to attract worldwide political support than straightforward exclusion, or blacklisting of suspect centres.

Financial Times, 5 March 1999

World Bank:

The World Bank has debarred an employee and three corporations from being awarded Bank-financed contracts. The debarment of

Burkina Faso critical newspaper "l'Indépendant", has also been linked to his frequent denunciations of the country's current state of corruption. Other cases were recorded in Asia, the Middle East, Yugoslavia and Turkey but Latin America remains the region where attacks on the freedom of the press claim the most victims. Reporters Sans Frontières also noted that the killers are rarely identified and even more rarely punished.

Le Monde/Reuters, 2 May 1999

Recent Reforms

A global sample of initiatives to increase transparency and accountability

Austria:

Public contracts scheme promotes fair competition

A working group comprising ministers, public prosecutors and other high-ranking officials from various Austrian federal ministries has come up with a rating scheme for awarding public contracts. According to this proposal, a company's compliance with the principle of free and fair competition is to be ascertained by information gathered from public institutions. These institutions are to be obliged to pass any information regarding violations on to a specially-created control commission. This body would, in turn, evaluate the reliability of a company and its subsequent classification into one of three categories. A firm could either be listed as unproblematic (A), or as questionable due to minor shortcomings (B), or even be barred from further public contracts (C). In all instances, certain conditions would have to be met in order to be re-instituted as a class "A" company – a process only to be sped up by so-called confidence-building measures. The firms would be entitled to challenge the decision in a formal hearing. The findings and respective classifications would also be made public via printed and electronic media.

Transparency International

Botswana:

Corruption gets colourful write-up by media

Growing public interest in, and concern about, the question of corruption and abuse of office in Botswana is leading to increasingly provocative exposures of corruption in the Botswanan media. A local weekly jumped the gun by announcing the formation of a TI chapter in Botswana, despite the fact that the contact group is still only in the preliminary phase of deliberations. The article described the government Directorate on Economic Crime and prevention as "wanting, as its functions are under the supervision of politicians. It is the lack of total independence that leads many to believe that it cannot police its own masters". The perception of Botswana as relatively corruption-free was criticised as misleading due to the weakness of monitoring mechanisms. Stressing the importance of coalition-building and co-operation with government bodies, the TI contact stated "my colleagues and I see a (future) local TI chapter and the Directorate as playing different and complementary roles in fighting corruption and abuse of power". TI Chairman Peter Eigen was once legal advisor to the government of Botswana and prominent Botswanans have served or are serving on the TI Advisory Council.

The Midweek Sun (Botswana), 5 May 1999

China:

Soccer association admits corruption is rife

The Chinese Football Association (CFA) has for the first time admitted it has a problem with clubs and referees accepting bribes to throw matches or make false calls. The league had come under heavy pressure from fans to mete out punishment in several instances but was hindered by a lack of firm evidence to prove wrongdoing. Those who come forward with clear evidence of bribe taking will be rewarded with cash, equal to the amount of the illicit payment uncovered, plus a 20% to 50% bonus out of CFA coffers. The CFA has also established an investigation department to handle corruption cases and cooperate with law enforcement authorities. But it was considered that the reward policy was unlikely to have an impact. "Most people say no one can hope to obtain this money, as getting evidence is extremely difficult."

Inside China Today, 4 March 1999

Germany:

Brandenburg Access to Information Act reviewed

The Access to Information Act has now been in force in the German state of Brandenburg for a year. According to the Commissioner for the Protection of Data Privacy and Access to Information, Alexander Dix, none of the negative repercussions which were feared have materialised. These alleged negative consequences included increased administrative workload and the reduced attractiveness of Brandenburg for investors. Most requests concerned road building plans or environmental issues. Data revealing how many people approached

municipal administrations is not available yet, although the Act is likely to have the greatest impact at the local level. Dix lists some remaining weaknesses of the Act. The bureaucratic wording of the act, which specifies many exceptions to the rule of free access, serves as a deterrent. There is also no set time-limit for answering requests, and officials are allowed to charge members of the public for the documents provided. These factors could be reviewed in an amendment, Dix suggests. Further information is available at:

<http://pns.brandenburg.de/land/lfdbbg/>

Der Tagesspiegel (Germany), 4 March 1999

Germany:

Bribes no longer tax-deductible

German income tax laws have finally been changed to abolish the tax deductibility of bribes. The new law, which was passed in March 1999, states that "income may not be reduced by payments "which are illegal under the Criminal Code or another law which stipulates a fine". As a result of this new provision, courts, prosecutors and civil servants must now pass any suspicious details on to the tax authorities. The tax authorities, for their part, are obliged to inform the prosecutors of any suspicions they have regarding criminal acts or misdemeanours. The prosecutors in turn must inform the tax authorities regarding the outcome of their investigations.

Transparency International

India:

Andhra Pradesh Politicians declare assets

In the Indian state of Andhra Pradesh, 214 of the 294 members of the Legislative Assembly have publicly declared their assets. Details of the members' moveable and immovable properties were handed to the Assembly Speaker Yanamala Ramakrishnudu, who initiated the process. He assured the media that the declarations would be treated as public documents and that members of the media would have access to them. Any objections raised by the public based on the declarations could be brought before the House Ethics Committee. A code of conduct passed by the Assembly early in 1999 provides for sanctions, should a member refuse to declare their assets.

The Hindustan Times (India), 2 April 1999

Japan:

Company analysts convicted

After years of inaction, the Japanese court system has begun to clamp down on members of the *Sokaiya* – company analysts who threaten to ask uncomfortable questions during Annual Meetings of stock companies unless bribed. Ryuichi Koike was sentenced to nine months in prison and a fine of 690 m yen for receiving direct payments from companies and unsecured loans from banks. The recent developments were initiated by Western investors who demanded liberalisation and transparency in the Japanese financial markets before undertaking any further engagements.

Die Zeit (Germany), 29 April 1999

Lebanon:

Lahoud cracks down on corruption

Lebanese authorities are keeping their promises to crack down on corruption. Following his swearing-in last November, President Emile Lahoud set out his agenda, promising to "fight corruption and bribery, carry out administrative reform as well as build a state of law and institutions." Less than four months later, the former Minister of Oil, Shahe Barsoumian, was taken into custody on charges of embezzling public funds. It was the first time a Lebanese minister had been charged with corruption and it was the first major prosecution as part of the new government's anti-graft crackdown. Barsoumian is believed to have conspired with an oil company executive to resell imported oil products abroad at inflated prices, falsely claiming them to be of a higher quality. Other former officials of the ministry were also charged by the public prosecutor with financial fraud in connection with a case involving some US\$800m of oil imports.

AW, 25 March 1999



*No, he doesn't work. But he is honest, incorruptible and loyal.
The new policy is not to make appointments on merit alone!*

The Times of India, 21 January 1999

Malaysia:

Mahathir to enhance government accountability

Upon allegations that members of the cabinet are maintaining numbered accounts in Swiss banks, Malaysia's Prime Minister Mahathir reacted by allowing the banks to reveal the account holders' names. While this move is rather symbolic, since Swiss banks are unlikely to comply with such a request, two recently-announced initiatives carry more weight. According to Tunku Abdul Aziz, chairman of TI Malaysia, these initiatives will strengthen the government's moral legitimacy to govern by enhancing its transparency and accountability. The first includes legislation requiring all ministers, political secretaries and private secretaries to ministers, as well as senior public officials both in state and federal government services to declare their assets to an independent all-party parliamentary committee or an independent anti-corruption commission. The second initiative will create an independent anti-corruption commission along the lines of the Independent Commission against Corruption in Hong Kong.

TI Malaysia

Namibia:

Government geared up to fight corruption

The Namibian cabinet has approved far-reaching guidelines to tackle corruption in Namibia. The statute, recommended by the national Consultative Conference on the Promotion of Ethics and Combating of Corruption, will cover the executive branch of Government as well as parastatals, and will include provisions for extra-territorial jurisdiction. The international definition of corruption has been broadened to include the private sector. Also approved was a recommendation for a mandatory uniform code of conduct to support specific professional codes of conduct, including a leadership code. Procurement policy is being improved to enhance open competition and transparency. Government and public institutions will also be obliged to disclose maximum information to the general public and awareness-raising measures were decided upon.

The Namibian (Namibia), 4 March 1999

Nigeria:

Millions returned

Two former Ministers together with the family of former President Abacha, have voluntarily returned a total of US\$58m and US\$30m respectively, as part of the money which was illegally acquired in the Ajaokuta steel scandal.

Deutsche Welle Monitordienst (Germany), 24 March 1999

Russia:

Russia and Germany sign anti-crime agreement

Russian Interior Minister Sergei Stepashin and his German counterpart, Otto Schily, signed an anti-crime agreement in Moscow on 3 May. The accord provides for closer co-operation between law enforcement bodies from the two countries, AFP reported. Stepashin said that over the next three months, Russian and German officials will jointly investigate "the methods used by criminals to channel money out of Russia to Germany and elsewhere, including operations through offshore zones." Schily is scheduled to meet with Prime Minister Yevgenii Primakov on 4 May to discuss other areas of Russian-German cooperation, a government spokeswoman told ITAR-TASS.

Radio Free Europe/Radio Liberty, 4 May 1999

South Korea:**Industry to adhere to OECD standards**

In the wake of the OECD's ban on bribery, South Korea's big businesses are moving quickly to terminate their long-standing practices of offering commissions or rebates to obtain contracts, analysts say. The Federation of Korean Industries has fully reflected the OECD's anti-bribery pact in its revised ethics code. A new clause was added to prohibit member firms from offering bribes to business partners and politicians at home and abroad. *Korea Centre for Free Enterprise newsletter, 6 April 1999*

Sweden:**Championing transparency in the EU**

Anna Lindh, foreign minister of Sweden, is heading a campaign to bring more transparency to the European Commission in the wake of the resignation of all 20 commissioners. Supported by Denmark and Finland, she intends to bring the Swedish initiative to the meeting of foreign ministers in Brussels on 23-24 March. The proposal suggests that all Commission documents, departmental minutes, invoices and official mail would be recorded on a public register and would be available for public scrutiny. In addition, officials who "leak" information not included in this register would no longer be threatened with suspension or dismissal. The proposal closely mirrors Swedish policies of openness, in which citizens have access to all official documents. The Swedish government has been pushing for more openness in the EU Commission since it joined in 1995. *Financial Times, 20-21 March 1999*

Tanzania:**Special courts to try corruption cases**

The government plans to form a special court to try corruption cases and decentralise the Prevention of Corruption Bureau under a new strategy to intensify the war against graft. In the 1980s, special courts to try racketeers and economic saboteurs had been widely criticised by human rights activists. The proposal comes in the wake of criticism by the Parliamentary Public Accounts Committee (PAC) of unexplained expenditure of Tsh 2,922 m in the Prime Minister's Office, the Ministry of Works and the Ministry of Energy and Minerals. PAC chief John Cheyo called for a review of the Act which empowers the Minister for Finance to write off government claims. *East African Business News Headlines Service, 22/27 April, 1999*

Uganda:**The power of theatre**

The International Anti-Corruption Theatrical Movement - Uganda Chapter (known as IATM-Uganda) was formed at a workshop at Nile Theatre in Kampala. The group is made up of representatives from 20 performing groups and individuals from eight districts of Uganda. IATM-Uganda blames the high rate of corruption in the country on general ignorance of the laws and constitution of Uganda. Politicians have avoided disseminating these laws for fear of being challenged when they misuse them. The artists see their role in publicising the constitution and laws in a way that can be understood by all citizens, making them aware of their rights and the responsibilities of the state and politicians, and leading to the development of a culture of accountability. IATM-Uganda calls for politicians to regularly meet their constituents and include them in discussions about development in a language they can understand. Outreach programmes targeting 1000 performing artists are planned in addition to workplace visits and public demonstrations on matters of national and regional concern. *Kampala News (Uganda), 4 March 1999*

United Kingdom:**Caribbean Islands urged to combat money laundering**

Some of the UK's last colonial outposts will be required to take fresh action to combat money laundering. A UK government policy paper will make clear the UK retains the option of imposing legislation to improve human rights and the regulation of offshore financial services. However, the government is hoping the territories will implement the measures voluntarily through their assemblies. The Caribbean Islands, led by the Cayman and the British Virgin Islands, have a significant financial services sector that in the past was blighted by money laundering, though first steps have been taken to remedy the problem. The Cayman Islands last year removed a fiscal exemption clause from its anti-money laundering legislation. "Investors are more likely to put their money in jurisdictions which are clean", a UK official said. "Many of the overseas territories have been pursuing this agenda already. But the financial services industry is not static." *Financial Times, 5 March 1999*

United Kingdom:**Clampdown on corporate party funding**

Company directors who give their firm's money to political parties without telling their shareholders will risk having to pay it back from their own pockets. This proposal by the UK Trade and Industry Secretary will hit the already depleted finances of the Conservative Party, which has always relied heavily on company donations. Any board of directors wishing to make political donations will have to obtain permission at least every four years at a shareholders' annual meeting. In the rare cases where directors have voluntarily consulted shareholders in the past, as many as 48% have voted against. It will also be illegal to draw up its articles of association to bypass this obligation. The same rules will apply to sponsorship, low-interest loans and payments in kind. The Secretary sees the measure as an important part of the campaign against sleaze and secrecy. *The Observer, 21 March 1999*

Venezuela:**Chavez seeks sweeping powers to combat corruption**

The Venezuelan Congress has granted President Hugo Chávez far-reaching powers to implement emergency reform measures in an attempt to deal with the country's profound economic problems. The government will now be able to reform legislation to help it tackle the country's corrupt and inefficient customs, where it says \$5bn in taxes are evaded yearly. The customs reform would introduce stricter regulations as well as an automated inspection of goods. Mr. Chávez also secured popular support plans to convene a constituent assembly to redraw the country's political map by drafting a new constitution. The President says that his new assembly would, among other things, depoliticise the judiciary, eliminate corruption, and strengthen democracy by promoting popular participation. The country's political parties are widely accused of corruption and mismanagement during their 40 years in power, leading to increasing poverty and the collapse of basic public services. Mr. Chávez had also launched an overhaul of the national security force just one week after assuming the presidency, in an early effort to fulfil his campaign pledge of ending corruption and wasteful spending in public institutions. *Financial Times, 9 February/29 March/27 April 1999*

Corruption Reports

A sample of corruption cases from around the world

Africa

Burkina Faso: Editor of critical weekly murdered

The independent commission investigating the December murder of the popular journalist Norbert Zongo, named members of the presidential guard as suspects in its report to the Prime Minister on 7 May 1999. The commission found that Zongo "was murdered for purely political reasons because he was committed to the practice of investigative journalism and had committed himself and his newspaper to fighting for the respect of human rights and justice and against mismanagement of the public good and impunity". In the last months preceding his death, Norbert Zongo had denounced the country's current state of corruption, specifically implicating the President's entourage. Shortly before his death, Norbert Zongo had also demanded that legal action be taken against François Compaore, the President's brother, following the mysterious disappearance and death of his driver, David Ouédraogo. Since the creation of "L'indépendant", Norbert Zongo had received numerous death threats.

Le Monde, 4 May 1999

UN Integrated Regional News Network-West Africa, 10 May 1999

Cameroon: Government dismantles corrupt officials' network

140 people, including prominent public officials, have been convicted of fraud in a growing scandal of tax stamps falsification. Such stamps are used in Cameroon as proof of payment for certain administrative fees. The involvement of some civil servants was needed by the counterfeiters in order to sell the genuine stamps on the street. The Ministry of Finance together with the Defence Ministry have undertaken a co-ordinated effort to end the fraud which seems to have grown in financial and geographical proportions.

L'anecdote, 18 March 1999

The Americas

Antigua: UK banks warned over dealings with Antigua

The British government has warned UK banks to be on their guard when dealing with Antiguan financial institutions. Despite recent efforts to improve their financial systems, Antigua remains, along with the Seychelles and Austria, one of the few countries where UK and US authorities have issued a warning. UK banks are encouraged to report any suspicious transactions involving Antiguan institutions to the National Criminal Intelligence Service, especially large or unusual movements for which there is no obvious economic purpose. The Caribbean island has announced an overhaul of its banking supervision board and intends to improve its money laundering legislation. *Financial Times, 19 April 1999*

Honduras: "Corrupt" Attorney-General elected

The "Foro Ciudadano" which draws approximately 30 organisations from Honduran civil society condemned the election of Roy Medina as the new Attorney General. The National Congress elected Mr. Medina last week although he was accused of fraud in the courts regarding his commitment to withdraw the proceedings against several public officials who are members of the National and the Liberal parties. The appointment of the new Attorney General is seen as worsening the crisis of corruption and impunity in

Honduras, remarked Foro Ciudadano in a public statement. They further said that "the political class of both majority parties is responsible for the loss of prestige of our country when we have been placed as the third most corrupt country in the world". Roy Medina replaces Edmundo Orellana Mercado, who admitted that he had not been able to achieve one of his objectives during his office, that of overcoming the impunity some former corrupt officials from previous governments still enjoy. Foro Ciudadano describes Medina's election as "embarrassing" considering that the public functions in the Attorney General's office are being distributed according to a political deal between the two traditional political parties.

Notimex (Mexico), 8 March 1999



Panama: Public opinion divided by road link

High level protests have taken place nationally and abroad over the speed with which the \$222m Corredor Sur motorway which skirts the pacific shoreline, has been approved and built. The superhighway has gone ahead before all the impact studies are ready and will have critical consequences for the marine and urban environments, say critics. It is a toll highway built by Mexican enterprise ICA through a build-operate-transfer scheme. The highway is the cover for a large real estate business, says Felix Wing Solis, of Panama's Foundation for the Development of Civil Liberties, TI's national chapter. ICA has been granted 29,500 sq metres forming

the Punta Pacifica project, which includes expensive condominiums, resorts, marinas and malls. At least US\$184m of the US\$222m cost is already guaranteed through property sales. Mr. Solis says the final figure could be much more, given a minimum real market value of \$700 per square metre. "If the government had sold this land they could have built the highway themselves," he declares. Another critic, Juan Manuel Handal of Panama City, questions the way the payment was made, which he said meant that the state was giving away no less than US\$500m.

Lloyd's List (United Kingdom), 3 March 1999

Peru: Minister dismissed for denouncing corruption

President Fujimori sacked Industry and Trade Minister Jorge Mufarech after he denounced a web of corruption and embezzlement in the supposedly efficient customs service, Sunad, which involved at least one person close to the President's inner circle: Sunad Chief Carmen Higgaona. Mufarech, one of five ministers dismissed, was accused by Fujimori of failing to substantiate his charges. Despite this, the President was also obliged to accept the resignation of Higgaona, and to issue a pledge that Mufarech's accusations would not be hushed up. The fight against corruption has been one of Fujimori's principal pledges since he came to office in 1990, and cracking down on smuggling was supposed to be one of the government's main aims this year. Mufarech was appointed chairman of a government taskforce on the subject but his accusations caused such uproar in the cabinet and congress after he went public with them on 21 March that the administration was virtually paralysed for weeks on end.

Latin American Weekly Report, 21 April 1999

United States: Holbrooke suspected of breach of business ethics

The designation of Richard Holbrooke, US Special Envoy to the Balkans, has been delayed due to accusations regarding a breach of code of conduct. Holbrooke is suspected of having received large amounts of money from Siemens and Stanford University for speeches on the Balkan situation, while serving as US Special Envoy for the region at the same time.

Süddeutsche Zeitung (Germany), 23 April 1999

Asia & Pacific

Cambodia: UNHCR report on corrupt legal system

Cambodia's judicial system is in desperate need of overhaul, according to a report by the UN High Commissioner for Human Rights (UNHCHR). The report said Cambodia's legal system was run by "corrupt, incompetent and inefficient judges, prosecutors and court clerks." Low salaries helped foster corruption, said Thomas Hammarberg, the UN human rights envoy to Cambodia. Hammarberg said that "the long lasting effects of the Khmer Rouge period had been underestimated." Almost all lawyers in the country have been murdered and today the overwhelming majority of judges have had no legal training at all. He noted that the UN, Japan and Australia support a programme for training judicial officials. Hammarberg cited evidence of politically linked deaths or disappearances of more than 130 people over the past two years, but said he had "the distinct impression that serious investigations ... have been blocked by powerful elements within the police and the military".

UN Newswire, 26 April 1999

China: Police detain teenager for critical article

Police in eastern China have detained 19-year-old Wang Yingzheng, who is suspected of attempting to "overthrow state power" after he wrote an article condemning rampant official corruption. "Many Chinese are discontented with the government's inability to quash corruption. This is largely due to a lack of opposition parties in China and a lack of press freedom," Wang, a native of Xuzhou, Jiangsu province, reportedly wrote in his leaflet. He was detained in the central city of Wuhan last year after speaking with prominent dissident Qin Yongmin, who was given a heavy prison sentence in December. Wang, who had just graduated from high school, will probably be formally arrested within the next 48 hours.

Inside China Today, 29 March 1999

Iran: Corruption charges as political weapon

On 29 April 1999, an Iranian court sentenced the former Mayor of Teheran, Gholamhossein Karbastchi, to a two-year prison term on charges of embezzling public funds. The court also fined him the equivalent of 900,000 DM and barred him from holding any public office for 10 years. The conviction of the popular former mayor and close associate of reform-minded President Chatami is viewed as a new round in the power struggle between moderates and conservatives in Iran. Supporters of President Chatami consider the charges against Karbastchi unfounded and merely an opportunity for the outspoken conservative judiciary to flex its muscles. The court rejected an appeal by Karbastchi, leaving him with seven days to report to the judiciary in order to commence his prison term. Meanwhile, more than two-dozen city employees and district mayors of Teheran have filed complaints that they were arrested and tortured by the security forces in connection with the investigations against Karbastchi. The chief of the security police, Gholamreza Naghdi, is now facing trial in Teheran.

Süddeutsche Zeitung (Germany), 7 May 1999

Israel: Forgotten nuclear whistleblower

At the Hague Peace Conference, an appeal was made for people to write to Mordechai Vanunu (c/o- Shikma Prison, Ashkelon, Israel), the whistleblower who served peace by drawing attention to Israel's nuclear programme. He has been in solitary confinement for 11 years after being kidnapped from Italy.

Transparency International

Pakistan: Prominent newspaper editor arrested

The Lahore authorities have arrested a prominent newspaper editor in a midnight raid on his house. Najam Sethi, the owner-editor of the weekly newspaper Friday Times, has been a prominent critic of the government, mainly on the issue of corruption. Mr. Sethi's wife said the plain-clothes policemen broke into their house in the middle of the night and asked the editor to accompany them. When Mr. Sethi demanded an arrest warrant they first beat him up and then led him away at gunpoint. Officials now say he is being held by the Pakistani

intelligence agency, the ISI, and will be charged with anti-state activities for a recent speech he gave in India. Mr. Sethi's supporters believe he was detained because of a recent series of articles – and a BBC interview he gave – exposing government corruption. The Lahore High Court has dismissed a demand by Mr. Sethi's lawyers that he be produced in court, saying he was under military intelligence and so outside the court's jurisdiction. TI Chairman Peter Eigen has written to Prime Minister Nawaz Sharif on Mr. Sethi's behalf. *BBC World Service, 12 May 1999*

Philippines:

Graft court asked to pay out Marcos millions

The widow of dictator Ferdinand Marcos has asked the Philippines anti-graft court to release US\$150m from the US\$590m held in his Swiss bank accounts to compensate victims of human rights abuses which occurred under her husband's strongman rule, "in the interest of peace, reconciliation and unity". However, the court has ruled that the government and the Marcos family must first show the basis for waiving their claims to the money before it can be transferred to the 9,359 Filipinos who won a class action lawsuit in Hawaii brought against the Marcos estate. *Irish Independent (Ireland), 7 May 1999*

Philippines:

Corruption takes toll on students

Filipino students are suffering from decades of corruption in the Philippines' educational system, which has produced thousands of bad textbooks, a congressman has said. Rep. Ernesto Herrera (Bohol) said billions of pesos intended for the purchase of quality textbooks have disappeared into the pockets of influence peddlers, lobbyists and other government officials in the form of commissions. "The 40% commission that was reported to be the standard amount given to these lobbyists and government officials could have gone a long way in providing better quality and more plentiful reading and learning materials for our students," he said. He said this situation has "greatly contributed to the shameful textbook per student ratio of the country." The ideal ratio is one textbook per student. "But what we have now is a ridiculous 1:15 ratio due to widespread corruption in the education bureaucracy". *Asian News, 25 March 1999*

South Korea: Siemens manager charged with corruption

The Korean public prosecutor Mr. Lim An Sik has confirmed reports that the prosecuting attorney's office in Seoul is investigating the vice president of the South Korean Siemens General Medical on corruption charges. The suspect who is currently in hiding has allegedly bribed a number of hospitals in return for major contracts to supply medical equipment worth millions of Deutsch Marks. According to Mr. Lim, the prosecuting attorney's office has evidence that bribes were paid to professors and staff of university hospitals. The exact scope and number of people involved, however, could only be determined once the manager is taken into custody and questioned. Meanwhile, a spokesman for Siemens in Germany acknowledged the ongoing investigations, but denied claims that the management had any information on the whereabouts of their fugitive vice-president. Siemens, referring to its own code of conduct, stressed that if found guilty, the manager would also face internal disciplinary action which could even entail a subsequent dismissal. *Berliner Zeitung (Germany), 2 March 1999*

Europe

Croatia:

Bank failure linked to Tudjman cronyism

The recent bankruptcy of the Komercijalna Banka is the result of Director Josip Soic's giving or lending the bank's money to individuals, charities, and other institutions linked to President Franjo Tudjman, his family, and the governing Croatian Democratic Community, AP reported on 6 May. In just one case, nearly US\$250,000 went to a charity run by Ankica Tudjman, the president's wife. Unnamed persons provided the independent weeklies "Globus" and "Nacional" with copies of incriminating bank files. Thousands of depositors have been unable to withdraw their money since the bank declared bankruptcy. It is unclear whether the state will reimburse them for any losses. A Zagreb court has launched a criminal investigation against Soic's son, who was a bank executive. Director Soic is currently in a mental hospital, but it is

unclear whether he is genuinely ill or not. Meanwhile, a Zagreb court has also indicted Ankica Lepej and three former colleagues at Zagrebacka Banka for leaking confidential bank documents to the independent daily "Jutarnji list" in 1998. The court also indicted the journalist who wrote the resulting article about details of Ankica Tudjman's undisclosed bank accounts.

Radio Free Europe/Radio Liberty, 6 May 1999

Germany:

Corruption in ranks of GTZ

The German development organisation Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) has rejected criticism that insufficient internal controls have fostered corruption within its own ranks. The controversy was sparked by the recent conviction of a former GTZ employee who was sentenced to six years in prison for bribe-taking. In his verdict, the judge blamed the GTZ for failing to implement an effective control scheme that would discourage employees from illegal activities. In this particular case, the judge continued, the management also failed to notice the luxurious lifestyle of their employee. The GTZ management in turn objected to the judge's viewpoint, claiming that this corruption case occurred not due to, but despite the organisation's checks which were in place. The management, however, conceded that everyone at GTZ had not paid enough attention to the problem of corruption. Corruption was for a long time generally seen as an external rather than an internal problem. As a consequence, the manager of GTZ, Mr. Dieke, announced that internal controls would be intensified and additional auditors hired to check on projects and related transactions more frequently. *Frankfurter Allgemeine Zeitung (Germany), 27 March 1999*

Germany:

Unheard-of practices with hearing aids

German health insurance companies have criticised dubious business practices in the field of hearing aids. Despite growing pressure on the health sector to cut or at least limit costs, one branch – the supply of hearing aids – has managed to flourish almost unimpeded. The association of health insurance companies attributes this fact to questionable sales practices. Hearing aid specialists allegedly pay up to 250 DM to doctors

in order to have their patients referred to them. Even the introduction in 1990 of fixed reimbursement schemes for hearing aids as well as competition from direct mail have not hindered the community of established specialists. Patients who have to cover any costs exceeding the fixed reimbursement schemes are simply charged more. Direct mail offers have posed a new threat to the business since they allow the patient to bypass the specialist by going directly to the doctor who does the fitting for up to 250 DM. Specialists in Hamburg

called the journalist, Frank Connolly, a "dangerous b*****" and suggested that he was a member of either the Irish National Liberation Army or its political wing, the Irish Republican Socialist Party, both of which the journalist denies. Ahern denies making the statement. *Irish News (Ireland), 7 May 1999*

Latvia: Parliament votes against revealing income

On 4 March, the parliament voted against a proposal by the opposition People's Party

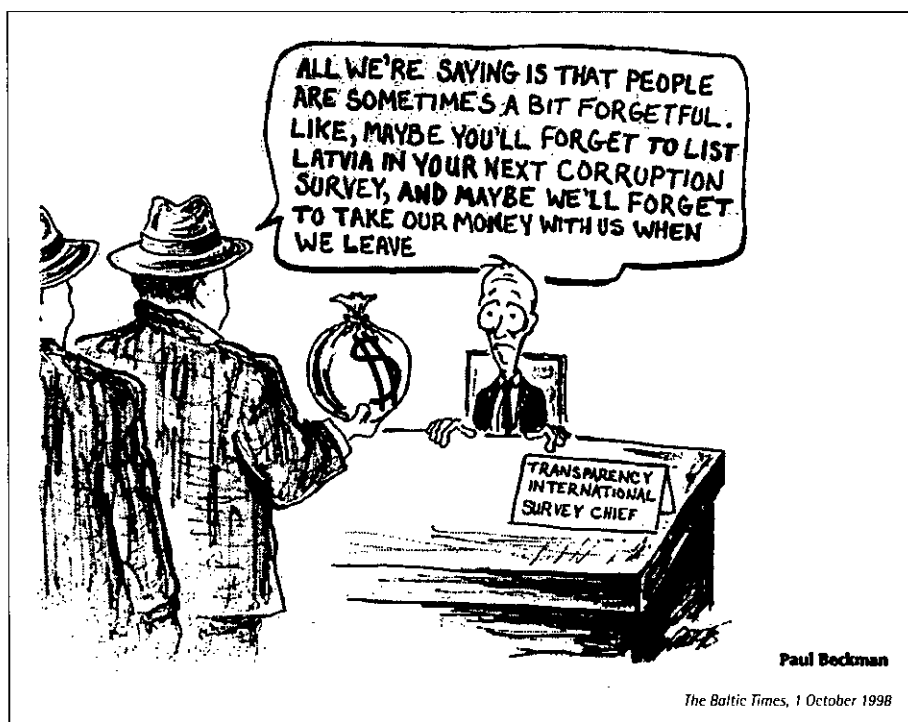
dismissed as a distraction from corruption accusations lodged against other cabinet officials, while "Kommersant-Daily" suggested that Primakov dismissed Dragonov to indicate that he recognises that the problem of corruption exists in his government and that he is doing something about it.

Radio Free Europe/Radio Liberty, 15 March 1999

United Kingdom: GEC payments in arms deal revealed

UK Senior MPs have called for an official investigation into the Aitken-Ayas arms deals affair. It emerged that US arms giant GEC, which made secret arrangements to pay commissions into a Swiss bank, confirmed that it had agreed to sign a further deal relating to Poland only last year. It was to pay 10% of the value of possible howitzer sales to an account controlled by John Aitken's solicitor. Menzies Campbell, the Liberal Democrats' defence spokesperson, said: "As these details have emerged, they show just how murky the business of arms sales really is. A government with a commitment to a foreign policy with an ethical dimension should surely be concerned to ensure that there is no repetition of this kind of thing." GEC refused to disclose who was intended to benefit from the most recent Polish deal. They confirmed that any money was to be paid into an account belonging to the solicitors' client who acted for Aitken under the name of two anonymous offshore companies. Aitken's lawyers made no attempt to deny the disclosures.

The Guardian (United Kingdom), 6 March 1999



have now come up with a dubious quality control system, intended to provide doctors with the same financial benefit for less work. In order to cash the same amount of money, they only have to fill out two forms and can leave the fitting job up to the hearing aid specialists.

Süddeutsche Zeitung (Germany), 27 April 1999

Ireland: Politician "endangered investigative journalist"

A journalist who broke a story has claimed that his life was endangered by allegations linking him to republican paramilitaries. The journalist's investigations sparked an inquiry into claims of corruption in planning (with developers paying bribes to politicians). It was alleged during the inquiry that government minister Dermot Ahern had allegedly

that would have guaranteed public access to information on all types of income of state and local government officials, "Diena" reported. The vote was 2 to 35 with 49 abstentions. Under current legislation, deputies are required to submit declarations on their assets once a year; these declarations are then made available to the public.

Radio Free Europe/Radio Liberty, 5 March 1999

Russia: Customs chief sacked

Prime Minister Primakov signed a decree on 13 March relieving State Customs Chief Valerii Dragonov of his post, official news agency ITAR-TASS reported. Dragonov told Russian Public Television that he saw "no clear reasons" for his dismissal. But Russian newspapers offered plenty of explanations. According to "Segodnya," Dragonov was

United Kingdom: Minister orders GM watchdog clearout

Ten members of the UK 13-strong advisory committee which grants licences for genetically modified (GM) crops are to be replaced with "independent" members not linked with the biotech industry. The move by the Environment Minister comes after criticism from Friends of the Earth and local government associations which say that 10 members of the Committee are either directly employed by, or receive funding for research or other work from the companies which want to market GM crops. Consequently, the public did not have full confidence in the existing committee, which has granted all 60 applications that have been brought before it.

The Guardian (United Kingdom), 12 April 1999

TI Country Activities

The Benin government has informed TI of its plans to introduce a "Code d'éthique et de moralisation des marchés publics", which would provide the framework for introduction of the integrity pact in Benin government procurement.

Transparency Colombia is embarking on an ambitious programme introducing the TI-Integrity Pact into major projects in Colombia. Thanks to the Presidential Programme against Corruption which had officially included the application of TI-IPs into its strategy, political commitment at the highest levels is very strong. Professional organisations, universities, TI Colombia and other NGOs are exploring ways of co-operating. At a working meeting, the Ministry of Transportation and the Instituto Nacional de Vías agreed with TI Colombia to introduce the TI-IP concept in the bidding process for the concession of a major road work. This project, which will connect Bogotá with the Pacific port Buenaventura, is calculated to cost US\$1.0bn and will be of crucial importance for Colombia's economy and relations with Venezuela. This project is a particularly good opportunity for the TI-IP to be applied as it starts from scratch, so that the entire process from the design of the bidding documents, pre-qualifications, adjudication, implementation and maintenance will be subject to the monitoring process.

TI Fiji has become the newest member of the TI-family. The chapter was launched on 9 March in a meeting addressed by the Hon. Berenado Vunibobo, Minister for Foreign Affairs and External Trade. The first Annual General Meeting was held on March 30, electing Mr. Ikbai Jannif to become chairman. The new chapter plans to hold an Integrity Symposium soon.



Fiji Foreign Minister Mr. Berenado Vunibobo (left) and TI Fiji Chairman Mr. Ikbai Jannif

Peter Eigen and Sara Morante visited Athens from 19 to 21 April on the invitation of Mrs. Virginia Tsouderos, Chairperson of TI Greece. Mrs. Tsouderos and Board members of TI Greece organised an intensive programme for the visit, which included several meetings with government officials, private sector representatives and the press. The occasion of the dinner offered by Mr. Agrapides, Mayor of Piraeus, provided Peter Eigen with an opportunity to meet several representatives of the private sector and discuss their priorities in tackling corruption. At the same time, Mr. Agrapides manifested his firm interest in undertaking a possible integrity programme within the Administration of Piraeus with TI support. Peter Eigen was received by the President of the Hellenic Republic, Mr. Konstandinos Stephanopoulos, and met with the Parliament Speaker, and members of the Special Parliamentary Transparency Commission. The national and regional press broadly covered the visit. The talk show in which Mrs. Tsouderos and Peter Eigen took part was so successful that it was repeated due to numerous audience requests.

"The search is finally over, in the Indian state of Punjab, for the most honest local government officer. After 18 months, state officials announced that the winner is...no one. In a related kleptocratic item, Albania's new tax statistics reveal that the 35th largest contributor to the national coffers was a pizza parlor."

The Independent (United Kingdom), 4 May 1999

Daniel Ritchie, TI Senior Advisor and Karen Hussmann visited Tegucigalpa, Honduras, from April 25-28 to meet Archbishop Oscar Rodriguez, presiding over *Transparencia Honduras* and to also meet civil society groups, the private sector and governmental. A number of umbrella organisations showed interest in co-operating with TI, as well as the Ombudsman's office and several groups of business people. One, "Oficina de Transparencia Municipal" of Tegucigalpa is acting as an independent committee which oversees public sector performance, a concept which it wants to introduce to other municipalities in the country. In a meeting with the cabinet of reconstruction after Mitch, the need for transparency and accountability regarding future credits and investments was stressed.

The Indonesia Anti-Corruption Forum organised a one-day seminar in co-operation with TI and the Australia Indonesia Institute. Peter Rooke and Michael Wiehen participated as international resource persons at the seminar. The seminar was successful in promoting interactive discussions among representatives of the various sectors to identify the problems and challenges in combating corruption. It achieved its purpose in encouraging the business community to support effective anti-corruption measures alongside civil society (represented by the Forum) and government in the post-election period. The seminar attracted some good press coverage in both the Indonesian and English Language press.

Miguel Schloss of the TI Secretariat, visited Madagascar in March, to support the formation process of a Chapter in Antananarivo. Numerous meetings were held with high ranking public officials, including the Prime Minister and the President of the National Assembly, representatives from the civil society and major donors, in order to assess

how prepared of the country is to embark on a major anti-corruption programme. The Chapter in Formation consists at the moment of a core group of four people, headed by Mrs. Rakotondramboa, formerly working with one of the largest civil society organisations.

A capacity-building workshop for TI National Chapters, chapters in formation and contacts from Eastern and Southern Africa was held in Lilongwe, Malawi from the 26 - 28 April. Delegates exchanged experiences on problems and successes encountered in establishing and running a TI National Chapter. The workshop was ably facilitated by Richard Holloway of PACT- a Washington-based organisation specialising in NGO training. He has produced a Handbook with guidelines on establishing and maintaining a competent and effective TI chapter, which is intended for distribution after adaptation to tailor its contents more specifically to the evolving needs of TI Chapters. This was an important step in efforts by TI to strengthen national chapters to enable them to take advantage of the present favourable international climate for anti-corruption initiatives. The organisational training is funded by the MacArthur Foundation. A second capacity-building workshop for chapters in North and West Africa with representatives from the Caribbean, will take place in Accra, Ghana, on 14-16 June. The Centre for Democracy and Development will be hosting the meeting.

Tunku Abdul Aziz, who heads TI Malaysia, held a well-received speech on corporate governance at the Fourth Chief Financial Officers Asia-Pacific Roundtable. The meeting that took place in Bangkok in March focused on managing risks for Asia's post-crisis environment. While the issue of corruption in Asia has attracted much attention, the leading rhetoric on this has come mostly from European and U.S. "experts" and policy-makers. Mr. Aziz' speech, stressing transparency and accountability as key factors in the region's economic recovery, was an opportunity for a broad international audience to hear the Asian viewpoint. It is available from the TI Secretariat in Berlin.

TI Nepal has signed an agreement with Bhaktapur Municipality to establish a local "Island of Integrity". This is the first city in Asia which has agreed to work toward a holistic system of integrity in close co-oper-

TI Benin: In memory of Monseigneur de Souza

Monseigneur Isidore de Souza, archbishop of Cotonou, President of TI-Benin, died of a heart attack on 13 March. Mgr de Souza played a leading role in the beginning of the 1990s in the democratisation process of the country. During the transition period, he headed the National Conference, the High Council of the Republic, the Parliament of transition, and then, up to 1993, he presided over the provisional Constitutional Court. In Benin, he is often referred to as the "father of regained freedom". He was highly respected, very influential and unanimously acknowledged as a person of great integrity. He was indefatigable in defending the values and principles he believed in. TI was proud and honoured to count him amongst the leading figures of the anti-corruption movement. This is a great loss for both Benin and TI.

ation with a TI Chapter. Bhaktapur is an ideal setting for such a precedence case, since it is an old medieval city of immeasurable cultural and artistic value (protected by UNESCO). TI Nepal has also seen some changes among its office holders, and we wish to welcome those new to the chapter: Mr. Shreebhadra Sharma for President; Mr. Ramesh Nath Dhungel for Vice-President and Mr. Aditya Man Shrestha for Secretary-General.

TI Nigeria is working to promote the refining and strengthening of the capacity of the Federal and State Auditor-General's Offices, the Public Complaints Commission and the Code of Conduct Bureau. In the lead-up to the transition to democratic civilian government, TI Nigeria members have participated in a range of discussions at home and abroad on the prospects for a successful transition. On 24 March 1999 Haja Bilikisu Yusuf, member of the National Executive Council of TI Nigeria, was a guest speaker at a discussion forum in Berlin organised by the Friedrich Ebert Stiftung on the subject of the transition to democracy. During her visit, she took the opportunity to meet with TI Chairman Peter Eigen at the TI Secretariat, accompanied by other Nigerian civil society leaders including Ayo Obe, President of the Civil Liberties Organisation. On a visit to the UK in April 1999, TI Chairman Ishola Williams met with TI Executive Director Jeremy Pope and TI Senior Adviser Neville Linton.

Transparency Paraguay has expressed its hope that it can play a more active role in addressing corruption, following the country's recent constitutional crisis. Civil society groups had played a key role in ensuring that the end of the crisis also meant a fresh start for democracy in the country. For the first time in 53 years, the opposition is included in a new coalition government. TI Paraguay is initiating contacts with all groups represented in the new government and also hopes to meet the new President, Luis Gonzalez Macchi, soon.

TI South Africa was instrumental in convening a National Anti-Corruption Summit in South Africa on April 14 - 15, 1999 with the aim of launching a comprehensive anti-corruption strategy. Participants adopted a resolution committing themselves to developing a culture of zero tolerance of corruption and to visibly supporting and subscribing to the national integrity strategy. Instead of a simple, centralised management structure to take the summit further, it was agreed to respect South Africa's specific history and culture of involving "multi-sectoral participation and consultation". A national anti-corruption strategy should not only address the public sector; a holistic, cross-sectoral approach was chosen. TI South Africa is well placed to act as a post-summit facility for civil society in dealing with corruption.

TI South Africa held its AGM on 29 April 1999. Present were, among others, government anti-corruption agencies and private sector representatives. A new Board was elected with Vusi Mavuso, Commissioner for Gauteng Province of the National Public Service Commission, continuing as Chairperson. TI South Africa looked back on a year in which corruption was firmly established on the national agenda and in public discourse with the establishment of a National Anti-Corruption Initiative by government. TI South Africa has also set itself the task of enhancing interaction between key actors who are conducting in-depth research and compiling information on a number of corruption-related indices in an expert forum, the Research and Monitoring Group. The group collates the Annual

Corruption and Good Governance Profile for South Africa and considers that although praiseworthy, government initiatives to control corruption should be informed by in-depth research on best practices and be independently closely monitored and evaluated.

In south Asia, parliamentarians and civil society groups have called for independent anti-corruption agencies and greater transparency of government procedures. Participants in the seminar, which took place in Dhakar, Bangladesh, in March, came from Bangladesh, India, Pakistan, Nepal and Sri Lanka. The focus of the seminar was on how to strengthen parliament and civil society in the political process. A code of conduct for members of parliament was also drafted. The seminar was jointly organised by Transparency International Bangladesh, the Parliamentary Centre of Canada and the World Bank Institute.

The Trinidad & Tobago Transparency Institute has a new leadership. The new chairman of the chapter now is Mary King, with Diana Clyne serving as the secretary and Dianne Piper-Joseph acting as the treasurer. These changes in the leadership team also mean that the Trinidadian Chapter is the first TI chapter with an all-female executive!

TI Board member Peter Rooke has visited Vanuatu at the invitation of the Friedrich Ebert Stiftung (FES) with a view to briefing people there about TI. After briefings by Hans Esderts (FES), the British High Commissioner Malcolm Hilson, AusAID head Steve Hogg and the Ombudsman, Peter Rooke met the Prime Minister who showed interest in TI. The Prime Minister said that he would welcome a National Chapter in Vanuatu. Vanuatu has recently established a new leadership code, administered by the Ombudsman who hopes to acquire delegated power to prosecute breaches. The Comprehensive Reform Programme (CRP) currently being implemented by the Vanuatu government included institutional strengthening in the prosecution and judicial sectors as well as an auditor-general.

TI Internal

Olusegun Obasanjo has formally resigned his Chairmanship of the Advisory Council of Transparency International, following his election as Nigeria's new civilian President. In a farewell address to TI, General Obasanjo called his involvement with TI "a great and wonderful opportunity to assist in fashioning an enduring framework for tackling the scourge of corruption". He also expressed his confidence that TI Secretariat, TI Nigeria and the Federal Government of Nigeria could work together in fashioning a sustainable mechanism for promoting integrity in government activities and a culture of openness, transparency and accountability. Obasanjo's successor as President of the Advisory Board will be Kamal Hossain who recently resigned from the TI Board of Directors. Hossain is a former member of parliament in Bangladesh and Chairman of the Bangladesh Legal Aid & Services Trust. TI Board Member Tunku Abdul Aziz was elected TI Vice Chairman to follow Kamal Hossain in this position.

The Max-Schmidheiny Foundation based at the University of St Gallen in Switzerland has awarded TI its prestigious Freedom Award, a prize to the value of SF200,000. The prize was shared between TI and the Economist magazine. By awarding TI the prize, the Max-Schmidheiny Foundation recognises the efforts of Transparency International to successfully place the fight against corruption on the agendas of governments, international organisations and private enterprises throughout the world. TI Chairman Peter Eigen received the prize on behalf of TI at a ceremony in St Gallen on 31 May.

The TI Board of Directors, at its meeting held in Berlin on March 21-22, endorsed two important proposals. The first is that special emphasis be placed on building the capacity of national chapters. The second is that senior management resources be re-distributed in such a way as to achieve maximum utilization of the available knowledge, experience, and expertise. Accordingly, the London office of TI will be expanded to enable it to focus more comprehensively on developing new tools and instruments to strengthen national and international integrity systems.



*"What ridiculous accusations!
Completely false! My son has never used
any connections to obtain an import
licence. I gave it to him."*

Entwicklung und Zusammenarbeit (Germany), March 1993

sively on developing new tools and instruments to strengthen national and international integrity systems. Nihal Jayawickrama will move from Berlin to London, and Margit van Ham, who has been with TI almost from its inception, will take over responsibility for Asia at the level of senior management.

A new Corporate Design Manual for National Chapters is now available from the TI Secretariat in Berlin. The main purpose of the new Corporate Design Manual is to provide a framework for a coherent public image that is so important in today's world of mass communication, while at the same time leaving ample room for the diversity and multi-faceted character of our movement. Accordingly, its key function is one of assisting and guiding National Chapters in the application of our corporate design and in the production of print publications. What is definitely not intended with the manual is to introduce any mandatory requirements on how National Chapter's publications should look. The new manual is available in English, French and Spanish from the TI Secretariat in Berlin.

Our Algerian contact, Mr. Djillali Hadjadj, visited TI Secretariat for the second time on 16 March 1999 and held consultations with Miguel Schloss and Arwa Hassan. The key objectives of the visit were to learn more about the TI movement in general and the work of the Secretariat in particular, and to establish a base for further cooperation. Mr

Hadjadj is gathering a group of about 12 people together, made up of magistrates, journalists, lawyers, businessmen and trade union officials. The whole group is very much pro-democracy and are working on becoming registered in Algeria as an Algerian society.

Daniel Ritchie and Karen Hussmann visited Costa Rica on 29 and 30 April in order to meet with the chapter in formation, Advisory Council Member Oscar Arias, a number of NGOs and CONAMAJ (Comisión Nacional para el Mejoramiento de la Justicia). Transparencia Costa Rica is presently co-operating with the Observatorio de Desarrollo in order to develop indicators which allow for the monitoring of corruption tendencies and for the development of strategies to prevent corruption on the basis of these findings. CONAMAJ is working on the development of anti-corruption workshops. The consensus resulting from the meetings was that it is crucial to foster more cooperation among the different actors and to develop an action oriented work programme.

National Anti-Corruption Week – 7-12 March – in the Dominican Republic, organised by NGO Acción Contra la Corrupción in conjunction with TI and USAID was considered to be a great success. The TI team participating included Roberto de Michele, Poder Ciudadano, Lina Vega, TI-Panama, Karen Hussmann, TI Secretariat. During the week, international experts helped raise awareness through numerous speeches at universities,

giving interviews, participation in TV talk-shows and radio programmes, amongst other things. The event was actively and logistically supported by a number of other key NGOs in the Dominican Republic who work together in a coalition of NGOs with Acción taking the lead. Acción is a broad-based group of well-reputed personalities formed as a result of the invitation of the Corruption Prevention Office to carry out independent monitoring of its "Promoting Transparency in Public Administration" programme and has now become completely independent.

The Spanish edition of the TI-Source Book is now available on the TI website. A new website has also been established for the regional TI-LAC network, with links to the main TI website. This was co-ordinated by the National Chapter in Ecuador, who will regularly be updating the pages to reflect the outcome of the recent TI-LAC meeting in Bogotá and other events. The web location is: <http://www.transparency-lac.org>

Two new staff members have recently joined the Berlin team: Marie Chêne, Programme Officer for francophone Africa, studied Political and Social Communication and Public Health in France. Before joining TI, Marie worked for UNICEF Zimbabwe, and prior to that for the french foreign ministry. Gladwell Otieno, Programme Officer for capacity building, studied political science and French in the USA and Germany. She has worked with several development NGOs in Germany, mostly concerning Southern Africa.

Letters to the Editor

Very laudable work you do! But I notice that some of your corporate sponsors have a reputation for accountability and transparency that they should be quite modest about. Also, why do you only focus on corruption in the government and public sector? Large corporations are not exactly the most transparent or most accountable of all organisations, especially to stakeholders other than their largest shareholders. Surely the MAI and the Monsanto affairs have taught us something about transparency!? *Gautam Sen, Turkey*

Part of the difficulty in encouraging organisations to be transparent is that people resort to defensive reasoning when they feel vulnerable to threat or embarrassment. Until they learn how to reason productively it will be difficult to develop organisations to realistically participate in islands of integrity. *Brian M. Gamble, TCI Technology, Canada*

When it is easier to bribe than to abide by the law, it becomes very difficult to abolish corruption. The public has to have the correct incentives, educational and economical, to stop bribing officials or civil servants. *Valeria Moy, London School of Economics, United Kingdom*

New Books

Corruption et Démocratie en Algérie, published by Djillali Hadjadj, journalist and contact for TI in Algeria, is a book on corruption and democracy in the country.

Demonstrating an in-depth knowledge of the factors at work, Hadjadj provides a detailed picture of the current corruption scene in his home country. Whether politicians, businessmen or religious fundamentalists, he examines the mafia-like structures plaguing the entire land. 305 pp., La Dispute (Paris)

Fighting Bribery: A Corporate Practices Manual is a practical manual for company managers, proposing strategies when faced with demands for extortion or bribes. Containing case studies, it explains how companies can apply ICC Rules in such situations as well as how to implement the provisions of the new OECD convention. Available from the International Chamber of Commerce, Paris. E-mail: icc@iccwbo.org

Gender Imbalance in TI movement

Within the TI movement there are considerably more men in leading positions than women. A substantive discussion about what this imbalance means for the anti-corruption movement is needed. A first informal poll carried out at TI-Secretariat shows that women are under-represented in all areas except in supporting and administrative roles. The results of the poll are:

International Bodies:	
Board of Directors:	15,4% women
Advisory Council:	12,6% women
Active Members:	22,2% women
Council on Governance Research:	
	8,3% women
International Secretariat:	
Management:	14,3% women
Programme Officers/Archive:	64,3% women
Support Staff:	80,0% women
National Chapters:	
Chairpersons:	16,3% women
Chief Executives/Executive Directors/etc.:	27,9% women

"Grüezi! Bei welchem Verbrechen dürfen wir behilflich sein?" (in German) by Werner Rügemeier reflects on the darker sides of Switzerland's image as an idyllic, democratic and prosperous country. Rügemeier analyses how Switzerland has served as a logistical base for illegal activities in international business since World War II. 120 pp., DM20, Distel Verlag, ISBN 3-929348-27-6

The Self-Restraining State: Power and Accountability in New Democracies by Andreas Schedler, Larry Diamond, and Marc F. Plattner, describes how the new democracies are finding themselves haunted by the old demons of clientelism, corruption, arbitrariness, and the abuse of power. The authors argue that democratic governments must not only be accountable to the electorate, but also subject to inspection and monitoring by other public agencies. Issues

such as how governments can establish effective agencies of restraint, and what those agencies can do to achieve credibility are also considered. 398 pp., \$24.95, Lynne Rienner Publishers, ISBN: 1-55587-774-5

The Swiss SDC (Swiss Agency for Development and Cooperation) has issued a pamphlet with guidelines on fighting corruption in the field of bilateral and multilateral development cooperation. The pamphlet is available in English, French, German, Italian and Spanish, and can be ordered from SDC, Eigerstrasse 73, 3003 Bern, Switzerland.

Conferences

9th INTERNATIONAL ANTI-CORRUPTION CONFERENCE (IACC) 10-15 October, 1999

International Conference Centre, Durban, South Africa

The South African Justice Minister will be host to the 9th IACC, the first IACC to take place in Africa. The Conference organisers expect to bring together over a thousand participants to network, exchange ideas and take stock of progress made since the Lima Declaration made at the 8th IACC in 1997.

The conference is supported by President Mandela, Deputy President Mbeki and such international figures as UN Secretary-General Annan; World Bank President Wolfensohn; new UNDP head Malloch-Brown, former Tanzanian President Nyerere and new Ecuadorian President Mahuad.

In interactive plenaries and working groups, delegates will discuss developing an anti-corruption agenda for 2000 and beyond and sub-themes such as: corruption; transition and globalisation; ethics; accountability and good governance and national and international best practice with respect to the development of effective integrity systems and strategies.

The programme will allow an international exchange of experiences and ideas between public officials, political leaders, the private sector, NGOs, the professions, members of the judiciary, the media and academics. Anti-corruption agendas at the national, regional, continental and international levels will be reviewed with a view to improving the effectiveness of strategies. The conclusions of the conference will be captured in a comprehensive action plan. For more information please see the Conference website at <http://www.transparency.de/iacc/index.html> or contact the Conference Co-ordinator (Event Dynamics) at: email: <melanie@eventdynamics.co.za> or fax: 27-11-442 5927 or tel. 27-11-442 6111.

5 - 8 August 1999, Chicago, USA
Society for Business Ethics Annual Meeting. For further information contact: George Brenkert, e-mail: brenkg@gunet.georgetown.edu

25-29 August 1999, Padua, Italy
Annual Conference of the SOCIETAS ETHICA, "Ethics & Emotions", Contact: http://www.unizh.ch/soziaethik/societas_ethica

1 - 3 September 1999, Breukelen, The Netherlands
12th Annual EBEN Conference on "Business Challenging Business Ethics" to be held at Nijenrode University. Contact:

Harry Hummels, fax: +31-(0)-346-265-453, e-mail: hummels@nijenrode.nl

4 - 5 November 1999, Navara, Spain
9th Colloquium on Business and Economic Ethics, to be held at the University of Navara, will focus on "Ethics in Business Leadership: Facing the changes of the 21st Century". The colloquium will be international in content, with international academics and business persons invited and with workshops in Spanish and English. Information and call for papers by fax: +34-93-253-4343 or e-mail: mele@iese.edu.

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USAID BUREAU FOR EUROPE AND NEW INDEPENDENT STATES ANTI-CORRUPTION STRATEGY AND GUIDANCE

Background. In recognition of the growing awareness of the problems of governance and corruption in new, post-communist transition states, USAID recently established an Anti-Corruption Working Group in its Bureau for Europe and the New Independent States. This paper briefly outlines eight priority programs of technical assistance which seek to address fundamental economic and political issues, either directly or indirectly, relating to the problems of corruption and absence of government transparency and public accountability. The strategy defines corruption as the "misuse of state resources for private gain" and focuses on a comprehensive eight point program geared towards removing obstacles to economic investment and enhancing democratic practices and procedures by strengthening the role of civil society.

It is important to note that some of these programs are already being undertaken by some transition countries, USAID missions, and/or other multilateral donors, such as the World Bank, the European Community, the Council of Europe, the United Nations Development Programme, the Open Society Institute, and other NGOs. This strategy complements the World Bank and International Monetary Fund's commitments to 'good governance' as critical prerequisites for meaningful economic growth and sustainable development.

An Emphasis on Small Business Development and Municipal Reform. USAID's strategy acknowledges that removing the incentives for systemic corruption, like combatting organized crime, is a complex and long-term undertaking that must have strong support from a well-organized host-country civil society and equally strong political will from the leadership. Connecting technical assistance programs to reform efforts, particularly at municipal levels, in addition to (or in lieu of) national-level reforms, and connecting those efforts to small business development and entrepreneurship lie at the heart of this strategy. A multi-country, regional approach to many of these problems is also important, given the transnational nature of many issues associated with corruption in the economic sphere.

EIGHT INITIAL TARGET AREAS OF INTERVENTION

- (1) Assessments of extent and nature of corruption-related problems with strong emphasis on the role of public and business education to promote awareness of the economic and political costs to development. Work with coalitions of entrepreneurs, private businesses, advocacy groups, community and human rights organizations to formulate actions plans to dramatize the importance of this effort;
- (2) Organizational support (including small grants) for more focused development of non-governmental organizations which emphasize the following:
 - (a) public and business community education, including investigative journalism to help illustrate the real and growing costs to society of continued corruption in business licensing, customs and taxation areas;
 - (b) obtaining and disseminating information related to state activities, particularly budgetary ones, with emphasis on increasing non-governmental participation and commentary on key legislative and/or budgetary issues both before/after

parliamentary enactment;

- (c) organizational support of consumers' groups, industry and public interest "advocacy" oversight organizations, or other bodies, particularly at the local level, which form partnerships with local state bodies to monitor government behavior and compliance with new legislation;
- (3) Support for enactment and enforcement of voluntary and involuntary codes of conduct, both in market and state sectors, together with mechanisms of administrative enforcement, including procedures for income disclosure of high-level executive, legislative and judicial officials.
- (4) Support for improvements in the business regulatory atmosphere, through elimination or simplification of licensing procedures, the encouragement of more coherent and simpler tax codes, or the promotion of stronger regulation of key industries.
- (5) Support for transparent public procurement processes with accounting and auditing procedures based on international standards of financial management and disclosure.
- (6) Support for organization and development of supreme audit and investigative institutions attached to parliamentary or other oversight bodies in order to monitor government expenditures.
- (7) Support for legislation to permit citizens' access to government information, including the right of appeal and review of official decisions. This would include measures to create and/or strengthen the office of ombudsman, or other monitoring bodies that hear civil complaints of government behavior, including that of law enforcement bodies.
- (8) Support for strengthening judicial enforcement mechanisms to increase the capacity, prestige and independence of the judicial branch of government.

Balkans Forum for Accountability and Transparency

An activity of the Anti-Corruption Network for Transition Economies

What is the Balkans Forum for Accountability and Transparency?

As part of the Anti-Corruption Network for Transition Economies, the Balkans Forum for Accountability and Transparency is a forum where all parties interested in reducing public sector corruption can exchange information about anti-corruption programmes as well as collaborate on regional, national, and sub-national initiatives. The co-ordinating body for the Network is a Steering Group composed of key government, business and NGO contact points within the Balkan Network countries. Ideas and information will be exchanged across the Network so as to allow all constituencies to participate in the design, implementation, and monitoring of anti-corruption activities.

Why a Balkans Forum for Accountability and Transparency?

As large amounts of donor assistance are expected to arrive in the region and as public sector institutions need to manage the difficulties caused by the recent political crisis and the larger term economic difficulties, a forum shall be necessary. Positive experiences in establishing programmes such as those of Coalition 2000 and others clearly can have dissemination effects in the region.

Who participates in the Network?

The Network is focused primarily at the Balkans region countries. Stakeholder groups which could be represented in these countries include the executive, legislature, judiciary, media, private sector, labour unions, sub-national government, international business, international non-profit organisations, and donor agencies.

What does the Network do?

The action of the network would include:

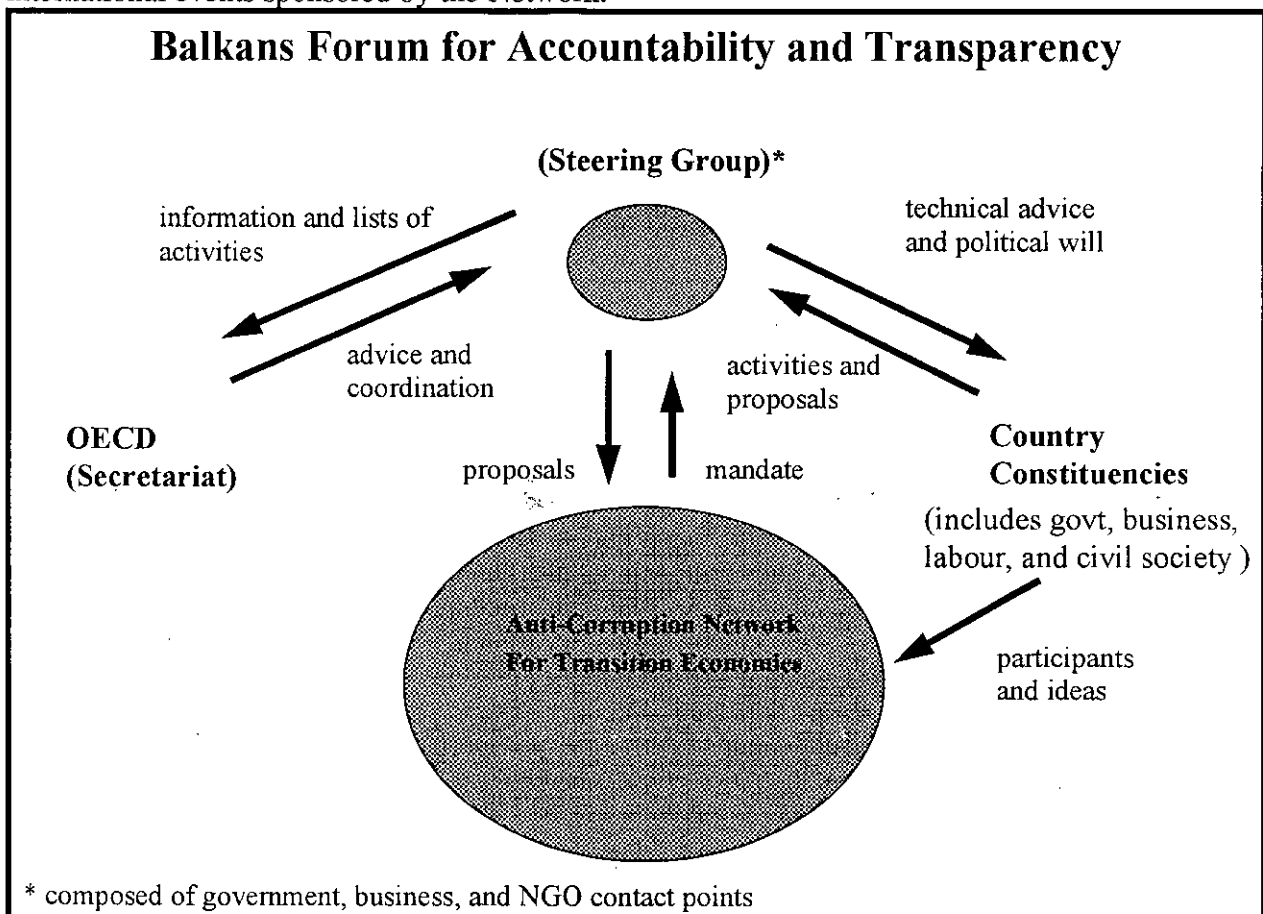
- organising yearly and special Network meetings which would: (a) evaluate the mechanisms for ensuring accountability and transparency in assistance funds; (b) review progress achieved in national and sub-national anti-corruption programmes, (c) provide support for the implementation of relevant international instruments in particular the Convention and Recommendations of the OECD and the Council of Europe, (d) encourage synergy and co-operation among national and international institutions providing assistance for anti-corruption programmes, and (e) make proposals for follow-up actions;
- exchanging information through its electronic network (www.nobribes.org), electronic discussion groups, journals, and other fora aimed at bringing issues to the attention of the public. Such information would include activities at various levels (public, private, sectoral, regional, and extra-regional). It would also include topic specific activities such as

government procurement, public auditing, judicial strengthening, civil service reform, public sector financial systems reform, awareness raising activities and international instruments;

- promulgating proposals to Governments about the development, implementation, and review of anti-corruption programmes;

Start-Up Activities

1. Following up on the Bulgarian conference on Coalition Building and Monitoring in Anti-Corruption, an electronic discussion group will be established to consider key issues, questions, and agenda. Regional documents and contacts will be assembled.
2. The first Forum Working Group meeting will occur in December 1999. The Working Meeting will review institutions in the region for corruption vulnerability, consider current anti-corruption activities, and consider future proposals.
3. The results of the Working Group meeting will be widely disseminated at other international events sponsored by the Network.



1 JUN. 1999

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INTERNATIONAL ANTI-CORRUPTION CONFERENCE COUNCIL

17 June, 1999

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9th INTERNATIONAL
ANTI-CORRUPTION CONFERENCE
10-15 October, 1999

International Conference Centre, Durban, South Africa

Global Integrity: 2000 and Beyond— Developing Effective Anti-Corruption Strategies in a Changing World

The South African Justice Minister will be host to the 9th IACC, the first IACC to take place in Africa. The Conference organisers expect to bring together over one thousand participants from government, the private sector and civil society to network, exchange ideas and take stock of progress made since the Lima Declaration made at the 8th IACC in 1997.

The conference is keenly supported by Nelson Mandela and President Thabo Mbeki and also has the strong backing of such international figures as UN Secretary General Kofi Annan; World Bank President James Wolfensohn, newly appointed UNDP Administrator Mark Malloch-Brown, the newly-elected President of Nigeria Olusegun Obasanjo and the new President of Ecuador Jamil Mahuad, to name but a few.

In interactive plenaries and working groups, delegates will discuss developing an anti-corruption agenda for 2000 and beyond and such subthemes as: corruption, transition and globalisation; ethics, accountability and good governance; and national and international best practice with respect to the development of effective integrity systems and strategies.

The programme will allow an international exchange of experiences and ideas between public officials, political leaders, the private sector, NGOs, the professions, members of the judiciary, the media and academics on such topics as:

- whistleblowing
- moneylaundering
- police integrity
- financial accountability and control
- education
- public awareness
- public procurement
- corruption in the judiciary
- building networks

The OECD Convention, just entered into force will also be a focus of discussion. Anti-corruption agendas at the national, regional, continental and international levels will be reviewed with a view to improving the effectiveness of strategies and the conclusions of the conference will be captured in a comprehensive action plan. For more information: please see the Conference website at <http://www.transparency.de/iacc/index.html> or contact the Conference Coordinator (EventDynamics) at **email:** melanie@eventdynamics.co.za or **fax:** 27-11-442 5927 or **tel.** 27-11-442 6111



c/o TRANSPARENCY INTERNATIONAL (TI)
- IACC Council Secretariat -

Otto-Suhr-Allee 97-99, D-10585 Berlin, Germany
Tel: 49-30-343 820-0, Fax: 49-30-347 039 12 / 343 820 44

email: ti@transparency.de website: <http://www.transparency.de/iacc>

DRAFT PROGRAMME AS OF 31 MARCH 1999

**9TH INTERNATIONAL ANTI-CORRUPTION CONFERENCE 10-15 OCTOBER 1999
DURBAN, SOUTH AFRICA**

<p>GLOBAL INTEGRITY: 2000 AND BEYOND DEVELOPING EFFECTIVE ANTI-CORRUPTION STRATEGIES FOR A CHANGING WORLD</p>
--

SUNDAY 10 OCTOBER 1999

All Day Registration of Delegates

18h00-22h00 : Opening Ceremony and Reception

18h00-18h10 : Master of Ceremonies: speech

18h10-18h25 : Welcome

18h25-18h40 : South African Host:
"Challenges and expectations"

18h40-19h00 : "Setting the scene: From Lima to Durban"

19h00 : Reception

DAY 1: MONDAY 11 OCTOBER 1999:

Plenary Theme:

Developing the Anti-Corruption Agenda for 2000 and Beyond

08h00-09h00 : Registration (continued) and Coffee
: Session 1: Opening Plenary

Chair :

09h00-10h00 : Keynote Address:
"Integrity as an integral part of the New African Order"

10h00-10h30 : Tea

10h30-11h30 : Panel Response

10h30-10h50 : **“Global integrity in a changing world”**

10h50-11h10 : **“Corruption and North South dilemma”**

11h10-11h30 : **“Global challenges to civil society”**

11h30-12h30 : Discussion

12h30-14h00 : Lunch/Press Conference

14h00-15h30 : Regional Workshops

Regional Workshops

1. **Africa**
2. **Eastern and Central Europe**
3. **Latin America**
4. **Asia-Pacific**
5. **OECD Countries**

Themes for discussion in the Regional Workshops

1. **Regional Anti-corruption treaties**
2. **Sharing information by building global bibliographies to fight corruption**
3. **Developing effective regional cooperation to combat corruption**
4. **Networking**

5h30-16h00 : Tea

16h00-17h30 : Session 2: Workshop (continued)

17h30-18h30 : Report Back from Workshops

18h30-19h00 : Discussion

19h00 : End of day 1

DAY 2: TUESDAY 12 OCTOBER 1999

Plenary Theme:

Corruption, Transition and Globalisation

08h30 : Coffee

09h00-11h15 : Session 1: Plenary:

Chair :

Keynote Speakers:

1. **“Restoring a nations integrity in the context of globalisation”**
2. **“Implanting the rule of law in a country in transition”**

10h30-11h15 : Panel Discussion

11h15 : Tea

11h30-13h00 : Session 2: Workshops

Workshops

1. **Role of donors and international financial institutions, (multilateral, bilateral, civil society as watch dog)**
2. **Mechanisms for identifying reform areas and tracking effectiveness of reforms.**
3. **International public procurement (increasing transparency in public procurement, blacklisting firms who bribe, remedies for governments)**
4. **Specific challenges in the transition process (e.g. the use and scope of amnesties, restoring the rule of law, the role of the legal system)**
5. **Countering political corruption: can money politics be contained?**

13h00-14h30 : Lunch/Press Conference

14h30-16h00 : Workshop (continued)

16h00 : Tea

16h30-18h00 : Report Back from Workshops

19h00 : Evening free

DAY 3: WEDNESDAY 13 OCTOBER 1999
Plenary Theme:
Ethics, Accountability and Good Governance

08h30 : Coffee

09h00-11h15 : Session 1: Plenary

Chair :

Keynote Speakers : **"Recognising the fundamental right to transparency and accountability"**

Panel Discussion :

10h30-11h15 : Discussions/Questions

11h15 : Tea

11h30-13h00 : Session 2: Workshops

Workshop Themes

1. **Ethics management in the public sector (conflict of interest, monitoring disclosure of assets, institutionalising integrity, integrity testing, protecting whistleblowers)**
2. **Ethics management in the private sector and civil society (keeping business clean, containing corruption in NGO's, corporate governance, independent private sector inspector general, protecting whistleblowers)**
3. **Strategic interventions to contain corruption, (single agency, ombudsman, public protector, special**

commission, corruption tribunals)

4. Creating an ethical police force (South Africa, Australia, Netherlands)
5. Providing ethical local government

13h00-14h30 : Lunch/Press Conference

14h30-16h00 : Session 3: Workshops

16h00 : Tea

16h30-18h00 : Report Back from Workshops

19h00 : Evening Entertainment

DAY 4: THURSDAY 14 OCTOBER

Plenary Theme:

Developing Effective Integrity Systems and Strategies: National and International: Best Practice

08h30 : Coffee

09h00-10h30 : Session 1: Plenary

Chair :

Keynote Speakers :

1. "A holistic approach to combating corruption"
2. "Combating corruption/transnational organised crime through international co-operation"

Panel Discussion :

10h30-11h15 : Discussion/Questions

11h15 : Tea

11h30-13h00 : Session 2: Workshop

Workshop Themes

- 1. Community involvement and public education (schools, mobilising youth, taking information to the people, the role of the arts)**
- 2. International co-operation (money laundering, assets tracing and recovery, judicial co-operation)**
- 3. Civil processes to combat corruption (unexplained wealth, tax approach)**
- 4. Sectoral initiatives: 1: health (WHO), customs and civil society, media**
- 5. Sectoral initiatives: 2: mining, environment**

13h00-14h30 : Lunch/Press Conference

14h30-16h00 : Session 3: Workshops

16h00-16h30: Tea

16h30-18h00 : Session 4: Plenary Report Back from Workshops

19h00 : Evening Entertainment

DAY 5: FRIDAY 15 OCTOBER

Closing Plenary

08h30 : Coffee

10h00-11h00 : Session I: Closing Plenary

Chair :

: Reading of the Durban Declaration/Statement
Announcement and hand-over of the 10th IACC
Vote of thanks to Executive and Organising Committee

11h00-12h00 Closing Speech
“Keeping the faith”



REPLY FORM

9th INTERNATIONAL ANTI-CORRUPTION CONFERENCE
INTERNATIONAL CONVENTION CENTRE, DURBAN, SOUTH AFRICA
10 - 15 OCTOBER 1999

By returning this form you are indicating your interest in the conference without any obligation.
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Submission of papers should be in English or French. They should be no longer than 15 pages single-spaced, and be saved in Word for Windows format (any version up to and including office 97), or Word for Macintosh 5.0, 5.1 or 6.0. Deadline for proposing sessions and/or papers is 15 June 1999. Please visit our website for further information: <http://www.transparency.de/iacc/index.html>

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Anti-Corruption Network Transition Economies



This new electronic network on the World Wide Web supports the growing number of government bodies, civil society organisations, businesses, international institutions, and donors that are interested in exchanging information and co-ordinating with each other to fight corruption more effectively. It provides detailed descriptions of what programmes, actions and reforms are successful in preventing corrupt practices, enforcing anti-corruption laws and regulations, and promoting public awareness. The site also facilitates the direct exchange of ideas between interested parties through several e-mail discussion groups. While the site addresses the problems of corruption in Eastern Europe and the countries of the Former Soviet Union in particular, it offers useful information to all that seek to fight corruption elsewhere as well.

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2. Discussion Groups

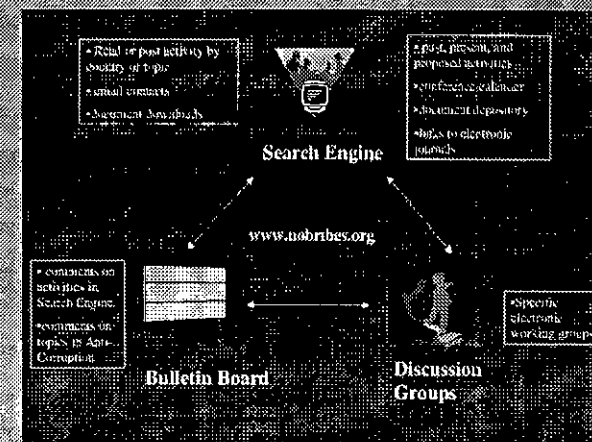
Interact directly with specialists in other countries about important anti-corruption topics using your e-mail system. Share experiences, ask questions, learn about new laws and programmes, and obtain practical data to implement reforms. Participate in several discussion groups including:

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Search the calendar for anti-corruption events, including workshops, conferences, training, and seminars that are being conducted.



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Find concrete and action-oriented research notes and studies:

- definitions and taxonomies;
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- costs of corruption;
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LAW nò.21/1999
on preventing and sanctioning money laundering

CHAPTER I

General Provisions

Art. 1

This law sets out the regulations on the prevention and sanctioning of money laundering activities.

Art. 2

For the purpose of this law:

- (a) **“Money Laundering”** shall mean the acts provided in art. 23, if they occur through the agency of any of the individuals or legal entities provided in art. 8;
- (b) **“Goods”** shall mean any kind of assets, tangible or intangible (including money), movables or immovables and including legal documents certifying the ownership of goods.

CHAPTER II

Client identification and data processing procedures regarding money laundering

Art. 3

- (1) As soon as an employee of any legal entity, or any individual, stipulated in art. 8 has suspicions that a transaction about to take place has money laundering as a purpose, he shall notify the person or the persons designated according to art. 16 who, based on well grounded reasons, shall inform the National Office for Fighting and Prevention of Money Laundering hereinafter referred to as the Office. The Office shall immediately confirm receipt of such information.
- (2) If the Office deems it necessary, it may, for well-grounded reasons, suspend the performance of that transaction. Such decision shall be immediately notified, in writing, to the individual or legal entity that has been requested to perform the transaction.
- (3) For transactions involving cash deposits or withdrawals in lei or in foreign currency, the personnel of the legal entities provided in art. 8 shall report to the Office, no later than 24 hours after the date a transaction has been effected, amounts exceeding the equivalent in lei of 10,000 euro. For the transfer of such amounts from bank accounts, the provisions of paragraph (1) and (2) shall apply.

- (4) If the Office considers that the period of 24 hours stipulated in paragraph (3) is insufficient, it may formulate, during this period, a motivated request to the General Prosecutors Office of the Supreme Court of Justice, for an extension of the necessary period by a maximum of 3 working days. The General Prosecutor's Office may authorise the requested extension once only, on well-grounded reasons, or may order that the suspension of the transaction be discontinued.
- (5) If the request for an extension of such period by a maximum of 3 working days proves to be unfounded, the Office shall have a civil liability for the financial loss caused to the legal entity or individual in question.
- (6) If the decision to suspend the performance of the transaction is not notified to the legal entities provided in art. 8 within the period of time mentioned in paragraphs (2) and (3), such legal entities shall be allowed to effect the transaction.

Art. 4

If a person of those provided in art. 8 has knowledge that a transaction, which he/she has received instructions to perform, is intended for money laundering, but it is impossible for that person not to execute it or, by not executing it, the efforts to follow the beneficiaries of such alleged money laundering operation may be hampered, the institution or person in question shall inform the Office immediately after effecting the transaction. In such cases, the reasons for which information on the transaction has not been notified before the transaction occurred shall be stated.

Art. 5

If the Office receives any information under art. 3 or 4, it may request any competent institution to provide information in order to check the information received.

Art. 6

The Office shall proceed to examine the information received under art. 3 - 5. If such examination results in data or well grounded reasons indicating money laundering, such information shall be notified to the General Prosecutors Office of the Supreme Court of Justice.

Art. 7

Information provided in good faith according to art. 3 - 5 by legal entities stipulated in art. 8 or by their employees or representatives mentioned in art. 16 will not result in disciplinary, civil or criminal liability.

Art. 8

The provisions of this law shall be applied to:

- (a) banks, branches of foreign banks and credit institutions;

(b) financial institutions such as:

investment funds, investment companies, investment administration companies, deposit companies, custody companies, securities companies, pension funds and other similar funds that perform the following activities:

crediting including, inter alia, consumption credit, mortgage credit, factoring, financing of trading activities and including forfeiting, financial leasing, payment operations, issuing and administration of means of payment, credit cards, travellers cheques and the like, granting and undertaking of guarantees and underwriting, transactions on own account or on the account of clients using the instruments of the money market, cheques, payment orders, certificates of deposit and others, foreign currency exchange, derivatives, financial instruments relating to foreign currency exchange or interest rates, securities, participation to issuance of shares and services for such issue, advice on capital structure for enterprises, industrial strategy, advice and services in the field of mergers and acquisitions of enterprises, inter-bank market brokerage, portfolio administration and advice on portfolio administration, custody and administration of securities;

(c) insurance and reinsurance companies;

(d) companies conducting gambling and pawning activities;

(e) individuals and legal entities that provide legal counselling, notaries, accounting, financial and banking advice;

(f) any other individual or legal entity, through acts and deeds committed outside the financial and banking system.

Art. 9

- (1) Legal entities provided in art. 8 are obliged to establish the identity of their clients for any transaction whose minimum limit, in lei or in foreign currency, represent the equivalent of 10,000 euro whether or not such transaction is effected through one or more connected operations.
- (2) When the amount is not known at the moment the transaction has been accepted, the individual or legal entity (that has the obligation to establish the identity of its clients) shall immediately proceed to identification upon receiving information regarding the value of the transaction and when it is determined that the minimum limit has been reached.
- (3) As soon as any information is received that a transaction constitutes money laundering, the identification of the clients shall be made even if the value of the transaction is lower than the minimum limit established

by the Office.

Art. 10

- (1) Identification data regarding clients shall include:
 - a) for individuals: legal status information mentioned in the identification documents legally required;
 - b) for legal entities: the data legally required in company incorporation documentation , together with the proof that the individual in charge of the transaction is a duly authorised representative of the legal entity.
- (2) When opening bank accounts, foreign legal entities shall be required to submit documents indicating the identity of the company, the address, the type of company, the place of registration, the special mandate for the person representing the company in the transaction as well as a notarised translation of those documents into Romanian.

Art. 11

If there is any information regarding those clients stipulated in art. 9 and 10 that the transaction is not executed on their own names, the legal entities stipulated in art. 8 shall take steps to obtain information regarding the true identity of the person in whose name or interest such clients act, including information from the Office.

Art. 12

- (1) The identification requirements shall not apply to insurance and reinsurance companies stipulated in art. 8 in relation to life insurance policies if the insurance premium or the annual rates are lower than or equal to the equivalent in lei of the amount of 1,000 euro or if the sole insurance premium that has been paid does not exceed the equivalent in lei of 2,500 euro. If periodical premium rates or the amounts to be paid on an annual basis are increased or expected to be increased so that they exceed the limit of the 1,000 euro, or 2,500 euro, equivalent in lei respectively, the identification of the clients shall be required.
- (2) The identification requirements shall not be obligatory for the subscription of insurance policies issued by pension funds by virtue of a labour agreement or due to the profession of the insured person provided that such policy may not be redeemed before maturity and may not be used as a guarantee or collateral in order to obtain a loan.
- (3) Identification requirements shall not apply if it has been decided that the payment is to be made by debiting an account opened in the name of the client with a bank or a savings institution.

Art. 13

- (1) In each case where identification is required according to the provisions of this law, the legal entities or individuals stipulated in art. 8 that have the obligation to identify their clients shall keep copies of identification documents as identity proofs or identity references, for a period of 5 years, starting on the date on which their relationship with each client begins.
- (2) The legal entities and individuals stipulated in art. 8 subject to the provisions of this law shall keep secondary and operative entries and all the records relating to any financial transactions that form the subject of this law, in a form that may be utilised as evidence in a court of law, for a period of 5 years after the execution of each transaction and after this period submit them to the Office to be archived.

Art. 14

- (1) Legal entities and individuals stipulated in art. 8 shall prepare a written report on each transaction that by virtue of its nature or by its unusual character, as compared to the usual activities of the client, may be related to money laundering.
- (2) The report, whose format is to be established by the Office, shall be submitted to the Office.

Art. 15

The Office shall ensure, at its own expense, special training programs for representatives of the persons stipulated in art. 8. The legal entities stipulated in art. 8 shall establish internal control procedures and methods to prevent and deter money laundering and shall provide training for their employees on how to recognise transactions that may be related to money laundering and on immediate steps to be taken in such cases.

Art. 16

- (1) The legal entities stipulated in art. 8 shall designate one or more persons to be responsible for the enforcement of this law, whose names shall be notified to the Office together with the nature and limits of such responsibilities.
- (2) Each person designated according to paragraph (1), by the legal entities stipulated in art. 8, shall be responsible for the performance of the tasks assigned to them for the enforcement of this law.

Art. 17

Authorities that have financial control powers, according to the law, and prudential supervision authorities of legal entities stipulated in art. 8 that become

aware of data that indicate money laundering activities, shall inform the Office of such data.

Art. 18

- (1) Employees of the Office shall not disclose any of the information received while holding a position with the Office or afterwards, for a period of 5 years, unless as a result of a legal process.
- (2) Neither while holding a position with the Office nor afterwards shall Office employees be allowed to use any of the information received for personal purposes.
- (3) The provisions of paragraphs (1) and (2) shall not apply to communications within mutual co-operation based on international treaties to which Romania is a party or based on reciprocity or to communications made to similar foreign institutions that have the obligation to keep secrecy under conditions similar to the ones imposed to the Office, if such communications are made with the purpose to carry out the responsibilities resulting from the object of activity.

CHAPTER III

National Office for Fighting and Prevention of Money Laundering

Art. 19

- (1) The National Office for Fighting and Prevention of Money Laundering is established as a specialised body and legal entity, based in Bucharest, subordinated to the Government of Romania.
- (2) The object of the Office is to prevent and fight money laundering for which purpose it shall collect, analyse and process information and notify the competent authorities appointed by law.
- (3) In order to exercise its powers and duties, the Office shall establish its own personnel at central or provincial level, as appropriate.
- (4) At county level and at the level of the City of Bucharest, operative divisions may be established, hereinafter referred to as divisions, that shall be managed by a director.
- (5) Job specifications and conditions regarding the level of education and seniority requirements for Office personnel employment and promotion, shall be proposed by the Office and approved by Governmental Decision, taking into consideration the level of salaries of personnel working for legal authority bodies.
- (6) The Office includes one representative of each of the Ministry of Finance, Ministry of Justice, Ministry of Internal Affairs, the

Prosecutor's Office of the Supreme Court of Justice, the National Bank of Romania, the Romanian Association of Banks and Court of Accounts, appointed for a period of 5 years, by a Governmental Decision.

- (7) The Office shall be managed by a president, ranking as secretary of state, appointed by the Government from among the members of the Office, who shall also have the capacity of main credit co-ordinator.
- (8) At the date of their appointment, the employees of the Office shall have to meet the following conditions:
 - to hold a university degree and have at least 10 years of experience in a legal or economic position;
 - to be domiciled in Romania;
 - to have only Romanian citizenship;
 - to be able to exercise civil and political rights;
 - to have an intact professional and moral reputation;
- (9) If a position in the Office is vacated, the manager of the competent authority shall propose another person to the Government within 30 days from the date the position becomes vacant.
- (10) The members of the Office shall have the obligation immediately to notify the President of the Office, in writing, should any incompatibility with the terms in paragraph (8) occurs.
- (11) The position of member of the Office shall be incompatible with any other public or private position, except for that of teacher in a higher education institution.
- (12) During the term of their mandate, employees of the Office shall be seconded and their labour contracts suspended. At the end of their mandate, they shall return to their initial position.
- (13) The mandate of a member of the Office shall be terminated under the following conditions:
 - a) by expiration of the period for which he has been appointed;
 - b) by resignation;
 - c) by death;
 - d) by any impossibility to exercise such mandate for a period of more than 6 months;
 - e) upon occurrence of an incompatibility;

- f) by being revoked by the authority that appointed him.
- (14) The personnel of the Office or its divisions, may not hold any positions or fulfil any other function in any of the institutions specified in art. 8, while employed by the Office or any of its divisions.

Art. 20

- (1) In order for the Office and its structures to operate, the Government and, as appropriate, local government authorities shall transfer to their administration the necessary real estate (lands and buildings) belonging to the public or private domain, within 60 days from the registration date of the application.
- (2) The Office shall prepare its own draft budget that shall be submitted to the Government.
- (3) The Office shall submit activity reports on an annual basis, or whenever decided by the Government.
- (4) In exercising its powers and duties the Office shall adopt decisions with a majority of votes.

CHAPTER IV

Responsibilities and penalties

Art. 21

Failure to observe the provisions of this law shall, as appropriate, be considered a civil offence, a breach of discipline, a contravention or a criminal offence.

Art. 22

- (1) Failure to observe the provisions of art. 3 paragraph (1), art. 4, 6, 9 and 11 – 16 shall be considered a contravention and shall be penalised with a fine ranging from 5,000,000 lei to 20,000,000 lei unless it occurs under such conditions as to be considered an offence under the criminal law.
- (2) The penalties stipulated in paragraph (1) shall also be applicable to legal entities.
- (3) Contravention shall be determined and fines shall be applied by the persons within the Office designated for this purpose.
- (4) The provisions of Law no. 32/1968 on the establishment and penalisation of contravention (except for art. 25 and 26) will apply, as appropriate, in addition to the provisions of this law .

Art. 23

- (1) The following shall be considered as offence of money laundering and shall be punished with 3 to 12 years of jail imprisonment:
 - a) conversion or transfer of values in order to conceal or dissimulate their illicit origin as well as to conceal or favour persons involved in such activities or presumed to be avoiding legal consequences for their deeds, having the knowledge that such values proceed from traffic with drugs; from failure to observe the regulations on fire arms and ammunition in aggravating circumstances, from failure to observe the regulations on nuclear materials or other radioactive materials; from failure to observe the regulations on explosive materials; from counterfeiting of a coin or of other values; from procurement; from smuggling; from blackmail; from illegal privation of freedom; from banking, financial or insurance fraud; from fraudulent bankruptcy; from theft and concealing of motor vehicles; from failure to observe the regulations on protection of certain goods; from traffic of animals that are protected in their country of origin; from trading in human tissues and organs; from offences committed using computers; from offences committed using credit cards; from offences committed by persons that are members of associations of offenders; from failure to observe the legal provisions on waste and residue imports; from failure to observe the legal provisions on gambling;
 - b) concealing or dissimulating the real nature of the origin, belonging, disposition or movement of ownership or rights over goods, knowing that they result from committing one of the offences mentioned in letter a);
 - c) acquirement, possession or use of goods knowing that they result from committing one of the offences mentioned in letter a).
- (2) Participation, initiation, consent or support in any way, for the purpose of committing the offence of money laundering shall be punished with 5 to 15 years of imprisonment.
- (3) Any attempt shall be punished.

Art. 24

Failure to observe the provisions of art. 18 shall be considered an offence and shall be punished with 2 to 7 years of imprisonment.

Art. 25

For the offences provided in art. 23 and 24, the confiscation of the goods that make the object of the offence shall be ordered, according to the provisions of art. 118 of the Criminal Code, and if such goods are not found, the offender

shall be obliged to pay their money equivalent.

CHAPTER V

Final Provisions

Art. 26

Identification of clients, according to art. 9, shall be made starting with the date this law enters into force.

Art. 27

The minimum limit for transactions, provided in art. 9 paragraph (1) and the maximum limits for the amounts, provided in art. 12 paragraph (1) may be changed by the Government at the proposal of the Office.

Art. 28

This law shall enter into force after 90 days from its publication in the Official Gazette of Romania, except for the provisions of art. 19 that shall enter into force on the date of publication.

Art. 29

30 days before the date this law enters into force the Office shall submit its operating and organisation regulations as well as the operating and organisation regulations of its structures for approval by the Government.

This law has been passed by the Chamber and Deputies and the Senate in the joint session of 17 December 1998, observing the provisions of art. 74 paragraph (1) and art. 76 paragraph (2) of the Constitution of Romania.

PRESIDENT OF THE CHAMBER OF DEPUTIES

VASILE LUPU

PRESIDENT OF THE SENATE

CRISTIAN DUMITRESCU

Bucharest, 18 January 1999,
No. 21

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Clean Future

Issue 2, Spring 1999

Coalition 2000 organizes a discussion about the need to introduce the ombudsman institution to Bulgaria

Washington Conference on Corruption

Coalition 2000 was pointed out as a model initiative in the fight against corruption in Central and Eastern Europe at a Global Conference on Corruption held in Washington on February 22-23, 1999.

.....page 2

SELDI Coalition Gathers Momentum

The Southeast European Legal Development Initiative (SELDI), an effort of leading NGOs, representatives of government institutions and experts from the countries of Southeast Europe aimed at private-public coalition building for legal development, is now working on its first practical initiatives in the region.

.....page 6

Interview

Pasquale Ferraro, Deputy Director of the International Development Law Institute, comments on the important role that civil society organizations play in the fight against corruption.

.....page 3

Small Grant Anti-corruption Projects

A list of 14 small grant project proposals submitted by NGOs from around the country was approved by the *Coalition 2000* Steering Committee as part of the Phase Two of the Coalition work program.

.....page 7

Round Table on Corruption at Bulgarian Universities

Measures to counter corruption at Bulgaria's universities were discussed at a round table convened by the students' association "Anti-corruption Society" in partnership with *Coalition 2000*.

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Dr. Maria Yordanova, Coordinator of the Law Program of the Center for the Study of Democracy (center), moderates the discussion about the need to introduce the ombudsman institution to Bulgaria. Special guests include Mr. Antonio Rovira, First Deputy to the People's Advocate of Spain (left), Mr. Evgenii Dainov, Director of the Centre for Social Practices (right), and Mr. Pasquale Ferraro, Deputy Director of the International Development Law Institute, Rome (far right)

A discussion with international participation about the need to introduce the ombudsman institution to Bulgaria took place at the Center for the Study of Democracy on April 20, 1999 as part of the *Coalition 2000* Anti-corruption Action Plan and the "Citizen Participation, Public Hearings and the Development of Improved Public Policy for Bulgaria in the Legislative Process" project of the Center for the Study of Democracy and the Santander Group from Spain. Special guests from abroad included Mr. Antonio Rovira, First Deputy to the People's Advocate of Spain, and Mr. Pasquale Ferraro, Deputy Director of the International Development Law Institute, Rome.

The discussion was opened by Mr. Evgenii Dainov, Director of the Centre for Social Practices and a Member of the Steering Committee of *Coalition 2000*, who presented the Bulgarian experience in the defining the authorities and the functions of the ombudsman institution. Due to the inherited fragmentation of society, intermediary functions have a particular significance for encouraging democratic institutions and procedures, Mr. Dainov pointed out. He referred to specific intermediary practices in Bulgarian municipalities which were similar to the activities performed by the ombudsman

institution. Possible difficulties before the establishment of the ombudsman institution in Bulgaria included disregard for the institution on behalf of local authorities and its overloading with citizens' claims.

In his presentation Mr. Rovira outlined the functions of the People's Advocate Institution in Spain and compared it with similar institutions in other European states. In terms of anti-corruption fight, the main functions of the People's Advocate included shedding light over corrupt practices and assisting state institutions in curbing those practices, Mr. Rovira said. To function successfully the institution of the People's Advocate should be guaranteed political and economic independence. In Spain the People's Advocate is elected by the Parliament and his activities are funded by public finances which makes him independent of the executive power. Due to the lack of bureaucratic apparatus, the institution of the People's Advocate can act with speed and flexibility not typical for other public institutions. In addition, citizens who see the People's Advocate in his personal qualities tend to trust him more than state institutions whose activities contain a significant amount of formality.

Continued on page 3



This newsletter is a publication of *Coalition 2000* - an initiative of a number of non-governmental organizations to fight corruption in Bulgaria. Its aim is by reporting on the *Coalition 2000* activities to help enhancing public awareness about corruption and to assist in the adoption and the practical implementation of democratic values such as transparency, trust and integrity.

Focus on Anti-corruption

The Public Awareness Campaign to Dominate the Second Phase of Coalition 2000 Activities

The Second Phase of the *Coalition 2000* process - an initiative by a group of Bulgarian non-governmental organizations to fight corruption in Bulgaria - was launched in January 1999. The major objective of the Second Phase (1999 - 2000) is implementing an anti-corruption public awareness campaign for Bulgaria. The campaign will aim to produce changes in perceptions and attitudes about corruption by improving general understanding of the causes of corruption, by increasing public awareness about its costs, and by raising a concern about corruption within national institutions.

The campaign objectives will be achieved by specific activities, including information days, townhall meetings, community round tables, anti-corruption poster and cartoon competition, educational radio programs, public service announcements, anti-corruption readers, etc.

An overall of ten information days will be held in major Bulgarian cities. Their purpose will be to present to the local public the messages and ideas incorporated in the Anti-Corruption Action Plan adopted by the first Policy Forum of *Coalition 2000*. Townhall meetings which will bring together representatives of the local elite and the general public are intended to foster debate on the problems of corruption and to search for solutions at community level.

Educational radio programs and a series of anti-corruption clips will be published to raise public awareness of the economic cost of corruption and the factors that contribute to the growth of corrupt practices. A poster will be designed to help get across the anti-corruption message of *Coalition 2000* and an anti-corruption cartoon competition will be announced.

As part of its anti-corruption campaign *Coalition 2000* will also publish eight anti-corruption readers reflecting key aspects of corruption with an emphasis on best anti-corruption practices and citizen participation in the fight against corruption. Training seminars will be developed and organized with the assistance of the International Development Law Institute (IDLI) to educate civil servants about the cost of corruption, the responsibilities that

come with their job and the role that they could play in increasing the efficiency of government.

Coalition 2000 intends to make a specific contribution to legislation treating corrupt practices by drafting an Ombudsman Act. Work on the Draft Act will be performed in cooperation with all concerned institutions - Parliament, relevant government ministries, Prosecutor's Office, non-governmental organizations, etc. Public hearings with Members of Parliament will be organized to secure inputs from a larger cross section of the Bulgarian polity. The Draft Act will also be presented and discussed with experts from the Council of Europe.

In order to benefit from foreign expertise and experience *Coalition 2000* will interface regularly with international institutions participating in anti-corruption initiatives in Bulgaria - the Council of Europe, the World Bank, the United Nations Development Program, the United States Agency for International Development, the Organization for Economic Cooperation and Development, the European Union, etc.

The *Coalition 2000* public-awareness campaign will be helped by the feedback provided by the Corruption Monitoring System developed as part of the *Coalition 2000* process. The essential functions of the Corruption Monitoring System are: to provide quarterly information about corruption perceptions and levels of intensity of corrupt practices in different sectors of public life; to focus public attention on corruption-related problems by broad dissemination of survey results; and to exercise pressure on the relevant institutions to implement changes. Corruption Indexes released on a quarterly basis will serve as indicators about the effectiveness of the *Coalition 2000* anti-corruption awareness campaign.

Communications with local and international partners and other interested organizations concerning the results from the public awareness campaign and other anti-corruption efforts of *Coalition 2000* will be maintained through the *Coalition 2000* electronic newsletter, published monthly in the *Coalition* web-site (www.online.bg/coalition2000), as well as through the Clean Future quarterly.

Washington Conference on Corruption Points at Coalition 2000 as a Model in the Fight Against Corruption in Eastern Europe

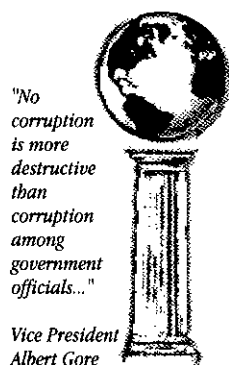
Coalition 2000 was pointed out as a model initiative in the fight against corruption in Eastern Europe at a global conference on corruption held in Washington on February 22-23, 1999. The conference entitled „Fighting Corruption in Developing Countries and Emerging Economies: The Role of the Private Sector“ brought together anti-corruption experts from around the world to compare experiences, foster debate, and generate a private sector action plan geared towards the 21st Century.

The private-public partnership model of interaction between non-governmental organizations, high-level state officials and representatives of private business organizations built by *Coalition 2000* in the first phase of its work was presented to the participants in the conference by the President of the Center for the Study of Democracy and a Member of the *Coalition 2000* Steering Committee, Dr. Ognian Shentov. Increasing public awareness of corruption, creating intolerance towards corrupt practices and developing specific proposals for reforms in the administrative and legal environment aimed at reducing the incidence of corruption have been some of the main priorities of *Coalition 2000*.

The Washington Conference placed the focus of future anti-corruption efforts on the combined effect of preventive and repressive measures, both of which have found their place in the Anti-Corruption Action Plan developed by *Coalition 2000*.

The conference stressed the need for a political will to make anti-corruption efforts more effective. This could be achieved through a public-private partnership leading to the establishment of anti-corruption coalitions.

The Washington Conference recommended active cooperation on the issues of corruption within the framework of international organizations as well as at regional level. During the debates *Coalition 2000* proposed to organize in June this year an international conference on the practical dimensions of the fight against corruption in the countries of Central and Eastern Europe.



Letter Box

Following the *Coalition 2000* participation in the Washington Conference on Corruption (February 22-23, 1999), organized by the Center for Economic Private Enterprise (CIPE) in cooperation with the United States Agency for International Development and the Organization for Economic Cooperation and Development, a letter from Mr. John Sullivan, Executive Director of CIPE, was received by Dr. Ognian Shentov, President of the Center for the Study of Democracy and a Member of the *Coalition 2000* Steering Committee, excerpts of which we publish below:

The Center for International Private Enterprise would like to take this opportunity to extend our thanks to you for bringing your experience in fighting corruption to the Washington Conference. Much of the conference's success hinged upon the ideas and program strategies that you and your organizations have been striving to achieve.

The organization for Economic Cooperation and Development (OECD) and CIPE both agree that this conference served as a solid platform to launch the new OECD convention on foreign bribery. The launch of the convention and the Washington conference added force to the momentum that is landing the fight against corruption on the priority list of many national governments.

It was a sincere pleasure for me to hear some of the thoughts and ideas expressed by your organizations during the plenary sessions and particularly during the regional break-out discussions. The conference was a tremendous success and again, thank you for your time and valuable insights.

John D. Sullivan
Executive Director

Interview

Continued from page 1

The very professional and exhaustive presentation of Mr. Rovira generated a number of commentaries. According to Emilia Drumeva, Head of the Legal Department at the Bulgarian National Assembly, the Bulgarian Parliament has established a Special Committee to deal with citizens' complaints and petitions, whose activities to some extent overlap with those of the ombudsman institution. Borislav Belazelkov, Judge at the Supreme Court of Cassation, expressed the view that the ombudsman institution which lacked many of the formalities associated with parliamentary committees could remove the fear of citizens from public authorities and help solve a number of societal problems. Thus, it could become a useful tool for defending citizens' rights, Mr. Belazelkov stressed.

The activities of the International Development Law Institute (IDLI) intended at limiting corruption in international transactions and the experience of Italy in dealing with the mafia and its corrupt practices were summarized in the presentation of Mr. Pasquale Ferraro, Deputy Director of IDLI. Crucial for the success of any anti-corruption campaign is not only the international assistance at both expert and financial level but also the involvement of citizens and their associations, Mr. Ferraro pointed out. The anti-corruption campaign of *Coalition 2000* has employed an innovative approach of building a public-private partnership involving representatives of state institutions, private associations and non-governmental organizations. In this context, the ombudsman institution could shorten the distance between public administration and individual citizens.

In conclusion, the participants in the discussion emphasized the need for a further and more detailed study of Spanish legislative decisions and practices in the field of the protection of human and citizens' rights, including those stemming from the activities of the People's Advocate institution.

The discussion was organized within the framework of the "Citizen Participation, Public Hearings and the Development of Improved Public Policy for Bulgaria in the Legislative Process" project of the Center for the Study of Democracy and the Santander Group from Spain, and as part of the *Coalition 2000* Anti-corruption Action Plan for Bulgaria.

The Expansion of State Institutions Impedes the Fight against Corruption

Interview with Pasquale Ferraro, Deputy Director of the International Development Law Institute, Rome

Pasquale Ferraro is an Italian national who holds a Bachelor of Business Administration from John Cabot University and a Master of Science of Management from Boston University. He joined IDLI in 1983 and heads the Operations Department. He is one of the three Deputy Directors. He regularly presents "accounting for lawyers" segments in IDLI courses, seminars and workshops and conducts "institutional twinning" consultancies for NGOs in IDLI user countries.



Mr. Ferraro, how does the International Development Law Institute (IDLI) intend to help the fight against corruption in Bulgaria?

The International Development Law Institute is an organization which provides advice to various governments, mainly in the field of building legal professionals. IDLI develops legal strategies and provides legal assistance through the training of lawyers, judges and magistrates. We emphasize on the economic development of the states. So far IDLI has been active mainly in Third World countries in Africa, Asia and Latin America, mostly in countries in economic transition, such as Bulgaria. Fighting corruption in the field of international economic relations as defined in the United Nations' documents is one of the two priorities in our activity. Combating corrupt practices at a national level would be impossible without taking into account that there is significant corruption in international relations. The recent scandal that shattered the EU Commission is just one example of that. The second aspect of our activity concerns undertaking anti-corruption measures in the judiciary. Italy has an extensive experience in this area which we can make available to your country. IDLI has developed training programs for judges whose main duty is to investigate cases of corruption.

What is the level of corruption in Bulgaria according to the data available to you?

From the data which has been made available to me I understand that according to survey respondents, although corruption has pervaded many aspects of social life in Bulgaria, it can be reduced to an acceptable level. Those surveys indicate public intolerance to corruption. The very existence of an initiative, such as *Coalition 2000*, which unites non-governmental organizations with the purpose to fight corruption is indicative about the active role which the civil society in Bulgaria plays in this field. Our experience from Italy and from other countries suggests that fighting corruption is impossible without the support of the public. *What are the most important factors for corruption in Bulgaria according to the surveys? Do you share the view that the conflict in Yugoslavia will lead to criminalization of the economies in the region which, in turn, will give a boost to corruption?*

The two main factors for corruption which I can detect from the survey data are the economic transition and the judicial system currently in a process of restructuring. I would like to point out that when compared to other East European countries corruption in Bulgaria is not that bad. However, until reforms in the economy and in the judiciary are not completed, the opportunities for corruption will continue to be significant. In this respect, corruption surveys in Bulgaria provide a typical picture of the situation. I do not think that the Kosovo crisis, which we all hope will end as soon as possible, will turn into a new corruption source that will bring a dramatic change to the current situation.

In such a case, what would be your advice? Which is the best way to fight corruption in Bulgaria?

I am very much satisfied that during my current visit I was able to share my experience with Bulgarian non-governmental organizations. In my view the fight against corruption should be transferred into the hands of those organizations. I believe that this is the way to develop and reinforce anti-corruption attitudes. My experience shows that the establishment of new government structures to fight corruption only increases the distance between state-controlled institutions and individual members of society. I think that the creation of new state institutions can affect negatively the anti-corruption attitudes of the public. That is why my advice is that Bulgarians take control of these processes through their non-governmental organizations.

The Coalition 2000 Corruption Indexes Q2, 1999

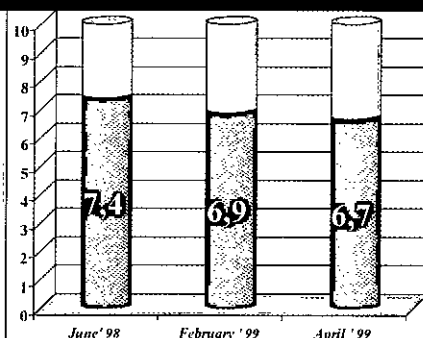
Practical effectiveness



The index shows citizens' assessments of the degree to which corruption has evolved into a practically efficient social tool for solving personal problems.

In April 1999 the index figure was 6.7. These results confirm mass attitudes that corrupt behavior is socially successful.

In comparison with June 1998 this index underwent positive evolution (values show a slight decrease).



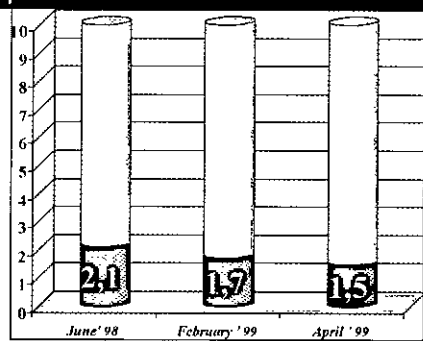
Corruption pressure



The index measures the frequency of occurrence of attempts to corrupt public officials.

The value of the corruption pressure index in April 1999 was 1.5.

This implies comparatively low corruptive coercion. Compared with June 1998 and February 1999 the corruption pressure index registers a trend of slight improvement.

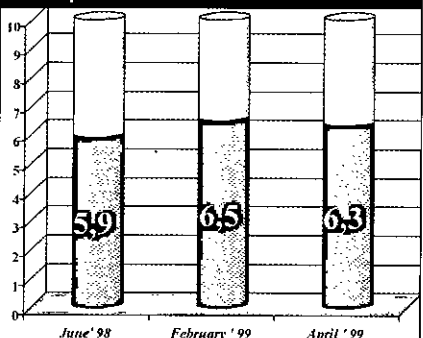


Spread of corruption



This index measures the public's assessments of the level of proliferation of corrupt practices among public officials.

The value of this index in April 1999 was 6.3 and shows that corrupt behavior is perceived as a widely accepted practice. In comparison with June 1998 the index shows slight deterioration: the public admits an increase in the proliferation of corruption. Since February 1999 the value of the index has not changed significantly.



The Practical Effectiveness of Corruption has Diminished

The *Coalition 2000* Corruption Indexes for the second quarter of 1999 indicate that corruption is at the forefront of the public agenda. At present it is considered the forth most important problem of Bulgarian society after unemployment, low incomes and crime (Table 1). The higher the education and the social status of respondents, the stronger is the support for the opinion that corruption is among the major problems of society.

According to the *Coalition 2000* Corruption Indexes, the index for the spread of corruption has increased from 5.9 in June 1998 to 6.3 in April 1999. This is explained not so much with a real increase in corrupt practices but with the greater exposure of the problems of corruption in the media over the period surveyed. At the same time, the index for the practical effectiveness of corruption has dropped from 7.4 in June 1998 to 6.7 in April 1999. The index for corruption pressure has also decreased from 2.1 to 1.5. A positive trend has been observed with regard to the index of susceptibility to corruption: it has decreased from 4.9 in June 1998 to 3.2 in April 1999.

The index of the personal involvement in corrupt practices has remained stable at the level of about 1.0. The surveys have also registered a slight increase in the acceptability in principle of corrupt practices like receiving money, gifts or services as payments for favors done in violation of the law.

Concerning corruption expectations, survey data point to an increase of pessimism among Bulgarians regarding the likelihood of curbing corruption. The index of corruption expectations has increased from 5.0 in June 1998 to 5.4 in April 1999.

The Corruption Indexes of *Coalition 2000* are part of its Corruption Monitoring System (CMS). The main objective of the CMS is to regularly present information about the scope of corruption in the country as well as about related public attitudes, assessments and expectations.

RESEARCH METHODOLOGY

- **Sample**
National sample representative of the population aged 18 and over.
Sample size: February '99 - 1143 respondents; April '99 - 1122 respondents.
- **Survey method**
Face-to-face interview
- **Field work**
The field work was conducted in the period February 6 -20, 1999 and March 27 - April 16, 1999.

CORRUPTION INDEXES

- Corruption indexes are among the important outputs of the Corruption Monitoring System (CMS) of *Coalition 2000*. Their values will be updated quarterly based on survey data.
- Corruption assessment index numbers assume values from 0-10.
- The closer the value of the indexes is to 10, the more negative are the assessments of the evaluated aspect of corruption in Bulgaria. Index numbers closer to 0 indicate approximation to the ideal of a "corruption-free" society.
- Corruption indexes have been grouped into several categories:
 - Attitudes towards corruption;
 - Corrupt practices;
 - Assessment of the spread of corruption;
 - Corruption-related expectations.

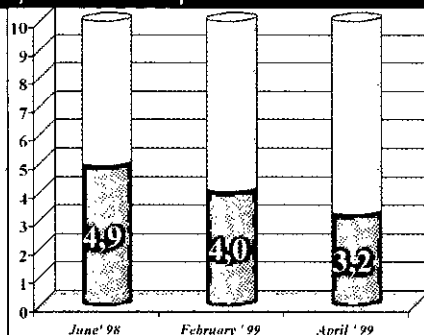
The Coalition 2000 Corruption Indexes Q2, 1999

Susceptibility to corruption



The index measures the inclination to concede principles and values and use corrupt practices and mechanisms under the pressure of circumstances.

In April 1999 the value of the susceptibility to corruption index was 3.2 and marked a steady decrease compared to the value obtained in June 1998 and February 1999.



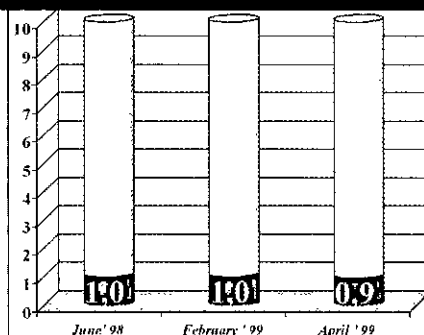
Personal involvement in corrupt practices



The index displays the self-admitted frequency of personal involvement in corrupt behavior.

In April 1999 the index of personal involvement in corrupt practices was 0.9. This value reveals that a relatively small part of the population has been involved in corruption.

The comparison between June 1998 and February 1999, and April 1999 shows a stable value of this index.



Corruption Expectations



This index represents an assessment of the potential of Bulgarian society to curb corruption.

In the period from June 1998 to April 1999 people have become slightly more pessimistic regarding the likelihood of curbing corruption.

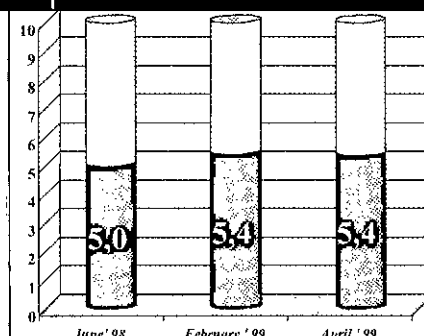


TABLE 1. MAJOR PROBLEMS BULGARIA IS FACING

	Feb'99	Apr'99
Unemployment	58,40 %	64,10 %
Low incomes	51,30 %	49,10 %
Crime	45,40 %	39,10 %
Corruption	38,50 %	34,20 %
Poverty	31,60 %	32,90 %
High prices	22,90 %	20,50 %
Political instability	17,70 %	20,20 %
Healthcare	11,50 %	9,20 %
Pollution	3,60 %	5,20 %
Education	2,70 %	2,90 %
Ethnic problems	2,10 %	2,40 %

TABLE 2. MAJOR FACTORS AFFECTING THE PROLIFERATION OF CORRUPTION IN BULGARIA

	Feb'99	Apr'99
Quick money sought at by those in power	53,50 %	52,90 %
Low salaries	51,90 %	51,50 %
Imperfect legislation	41,10 %	38,80 %
Lack of strict administrative control	35,20 %	36,40 %
Inefficient judicial system	26,40 %	25,80 %
Office duties intermingled with personal interests	25,10 %	19,60 %
Crisis of morals in the transition period	19,40 %	19,40 %
Problems inherited from the communist past	10,90 %	6,90 %
Peculiarities of Bulgarian national culture	5,70 %	6,80 %

TABLE 3. INDEX OF SPREAD OF CORRUPTION AMONG SOME GROUPS OF PUBLIC SECTOR OFFICIALS.

Customs officers	6,7
Doctors	5,3
Lawyers	5,0
Police officers	4,8
Judges	4,5
Businessmen	4,5
Tax officers	4,5
Prosecutors	4,4
Municipal officials	4,3
Investigation officers	4,1
Judiciary administration officers	3,9
Officers at Ministries	3,9
Political party and coalition leaders	3,8
Members of Parliament	3,8
Ministers	3,7
Local political leaders	3,3
Municipal counselors	3,2
University professors and administration	2,9
Teachers	1,9
Journalists	1,8
Representatives of non-government organizations	1,8

Vitosha Research is the social and marketing research unit affiliated with the Center for the Study of Democracy. Since conducting the first independent pre-election and post-election surveys in 1990, Vitosha Research has built up a reputation of providing accurate, in-time, high quality ad hoc research services in line with international standards.

VR has built a track-record of achievements, covering a wide range of research fields: economic behavior and privatization, political attitudes, value orientations, market research, media and audience research, advertising research and others. VR has a long-standing history of working with firms and institutions from the U.S., EU and Japan.

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International Cooperation

Bulgaria signs the Criminal Law Convention on Corruption of the Council of Europe



Bulgaria was among the first group of countries to sign the Criminal Law Convention on Corruption of the Council of Europe at a ceremony in Strasbourg at the end of January 1999. Adopted by the Committee of Ministers of the Council of Europe on November 4, 1998, the Criminal Law Convention on Corruption was opened for signing on January 27, 1999 to coincide with the start of the winter session of the Parliamentary Assembly of the Council of Europe.

The Criminal Law Convention on Corruption has been drafted as part of the Program of Action against Corruption adopted by the Committee of Ministers in November 1996. The Convention sets the task to criminalize a number of corrupt practices as well as to improve the international cooperation in the prosecution of those practices. Thus, the Convention obliges the signatory countries to declare criminal offenses under their domestic law "the promising, offering or giving by any person, directly or indirectly, of any undue advantage to any of their public officials, for himself or herself or for anyone else, for him or her to act or to refrain from acting in the exercise of his or her functions."

More specifically, the Criminal Law Convention on Corruption urges the signatory states to take measures against active and passive bribery of domestic public officials, bribery of members of domestic public assemblies, bribery of foreign public officials and of members of foreign public assemblies, bribery in the private sector, bribery of officials of international organizations, bribery of members of international parliamentary assemblies, bribery of judges and officials of international courts and also against trading in influence, money laundering of proceeds from corruption offenses, account offenses and participatory acts.

Article 18 of the Criminal Law Convention on Corruption insists that signatory states adopt such legislative and other measures as may be necessary to ensure that legal persons can be held liable for the criminal offenses of active bribery, trading in influence and money laundering.

In compliance with Article 24, the implementation of the Criminal Law Convention on Corruption will be monitored by the Group of States against Corruption (GRECO) established in May 1998 by the Committee of Ministers of the Council of Europe. Recently the Bulgarian government announced its decision to join GRECO.

Bulgaria's accession to GRECO will require an overhaul of the country's Penal Code. It will have to be changed in order to establish as criminal offenses acts of corruption, such as active and passive bribery of foreign public officials, bribery of members of foreign parliamentary assemblies, bribery of officials of international organizations, bribery of members of foreign parliamentary assemblies, bribery of judges and officials of international courts, etc.

The Southeast European Legal Development Initiative

The Southeast European Legal Development Initiative (SELDI), an effort of leading not-for-profit organizations, representatives of government institutions and experts from the countries of Southeast Europe aimed at public-private coalition building for legal development in the countries of Southeast Europe, is now working on its first practical initiatives in the region.

SELDI was conceived by the Center for the Study of Democracy (CSD), a Bulgarian NGO and the International Development Law Institute (IDLI), an inter-governmental organization based in Rome, to build upon the success of the *Coalition 2000* process, the Judicial Reform Initiative (JRI) for Bulgaria (www.csd.bg/jri), and other previous efforts in Bulgaria by these two organizations aimed to promote the rule of law and a legal environment beneficial to the transition process and development. The *Coalition 2000* process and JRI have established a model in encouraging cooperation among public and private institutions in the transition context as the most effective way to mobilize all societal resources for the success of the reforms. The CSD, which has been the initiator and the leading institution in both these efforts, will also be driving force behind SELDI.

As a consequence, SELDI is the first NGO-led effort to promote legal cooperation as an instrument for regional development.

SELDI is thus intended to multiply the effect of public-private coalition building for development throughout the region. It provides a forum for cooperation among the most active civil society institutions, public figures and government and international agencies in Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Romania, Slovenia, Turkey and, when possible, Yugoslavia. SELDI will be actively seeking the cooperation of other international initiatives for the region - the future Stability Pact announced by the EU, South Eastern European Cooperation Initiative (SECI), Central European Initiative (CEI), the Royaumont Process, the "Graz process". As an initiative, SELDI is intended to serve as a permanent framework under which the founding organizations and other organizations and individuals seek to promote programs and projects in the legal field.

SELDI's objectives are to:

- Contribute to the social and economic integration, the transition to democracy and a market economy and to contribute to the development of public-private partnerships within the SELDI Countries;
- Work for normalization of economic relations in the SELDI Countries;
- Strengthen civil society in the SELDI Countries;
- Contribute to the building of the rule of law and democratic institutions in the SELDI Countries;
- Promote economic relations, trade, and investment between the SELDI Countries and with other countries;
- Contribute to the process of European reintegration; and
- Promote regional programs and initiatives which promote the peaceful settlement of disputes.

SELDI is distinguished from the other region-wide initiatives in that it seeks to facilitate practical efforts aimed at addressing specific needs and at the leading role of civil society and private sector institutions in its implementation.

SELDI will pursue its objectives through:

1. Training;
2. Technical assistance;
3. Conferences, colloquies and other such meeting fora;
4. Exchange programs within the Region and with partners outside the Region; and
5. Research and Publications

Representatives of the CSD and IDLI will serve on the SELDI Executive Committee along with a representative of a third organization which will be identified at a later stage. The Steering Board, consisting of prominent public figures and NGO and business leaders from the SELDI countries will be responsible for establishing SELDI's strategy and activities.

Those interested in associating themselves with the Initiative, either as individuals or organizations are invited to contact the CSD through:

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Tel.: (+359 2) 971 3000, Fax: (+359 2) 971 2233, E-mail: ognian@online.bg

International Conference

Coalition Building and Monitoring to Counter Corruption: Strategies and Impact in Central and Eastern Europe

On June 19-20, 1999 *Coalition 2000* will hold an International Conference "Coalition Building and Monitoring to Counter Corruption: Strategies and Impact in Central and Eastern Europe" in Varna, Bulgaria. The purpose of the conference is to: (a) review anti-corruption strategies in the transition countries of Central and Eastern Europe, with an emphasis on those involving co-operation between the public and the private sector, as well as monitoring mechanisms; (b) assess the results and impact of the implementation of these programs and summarise lessons learned, and make an inventory of best practices; (c) encourage further co-operation among governmental and non-governmental organizations, especially in Southeast Europe - within existing bilateral and multilateral instruments against corruption.

The conference will bring together non-governmental organisations, including business associations and other interest groups, and government officials from Albania, Bulgaria, the Czech Republic, Hungary, FYROM, Poland, Slovakia, Slovenia, Romania, Turkey, Ukraine and Yugoslavia as well as representatives of bilateral aid agencies and international organisations - USAID, OECD, the World Bank, the European Union, the Council of Europe and UNDP.

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A round table organized by "Anti-Corruption Society" and Coalition 2000 discusses corruption on campus



The deputy chairman of the students' association "Anti-corruption Society" Ilko Yordanov (left) outlines measures for curbing corruption at university towns

A round table organized by the student association "Anti-corruption Society" in partnership with *Coalition 2000* was held at the Center for the Study of Democracy on April 27, 1999. The round table placed its focus on two essential groups of corrupt practices - at obtaining university accommodation and cheating at exams. Petar Yakimov, chairman of the Student Council at Sofia University briefed the participants about the structure and the organization of the accommodation and social services at Sofia University. A report entitled "Normative documents regulating the conditions for using university accommodations at Sofia University" was presented by Ilko Yordanov, deputy chairman of "Anti-corruption Society." Bogomil Nikolov, Chairman of the National Student Association of Political Sciences, examined the main causes for corruption at the university towns.

Several important problems were outlined during the discussion that followed:

- Normative documents regulating the conditions for accommodating students at university places are not well known to students, which is a precondition for discretionary decisions on behalf of the administration;
 - The process of placing students to university accommodations lacks transparency, which creates a breeding ground for corrupt practices;
 - Committees responsible for placing students to university accommodations operate under constant threats and receive frequent bribe offers;
 - A working mechanism to expel students illegally occupying university accommodations is presently non-existent;
 - The system under which exams are organized is susceptible to corruption.
- The following proposals to solve existing problems were made:
- Making early announcements about the number of places available at university accommodations and regular update of that information;
 - Abiding to the principles of competition in all accommodation procedures including those taking place outside the periods of mass accommodation campaigns at the beginning and at the end of the academic year;
 - Improving coordination among various committees responsible for placing students to university accommodations;
 - Drafting and disseminating brochures containing information about students' rights;
 - Setting up a hot telephone line to collect information about cases of corruption at university places and to provide consultations on legal issues arising in the process of placement of students to university accommodations;
 - Introducing payment for members of the committees responsible for placing students to university accommodations as well as a fee for applying to such accommodations;
 - Introducing a system for written examinations under which exam papers of students from one university will be evaluated by lecturers from another university.

In conclusion, the participants in the round table authorized the governing body of "Anti-corruption Society" to summarize the proposals made during the discussion in a report, which should be sent to all institutions engaged with the problems of the students' community in the country.

The Coalition 2000 Steering Committee Approves a List of Small Grant Projects

At a meeting held at the Center for the Study of Democracy on March 30, 1999 the *Coalition 2000* Steering Committee considered the results from the small grants competition announced in February 1999 as part of Phase Two Work Program of *Coalition 2000* (Component 4 - Complementary Actions - Small Grants). Mr. Emil Tsenkov, Coordinator of *Coalition 2000*, reported that a total of 28 small grant project proposals had been received by the *Coalition 2000* Secretariat. At the pre-selection stage two of the projects had been disqualified as not eligible under the competition guidelines. Another five projects, developed by the Open Society Clubs will be recommended for financing to the Open Society Foundation - Sofia.

Thus, the Steering Committee approved 13 projects:

- **Bulgarian Association for Fair Elections and Civil Rights - Sofia**
Title of the project: *Public Anti-Corruption Forums*
- **Foundation for Entrepreneurship Development - Sofia**
Title of the project: *Organizing discussions among entrepreneurs, representatives of the state administration, the judiciary and the local media on the problems of the fight against corruption.*
- **Association of Young Lawyers**
Title of the project: *Civil initiative "Transparency and Anti-corruption" in the municipalities of Pleven and Lyaskovets.*
- **Anti-corruption Society Association - Sofia**
Title of the project: *Pilot Program "The University Town - a No Corruption Zone".*
- **Civil Coalition "Civil Council" - Razgrad**
Title of the project: *Project to Fight Corruption*
- **Bulgaria's Youth League "Stephan Stambolov" - Smolian**
Title of the project: *Civil Society against Corruption*
- **Center for the Study of Political Processes - Shoumen**
Title of the project: *Promoting the Anti-Corruption Action Plan of Coalition 2000 on the territory of Shoumen region*
- **Non-for-profit Association "NSO Lecturers" - Plovdiv**
Title of the project: *Citizens against corruption in Plovdiv, Stambolitski, Stara Zagora, Chirpan and Smolian*
- **Regional Association "For the Revival of Civil Society" - Pleven**
Title of the project: *Citizens - Corruption - Municipal Administration*
- **InfoEcoClub - Vratza**
Title of the project: *"Seeking Justice"*
- **Transparency International - Bulgaria**
Title of the project: *Criminogenous analysis of draft laws deposited in Parliamentary Commissions*
- **Black Sea Legal Community - Bourgas**
Title of the project: *Fighting Corruption*
- **Youth Center for Open Education "Seksaginta" - Rousse**
Title of the project: *United against Violence*

In addition, a project by the Movement for Christian Revival, submitted to the *Coalition 2000* Secretariat in December 1998 was approved. The reason to add this project entitled "Corruption as a Sin" to the 13 projects already approved was its focus on educational activities in an area not covered by any other applicant.

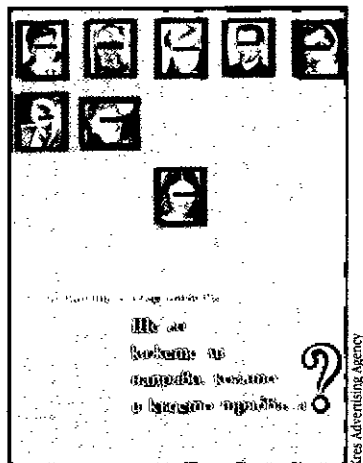
It was decided that the 14 projects will be supported for a three-month period (April-June 1999) to allow initial project results to be presented to an international conference "Coalition Building and Monitoring in Anti-Corruption: Strategies and Impact in Central and Eastern Europe" to be organized by *Coalition 2000* in June this year in Varna, Bulgaria. The conference will bring together academics involved in the study and the monitoring of corruption processes, representatives of international organizations playing a key role in the fight against corruption and members of non-governmental organizations engaged in the development and implementation of anti-corruption strategies. The conference will discuss best practices in coalition-building and corruption monitoring.



Coalition 2000 conducts a poster design competition

A poster design competition was announced by *Coalition 2000* on February 2, 1999 as part of its anti-corruption public awareness campaign. Posters are intended to increase the visibility of *Coalition 2000* anti-corruption efforts and to reinforce its campaign messages.

Some of the best posters can be seen below:



Kres Advertising Agency



Christo Komazizki



Anti-corruption Society

Time-table of the Activities on Small Grant Projects

Organization	April	May	June
Bulgarian Association for Fair Elections and Civil Rights - Sofia	<ul style="list-style-type: none"> Preparing for public forums Press-conference for the national media Drafting a questionnaire for the participants in public forums 	<ul style="list-style-type: none"> Conducting 7 public forums 	<ul style="list-style-type: none"> Summarizing and disseminating the results from public forums
Foundation for Entrepreneurship Development - Sofia	<ul style="list-style-type: none"> Drafting and distributing questionnaires on corruption in local administration Press-conference 	<ul style="list-style-type: none"> Conducting an anti-corruption round table in Haskovo 	<ul style="list-style-type: none"> Conducting a public anti-corruption forum in Vratza
Association of Young Lawyers - Sofia	<ul style="list-style-type: none"> Workshops with representatives of local authorities Press-conferences in Pleven and Lyaskovets Inauguration of reception offices to accommodate groups of mediators Drafting and publishing anti-corruption handbooks 	<ul style="list-style-type: none"> Groups of mediators in action 	<ul style="list-style-type: none"> Groups of mediators in action Conducting two anti-corruption conferences Distributing anti-corruption handbooks
"Anti-corruption society" - Sofia	<ul style="list-style-type: none"> Round table and a concert to promote the "The University Town - a No Corruption Zone" initiative 	<ul style="list-style-type: none"> Drafting and publishing brochures explaining to students their rights 	<ul style="list-style-type: none"> Press-conference to announce the results from the project
Civil coalition "Civil Council" - Razgrad	<ul style="list-style-type: none"> Organizing workshop to discuss the activities envisaged in the project Conducting discussion "Civil Society against Corruption" Presenting the project before representatives of local and regional authorities and the media 	<ul style="list-style-type: none"> Anti-corruption information day Anti-corruption round table 	<ul style="list-style-type: none"> Public forum Organizing a public anti-corruption event Publishing information bulletin
Bulgaria's Youth League "Stephan Stambolov" - Smolian	<ul style="list-style-type: none"> Press-conference Establishing a Regional Anti-corruption Public Council 	<ul style="list-style-type: none"> Joint session of the Regional Anti-corruption Public Council and representatives of local authorities, the media and independent experts Conducting a public action "Civil and Administrative Services" 	<ul style="list-style-type: none"> Organizing a meeting between the Regional Anti-corruption Public Council and representatives of local and regional authorities to discuss enhancing transparency in public administration Organizing a training seminar for citizens
Center for the Study of Political Processes - Shoumen	<ul style="list-style-type: none"> Anti-corruption round table Information day Conducting 3 anti-corruption seminars in the region of Shoumen 	<ul style="list-style-type: none"> Conducting 3 anti-corruption seminars in the region of Shoumen Organizing a public anti-corruption action 	<ul style="list-style-type: none"> Establishing an Anti-corruption Public Council to include representatives of local authorities, journalists, experts, etc. Conducting 3 anti-corruption seminars in the region of Shoumen
Non-for-profit Association "NSO Lecturers" - Plovdiv	<ul style="list-style-type: none"> Organizing an information week Organizing a public meeting "Transparency of Local Authorities and Public Trust" 	<ul style="list-style-type: none"> Organizing discussion entitled "Public Services and Public Trust" with the participation of representatives of the municipal administration, of youth clubs, etc. Organizing discussion "Citizens and Public Services" Organizing a civil action "Citizens and Public Services" 	<ul style="list-style-type: none"> Organizing a discussion with the participation of representatives of <i>Coalition 2000</i> and of local anti-corruption activists Establishing a Local Anti-Corruption Council
Regional Association "For the Revival of Civil Society" - Pleven	<ul style="list-style-type: none"> Creating an anti-corruption Information Center Organizing an anti-corruption round table 	<ul style="list-style-type: none"> Conducting civil Action "Citizens and Public Services" Publishing anti-corruption leaflets 	<ul style="list-style-type: none"> Establishing an Anti-corruption Public Council to include representatives of local authorities, the local media, independent experts, etc.
InfoEcoClub - Vratza		<ul style="list-style-type: none"> Conducting a seminar entitled "Ecology and Local Authorities" 	<ul style="list-style-type: none"> Open session with representatives of local authorities and the Civil Anti-corruption Council
Transparency International - Bulgarian Chapter			
Black Sea Legal Community - Bourgas		<ul style="list-style-type: none"> Organizing an anti-corruption round table 	
Youth Center for Open Education "Seksaginta" - Rousse	<ul style="list-style-type: none"> Announcing an anti-corruption poster competition and designing a logo 	<ul style="list-style-type: none"> Conducting anti-corruption debates with the participation of students from local schools Organizing a round table "United against Corruption" Conducting debates with the participation of students from the University of Rousse 	<ul style="list-style-type: none"> Organizing 3 workshops entitled "Important Measures to Counter Corruption"
Movement for Christian Revival - Sofia		<ul style="list-style-type: none"> Conducting an anti-corruption workshop in the municipality of Triaditza Conducting an anti-corruption workshop in the municipality of Krasno Selo 	

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Important anti-corruption web-sites:

Center for International Private Enterprise (CIPE)
 URL: <http://www.cipe.org>
 Council of Europe
 URL: <http://www.coe.fr/eng/legalts>
 Independent Commission Against Corruption, Hong Kong/China
 URL: <http://www.icac.org.hk>
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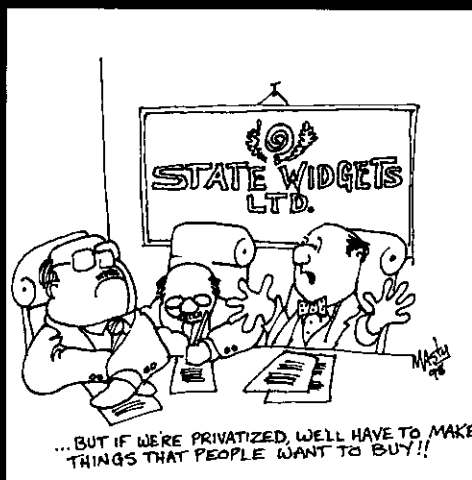
The Lessons of Privatization

Trends in Privatization

Capitalization: Privatizing Bolivian Style

Policymaking and Privatization

Building Transparency



Letter from the Publisher

The idea that privatization must accompany any transition to democratic governance has become largely accepted as fact. But what has it actually done for countries that have traveled the farthest down that path? Policymakers have tended to preach the merits rather practice the art of privatization (see our last issue on privatization on CIPE's Web site at www.cipe.org). In the past ten years, though, as Peter Young points out in his article, substantial progress has been made toward loosening government control of national economies all around the world.



So what are the lessons to be learned from privatization? As the articles in this issue demonstrate, the most important one is that privatization works. Research clearly shows that companies become more efficient and better able to produce new products and explore new markets once they are privatized. And while governments should not expect to balance their budgets with revenues gained from privatizing, it is clear that they too become more efficient and reduce their level of debt. Consumers also benefit greatly from the reduced cost of basic infrastructure services and increased choice in products they can buy. And over the long run, they also are more likely to find employment within a strong private sector than with state-owned enterprises that rely on government subsidies.

As the articles by Megginson and Valdez point out, there are many choices about how to privatize. Depending on a country's level of development, voucher privatization may be one option, a share offering may be another, and capitalization may be a third. What is important, as Roman Frydman underscores in our interview with him, is that policymakers should make privatization happen. It truly is a major contributor to prosperity and an essential part of sustaining democracy.

We would like to thank all of our authors for their contributions to this issue of *Economic Reform Today*, with a special acknowledgment to the Adam Smith Institute and Steve Masty for his superb cartoons. We hope you will find this issue to be of particular value and would like to receive your comments.



Willard A. Workman
Vice President, CIPE & Vice President,
International, US Chamber of Commerce

ECONOMIC REFORM TODAY



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Auctioneer in action (left)

Bolivian metals worker (right)

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The Lessons of Privatization

by Peter Young

Privatization of state-owned enterprises (SOEs) in developing and post-communist countries has long been promoted in the belief that it fosters greater economic efficiency and stimulates economic growth. This belief is the direct result of the consensus that SOEs are typically inefficient and require substantial subsidies to operate, acting as a drain on the government treasury and the economy as a whole.

For many years privatization was discussed more than actually implemented. However, in the past ten years the number of transactions has grown substantially. For example, in 1992 completed privatizations in developing countries numbered in the thousands (raising \$23.1 billion) and since then that figure has reached tens of billions. The trend has been most conspicuous in post-communist countries where entire economic sectors have been transferred to private ownership. In Latin America privatization has extended to major utility sectors, such as telecommunications, power, water, and railways, that still remain state-owned in many West European countries.

How useful is privatization?

With the substantial increase in privatizations in recent years, it became possible to assess the true value of privatizing to a country's

economy. The Adam Smith Institute concluded last year a major study to see if the real-world results of privatization have lived up to its promise. The objective of the study, "The Impact of Privatization in Postcommunist and Developing Countries," was to review the impact of privatization in these countries by pulling together a synthesis of existing research. From this synthesis a number of conclusions were drawn about the overall impact of privatization, the success of different approaches to privatization, the importance of the policy environment, and other matters.

Some of the most important questions this study set out to answer were as follows:

- Do privatized enterprises improve performance in terms of profitability, efficiency and investment?
- Does privatization improve government finances?
- What is the social impact for consumers and employees?
- What are the overall effects on the economy?
- How do different approaches to privatization affect end results, and what lessons can be learned?

Peter Young is the international director of the Adam Smith Institute, the London-based private economic policy institute.

This article will provide an overview of what kinds of answers our study found to these key questions.

Improving enterprise performance

The performance of companies improved after privatization in almost all cases studied. A major World Bank study by Galal et al. found that performance improved in eight out of nine developing-country cases studied. A larger sample of 60 companies examined by Megginson et al. noted substantially improved performance in 75% of the case studies and to some extent

after privatization. It also explains why the Malaysian airline MAS showed improvement after partial privatization, even though its management did not change.

Productivity and efficiency improved in most cases where they were specifically studied, often by output growing faster than labor and other inputs. In the Chilean electricity generation case cited above, there was much more efficient use of the main input, coal. In the case of MAS, however, productivity did not increase per se because privatization yielded no changes



in almost all cases. Other cases show a similar picture.

Looking at the individual performance measures examined in a large number of studies, profitability of firms increased in the vast majority of cases. Privatization also removed constraints on new investment and access to capital. This release of the resource constraint partly explains why even efficient state-run companies operating in competitive or regulated markets under the same conditions as private companies (for example, the Chilean state enterprises) turned in a better performance

apart from improved access to capital investment. In Bangladesh, textile mills improved operating or static efficiency, but not longer term or dynamic efficiency. This was because debt and other issues were not resolved during the privatization process. The overall poor business environment in Bangladesh was a major factor as well.

Efficiency and performance did not improve in other cases, such as those in Mali and Zaire, because the privatization process itself was poorly handled. Buyers were chosen without regard to ability to run the enterpris-

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es, or even to meet the purchase price, which was payable in installments. Chile's first round of privatizations failed for similar reasons, though there is no evidence that performance did not improve after privatization. Firms were sold on credit to investors who were unable to meet payments after Chile entered a recession.

There are a number of cases, largely from the poorer developing countries, where performance can be said to have improved dramatically after privatization because the enterprises actually closed down before they were privatized. Those enterprises whose production could more easily be adapted by the new private owners to meet a real demand had a better future than those which could not. Privatized enterprises in Togo are an example of this. Most could adapt their production, except a detergent factory that could really only produce detergent.

Another reason for post-privatization difficulties is continued government interference with the enterprise. For example, the Jamaican edible oils company, Seprod, initially did well after privatization until the government imposed price controls on its products. In the case of Mexicana de Aviación, the company faced difficulties because the new owners misjudged the market and made untimely investments.

Evidence from post-communist countries on performance after privatization is less detailed and obscured by other factors. The collapse of the Soviet bloc, the rapid introduction of market reforms and the resulting economic disruptions severely affected most enterprises across the board. Nevertheless, evidence suggests priva-

tized companies have weathered the storm better than state-owned companies. There are to be sure significant differences among post-communist countries due to specific economic circumstances and the privatization methods chosen.

Polish privatized enterprises improved profitability in most cases, or at least reduced losses, and have made extensive product improvements and marketing initiatives. However, they have generally not increased investment because of inertia or lack of

prises privatized mainly through the voucher method have not improved enterprise efficiency. However, the Czech Republic's mass privatization program has enabled it to create a full free-market economy more quickly than other countries.

There is evidence in most post-communist countries that privatized companies have begun restructuring to varying degrees. Russian enterprises have not undergone significant restructuring, although there are instances of improved product quality and marketing efforts in most cases. Pressure to improve performance in Russian enterprises stems more from a desire to survive than from shareholder initiatives. Most enterprises are majority-owned by management and employees who seek to protect their own positions, in contrast to East European post-communist countries.

Reducing government debt

Some governments have raised large sums from privatization transactions, up to 15% of total annual revenue in some Latin American countries. These revenue streams have

allowed Mexico to continue macro-economic stabilization efforts and repay large portions of state debts. Argentina and Honduras have used their windfall to pay down state-owned debt as well.

Privatization has reduced many governments' need to continue large subsidies to SOEs, significantly improving overall fiscal health. In Jamaica, the government not only received large amounts of cash from the sale of unprofitable hotels, but also increased revenues by canceling income tax concessions to that sector.



capital. Enterprises privatized by management/employee buyout tend to have the most difficulties in this regard, followed by those sold by public offer. Those firms sold by competitive tender, particularly to western firms, have had the best access to investment.

We see a similar picture in the Czech and Slovak Republics. Those enterprises with a strategic western investor have shown the best results. In these countries, as in Poland, access to securities markets has helped enterprises raise new capital. Enter-

In two Malaysian cases, the government realized significant gains from the privatization process by attaching profit sharing mechanisms to the terms of the sale—benefiting long-term from the greatly improved post-privatization performance of the enterprises.

In two of the three detailed Chilean cases examined by the World Bank, the government was likely to experience a modest fiscal loss from privatization because the firms in question were already efficient and profitable. Continued public ownership would have yielded dividend payments. However, the modest fiscal losses in these two cases are outweighed by the overall positive macroeconomic benefits of the privatizations.

In cases where SOEs had ceased operating prior to privatization, or were performing very poorly, governments obviously did much better fiscally by removing the unprofitable entities from the books. Although in some cases proceeds were insufficient to cover liabilities the government had assumed at the time of privatization, the sale ended these liabilities and prevented future losses from growing larger.

Consumers benefit

Consumers benefit from privatization in the majority of cases. Efficiency improvements in regulated industries have been passed on to the consumer in the form of lower prices. For example, the Chilean electric utility, Enersis, reduced prices sharply by limiting the amount of stolen or unbilled electricity. Consumers benefited from gains in efficiency (lower prices) in unregulated industries as well.

Consumers also enjoyed greater access to goods and services that previously had been unavailable to them. No longer hindered by investment constraints, privatized enterprises were able to make their products more available to the public.

The impact of privatization on

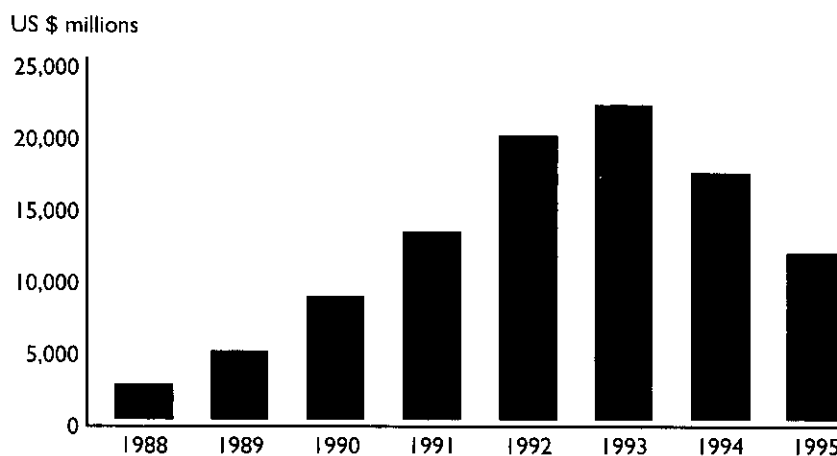
consumers in post-communist countries is complicated. Prices have increased greatly since liberalization of those economies, but many more products are also available for the first time. Such price increases are more attributable to the introduction of market economics as a whole rather than to privatization in particular. There is evidence that privatized enterprises seek more aggressively to improve quality and introduce new products to meet consumer demand.

However, given the monopolistic power that is in whole or in part

Employing workers

The evidence shows that employees benefited from privatization although not, of course, in every case. Employees tended to benefit in three different ways: (1) employment levels tended to increase after privatization; (2) remuneration packages tended to improve after privatization, often including performance bonuses; and (3) many employees bought shares in the privatized enterprises, further benefiting when the value of those shares increased.

**Privatization Proceeds in
Developing Market Economies**
Value of Transactions



Source: World Bank, Privatization Database (corrected).

retained by many post-communist enterprises, particularly in former Soviet countries, the incentive for enterprises to meet consumer demand is often minimal. Privatization would have created greater sensitivity to market forces if competition had also been encouraged.

In some cases, such as Aeroméxico, employment levels dropped after privatization. However, laid-off employees generally received generous severance packages. In many cases employment levels had fallen prior to privatization, so one may attribute this effect not just to privatization

but to the need for greater enterprise efficiency.

Employees also benefited directly when shut-down enterprises were privatized and restarted by private investors. In Jamaica, the success of the privatized hotels and subsequent boost to tourism had a major beneficial effect on indirect employment.

In post-communist countries, employment levels in privatized enterprises have generally fallen, though wage levels have tended to increase after privatization. It should be noted that employment levels in SOEs have fallen even faster, which suggests that privatization has helped preserve employment, at least in relative terms.

Strengthening capital markets

Privatization has done much to strengthen capital markets and widen the ownership of capital, although such effects are closely related to the methods of privatization pursued by individual countries. Countries that have concentrated on tender sales to foreign investors have been unable to capture such benefits. Other countries, such as Jamaica, Chile, Mexico, Nigeria, Poland, and the Czech and Slovak Republics, have strengthened their capital markets considerably and created a large group of shareholders. However, where ownership of an SOE has passed to a large number of small shareholders, the new owners have had little influence on management.

The sale of shares to employees is another means of "democratizing" the ownership of capital that has been successfully pursued in developing and post-communist countries. Of course, the mass privatization schemes of the Czech and Slovak Republics and of Russia have created more shareholders than any other approach. However, the ability of shareholders to exercise fully their ownership rights in Russia is in some doubt. An effective legal framework

and infrastructure is necessary to safeguard property rights and to facilitate the trading of securities.

More competition

Privatization has encouraged competition in most cases, although liberalization measures were often introduced concurrently and theoretically could have been introduced alone. In practice the two trends go hand in hand. Even where liberalization has been delayed to give the privatized company a period of protec-

units emerged from large agglomerations. However, in many cases there was no coherent strategy for introducing more competition, and little cooperation existed between bodies responsible for competition and those responsible for privatization. Greater gains from competition could have been realized if the various decision-making entities had coordinated their efforts.

Increasing investment

Privatization has become an important means for countries to attract foreign investment. In post-communist countries privatization accounts for a large proportion of total foreign investment; for example, 86% in Hungary and 64% in Poland. In countries such as Peru, Venezuela, Argentina, and Jamaica, privatization accounts for 30% to 40% of total foreign investment.

Some countries, such as Nigeria and Brazil, have attracted little foreign investment into privatization because of restrictions placed on such investment. Other countries have merely placed less emphasis on sales to foreigners.

Privatization also signals a government's commitment to freer markets, and encourages greater greenfield investment and other forms of investment not directly related to privatization. Such a "signaling effect" can help reverse capital flight.

A World Bank study by Frank Sader states that privatizations have a particularly strong influence over decisions to invest and calculates that each dollar of privatization revenue generates an extra 38 cents in new investment. It also finds that financial and infrastructure privatizations have the most positive effect on other foreign direct investment.

What lessons can be drawn?

The main conclusion of our research is that privatization, in the vast majority of cases, is a very suc-



tion, competition has been introduced eventually. Without privatization, there would likely have been less impetus to follow through with market reforms. This is the case with the two Latin American telecommunications companies, Telmex and CTC.

In post-communist countries, privatization has created greater competition as the previous monopolistic structure of the economy has been dismantled and smaller privatized

cessful and beneficial reform for developing and post-communist countries. The beneficial results of privatization in these countries are reflected in many areas: (1) improved enterprise performance, (2) increased state revenue, (3) greater choices and prosperity for consumers and employees, and (4) wider access to private investment and capital.

The findings support privatization efforts in recent years, and suggest that an even greater emphasis should be placed on privatization in the years ahead.

Different Outcomes

However, important differences can be discerned in the results of individual privatizations surveyed. In a handful of cases, privatization did not bring beneficial results. In other instances, the effect on most individual indicators was positive, but the quality of the privatization and the outcomes overall could have been substantially improved. There is, therefore, much to be gained from encouraging best practice in privatization and sharing past experiences with all countries.

The primary lessons and critical success factors are as follows:

➤ *Establish a proper balance among objectives.* The short-term need to raise revenue often conflicts with the longer-term goals of increased efficiency, greater competition and consumer choice. Bowing to fiscal concerns, too many governments preserve some of an enterprise's monopoly power after privatization in order to extract a higher sale price. Proper attention to competition issues would bring better long-term results.

➤ *Thorough planning and education are vital.* As an example, contrast the Czech and Russian mass privatization programs. The Russian experience was less satisfactory because fundamental issues such as property

rights and corporate governance were initially unresolved. The clear lesson is that it is very important to improve the design of mass privatization schemes to deliver more effective corporate enterprise governance.

➤ *Decisionmakers must be better educated so they can fully understand the need for privatization, and the necessity of creating a solid institutional framework that will allow privatization to flourish.* Effective financial sector reform is an important precondition for success and will include introduction and enforcement of modern corporate law, shareholder rights, clear free-market policies, public utilities' regulatory frameworks, capital markets laws, and liberalization of trade policy. ☹☹

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Special Feature



TRENDS IN PRIVATIZATION

by Mary M. Shirley

The collapse of communism in planned economies and a rethinking of the role of government ownership in market economies have made privatization a defining feature of the last two decades. As the number of privatizations has increased in recent years, it is useful for policymakers to know some of the important changes that have occurred in how the process is conducted. This article examines privatization trends in developing and transition economies since 1988 using World Bank data on transactions above \$50,000. It also considers how new private entrants into sectors previously dominated by state-owned enterprises (SOEs) have been changing the structure of ownership in developing countries.

How much is being privatized?

The chart on page 5 in Peter Young's article shows the sharp upward trend in the number of transactions in developing countries since 1988, albeit with some decline in more recent years. The chart also shows a dramatic rise in the number of privatizing countries, from 12 in 1988 to 43 in 1995, which suggests that the number of transactions grew in large part because the number of countries selling assets increased. The value of transactions follows a similar upward trend, as we see in Figure 1. This might suggest that the share of state ownership in the economy

of developing and transitional countries has shrunk sharply, and privatization will now dwindle. However, when we compare in Figure 2 the value of sales to the GDP of the divesting countries the story is less dramatic. Total proceeds from sales between 1988 to 1995 were only about 0.5% of the GDP of privatizing countries during that period, and that percentage

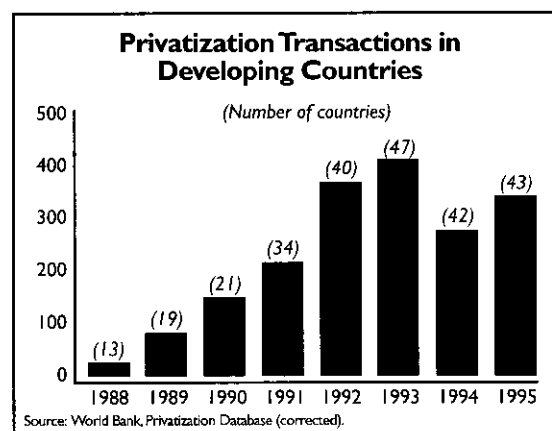


Figure 1

The author is research manager of the Development Research Group, World Bank. The views expressed are the author's own and do not reflect those of the Bank, its board of directors, or the countries they represent.

hardly rises in the second half of the period. Since state ownership represents about 10% of GDP in developing countries on average, these numbers suggest that there are still a lot of assets in state hands (see Shirley in ERT's issue *Privatization: The Road Ahead*, 4/95).

Who is privatizing?

Sellers are concentrated in three regions. The World Bank data covers 88 countries that sold \$135 billion worth of assets in 3,801 transactions. Latin

America and the Caribbean was the leading privatizing region, with total sales of almost \$54 billion or 46% of the total amount of proceeds from privatization during 1988 to 1995 (see Figure 3). East Asia was next with sales of \$28 billion or 25%, followed by Europe and Central Asia (which includes the formerly planned economies of Central and Eastern Europe and the former Soviet Union) with almost \$20 billion or 17%. The rest of the developing world combined was responsible for only about 12% of the value of sales.

The rankings of the top three privatizing regions were heavily influenced by the average value of the assets that they sold. For example, the number of transactions in both Latin America and the Caribbean and East Asia (783 and 258, respectively) were far less than in Europe and Central Asia (1,748), but the average value of an individual transaction was much greater. An average transaction raised \$68 million in Latin America and the Caribbean and \$110 million in East Asia, compared to only \$11 million in Europe and Central Asia. By way of comparison, the average value of a transaction for the entire group of 88 countries was \$35 million.

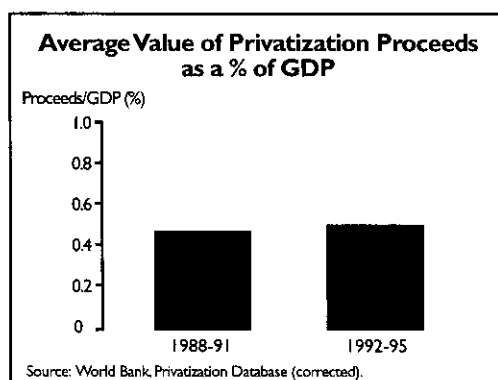


Figure 2

The reasons why the average proceeds from a transaction were less in Europe and Central Asia needs further study, but is likely the result of a combination of factors including more share giveaways to workers and the public, smaller and less developed capital markets, the uncertain or poor prospects for many assets whose prior commercial history was under economic

planning, and possibly, greater restrictions on buyers. It could also be that the assets in Europe and Central Asia had been relatively less well maintained and were more burdened by debt than in Latin America and the Caribbean or East Asia.

Broadly speaking, among the 88 countries that privatized in 1988-95, only a handful of countries sold a large number of enterprises for large values. If we consider "large" to be anything over 100 transactions and \$1 billion in proceeds, then only six countries had both large numbers and values of sales. The prime examples were Mexico (\$27 billion in proceeds from 211 transactions), Argentina (\$18 billion raised through 129 transactions), and Hungary (203 transactions raised almost \$8 billion).

More countries sold relatively small volumes for large values; fifteen countries had fewer than 100 transactions yet raised over \$1 billion. For example, Brazil and Malaysia earned over \$9 billion each in sales, but had only 54 and 38 transactions, respectively, while Korea raised \$4 billion in sales from only 14 transactions. Some transition economies sold large numbers of state enterprises for much less than the average value of a transaction; for example, Macedonia's 388 transactions raised \$554 million; Estonia had 279 transactions for \$251 million; and Bulgaria had 269 transactions for \$296 million.

Changes in regional shares were also evident during this period. The proceeds from sales in Latin America and the Caribbean peaked in the early 1990s, and have since fallen to less than half the \$10.6 billion attained at the height of sales in 1992. Values continued to grow in East Asia, even as numbers fell off after 1993 because more valuable assets were

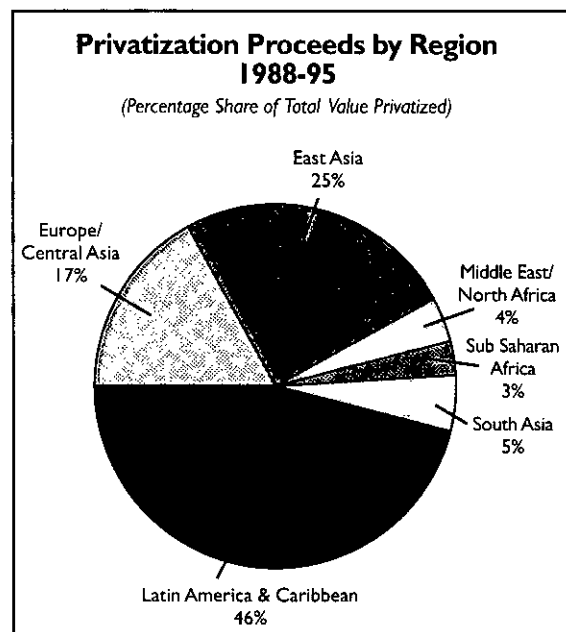


Figure 3

put on the auction block. In contrast, Europe and Central Asia have seen a dramatic growth in both the number and value of sales since 1990.

What is being sold?

In 1988, most sales revenues came from the primary sector (sales of copper mines in Mexico and the state petroleum company in Argentina, for instance), and services (e.g., airlines in Argentina and Malaysia). Manufacturing and infrastructure grew quickly and now dominate privatization in developing countries. Proceeds from sales of infrastructure, for example, have grown from about 17% of total proceeds in 1988 to almost half in 1995. Infrastructure sales were largely in Latin America, which helps explain why the value of assets sold is so high there. Sales of infrastructure are overwhelmingly in telecommunications and power, transport (ports, railways, roads and airports) and water combined accounted for less than 10% of sales proceeds (Figure 4).

There were almost no privatizations in the financial sector until 1991, when a rash of sales of banks occurred, particularly in Mexico. Most of the sales occurred from 1991 to 1993, and sales of financial institutions have since fallen to less than 10% of total transactions in 1994 and 1995.

How do countries privatize?

Share flotations, which were almost unused in 1988, accounted for 40% of sales (by value) from 1991 through 1995. Some very large transactions have been done through share flotations, such as the sale of minority stakes in Korea's electric power company (KEPCO, \$2.1 billion), Mexico's telecommunications company (Telmex, \$2.4 billion) and a bank (BANCOMER, \$2.5 billion), and Brazil's Usiminas steel company (\$1.5

billion). Combining stock issues with the sale of a controlling block of shares to a single strategic investment group has become increasingly popular, perhaps because this combination allows the public to share in expected gains and reduces potential opposition to sales to foreign buyers or large domestic groups.

Another reason for the increase in share flotations is the shares reserved for workers, who may also be given discounts or financial assistance to purchase shares—as was the case with Mexico's Telmex, for example.

Other changes in privatization trends are not captured by these statistics. In particular, a large amount of

In contrast to the sluggish growth and small size of the state-owned wireline network, wireless technology has taken off in Africa, fueled largely by private investors. Cellular service, virtually nonexistent at the start of the decade, now comprises between 15% and 20% of total service on average in Africa (excluding South Africa). New private entry into cellular service has been much more prevalent than privatization of the wireline operators: while only nine African countries had privatized their wireline telecommunications companies by mid-1997, sixteen had private cellular operators.

Of course new technology has been important in changing the nature of telecommunications markets, allowing private entrants to compete with SOEs that still have a natural monopoly over wireline service. In other infrastructure sectors governments are auctioning service under different contractual arrangements, creating competition in the market. For example, water in Buenos Aires is now supplied by a private investor under a concession arrangement.

The trends in privatization over recent years suggest that, notwithstanding changes in speed, locale, sector and method, there has been an overall movement toward private ownership in transitional and developing economies. The interesting questions of whether privatization has improved enterprise performance or accelerated growth are analyzed in Megginson's article in this issue (see page 11) and have been measured in other studies. In general, these studies have found strong positive effects. Unfortunately, they also all have had limitations (such as small sample size, failure to control for other market effects, and failure to specify a counterfactual), suggesting that further research is needed. ☐

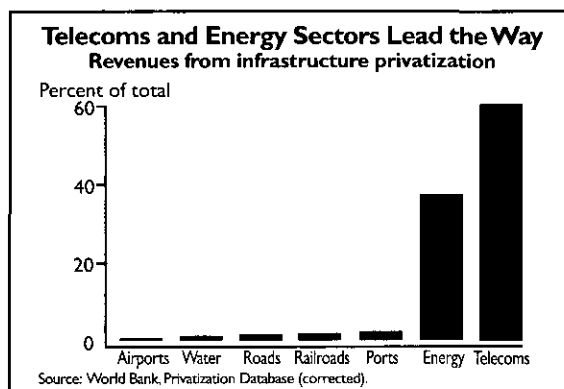


Figure 4

new investment that would once have been undertaken by a state-owned firm is now being done by private investors. This trend can be illustrated by the example of telecommunications in Africa. Until recently, African telecommunications service was dominated by state-owned monopolies. In most of the region the telecommunications network was small, with fewer than 100,000 lines and low penetration rates; only 4 out of 100 inhabitants had a telephone in their homes in 1992, compared to 40 in Asia and 60 in Latin America. And the growth in the network lagged behind other developing regions; in the first half of the 1990s the rate of network expansion was 8% a year on average, compared to 10% in Latin America and 27% in Asia.

Special Feature



THE IMPACT OF PRIVATIZATION

by William L. Megginson

The process of selling state-owned enterprises (SOEs) to private owners often elicits high emotions. Those who support privatization tend to consider it one of the most important economic events of the millennium, while those who oppose it are equally convinced that the process threatens the foundations of the modern welfare state, if not of democracy itself.

If we put aside the emotions and take a cold, hard look at privatization to date, what could we say about privatization's impact on the world economy? Has it transformed the productive capacity of the economies where it has been implemented, or merely transferred ownership of the choicest pieces from the public to the private sector?

The objective of this paper is not to argue for or against privatization; instead, it is to survey the empirical record of the past twenty years and attempt to codify the "lessons of privatization." As we will see, although most of the privatization programs implemented thus far have been economically successful, the technology, or methodology, of divesting state ownership has not been fully proven.

Britain's former Conservative government under Margaret Thatcher, who took office in 1979, is widely credited with pioneering and legitimizing privatization as an official state policy. To say that the world has followed Mrs. Thatcher's lead

over the past two decades would be a significant understatement. To understand just how important privatization programs have been as agents of economic change, consider the following key points:

➤ **Less than ten years after the collapse of communism in Eastern Europe and the former Soviet Union, state ownership in formerly communist countries has been dramatically reduced.** The state sector today represents less than half of the economies of Eastern Europe, and less than 30% of Russia's economy. Although the methods that have brought about this transformation have often been controversial, it is generally believed that privatization is now irreversible.

➤ **Since 1988 over 70 countries have used direct asset sales as a method of divesting state-owned firms.** These sales have raised over \$175 billion through more than 800 individual transactions. The direct sale of SOEs either to foreign-owned investors or corporations brings the divesting government much-needed cash, and may often involve an injection of foreign technology and expertise.

➤ **Since 1979 over 60 national governments have raised almost \$500 billion through about 600 separate public sales of stock in SOEs.** These share-issue privatizations (SIPs) have almost always been the largest share issues in a nation's history, and have often both radically increased

The author, associate professor of finance at the University of Georgia's Terry College of Business, has written or coauthored several studies on share issue privatizations; one of his papers was awarded the 1994 prize for outstanding research published in the Journal of Finance.

the number of individual shareholders and increased the liquidity and total capitalization of the nation's stock market.

Why privatize?

The chief reason that governments increasingly choose to privatize SOEs is clear. Governments have been selling SOEs to private investors in order to improve these firms' performance through the discipline of private ownership, as well as to raise revenue without raising taxes. The specific objectives articulated for privatization programs are often very ambitious, and most tend to mirror the goals voiced by Thatcher's government during the early 1980s. These objectives are to: (1) raise new revenue for the state; (2) promote economic efficiency; (3) reduce government interference in the economy; (4) promote wider share-ownership; (5) provide the opportunity to introduce competition; and (6) develop the nation's capital markets.

Although these objectives may ini-

tially seem unrealistic, four recent studies, together examining over 200 companies privatized by over 40 countries, clearly document significant improvements in the operating performance and financial strength of newly privatized firms. The key results from one of the studies, written by Narjess Boubakri and Jean-Claude Cosset, are presented in Table 1.

While the empirical evidence on privatization's effectiveness is still rather limited, comparing the results of the four studies cited above suggests the following lessons:

□ **Output, profitability, and efficiency increase significantly in the years after firms are privatized.** In both industrial and developing countries total earnings of newly privatized companies increase, on average by more than 25% in the three years following divestiture. Profitability more than doubles in developing country privatizations, and increases by 45% in industrial country privatizations, while efficiency increases by 16% and 11%,

respectively, in developing and industrial country privatizations.

□ **Capital investment spending surges after a firm is privatized.** Capital expenditures as a fraction of total sales increase by 44% in industrial country privatizations and by over 70% in developing country privatizations.

At least three factors seem to cause this investment spree. First, privatized companies are no longer required to borrow from the public sector; instead, they have the freedom to both select and finance necessary capital investments. Second, once privatized, the rapid growth that typically follows privatization is subsequently followed by capital investment in new plants and equipment. Third, privatization transfers the authority for decisionmaking from public officials to the firm's shareholders, who are the only stakeholders with the incentive to increase the long-term value of the firm.

□ **Total employment will usually not decline after a firm is privatized.**

Table 1: Performance of Newly Privatized Companies

Variable Measured	No. of Observations	Mean Value Before Privat.	Mean Value After Privat.	Mean Change due to Privat.	% of Firms with Performance Improvement
PROFITABILITY Return on Sales	78	4.9e%	11.0%	6.05% ^a	62.8%
EFFICIENCY Real Sales per Employee	56	0.922	1.17	24.79a	80.4%
INVESTMENT Capital Expend. ÷ Sales	48	10.52%	23.75	13.22% ^b	62.5%
OUTPUT Real Sales (adj. by CPI)	78	0.969	1.22	25.30 ^a	75.6%
TOTAL EMPLOYMENT	57	10,672	10,811	139	57.8%
LEVERAGE Debt ÷ by Total Assets	65	54.95%	49.86%	-2.48% ^b	63.1%
DIVIDENDS Dividends ÷ by Sales	67	2.84%	5.28%	2.44% ^a	76.1%

This table summarizes the results of a comparison of the three-year average operating and financial performance of a large sample of newly-privatized firms with their average performance during their last three years as SOEs. Efficiency and output measures are index values, where the value during the year of privatization is defined as 100. Employment is in absolute numbers.

a. Indicates significance at the 1% level; b. Indicates significance at the 5% level; and c. Indicates significance at the 10% level.

Source: Narjess Boubakri and Jean-Claude Cosset, *The Financial and Operating Performance of Newly Privatized Firms: Evidence from Developing Countries*, 1998, forthcoming issue of "Journal of Finance."

Of course, when an SOE is obviously over-staffed, privatization will bring layoffs. However, all four studies referred to above, which were based on data from OECD economies (about 66% to 75% of the cases) and transitional and developing economies (the remainder of the cases) document that employment in newly privatized companies, on average, either remains the same or increases after divestiture. These findings suggest that the great fear of those opposing privatization—that it will lead to large scale job losses—will not generally be founded, unless the state-owned enterprise is clearly over-staffed before being privatized.

The studies cited above provide compelling evidence that share-issue privatizations (SIPs) “work”—in the sense that efficiency, profitability, and total sales increase after divestiture, without necessarily sacrificing employment. Nevertheless, the studies’ focus on SIPs means they cover only a minuscule fraction of the total number of companies that have been privatized since 1979. The World Bank reports that over 12,000 companies were privatized during the period from 1980 to 1993 (almost half between 1991 and 1993); less than five percent of these divestitures involved public share offerings. Since most SOEs are privatized either through a voucher program or through a direct sale, this article will now briefly examine the benefits and drawbacks of these two forms of privatization before returning to a discussion of the relative merits of SIPs.

Alternative methods

After the collapse of European communism in 1989 the new governments of the region faced an excruciatingly difficult challenge: how to privatize SOEs in a politically acceptable way. The most straightforward method—simply auctioning off the SOEs to the highest bidder—would surely have resulted in the wholesale transfer of the nation’s most prized



assets to foreign ownership, since only international corporations and investors had the necessary financial wealth and managerial expertise.

While this was politically an unattractive option, waiting to determine the optimal method of privatization was also an unattractive option during the early 1990s because many SOEs were either rapidly losing value in the managerial vacuum that followed communism’s collapse or were being systematically looted of their choicest assets through the process of “spontaneous privatization” (also known as “asset-stripping by the nomenklatura”).

Voucher programs

In much of Eastern Europe, the only politically feasible alternative to

auctioning off SOEs was to effectively give the SOEs directly to the nation’s citizens by giving them the exclusive right (and the means) to purchase shares. These voucher programs had the virtues of speed and perceived fairness: literally thousands of firms were privatized in five years or less, and the nondiscriminatory nature of these voucher distribution programs ensured their popularity. This popularity had the added bonus of making privatization politically irreversible because large percentages of the population in each country had effectively become capitalists.

In spite of the fact that voucher programs were probably the only feasible method of privatizing Eastern European economies in the early 1990s, these programs have several serious weaknesses, and are unlikely to remain as important in future SOE divestitures. The

principal drawbacks are threefold:

- ❖ Voucher programs do not raise cash for the SOE or the government.
- ❖ Voucher privatizations do not result in an infusion of new technology or managerial expertise.
- ❖ Vouchers do nothing to establish an effective monitoring mechanism for newly privatized firms, and the ownership structure that results from their exercise is usually highly flawed.

Direct selling of assets

In countries that were never communist, the direct sale of SOE assets to private investors has emerged as an alternative to voucher privatizations. In a direct sale, all or part of an SOE is auctioned, either to an existing company (foreign or domestic) or to a group of investors. Where politically

feasible, direct sales are superior to voucher programs in that they solve all three of the problems detailed above. In addition, they bring in significant revenue for the government; they frequently inject new technology and expertise into the SOE's operations; and they solve the monitoring problems that an atomistic ownership structure creates.

Asset sales also compare favorably with SIPs in terms of the speed with which direct sales can be arranged, the ability of governments to sell SOEs piecemeal, and the fact that the direct sale format means that buyers are obliged to commit to certain operating standards of their acquired firms.

Furthermore, a recent study has shown that asset sales are preferred to SIPs in countries with relatively undeveloped capital markets. It is perhaps not surprising that direct sales have been much more common than SIPs during the past two decades. In the period 1980-97, there were 831 privatizations through direct sales, totaling \$176 billion; the comparable figures for SIPs were 630 privatizations with a combined value of \$440 billion.

Share-issue privatizations

Despite the great popularity of asset sales, share-issue privatizations (SIPs) have clearly become the divestment method of choice for most privatizing governments. In addition to a maturation of the privatization technology and increasing comfort with capital market tools, there are at least four other reasons why governments have come to see SIPs as their preferred divestment vehicle:

► From both an operational and a financial perspective SIPs are the only practical method of selling off the largest SOEs. For example, to whom could the Japanese government have sold a 35% stake in Nippon Telegraph & Telephone (NTT) in the late-1980s, if not to the public? Since the three NTT tranches

in 1987 and 1988 raised almost \$80 billion, no other company could have raised the capital to buy NTT outright or marshaled the managerial resources to run the newly acquired company with 300,000 employees.

► A SIP is by far the most transparent method of selling corporate assets. This feature is often extremely important to a government trying to convince skeptical voters that the nation's economic "crown jewels" are being sold fairly and honestly.

**SIPs have
clearly become
the divestment
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choice.**

► Governments have realized that they can modify the share allocation, pricing, and other terms of a public share offering to achieve political—as well as economic—objectives. For example, governments can provide favored domestic investors with an immediate capital gain on the shares they purchase by deliberately setting the initial offering price low, and then allocating more shares to these investors than to foreign or institutional investors.

► SIPs marketed to domestic investors have vastly increased the total capitalization and trading volume of almost every major non-US stock market. Developing a national capital market is usually a major objective of privatization programs, and SIPs have the capacity to transform these markets. As mentioned

previously, almost without exception, SIPs have been the largest stock offers in any nation's history.

Governments have also promoted the development of their domestic capital markets through SIPs in order to develop capital markets large enough to support a privately financed, fully funded pension system and to promote the formation of capable and sophisticated institutional investors. This is especially important for those countries with rapidly aging populations (such as Japan and the countries of Western Europe) which have come to understand the dangers posed by reliance on a pay-as-you-go, government-run system of pension financing.

Finally, many governments have expressed the hope that SIPs will help promote an equity culture among their nation's investors, and there is evidence that this has often occurred. For example, privatizations under Thatcher increased the fraction of the British population holding shares from 7% in 1979 to 24% in 1990. Meanwhile, more than 3 million Frenchmen and 2 million Germans purchased shares in, respectively, the initial offerings of Banque Paribas (January 1987) and Deutsche Telekom (November 1996)—dramatically increasing the number of citizen-shareholders in each case. Similar increases have occurred in Chile, Italy, Spain, Denmark, and numerous other countries.

Designing share-issue privatizations

Based on the widespread usage of SIPs for privatizing enterprises, it is possible to identify some guidelines for designing successful initiatives:

■ *Demand for appropriately priced shares of attractive companies is essentially limitless.* During a seven-week period in October and November 1996 over \$28 billion was raised by nine governments, each of which sold shares in one of its firms. While this was an unusual-

ly busy period, the ability of international capital markets to absorb large amounts of privatized equity has consistently surprised observers.

■ *Most SIPs are enthusiastically received by investors, at least partly because governments deliberately underprice the shares issued.* Ever since the issue of British Telecom shares in 1984, governments have generally been able to anticipate a favorable market response to their SIPs. The one exception to this rule has been where governments have tried to extract the maximum attainable price for the shares being offered. In these cases—exemplified by the French and Italian privatizations of the early 1990s, many of the international offers by Chinese SOEs, and almost all of the Japanese SIPs—selling governments have often met with embarrassment. In the far more typical case, governments are willing to accept underpricing in order to generate excess demand for the shares and to pave the way for subsequent issues of shares.

■ *The structure of privatization share offerings varies tremendously over time and from country to country, depending on the political and economic circumstances of individual countries.* For example, governments are usually willing to underprice their SIPs because the allocation of shares in these offerings almost always heavily favors domestic investors over foreign and institutional buyers. In addition, domestic investors are often given the opportunity to purchase shares at a discount. Governments in many cases also find it convenient to guarantee that a newly divested firm will not be the target of a hostile takeover—or, even worse, a takeover by a foreign company—by retaining a “golden share” in the firm, giving the state veto power over changes in control.

■ *As SIPs have become larger and more common, the competition for international underwriting and advis-*

ing mandates has become more intense. Although a handful of British and American investment banks still dominate SIP underwriting, the competition from other European, Asian, and even developing country banks has caused a rapid decline in underwriting fees and a shift in the balance of power from underwriter to issuer. Large SIPs during the 1980s frequently offered lead underwriters’ fees as high as 4% or more of the offer’s value.

**...most politically
difficult
privatizations
lie in the future.**

Recently, banks have had to accept underwriting fees of less than 1.5% on a handful of large deals, and in one recent Brazilian privatization the underwriting fee was a mere 0.07%. On the other hand, since SIPs tend to be massively underpriced, bankers handling these issues of shares bear little underwriting risk—and even 1.5% of a multi-billion-dollar share issue is a sufficiently attractive sum to attract competition.

The future of privatization

Most of the privatization programs implemented thus far have proven to be economically successful, but this does not mean that the process of privatization has become foolproof.

There are important reasons to conclude that the most challenging privatizations have not yet been attempted. For one thing, most gov-

ernments have wisely chosen to privatize the “easy” companies (the healthiest, both economically and operationally) first, and have not yet attempted controversial privatizations of companies that are obviously over-staffed and excessively indebted. Given that these SOEs will require painful financial restructuring and massive layoffs before they can attract private buyers, it seems clear that the most politically difficult privatizations lie in the future.

In spite of these difficulties, the future of privatization is bright. In country after country these programs have yielded greater and more immediate economic payoffs, with less economic and political pain than expected: investors around the world have demonstrated there is an amazing demand for privatized equity. Furthermore, the secondary impacts of privatization—which often include greater respect for private property rights and individual entrepreneurship—have helped many nations develop the infrastructure of a dynamic market economy in a historically compressed time frame.

Perhaps the most important reason to be optimistic about privatization’s future is that the three largest developing countries appear on the verge of launching large-scale divestiture programs, and are doing so from positions of considerable strength. China, India and Russia, which collectively represent over one-third of the world’s population and are already the third, sixth, and ninth largest economies, respectively, on a purchasing power basis, have all experimented with privatization, but in all three cases large sections of the economy remain state-owned. The privatization programs in these three countries will be truly revolutionary in scale and scope. If these programs are successful, they will provide a valuable example for many other countries to follow. ☛

Can Newcomers Learn from Countries Which Already Privatized?

by Roman Frydman

ERT: A number of countries in Central and Eastern Europe have by now privatized extensively. What are some of the major lessons that latecomers to privatization can learn from those countries that have been through it?

DR. FRYDMAN: First, in order to succeed, governments must be determined to push through the privatization program. Second, every country must be approached as a distinct case. Usually, the more privatization, the better, but the techniques used depend on the country's particular situation.

The important question to ask here is whether there are any latecomer countries comparable in size or government structure to the countries that have already privatized. Without comparability, there can be little transference of lessons. The difficulties in making a privatization program successful are primarily political rather than technical and therefore tend to be country specific. So the questions become: Can lessons learned from these countries be transferred to other political arenas in other countries? And can technical solutions be adopted within the existing political and economic environment?

If a country's government is not similar to that of a country it wants to model, that particular program just can't be



implemented. For example, does the government have the same political will to implement the program? Or, is there a similar skill base in the country that the program can rely on?

In latecomer countries that are less advanced, for instance, a mass privatization program is required that doesn't demand a tremendous amount of institutional development. Or, a country may choose to sell a state-owned enterprise without setting a minimum price, which is essentially equivalent to mass privatization. In many cases, however, that may be

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politically unacceptable. Alternatively, a country may choose to sell only after a careful evaluation of each company, though this approach is fraught with political and technical difficulties.

So, that is the lesson: there simply isn't any pat formula for privatization.

ERT: What is the minimum institutional framework that needs to be put into place by policymakers for privatization to be successful?

DR. FRYDMAN: Privatization must be accompanied by a proper legal framework. One key question, though, is this: Is the government actually prepared to enforce the law? If the government is not prepared to enforce the law, then alternative legal structures must be put in place. For example, one of the problems in many economies is that minority shareholders are not properly protected. Can the state enforce such a protection? Can individual contracts be enforced? Is the state apparatus strong enough?

A legal framework is a necessary but not a sufficient condition without effective enforcement.

ERT: With about five years of hindsight now, how successful can we say the Czech voucher privatization program has been? How viable a model is it for other countries?

DR. FRYDMAN: Voucher programs have not helped develop the private sectors of any economy except that of the Czech Republic. Even in Russia, the voucher part of its privatization program has played a small part.

It is difficult to give one blanket answer as to why this method hasn't been used more extensively. It has always been met with a certain degree of skepticism, which is largely due to the fact that people have believed that vouchers do not convey legitimate ownership.

Political opposition to voucher programs was very strong throughout the region. It was very difficult to propose voucher programs to people who believed they were already rightful owners of the property that was now going to be given to the general population.



Only in the Czech Republic was it politically feasible. The explanation I favor for this is that the Czech Republic was a country dominated by a communist state structure until the Soviet bloc crumbled. Until that time, there weren't many reforms in the country and, therefore, the state was very strong. What is important about this is that it kept special interests from forming. After all, the only reforms possible under the communist system were transfers of power from the state to insiders.

In the Russian voucher program, insiders acquired rights during the disintegration of the Soviet system.

According to Russian reformists, mass privatization programs couldn't be contemplated without favoring insiders.

ERT: One of the big political hurdles is gaining and sustaining public support for a privatization. Have mass privatization programs fulfilled the public vision of what privatization ought to be? Is it perceived to be fair in the Czech Republic or in other countries where it has been implemented?

DR. FRYDMAN: The privatization program in the Czech Republic was certainly intended to be fair. It was not seen as fair due to various institutional deficiencies and the insistence of the Czech government on not regulating the financial markets. Just as important, the amount of fraud perpetrated by the guardians of the public trust was so high that it discredited the program itself.

In other countries, the government paid a great deal of attention to correctly pricing state-owned enterprises and therefore created an atmosphere in which the process was fair—but sometimes at the cost of slowing down the process. In terms of equal distribution of shares in newly privatized corporations, none of those programs has done well.

ERT: From a public perspective, how has the program in Russia fared? Given what you said earlier about how it benefited insiders, would that not work against a positive public impression of the program?

DR. FRYDMAN: I don't know the results of the opinion polls in Russia, but given Russia's history, I'm sure that at least some proportion of the

population believes that the reform process has been unfair. Having said that, I hasten to add that the same proportion of the population might have believed that any process of reform would have been unfair.

It is difficult to see whether there might have been a better way in Russia if you believe the reformist argument that "If you don't give it to insiders, nothing will happen." This position is actually quite plausible.

ERT: One of the most potent obstacles to privatization is that it is popularly believed to cause massive employment layoffs. Has this proven to be true and, if so, how do policymakers manage this volatile issue?

DR. FRYDMAN: Our research does not suggest that layoffs are certain as a result of privatization. The explanation for this is very simple.

It turns out that privatized enterprises actually manage to develop new products and new markets much more effectively than state entities. So when the transition process started, states basically collapsed, their markets collapsed, and there were only two ways of sustaining state-owned enterprises (SOEs). One was to give them subsidies. The other was to lay off people in order to maintain the enterprises.

I hasten to add that both state and privatized firms end up laying off workers, but the relative rate of layoff for privatized firms is simply lower. The only credible argument that privatization will make unemployment worse is if we say "State firms will lay off fewer people than privatized firms." The only way this can happen, though, is through subsidies from the state because SOEs can't penetrate new markets, develop new

products, and sustain themselves under the influx of competition once economies become open.

So, there are only two options: either the state firms are sustained through some subsidy arrangements, or they aren't. If the latter course of action is chosen, eventually more people will be unemployed than if the firms are privatized.

ERT: Can you point to any particular methods of privatization that perform the best at containing unemployment?

DR. FRYDMAN: Selling SOEs to outsiders rather than to insiders is more effective because the outsiders

ERT: Do policymakers need to do a better job of explaining the intricacies of the privatization process to the public if they want to be successful?

DR. FRYDMAN: They need to be explained that an economy can't be run forever through political handouts from the government. It is not surprising that when these handouts stop, the government lays people off. Actually, what happens is that when the subsidies are cut off, SOEs on the whole manage to improve their efficiency significantly. Where they lag behind is in their ability to generate new markets, new revenues and new products.

ERT: Some of the research that you were doing demonstrates that when private firms own a significant number of shares in an SOE, its performance improves significantly. How common is this?

DR. FRYDMAN: I would caution against generalizing this result to the rest of the world. Central and Eastern Europe is a region where the state role in privatized enterprises has been largely passive. To

some extent, the state has remained a residual owner of these enterprises without planning to do so.

For example, in the Czech privatization program the state has been a passive owner and lets private owners run the firm. As a result, the firms are really not state-owned but are private firms in which the state has a passive stake. This is a unique situation.

The reverse situation applied in the Polish commercialization program, where the state retained ownership but tried to get the firm to operate as if it were privately held. That has not really led to any signifi-

**When subsidies are cut off,
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focus more attention on efficiency. From an efficiency point of view, it might appear that because state firms are very inefficient, when they are privatized many people must be laid off. According to that view, it's the only way to increase efficiency.

However, there is another view. Privatization allows firms to gain new markets and develop new products. Obviously, firms that develop new markets will retain people rather than lay them off. Therefore, the cost in terms of unemployment will be lower if firms are privatized. Our research has clearly pointed in that direction.

cant improvements. There were not many private owners. The folly of that plan, of course, was thinking that once the state becomes an owner, it would be like any other owner and would make improvements. That turned out to be false. It is not having an owner that is key—it is having a private owner.

ERT: Can strong privatization programs help develop local capital markets? If so, what privatization methods work best for achieving this objective?

DR. FRYDMAN: Large-scale privatization is the key to creating large-scale capital markets, if it is backed by proper legal structures and trading regulations. It doesn't matter whether the privatization is organized through a voucher program or through sales without minimum

prices. All will be fine as long as the proper trading and legal infrastructure is put in place.

ERT: Has privatization led to "monopoly capitalism" as many critics fear? Has it led to countries maintaining protected industries?

DR. FRYDMAN: If a country has an open trade policy, the world market provides sufficient competition to prevent monopolies from forming when privatization happens. The idea that domestic private investors somehow become monopolistic has not materialized because competition from abroad is so intense that domestic firms have to compete.

ERT: That has been a big issue from a policymaking perspective. Should newly privatized firms be allowed to

have a certain period of time under protection in order to learn how to compete in world markets?

DR. FRYDMAN: That approach is very costly, and once these protections are instituted, they are hard to eliminate. In the former East Germany, the new private sector developed tremendously fast and was able to compete. As much as people said the Czech Republic was a big success a couple of years ago, they also were saying that "Poland is a disaster, and its program of shock therapy is a failure." Now Poland is doing very well and everyone says, "Shock therapy is wonderful. Look at Poland." There was quite a bit of pain at the beginning, but Poland's recovery was wonderful. ☺☺



JUST RELEASED!

CIPE just completed a "how to" study to **assist women entrepreneurs build effective business organizations worldwide**. The ideas in the handbook were presented at CIPE's 1997 conference attended by more than 120 women from over 55 countries. As a result of the conference women entrepreneurs already have created new organizations in Brazil, China, Croatia, Nicaragua, the Philippines, and Romania. News about these new organizations and the achievements of conference participants are detailed in a bi-monthly women's newsletter CIPE recently launched.

The conference study contains invaluable information on boosting membership, using today's technology, building Web sites, and contains a one-of-a-kind directory of international business women. To obtain these valuable publications, contact Elaine Trimble either via fax (202/721-9250) or email (etrimble@cipe.org). The study sells for \$10, and the annual subscription to the newsletter is \$12 or is free via email.



Capitalization: Privatizing Bolivian Style

by José A. Valdez

Capitalization was conceived as an alternative to other methods of privatization to solve some of Bolivia's more acute economic problems. Like many other developing countries, these problems have persisted for decades: uneven distribution of income, inefficiency and corruption, growing deficits in state-owned companies, underdeveloped financial markets, and a low level of investment. To break this vicious circle of stagnation and underdevelopment, the government set as its goal to increase the investment rate to over 20% of GDP, which could only be accomplished by raising foreign investment.

The capitalization program has generated more than twice the amount of direct foreign investment in Bolivia than had been received over the previous fifteen years. Those investments have come into a diverse set of infrastructure sectors, including electricity, telecommunications, aviation, railways, and hydrocarbons.

Moreover, the program has provided for social needs in the country by funneling investment into a broad pension program for the Bolivian people. Capitalization is helping to achieve accelerated development of Bolivia's productive capacity while also helping develop financial markets through the creation of privately managed pension funds.

The impact of this reform less than a year after its initiation is already evident to the general public. Investment flows into the capitalized sectors have improved, while the quality of services provided to low-income groups and isolated rural regions has risen. Bolivians now eligible to receive pensions are beginning to receive the benefits of privatized property through cash payments under the new pension system. These proceeds will gradually be received by the rest of the adult population over the next several decades, representing an unusual distribution of income associated with privatization reform.

is composed of a general superintendency and five sectoral superintendencies for electricity, telecommunications, hydrocarbons, transport, and water services. The Financial Regulation System (SIREFI) is composed of a general superintendency and four sectoral superintendencies covering pensions, securities and exchange regulations, banking, and insurance sectors.

While the legal structure for these agencies is comprehensive, the superintendencies operate autonomously. General superintendents are appointed for a term of ten years and sectoral superintendents are appointed for a term of six years, and none can be reappointed immediately. Both types of superintendents are approved by congress and candidates must have a certain level of experience in their respective sectors. The activities of both regulatory systems are financed through collection of fees imposed on companies in regulated sectors.

Both regulatory structures set up a system of administrative courts. For example, complaints may be filed against the sectoral superintendencies and appealed to the general superintendent. Further appeals may be made through district courts and on up to the Supreme Court.

José A. Valdez, former undersecretary of the Bolivian Ministry of Capitalization, is now a visiting scholar at Georgetown University.

Instituting a regulatory structure

A comprehensive regulatory system had to be created to protect investors and consumers. The Sectoral Regulation System (SIRESE)

How capitalization works

The capitalization program differs from other privatization methods in several key respects. Its key elements are as follows:

- ▶ The government does not sell off the state-owned company but sets up "mixed capital corporations" (MCCs) to which a private partner contributes a 50% capital investment.
- ▶ The private partner's contribution stays in that MCC, increasing its value substantially.
- ▶ The MCC is transformed into a fully private company during this process, while the government's holding in the MCC is contributed to a pension program that provides annuity income to Bolivian citizens over the age of 65.

The selection is carried out in a simple three-step process:

Pre-selection Phase: The interested companies submit documentation that describes their technical, operating, financial and administrative capacity, in accordance with the requirements detailed in the terms of reference. This process is overseen by strategic advisors from private investment banks and specialized legal firms.

Bidding Phase: After qualifying under the criteria set out in the terms of reference, the pre-selected bidders are invited to submit their bids for purchasing the company's new share issue. The share package—equivalent to 50% of the capitalized company's capital—is awarded to the highest bidder. The award

is made the same day the bids are submitted.

Closing phase: After completing all the necessary legal and administrative procedures, the amount that is put up by the winning bidder is paid into the accounts of the capitalized company, and the government's shares are transferred to a private pension manager to



Photo: Felipe Sanguinés

invest on behalf of the Bolivian people. Newly capitalized firms thus become 100% private with 50% of the shares in the hands of private investors, and the remaining 50% of the shares held in trust by pension fund managers mandated to pay benefits in cash to Bolivian citizens.

The entire process of selecting the strategic partner was carried out at public ceremonies broadcast live by radio and television, before notaries,

domestic and international press, the company's workers, and the general public.

Creating a sound pension program

The final step of the capitalization process is an important one for policymakers to manage because it helps to improve the public image of the privatization process and increase its social impact.

When the capitalization program was almost completed, the old pension pay-as-you-go system was converted to a program based on individual savings. With the new system, all Bolivians with a monthly income in excess of \$50 can save for their retirement and have access to a more efficient and sound disability and death benefit system.

The new pension law created a two-tiered system of individual accounts: the Collective Capitalization Fund, formed with the government shares of capitalized companies; and the Individual Capitalization Fund, formed with contributions from participants in the new pension system. Both funds must be managed by private pension fund managers (AFPs—*Administradoras de Fondos de Pensiones*).

All Bolivians over the age of 21 as of December 31, 1995 (approximately 3.4 million people or 50% of the total population) are eligible to receive benefits from the government's share of newly capitalized companies. The Solidarity Bonus (BONOSOL)—worth approximately \$250 a year—is paid to all Bolivians over the age of 65.

The AFP distributes the BONOSOL as an annual lifetime pay-

ment. As part of the Collective Capitalization Fund, funeral expenses are covered for citizens without any other form of insurance. Under the Individual Capitalization Fund, the AFP provides benefits for retirement, disability, death, funeral expenses, worker compensation, and other common risk insurance.

Workers can contribute at a minimum level to receive standard coverage, or may make additional voluntary contributions that increase their level of coverage.

Pension reform was completed at the beginning of 1997. After the approval of the new law, two Spanish consortia were selected as pension fund managers: Invesco-Argentaria and Banco Bilbao Vizcaya. The country was divided into two areas, north and the south, for each pension fund manager and a common operating area for both in the cities of La Paz, Cochabamba, Santa Cruz, and El Alto, which represent 57% of the population. All recipients were assigned one of the two fund managers. Four months after being selected, both pension fund managers began paying the BONOSOL to more than 350,000 Bolivians over 65 years old.

Engaging workers in the process

Because of the way the capitalization program is structured, managers were able to retain workers. With other privatization methods, companies need to regain the cost of purchasing the company, and often do so by reducing their labor costs. In Bolivia, these companies received an injection of capital that allowed them to make the necessary investments in brick and mortar, as well as in human capital, to become profitable quickly.

Furthermore, the program has given employees the chance to become partners in their own companies through the purchase of shares at preferential prices and con-

ditions up to the limit of their social benefits. Under this program, workers are able to purchase a limited number of shares at the preferential rate for two years. Seventy-six percent of the workers in capitalized companies have chosen to purchase shares in this way and, as a result, have benefited from the rise in value of their holdings up to four times their original cost in the first year of their company's capitalization.

Bolivia's Capitalization Strategic Partners

Dominion Energy (US)

Energy Initiatives (US)

Constellation Energy (US)

STET International (Italy)

Viacao Aérea Sao Paulo SA
(VASP, Brazil)

Empresa Cruz Blanca (Chile)

Amoco Bolivia Petroleum
Company (US)

YPF-Pérez Companc-Pluspetrol
Bolivia (US)

Enron Transportadora-Shell
Overseas Holding Ltd. (US)

How have the companies fared?

Between 1994 and 1997, five state companies were capitalized, representing the biggest companies in the Bolivian economy in the electricity, telecommunications, hydrocarbons, and transport sectors. (Companies in the electricity, hydrocarbons and railroad sectors were split into two or three units in order to prevent monopolies.) Today, almost all formerly state-owned Bolivian enterprises have either been capitalized or, if they were smaller companies, sold off by traditional privatization methods.

With capital contributions obtained from private investors, former state-owned companies increased their value from \$706 million to just shy of \$2.4 billion.

It is too soon to measure the full impact of capitalization on the Bolivian economy or the level of improvement it has created for the general population, but sector by sector some noticeable changes have been occurring.

Electricity: Before the capitalization program began, Bolivia was facing serious electricity shortages, especially during periods of peak demand during the winter. Now, two new thermoelectric plants in the regions of Cochabamba and Santa Cruz have been built by the capitalized companies and more new plants are being planned in the eastern section of the country.

Telecommunications: At the end of 1996, ENTEL, the newly capitalized telecommunications company, started the B-band cellular service, creating competition for local telephone systems around the country. User access fees dropped from more than \$1,000 to \$76. Another significant improvement in the sector was the increase in the number of public telephones available from 2,000 to 5,000 in the first two years after capitalization. This increase was especially beneficial to rural residents.

Railroad and Aviation: Companies in these two sectors were facing serious risks of insolvency in the short run; railroads generated losses of about \$20 million per year, and the aviation company needed to replace at least two airplanes in order to continue operations. After the first year of capitalization, the airline was able to purchase one new airplane and lease two others, increasing the number of destinations and frequency of flights the airline could offer. The railroads—now split into two units—generated combined profits of almost \$9 million during

The Seven Steps in Capitalization:

- 1** The book value of the company to be capitalized is determined in accordance with nationally and internationally accepted accounting and auditing standards.
- 2** The company is converted into one or more mixed capital corporations (MCC) with the participation of the government and the workers who accept the government's invitation to subscribe shares at book value.
- 3** The MCC increases its capital via a new share issue which is offered to potential private partners through international public bidding.
- 4** After a rigorous pre-selection system, the highest bidder is awarded the new shares, equivalent to 50% of the capitalized company's capital.
- 5** The successful bidder, after paying the cash amount of its bid, receives the share certificates and signs the share subscription contract and the administration contract.
- 6** The shares owned by the government are transferred to the pension fund managers.
- 7** The transfer of shares to the pension fund managers transforms the capitalized partnership into a corporation, managed by the private partner.

the first year of operation as private companies.

Hydrocarbons: The biggest natural gas project in South America is now being carried out with the participation of the Bolivian capitalized companies in the sector. For example, the Santa Cruz-Sao Paulo gas pipeline project—an estimated \$2 billion investment—began at the end of last year and is expected to be finished before the year 2000. It is estimated that within the next six years the BONOSOL payment will be completely financed by profits from the three capitalized companies in the hydrocarbons sector.

When to capitalize

Capitalization is not a model for every situation. There are certain conditions and policy objectives that

merit this approach as one component of an economic reform program. Some of those points are listed below:

☐ *Capitalize companies with a growing market for their products.* Capitalization is best suited to expand companies in growing markets for products or services. This situation applies mostly to infrastructure sectors in less developed countries where there are high levels of unmet demand by consumers.

☐ *Do not capitalize to pay government debts.* If debt payment is a major priority in a government's policy, then capitalization is a less attractive alternative because it does not generate cash resources for the government treasury.

☐ *Capitalization can help reverse strong public opinion against privati-*

zation. Where the general population is opposed to privatization, the social welfare components of the program can help garner political support.

☐ *Countries with a poor distribution of income can benefit.* Pension components like the BONOSOL can help a government provide efficient ways of distributing income to low income groups. Although by international standards the amount of income provided by the bonus is small, in a country like Bolivia it represents a fourth of the annual per capita income for many people. The extra income will have a particularly strong impact on the poorest rural dwellers in the country.

☐ *Capitalization increases domestic savings.* State-owned companies tend to concentrate wealth in the hands of government bureaucrats. In

the case of Bolivia more than 25% of GDP was locked up in state-owned enterprises. These holdings can be translated into savings if they are funneled into pension programs and managed privately.

❑ *Countries that need to reform their pension systems may get a boost from capitalization.* The transition from a pay-as-you-go system to a personal savings scheme normally involves high costs. A fund formed with shares of capitalized companies can help finance that transition cost.

❑ *Stronger financial markets can evolve from capitalization programs.* Countries with underdeveloped financial markets may be able to attract large companies as investors and private sector pension fund managers that they could not under other privatization methods. These investors and managers are necessary players in developing active financial markets.

❑ *Capitalization can improve a company's attractiveness to investors.* Investors are attracted to capitalization programs because they make a single investment into the new company rather than to government coffers. This outlay can be used to modernize and expand the company that is being purchased.

Capitalization is a new technique that needs to be studied as the Bolivian experiment unfolds. It will be an important part of the process for other countries to develop methods that are adapted to their own cultural settings. This process has already begun and will help strengthen capitalization as a viable means of privatizing. ☺☺

How is the Program Faring?

The Bolivian capitalization program got off to a very good start. The transfer of state-owned enterprises to private sector management was handled professionally and was accompanied by a high degree of transparency. The pension program that was devised proved to be an ingenious way of cultivating popular support for the capitalization program. In particular, the voluntary contribution component of the new pension program (Seguro Social Obligatorio — SSO) is proving to be highly successful. According to Rosemary Werrett of the Latin American business biweekly *Lagniappe Letter*, the average pension received under the new privately managed system is \$620 a month, compared to \$200 under the previous government managed system. Employee contributions to this new system already exceeded \$33 million as of last October.

Other components of the capitalization program have not fared as well. The biggest problem has been in maintaining the government commitment to the BONOSOL program. While the government commitment to providing annuity payments to pensioners rather than giving them shares probably prevented holdings from quickly becoming concentrated in a few hands, it also committed the BONOSOL fund to making \$250 cash payments to pensioners each year. These payments were intended to be an obligation of the fund and thus would not require government outlays once the fund were launched.

However, according to Werrett, the current Hugo Banzer administration is claiming that its commitment to the program was based on figures provided by the previous government and that it has discovered several problems:

❑ The funds from capitalization should have been \$1.674 billion, but fell \$124 million short.

❑ The number of BONOSOL beneficiaries was underestimated by 21%.

❑ During the first year of operation, newly capitalized companies paid dividends of only \$45 million on formerly government-owned shares, instead of the projected \$130 million.

To make ends meet, the two pension funds administering BONOSOL sought a bank loan of \$47 million to cover 1997 costs of \$92 million. The BONOSOL fund also is empowered to sell shares in order to make up the shortfall in dividend revenue and to meet the promised annuity payments without government intervention. However, the fact that a stock market law has not yet been passed by the Bolivian congress has prevented registration of these shares for trading.

President Banzer is now trying to change the whole concept of the BONOSOL program by either abolishing or drastically reducing the BONOSOL payment program and redirecting its proceeds into infrastructure and economic development projects. At the very least, the government may institute limits or a moratorium on annuity payments for 1998. Government officials may encounter a public outcry, however, if they try to end a program that was slated to benefit the poorest in the country.

Privatization in Bulgaria: Pushing Forward

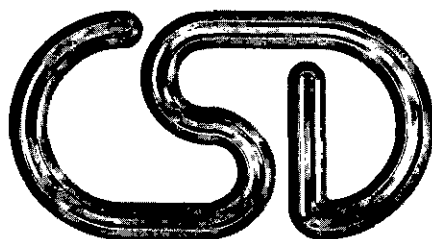
by Maria Prohaska

The Privatization Act was passed by the Bulgarian parliament in 1992, allowing privatization of state-owned enterprises (SOEs) to move forward. Since February 1993, when the first state-owned enterprise was privatized, privatization has slowly been gaining momentum in Bulgaria. Despite this progress, however, the environment in Bulgaria was anything but conducive to privatization until 1997. The economic and political situations were unstable, scaring off potential investors. High inflation, high interest rates, an unstable banking system, an undeveloped financial sector, and a volatile political environment were the rule.

With privatization developing more slowly in Bulgaria than elsewhere, it was difficult for its supporters to overcome the resistance of certain groups, such as SOE managers, government officials, and large banks. Even today state officials remain unwilling to give up

their direct influence on the economy for personal reward, which has effectively been blocking privatization's progress.

By 1995, rapid progress was being made at least in some areas. During that year more favorable conditions prevailed, including clear political support, intensive preparation, the availability of new types of financial



instruments, and the simple fact that the officials responsible for privatization had nearly three years of experience under their belts. In fact, many small-scale privatization deals were finalized.

The Center for the Study of Democracy (www.csd.bg) is an independent organization expert in systematic observation and analysis of privatization and its results; the development of recommendations for state institutions on how to overcome existing problems; dissemina-

tion of information among the general population; and training for privatization experts.

CSD boasts political independence in every sense of the word. Without this independence, CSD would be severely hampered in its objectivity, critical to its success in the area of privatization. Just as important, CSD's flexibility allows it to react quickly to the constantly shifting political and economic environment, typical of societies in transition.

In 1991, CSD launched its first privatization project with support from the Center for International Private Enterprise. This project was grounded in the conviction that privatization and the development of the private sector are the foundation for all democratic reforms. Even after the completion of this multi-year project, CSD continues its research and advocacy activities on various aspects of privatization, as well as on other economic reform issues.

Participating in the debate

CSD's research activities and opinion poll surveys have enabled it to be a major participant in the debate on privatization and economic reform issues. CSD has articulated

The author is the Economic Program Coordinator at the Sophia-based public policy institute Center for the Study of Democracy.

policy statements, and so effectively keeps the privatization debate alive. In its roles as "watchdog," CSD uses empirical data and opinion polls, and has emerged as one of the principal independent institutions in Bulgaria engaged in privatization studies. CSD is in close contact with different news media, thereby guaranteeing wide coverage of its project activities, and encouraging broad public debate on privatization issues.

Public opinion on privatization has been divided since 1990. Regardless of the twists and turns of economic policy, each successive Bulgarian government has come out in favor of accelerated, transparent, and just privatization. Not one of them, however, has succeeded in allowing Bulgarians to become shareholders in privatized firms in anything like a timely manner. As a result, distrust toward privatization has developed, as registered by regular opinion polls conducted by CSD since 1990. These polls show that, during the transition years, 60% to 80% of Bulgarians preferred that most of the SOEs remain state-owned.

Even when privatization and structural reform receive nationwide support, most people in Bulgaria prefer to work in a state-owned enterprise rather than in one that is privately owned. In order to address this negative bias, CSD supports the government's positive actions, so that trust toward the privatization process can be developed.

Bansko municipality privatization

One of the best examples of CSD involvement in Bulgaria's privatization was the program it carried out for the municipality of Bansko, a small town in southeast Bulgaria, during 1993-95. The program included the refinement of a regional development plan and the development of a municipal privatization program as a critical strategy for spurring the municipality's develop-

ment. CSD's specialists provided Bansko advisory assistance at each stage of its privatization drive, and eight privatizations were concluded successfully in that two-year period.

The Center's legal experts also helped the Bansko municipality to prepare the regulations for the privatization investment fund and wrote a reference manual for the use of standard privatization contracts. Having clearly defined rules for the privatization fund helped other municipalities as well because uncertainty about the workings of privatization funds had until then impeded their effective allocation of revenues and slowed down their own privatization efforts.

Despite the overall slow rate of privatization of SOEs in Bulgaria, the privatization of municipal-owned property has been successful from the start. In order to replicate the positive results in the Bansko municipality, CSD has concentrated its efforts on informing other municipalities about this model and providing know-how to local government officials and business communities regarding the establishment of a regional privatization investment fund.

Is there a future for privatization?

In early 1997, Bulgaria was on the edge of economic disaster. In order to address quickly the country's most acute problems, the cabinet and the pro-reform Union of Democratic Forces bit the bullet, and demonstrated political will and the capacity to undertake further reforms in the economy. The main stabilization factor was the creation of the currency board on July 1, 1997.

As expressed in the government program "Bulgaria 2001," quick and transparent privatization is the best tool for combating high inflation and financial instability which are characteristic features of any economy during transition. Accelerating the privatization process requires

major amendments in the legislative framework, accompanied by a fundamental change in the approach of all government authorities toward privatization.

Accelerating the process

The privatization of the remaining SOEs requires new accelerated approaches. Speeding up the process will require the use of centralized public tenders, competitive bidding, public offerings on the stock exchange, direct negotiations, management and employee buy-outs, and debt-for-equity swaps. In order to be successful, the government should contract the services of consulting firms, investment banks and other private sector advisors even if the overall control and coordination of the effort remains with the privatization agency.

In enterprises where most assets have passed into private hands, there is no single owner with a controlling stake, which means there is no strategic investor with a strong incentive to inject much needed capital into those companies. In most cases, individual participants and privatization funds have short-term speculative interests. The lack of viable capital markets hampers the transfer of corporate stock from passive small investors to owners of majority holdings.

An important priority for the next few years will be the development of capital markets, including the necessary legal framework for trading government and corporate securities. A properly functioning capital market that has the confidence of companies and investors will add significantly to the country's economic growth. An underdeveloped capital market is a disincentive to both domestic and foreign investors. The stock exchange is the natural source of fresh financial resources, and is sorely needed by the Bulgarian enterprises undergoing major restructuring in the environment of a currency board.

In 1997, CSD assisted the government in its efforts to accelerate privatization and to promote the development of small- and medium-scale enterprises (SMEs) and capital markets in Bulgaria. CSD's activities included drafting legislation, preparing alternative analyses and policy recommendations based on research results, monitoring public attitudes and behavior, public education, and dissemination of results.

CSD also has pioneered the effort to develop stronger corporate governance structures. The Center actively provides assistance to government institutions in transferring SOEs to the private sector, and is effectively advising the enterprises' managers to implement policies based on market principles and mechanisms. CSD's CIPE-sponsored project, "Privatization and Economic Restructuring in Bulgaria," is a long-term information

and training program designed to educate the general public and selected professional groups on the importance of putting strong corporate governance institutions in place.

One successful component of this program has been the creation and publication in October 1997 of a brochure titled "How to Trade with Shares from Mass Privatization." To date, 5,000 copies have been printed. This is the fourth successive publication from the CSD series of brochures on privatization targeting the public at large.

Another successful initiative in introducing the corporate governance concept to the Bulgarian public was the town-hall meeting on corporate governance and capital markets issues held in Veliko Tarnovo in May 1997. The meeting was organized by CSD and conducted in cooperation with the Veliko Tarnovo

municipality, the Sever privatization fund and the consulting firm Fynsis. The objective of the meeting was to bring the topics of corporate governance and shareholders' rights into the public domain. With that in mind, short presentations were made by a number of speakers including representatives of the Center for Mass Privatization, the Securities and Stock Exchanges Commission, the Central Depository, the Stock Exchange, managers of to-be-privatized and privatized enterprises, as well as the managers of privatization funds.

The town-hall meeting helped introduce small investors to their rights as shareholders and to the mechanisms of the capital market. For the first time, the Bulgarian public at large learned of the possibilities for its participation in the management of privatized enterprises. In 1998, CSD plans a continuation of its town-hall meeting program to educate the general public on its rights and responsibilities in corporate governance and the capital markets system.

CSD also is now supplementing its activities by promoting an improved legal framework. This framework primarily targets the acceleration of the privatization process through the issue of investment vouchers and the centralized sale of SOEs. CSD and its partners will create and submit draft legislation to aid in the second wave of mass privatization and the coordination of social security reforms with privatization. In order to ensure the broadest possible representation, this effort will include collaboration with privatization experts, representatives from the structural reform department of the council of ministers, the privatization agency, the Center for Mass Privatization, ministries, and independent consultants. ☼☼

A Strategy for Reform

Bulgaria now has the opportunity to implement a coherent mid-term privatization strategy to overcome the impediments to privatization apparent in recent years and to resolve some specific problems. Bulgaria's Strategy for Accelerating Privatization, prepared by CSD experts together with government officials and private sector consultants, aims to accelerate the privatization process while achieving greater transparency and efficiency for the economy as a whole and protecting the public interest. Goals that need to be reached in this process include the following:

- ✓ increase the involvement and role of the privatization agency as a coordinating authority;
- ✓ accelerate privatization by grouping the large enterprises into pools and by using international consultants as intermediaries;
- ✓ sell state-owned shares on the stock exchange;
- ✓ increase the role of tenders in privatization;
- ✓ issue investment vouchers and selling through centralized public tenders;
- ✓ privatize infrastructure enterprises;
- ✓ facilitate management and employee buy outs as a means of accelerating privatization;
- ✓ accelerate privatization through stimulating debt-for-equity swaps; and
- ✓ combine reforms in social security with the acceleration of privatization.

Policymaking and Privatization: Ten Lessons from Experience

by Madsen Pirie

In the last fifteen years privatization has transformed several thousand outdated, loss-making state operations into robust and profitable private enterprises. But the privatization process is one that is highly political in nature and must be thought through carefully by policymakers. The extensive recent history of privatization offers a great learning opportunity for future policy efforts. The following ten lessons can help steer decisionmakers in the right direction.

◆ Policymakers should clearly understand their goal: the transfer of state-owned enterprises to the private sector. Many governments may be tempted to sell off state-owned enterprises (SOEs) to raise money to pay off foreign debt, for example. They may also wish to encourage competition, extend private ownership, modernize old industries, and replace timid bureaucrats with innovative entrepreneurs. Privatization can have all of these benefits if skillfully done, but some governments have lost sight of the primary objective and have pursued privatization in name only, undermining the very goals they wish to achieve. For example, governments have sold minority shares of fairly profitable SOEs to leading industrialists or friends of the administration. Those industries were not subject to

market forces and are less likely to pursue genuine reform.

◆ Governments must learn to relinquish control after the sale of SOEs. If the new owners remain subject to detailed rules of central planners, no benefits of privatization will be realized. Privatized enterprises must attract investment on the basis of predicted performance; they must learn to allocate resources efficiently; and they must price their goods and services to meet demand and the realities of a competitive market. Governments must understand that the pursuit of greater efficiency and higher profits is in the national interest. Companies that reduce costs and improve product quality will successfully compete in national and world markets, provide stable jobs and enhance national wealth.

Of course, if the former SOE retains a near-monopoly position, some governments may wish to maintain price controls until there is more competition. However, such regulations should control output, not inputs. The formula first used in the privatization of British Telecom (BT) is a good example. Future price increases were linked to the consumer price index, but BT decided how to deliver services.

The Jamaican edible-oil company, Seprod, was not as fortunate. Sold in 1985

Dr. Pirie is the president of the London-based policy think tank Adam Smith Institute.

to a group of distributors, institutional investors, and employees, the company did well initially, but declined rapidly in 1987 after the government imposed price controls on its products.

◆ While price is a critical consideration, it is not the only one. Governments can often command a higher asking price by selling a state monopoly intact to a single foreign buyer. The advantages are clear: more money is available short-term to repay foreign debt, fund infrastructure and social improvements, or simply to allow immediate tax cuts.

Latin American and Caribbean governments have sold telephone monopolies to foreign corporations (in one case granting a 40-year monopoly). High telephone bills have created ongoing and widespread resentment in most of these countries.

The correct policy, therefore, is to treat price as one important factor among several, and attempt to maintain a correct balance in each case.

◆ Make a break from the past. Policy-makers should not overvalue outdated or grossly inefficient enterprises, or think they can recoup "public investments."



YOUR PRIVATIZATION WASN'T TRANSPARENT BUT WE COULD SEE RIGHT THROUGH YOU. YOU'RE UNDER ARREST.

However, there are also serious disadvantages: an intact monopoly misses the opportunity to introduce competition, and employees and society as a whole won't share in the benefits of broad-based ownership. Further, the government may be seen as selling out vital national assets to outsiders who will oppress consumers through monopolistic practices. The political fallout may reduce popular support for the government's other social and economic reforms. For example, several

Years of public subsidies were typically spent and not invested, and have no relevance to the firm's current worth. Certain heavy industries with large-scale equipment and other assets may not be able to produce goods of sufficient quality at market prices. Potential income is minimal without major restructuring, and a realistic appraisal would approach zero on the open market.

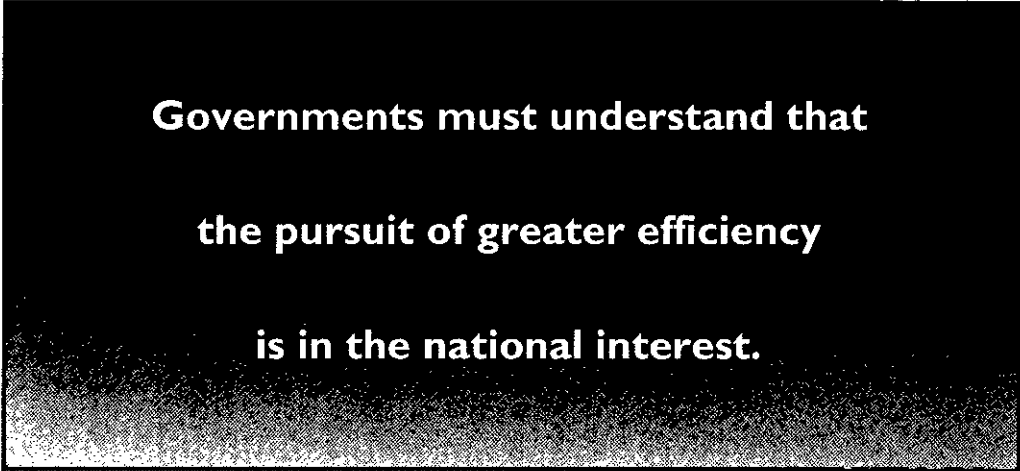
In extreme cases, companies may have such large liabilities (government loans,

finances, etc.) that the cost of servicing their debt would be prohibitive—and must be forgiven outright if the newly privatized entity is to survive. Other “hidden” liabilities include current and future pension obligations, and the cost to clean up the environment. One solution is to set aside some sale proceeds to fund these issues in the future.

Governments can make these options more palatable by stressing a one-time debt cancellation that will ultimately benefit taxpayers—more employment, the end of costly subsidies and increased tax revenues. For example, in 1981 management and employees bought the National Freight Corporation in one of Britain’s

professional investors including financial institutions, the management and work force, and the public at large. The sale can then be structured to attract any or all of these buyers.

Countries with a developed financial infrastructure can do stock market flotations, employ underwriters and use the services of merchant banks. Individual investors will more likely buy fixed-price shares that appear to be a good value. Installment or deferred payment plans are also attractive to small investors. In contrast, institutional investors and wealthy individuals can bid on tender sales or offers requiring a high minimum holding.



**Governments must understand that
the pursuit of greater efficiency
is in the national interest.**

first privatizations. Sale revenue of £60 million was reduced to £9 million after the government provided for pension obligations. A huge success, the company offered employees more than 100 times their initial investment eight years later, and continues to pay large sums into the treasury every year.

◆ **Choose the most appropriate method of privatization.** There is no simple formula that works in all cases. Because every enterprise is different, and every country has a unique culture and traditions, each privatization must be tailored to specific circumstances.

The choice of buyer determines the best method of privatization. Broadly speaking, the available buyers are other corporations, domestic and foreign, pro-

Countries without developed stock markets can offer a private sale or voucher or credit sales to managers and workers, paid out of future profits. Of course, stocks can be sold without a stock exchange. A celebrated example occurred in Gambia, where the Adam Smith Institute helped sell, without benefit of an exchange, an insurance company to hundreds of citizens. Indeed, stocks must be sold before an exchange can be created. There is no point to a stock exchange unless it has something to trade.

In all cases, the investment needs of the company must be considered. If a state company urgently needs new investment, then an investor with cash is obviously preferable to employees making payments over several years. The new owner(s) should also be in a position to

make the company an ongoing concern. It is possible a commercial rival might want to buy an SOE in order to shut down a competitor.

◆ **Do not restructure before privatizing.** Since state companies tend to be outdated, inefficient and overstaffed, practices must be modernized, costs trimmed and the labor force reduced. However, it is better to let the new owners make these commercial decisions than to attempt to make the decisions for them. The UK National Audit Office determined that many privatization transactions yielded lower proceeds because of badly managed restructuring prior to the sale.

restructuring (staff reductions, improved management) can help expedite privatization. As discussed in lesson four above, financial restructuring may also be necessary, since under-capitalized enterprises seldom become viable private businesses. Of course, the government wants to earn as much as possible from the sale, but must realize that there is little point obtaining a high price for a firm that limps along and then crashes. It is wiser to accept a lower initial price and look toward future tax income from an ongoing, profitable enterprise.

Other approaches can strengthen a firm's financial position as well. For example, a company may be given additional

**Potential buyers know employee-owners
are less likely to strike or resist changes
in the workplace.**

In many developing countries, the cost of consultants retained to restructure various state enterprises exceeded the final sale price of those enterprises. In addition, advice is often not heeded. For example, Royal Nepal Airlines Corporation has conducted four separate restructuring studies over the last eight years, and has yet to implement any recommendations.

In practice, the argument to restructure would be merely an excuse to delay privatization. For example, post-communist countries have so many state companies to sell that there are not enough resources available to restructure every company prior to privatization. It is better for the newly privatized firm to restructure continually as part of its efforts to meet changing market needs.

In some cases, however, limited

assets, such as land, which can be exploited commercially to provide more capital. Associated British Ports, the largest British port company, rebuilt and modernized its facilities through this method.

Another aid to recapitalization is the guaranteed initial contract, sometimes called a "slipway" contract. The guaranteed work makes funds available for capital investments, and encourages creditors and investors to put up other monies as necessary. Subsequent renewal of the contract must be won on merit—and against competition. The newly launched vessel is only protected on the slipway, not on the waters of the market.

◆ **Identify groups affected by privatization, and when politically necessary, incorporate special measures to elicit their**

support. Workers will be concerned about job security and wages after privatization. They are more likely to support the process if they can buy shares at discount prices and/or are permitted to pay for shares from future earnings. Potential buyers know employee-owners are less likely to strike or resist changes in the workplace.

Bureaucrats who run a state enterprise are obviously threatened by privatization. If necessary, they can join the new management team in some cases. The skills and mindset of a bureaucrat differ radically from those of an entrepreneurial manager, but the market itself will sort this out. Those who can adjust will succeed, while less flexible colleagues will be transferred to less important positions or eventually let go.

Customers of state enterprises also should be involved, especially the general public. People are often afraid newly privatized firms will produce inferior products at higher prices. Ad campaigns can help dispel that fear, promote the new venture, and encourage the purchase of stocks or vouchers at discount.

Where monopolies remain intact, a regulatory body can control future price rises. Rural citizens and small farmers may worry that a privatized firm will have no incentive to deliver to them goods and services. Service guarantees built into a new company's charter can allay these concerns.

Nationalists may want to prevent strategic industries from passing into foreign control. If this group is powerful enough to block the transaction, foreign holdings may be limited by creating a "golden share" that enables the government to prevent a foreign takeover of the company concerned.

◆ **Total privatization is preferable to joint ventures between the state and private entrepreneurs.** Such partially privatized entities in countries from Kenya to Great Britain have been abandoned for the same reason—the state never received the full benefits that normally accrue from privatization. Investors in some developing economies want the

state as a minority partner to help circumvent bureaucratic controls and prevent abuses by state-monopoly suppliers of services, such as ports and railways. However, it is better to address these problems at the root than to give some enterprises special treatment.

To be sure, some state-private co-operatives have had occasional success in large agricultural projects, but not in the commercial sector. Joint ventures run by unions and workers have also failed, as have SOEs transferred to the nation's army or navy.

◆ **Competition should be introduced as part of the privatization process wherever possible.** All benefits of privatization are enhanced when accompanied by market forces. The sale of an intact monopoly often brings in more money initially, but causes more problems in the long term.

Many state enterprises already operate in a competitive environment. In such cases, competition is encouraged when the newly privatized entity loses its tax advantages or first claim on government contracts. In cases where industries have enjoyed a state monopoly, competition can be introduced in a number of ways. The company itself can be dismantled, either vertically by separating the stages of production, or horizontally into competing producers.

The simplest way to encourage competition, however, is to remove protection of the state's monopoly and allow new entrants into the field. Even when this cannot be done immediately, the government can announce its intention to do so or, at least, review the situation in a few years' time.

When British Telecom (BT) was privatized, a small competitor called Mercury Communications was permitted to compete with BT in telephone service, and BT was required to provide access over its terminal lines into offices and homes. This oligopoly held for seven years, after which a review opened the market to full competition.

When Britain privatized its electrical utility, it was thought impossible to have competing lines go into every home or

business, so area distribution companies were created to buy competitively on behalf of their customers. This arrangement constituted a kind of "proxy competition," in addition to the full competition that existed between generating companies. The point is that competition can be introduced in a number of ways over several years.

Some state enterprises have powerful legislative allies who will resist free-market reforms as part of privatization. After several years, however, the privately held monopoly will not enjoy the same legislative support, and liberalization policies are more likely to succeed at that time.

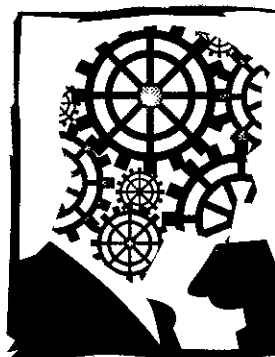
◆ Every privatization transaction should encourage wider share ownership whenever possible. Out of loyalty and self-interest, new shareholders tend to buy goods and services from "their" company, to help ensure its success. In addition, widely dispersed ownership makes the company less vulnerable to control or takeover by a small group of investors.

However, wider ownership offers even greater political benefits. New shareholders are more likely to support free market initiatives after they see how excessive taxes and regulations hurt their company's bottom line and the value of their shares. They also better understand how accumulation of wealth, once feared, actually provides the capital necessary to create jobs and grow the economy.

A final word of advice to policymakers is that governments must be fully resolved to carry out the privatization process. It takes time to realize all the benefits, but these ten key lessons will help ensure that privatization will be a success. ☺☺

CIPE's Groundbreaking Report on Think Tanks

CIPE has published the first study completed on the **growing role of think tanks in policy development in the Middle East and North Africa**. The report is based on crucial insights and information presented during a meeting of think tank executives in Cairo, jointly sponsored by CIPE and The World Bank.



Taking an in-depth look at the issues that dictate the effectiveness of think tanks, this guide details the dilemmas they confront in accepting

funding while retaining independence and objectivity, the pros and cons of focusing their work on either education

or advocacy and, most important, analyzing the best ways to market policy ideas. The guide contains a useful directory of some of the most influential think tanks in the region.

To obtain this groundbreaking resource contact Elaine Trimble

via fax (202/ 721-9250) or email (etrimble@cipe.org). The cost of the publication is \$15.00; discounts are available for multiple copies.

Building Transparency into the Privatization Process

by Adam Smith Institute

Building transparency into the privatization process should be a top priority for all policymakers undertaking the effort. The following guideline is excerpted from "The Privatisation Manual — A Simple Guide to Privatising State-Owned Enterprises Using the Tender Method," by John Francies with S. J. Masty; to be published soon by the Adam Smith Institute.

Transparency is the requirement that all investors have access to the same information during the privatization process. Most governments try to ensure transparency to a greater or lesser degree in order to maintain public support for their programs. However, complete transparency is not easy to achieve, nor do most governments always regard it as desirable. For example, a transparency requirement is clearly not compatible with management buyouts.

Similarly, most governments retain the right to reject bids without explanation. They may turn down the highest bidder because he is inexperienced or suspect, preferring to take a smaller cash offer from someone with more industrial experience or who has long-term investment plans for the enterprise. Here the government is acting in the consumers' and workers' best interest, and has forgone some of the sales revenue. Less transparency in such a case can stop unfair or

politically-motivated criticisms which could threaten the entire privatization process for years to come.

Moreover, attempts at defining transparency are usually inadequate because it means something different to everyone.

Transparent Company Auctions

In one post-communist country, many state-owned companies are sold by public auction. These sales are generally regarded as successful because they earn more than the reserve price (the price at which the auctioneer starts bidding). Oddly, as the number of bidders decreases, the noise in the auction room increases as each bidder tries to get the others to stop bidding! The government clearly has not got the highest price, but the government's failure is indeed transparent because the auction is public.

(excerpt from "The Privatisation Manual — A Simple Guide to Privatising State-Owned Enterprises Using the Tender Method," by John Francies with S. J. Masty; shortly to be published by the Adam Smith Institute.)

Nonetheless, transparency is important and cannot be ignored. A government that shows utter disregard for transparency will appear dishonest and untrustworthy.

The quest for transparency is a difficult balancing act. Government must maintain enough access to information to satisfy investors and observers, while retain-

ing enough flexibility and privileged information to allow it to conduct privatizations quickly, fairly and well.

Auctions and tenders are often compared regarding the level of transparency. Auctions involve selling in public, to the highest bidder, generally without consideration of ability to pay or managerial expertise. The process is over when the auctioneer bangs his gavel.

Shares of companies are not generally sold by open auction because the government may need to weigh considerations other than a high asking price. Moreover, auctions are notoriously prey to collusion, where rings of three or four bidders, knowing they are the only potential buyers, keep bids low so they can later divide the assets among themselves.

In comparing other privatization methods for transparency, some say that a public share offer is more transparent than competitive bidding by tender. This might be true in the highly regulated and policed capital markets of developed economies. In those countries everyone has access to announcements of public offers in newspapers and by tens of thousands of stockbrokers. But it is not true in less developed countries, particularly where there is no formal stock market or effective capital market regulation. In these cases, the most transparent method may be a well-publicized and well-run tender process.

The *main components* of a transparent tender process are:

- ☐ competitive bidding
- ☐ equal access to information
- ☐ clear evaluation criteria and documented procedures
- ☐ disclosure of the purchase price
- ☐ adequate monitoring
- ☐ compliance with the law

Competitive bidding is highly desirable for several key reasons. Bidding usually brings in more money from the sale, which inspires voter confidence in the government's stewardship of national assets. Bidding also resolves the problem of difficult valuations, and makes charges of favoritism harder to sustain.

Strict adherence to transparency would require the agency to advertise the shares if the investor did not want them, rather than deal with the first offer received, however convenient. This would have taken at least six months and involved a difficult assessment of which investors could truly finance their offers. Practicality and common sense suggest that the government should accept CDC's offer. The strongest argument against this course is that advertising and an open competitive process are the only sure way to ensure that a good price is obtained. There is no right or wrong answer here, just the observation that transparency often conflicts with speed and the maximization of proceeds.

Equal access to equal information is important because investors can submit their bids with a sound understanding of the enterprise. If management is bidding as well, it may try to withhold data from other bidders, thus giving it a greater advantage than it already has.

Clear evaluation criteria and documented procedures are necessary to reassure potential investors that all will be fair and accessible. However, not every country sets out the evaluation criteria for each enterprise because there are many enterprises that are all slightly different. Thus it is often safer to give investors a general indication of evaluation criteria, which allows the government some flexibility in the later process of evaluation. This can be done in the tender rules which also document the privatization procedures.

Disclosure of the purchase price after the sale is a common practice. There should be an explanation when the winning bid pays less than the highest

An Offer from the Commonwealth Development Corporation

A privatization agency attempted to sell control in a mining venture to its joint venture partner who already held 45% of the capital and had a management contract. The partner had pre-emptive rights which required the government to offer it shares in the first instance, giving it three months to make a decision. At that time the Commonwealth Development Corporation (CDC), the UK government's development finance arm, arranged a loan for the partner and offered to buy 15% of the shares at that point, which it agreed to sell back to the joint venture partner or sell to the public after five years.

offer—especially if the highest offer was publicized after the bids were opened, a common publicity practice. Some countries publish full details of bidders and their bids along with the valuation of the enterprise being sold, giving the public and other investors a fairly complete picture of the government's decision-making process.

Sometimes bids are not readily comparable. For example, a bidder once decided to subdivide an enterprise on offer. He indicated that a major asset of the overall enterprise he wished to buy was not required—and his bid assumed that it could be sold separately by the government. Likewise, some adjustments may be needed to compare bids requiring different credit periods. These problems can make it difficult for the government to declare the various bids because some investors bid on different packages and different terms. If none is a winning bid, the government may avoid the entire problem by declaring them invalid and outside the limits of what was put to tender. Or they can explain the problems in appendices or footnotes to their declaration.

Generally speaking, it is better to design the procedures of any tender so that bids are easily comparable. Bidders should not be allowed to offer a range of prices, prices in different currencies, or offer to buy only certain assets, etc.

Adequate monitoring and auditing are important because most privatization programs are closely observed by the press and opposition politicians. Even so, few developing countries conduct independent audits and publish the results. Privatization, like any activity in life, encounters occasional failures. If these problems are exposed by damning criticism, the entire program can be adversely affected. This is another case where full transparency can create more problems than it solves. However, a sensitive audit carried out by persons who understand the subject can often yield valuable insights.

Independent audits are often the only way senior government officials can learn and improve their programs. One positive approach is to regard the audit in a simi-

lar manner to that of public companies. The auditors assess whether or not the privatization broadly achieved its objectives and then—similar to company auditors—provide the government privatization agency with a list of essentially minor shortcomings. Public confidence is not eroded, and officials get the expert and independent opinions they need to improve the process.

Compliance with the law keeps the government honest and keeps it out of courts defending past privatizations when it should be busy promoting new ones.

Compliance is more easily observed in developed countries than developing ones where the law is often uncertain or contradictory. For example, in one country lacking a stock exchange, it was unclear whether a public offer required a prospectus, which involved much more stringent conditions than an offer document. Likewise, vague laws on establishing proper title to privatized assets often lead to post-privatization litigation.

Obviously, if a country has not developed a modern legal framework, privatization should still continue. In the interim, skilled people can be hired to provide legal advice, and every attempt should be made to comply with the nation's laws. ☺☺



Economic Reform Today is the flagship publication of the Center for International Private Enterprise (CIPE), an affiliate of the US Chamber of Commerce.

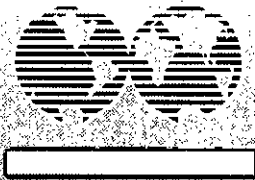
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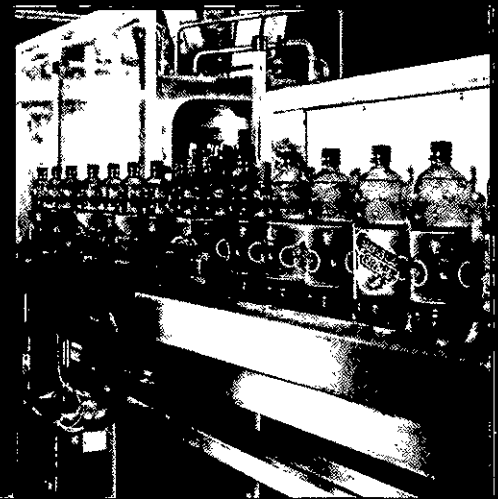
Business Views on Combating Corruption

New Tools to Fight Corruption

Will the OECD Anti-Bribery Convention be Effective?

Corruption Versus Clean Business in Ukraine

How to Fight Corruption on the Ground



Stopping the insidious rise of corruption has become a top priority for business everywhere. As competition increases and profit margins become tighter, the business community is demanding that governments take action. Corrupt transactions between governments and private sector agents damage not only the reputation of the businesses involved, but they can wreck national economies and undermine democratic values.

A perfect example of how tangled government regulation can get is the antiquated system of laws that the citizens of Ecuador must now endure. A CIPE partner in Ecuador, the National Association of Entrepreneurs (ANDE) in Quito, recently conducted a study of the country's legal system and how it breeds corruption. The study found that since the republic was founded 167 years ago, some 90,250 legal norms have been created, of which 52,774 were in force in 1997. The sheer number of overlapping, unclear and contradictory laws in Ecuador creates an environment of legal chaos and leaves the application and enforcement of laws to the discretion of bureaucrats. This situation is like opening a door and inviting in corruption.

ANDE has worked to disseminate the findings of this study to the broadest cross section of Ecuadorian policymakers and business leaders. Their booklet, which was released on April 15, has been sent to the Commission on Anti-Corruption as well as to civil society organizations, legislators, administration officials, the judiciary, political party leaders, presidential candidates, universities, and media representatives throughout the country.

One of ANDE's recommendations from the results of this study is that a permanent committee of jurists be created whose sole goal would be to codify and harmonize all of the existing legal norms in Ecuador. The response in Ecuadorian society to this recommendation was so overwhelmingly positive that it has been included in the revision of the legal code adopted by the recent constituent assembly.

It is unclear how this important reform will be promulgated. It appears that the new administration will have to spearhead the initiative if it is to be put into effect.

President-elect Jamil Mahuad, we encourage you to work with ANDE to see that this permanent committee of jurists be put into place to improve the legal structures of Ecuador. It is only by setting right the legal system that the judiciary can do its job of enforcing the law. And this is the only way that corruption can eventually be eliminated.

We applaud the efforts of other organizations around the world in their efforts to stem corruption. This issue of *Economic Reform Today* highlights a number of these programs in Ukraine, Azerbaijan and Bulgaria to name a few. In addition, the new OECD Convention on Combating Bribery of Foreign Public Officials is a landmark effort to eliminate tax write-offs and other incentives offered by western governments to corrupt public officials.

In coming months, CIPE's Web-based Forum on Economic Freedom at www.cipe.org will supplement the ideas and discussion of anti-corruption efforts presented in this issue of *Economic Reform Today*. It is part of CIPE's ongoing effort to provide policymakers with practical solutions to combating this devastating disease.



Willard A. Workman

Willard A. Workman
Vice President, CIPE & Vice President,
International, US Chamber of Commerce

ECONOMIC REFORM TODAY



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CHANGE AND
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New Tools to Fight Corruption

by **Nancy Zucker Boswell**

Twenty-nine OECD members and five non-OECD members defied skeptics by concluding the Convention on Combating Bribery of Foreign Public Officials in December 1997. Signatories agreed to criminalize bribery of foreign public officials and significantly restrict the source or "supply side" of bribery.

Over recent years, numerous other organizations—the Organization of American States, the World Bank and the IMF—have undertaken programs that will promote greater accountability. Recognizing that the costs of corruption are unacceptable, these organizations are demanding immediate, concerted action. They consider good governance fundamental to economic growth and political stability.

This profound shift in attitudes lags behind an earlier change in public opinion toward corruption. Public intolerance has led to the removal of numerous officials from office. Finding they have a common transborder objective, citizens and civil society organizations have raised public awareness and pressured governments and donors to pursue systemic anti-corruption reform.

Intensifying competition for capital in the global marketplace has inspired the recent spate of activity: private capital prefers transparent and accountable markets. Corruption

has undermined investor confidence and prompted serious capital outflows that have impaired productive investment and macroeconomic stability. This has increased pressure on donors to direct resources to their most productive use and to promote reforms where corrective action is needed.

Anti-corruption sentiments are rising not only in the industrialized countries but also in the developing world and emerging markets. The economic crisis in Asia, at least partially attributed to corruption, has swept away the last vestiges of the belief that economic growth and corruption can coexist. There is now an awareness that corruption dissuades foreign investment, undermines development, and destabilizes nascent democracies.

Being aware of these unacceptable costs has also led officials and organizations to the following realizations:

- solutions must focus on the underlying economic, political and institutional causes of corruption.
- all stakeholders—the government, private sector, civil society—

Nancy Zucker Boswell is the managing director of the US chapter of Transparency International, the global non-profit coalition to curb corruption in international business transactions.

must be involved in developing mutually supportive systems.

- long-term, sustainable programs must comprise a host of economic and public sector reforms—deregulation, privatization, transparency, and institution-building—as well as a wide range of preventive and enforcement measures that are responsive to local conditions.

Making bribery a crime

The OECD Convention lays the groundwork for creating effective anti-bribery systems in countries with varied legal systems. Its core provision makes it a crime for “any person” to “offer, promise, or give any undue pecuniary advantage, whether directly or through intermediaries, to any foreign public official. . . in order to obtain or retain business or other improper advantage in the conduct of international business.” The prohibition goes beyond the US Foreign Corrupt Practices Act to include bribery in government procurement, environmental issues, tax payments, other regulatory matters as well as in judicial proceedings.

“Foreign official” refers to officials who control procurement in important areas, such as telecommunications, transportation and energy. The term includes appointed and elected legislative, judicial and administrative officials as well as officials of international organizations and government-controlled enterprises.

Criminal penalties for bribery must be “effective, proportionate and dissuasive.” Countries whose legal systems lack the concept of corporate criminal liability—Germany, Sweden and Switzerland—must provide for equivalent non-criminal sanctions. The convention also provides for mutual legal assistance, including extradition, and requires signatories to take preventive measures, such as establishing accounting standards and prohibiting off-the-book accounts.

The convention contains the fundamental elements of an effective regime. However, as might be expected of a product of multi-party negotiations conducted on a tight time schedule about a sensitive subject, it also has shortcomings that could allow for future circumvention. It does not cover improper payments to foreign political parties, party officials or candidates. In addition, because of jurisdictional concerns, it does not provide comprehensive coverage of foreign subsidiaries. The OECD Working Group on Bribery will take up these and other issues in May 1999.

Ending tax deductions for foreign bribes is another important element of the OECD program, and Norway, Denmark and Portugal have taken steps to implement the 1996 OECD Recommendation to End Tax Deductibility. However, Austria, France and Germany have indicated that they may deny tax deductibility only to people who have a

CIPE-funded Anti-Corruption Programs

- ✓ Azerbaijan—Entrepreneurship Development Foundation (see page 19)
- ✓ Brazil—Liberal Institute of Rio de Janeiro (p. 14)
- ✓ Bulgaria—Center for the Study of Democracy (p. 18)
- ✓ Ecuador—ANDE (p. 18)
- ✓ Slovakia—Center for Economic Development (p. 18)
- ✓ Ukraine—Ukrainian Center for Independent Political Research (p. 21)

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prior criminal conviction for foreign bribery. This is an unacceptable interpretation of the 1996 Recommendation, and it would leave most bribes tax deductible.

Anti-corruption sentiments are rising not only in the industrialized countries but also in the developing world and emerging markets.

Monitoring violations

The signatories are committed to seek ratification of the convention by the end of 1998. As of June, 1998, the US, Germany, Japan, Belgium, and the Czech Republic had already transmitted it to their national legislatures, making it likely that the deadline for ratification and criteria for entry into force can be met. The largest OECD economies—the US, Japan and Germany—must ratify the convention for it to enter into force in 1998.

US leadership is critical to bring other signatories on board, and the US Congress is currently considering the convention and implementing legislation. Because the convention promises to substantially, if not perfectly, redress the current imbalance of anti-bribery restrictions, the US private sector strongly favors ratification.

After the convention enters into force, the next challenge will be to ensure the adequacy of national legislation and its enforcement by 34 countries with major differences in their legal systems. A rigorous monitoring process to promote effective and consistent implementation will be needed for several years.

The OECD Working Group has already begun to secure the signatories' support for a monitoring process that provides for mutual and peer evaluation. While the con-

vention permits some flexibility, evaluation is important to forestall major differences in how foreign bribery is prohibited. Governments may be reluctant to impose relatively strict prohibitions on their own companies compared to their competitors. This scenario raises the risk of a minimal level of implementation.

A monitoring process can address this risk by quickly sending a clear signal that all parties will be held to high standards. The OECD Working Group has already begun on an informal basis to provide mutual assessments of draft implementing legislation. This work is likely to be more effective at this stage rather than waiting until after inconsistent or ineffective laws have been enacted.

The working group will also address issues related to the private sector and civil society, such as access to information and the possibility for input. These groups provided input throughout the negotiation phase, and, since the convention's conclusion they have monitored progress and served an important watchdog function.

The private sector will want to ensure that restrictions against competitors operating abroad are enforced consistently and that it has channels for reporting concerns or problems. It can also play an important enforcement role by adopting effective, vol-

What is Transparency International?

Transparency International (TI) is a global coalition of civil society actors pursuing accountable government institutions and an honest business environment. In over 70 countries, TI national chapters promote public awareness and comprehensive integrity systems that are comprised of independent judiciaries, responsible investigative journalists, ethical public officials, and vigorous public participation. These elements are fundamental to the consolidation of democracy, respect for the rule of law, equitable development, and the expansion of open, competitive markets.

untary anti-bribery policies and programs that will control its operations beyond national borders. The International Chamber of Commerce (ICC) has adopted an extensive model, Rules of Conduct to Combat Extortion and Bribery, that prohibits bribery. It is also developing a program to promote adherence to the rules by companies around the world.

Beyond the OECD Convention

Donors and multilateral organizations are spurring the evolution of broad-based anti-corruption reforms. They will be key players in maintaining the interest and resources that are necessary for what will inevitably be long-term efforts.

Organization of American States (OAS)

The OAS Convention Against Corruption, signed by 23 countries in March 1996, is an important regional initiative to fight corruption. It provides for criminalization of transnational bribery and illicit enrichment, encourages mutual legal assistance, and promotes "preventive measures," such as codes of conduct for public officials, steps to promote transparency in procurement, disclosure of assets, and public access to information.

Although the OAS Convention has entered into force, only ten countries have ratified it to date. The 1998 OAS General Assembly meeting endorsed a broadly worded "Program of Action," and a hemispheric symposium on strengthening probity is expected to be held later this year in Santiago.

Implementation at the national level has been uneven, and the OAS is organizing important workshops in countries to

raise public awareness and provide technical assistance. These initial steps would be reinforced by establishing a specific time frame for securing universal ratification and a permanent institutional mechanism within the OAS that could provide a forum to share best practices and to encourage implementation.

World Bank

The World Bank has put good governance at the top of its agenda. It has adopted revised procurement guidelines to require disclosure of agents' commissions, to provide for bank audits, and to institute procedures for investigating bribery allegations and for debarring corrupt contractors. The rules also permit the use of anti-bribery pledges and recip-



rocal and enforceable no-bribery commitments by the government and bidders on specific projects. The Inter-American Development Bank adopted similar rules and procedures in January 1998, and the Asian Development Bank considered analogous revised guidelines and an enhanced anti-corruption policy during its July 1998 board meetings.

The IMF

The IMF has also become proactive in fighting corruption by issuing guidelines to its staff to promote the development of institutions and systems that eliminate the opportunity for bribery. The guidelines provide for more direct Fund involvement when individual instances of corruption might have significant macroeconomic implications either because of the magnitude of the amounts involved or because they might be indicative of systemic corruption. The IMF recently called for the publication of fiscal information, clear ethical standards for public servants, openness in budget preparation and execution, and public scrutiny of fiscal information.

More recently, the Fund adopted groundbreaking, transparency-related conditions for lending to Asian countries in crisis. This potentially represents a highly effective approach to mainstreaming commonly accepted principles of fiscal transparency and budgetary disclosure. The Fund has also increased the transparency of its own operations and has encouraged borrowers to publish their letters of intent with the IMF.

World Trade Organization (WTO)

Ultimately, a WTO agreement on transparency in procurement will bring a wider universe of procurement activity under consistent rules. Currently, there is an emerging consensus on the elements of transparency in procurement and on the need for a binding agreement. In the Americas, where the Summit of the Americas process has launched negotiations for the Free Trade Area of the Americas, governments will be asked to implement a regional agreement on transparency in procurement by the year 2000

as evidence of the leaders' commitment to achieve early concrete progress. In Asia, the APEC working group on procurement has defined the elements of transparency and submitted the results to the WTO. APEC leaders may find it beneficial to support the conclusion of a WTO agreement on transparency in procurement based on these elements.

While the fight against corruption continues to expand across the world, there is no shortcut to transform the positive commitments into reality. Concrete signs of real change over the short term will be critical to sustain or even rebuild public trust in governments. Involving civil society in this process can overcome widespread public cynicism. Citizens expect action, and the evidence suggests that they will not be disappointed. ☺☺

Will the OECD Anti-Bribery Convention be Effective?



The OECD Convention on Combating Bribery is one of the most important tools to fight corruption. Eleanor Roberts Lewis is the Chief Counsel for International Commerce, US Department of Commerce. She has been involved in negotiating many international trade and investment agreements, including NAFTA and the OECD Anti-Bribery Convention.

ERT: What was the impetus for the OECD Anti-Bribery Convention, and how did the signatories come to the realization that it was in their best interests to sign it?

MS. LEWIS: Let me step back a moment. In 1977 the United States enacted the Foreign Corrupt Practices Act that prohibits bribing foreign government officials in order to get business. No other country has such a statute, and it soon became clear that the playing field was not level. Under this statute, American companies could not give bribes without criminal exposure, while companies from other countries were able to continue their habits which often included giving substantial bribes.

In the 1980s, the US government, working with the business community, attempted to amend the Foreign Corrupt Practices Act to make the playing field a

little more level. The 1988 Trade Act directed us to work with the OECD to try to get a multilateral solution to this problem. We didn't get any response until around 1994 when OECD ministers passed several anti-corruption resolutions and recommendations.

To answer your question in more specific terms, during the late 1980s and early 1990s, a number of major corruption scandals broke out in some of these countries. Also, some bribe-receiving countries became too demanding. Instead of asking for 1-5% of the value of the contract, as they typically did, some government officials began to ask for 20-30% of the contract. In some cases—for example, very large infrastructure contracts or military sales—these numbers became enormous. Instead of a few thousand or a few hundred thousand dollars, companies were asked to pay millions of dollars. Companies started to realize these numbers were digging into their bottom line, and some went to their governments to complain about the request and to lobby for anti-corruption legislation.

ERT: What role did the US play in the negotiations?

MS. LEWIS: We were definitely the catalyst in getting the negotiations started. There were times, particularly in

the early 1990s, when other countries would have liked to drop the issue altogether, but we kept insisting that it stay on the table.

In addition, we were the initial drafters of the early recommendations and resolutions that the ministers considered. There were two texts on the table, one produced by Germany and France, and the other produced by us. The final result looks a lot more like ours than theirs, and it is, I think, a much more vigorous attempt to deal with this problem. During the negotiations, we were constantly pushing the envelope to have the convention cover as much as possible, whereas a number of the other countries wanted it to be as minimalist as possible.

ERT: When will the convention go into effect?

MS. LEWIS: The OECD ministers directed all the signatory countries to ratify the convention and pass implementing legislation by the end of 1998. It's a tight deadline, but countries are claiming they will be finished by then. Each country is currently in the process of drafting its own foreign corrupt practices act, and its legislative branch must then pass the relevant laws. The US is making some minor changes to its own law to bring it in line with the convention, while several other countries are drafting theirs from scratch. If the deadline is met, it will probably set a world's record for passing a multilateral, international convention of this magnitude. That's a good sign.

ERT: When the implementing legislation is put into place, how will the process be monitored?

MS. LEWIS: Much of the success will depend on how well we monitor it. And by "we," I mean all the countries that are part of the OECD working group, not just the US, although I think we're going to be among the most aggressive monitors.

I envision at least two phases of monitoring. One phase will review the implementing legislation that the countries are currently drafting. We'd like to read them

in draft form before they get passed, but in some cases we're not going to be allowed to see them in draft, so we may have to look at them after they're passed. We need to see whether or not they lined up with the convention.

Other than reviewing the laws, we need to monitor very carefully what countries do with them. For example, every country in the world has laws prohibiting domestic bribery, but many don't enforce them. This could also be the same with monitoring the OECD Convention. We need to determine whether a country has assigned resources, including good prosecutors, to work on receiving complaints and investigating them. Did the country actually go for indictments and prosecutions when they were given reasonable evidence and information to act on?

The monitoring phase also includes peer site visits by prosecutors from other countries to inspect how their counterparts are carrying out the law. We need to assess a country's procedure for handling corruption cases. Which cases has a country started or completed? For example, prosecutors from Japan, France and the United States might visit Germany two or three years from now and say, "We understand that you have received a certain amount of information about a couple of cases that we discussed in the working group. What have you done to investigate them? Have you got an indictment?"

As we've seen with our work on money laundering, drugs and terrorism, there is precedent for these kinds of monitoring mechanisms to work successfully. Peer review by ministries of justice from around the world has worked very well. However, we don't know whether it will work as well when dealing with corruption, because some departments or ministries may have less motivation to go after their own companies than to go after groups involved in drugs or money laundering.

It will be very important that we have good information available to us. We can use government sources of information, but we also need the business community and the NGO community, like Transparency International. We need to be told

when cases of bribery are not pursued so we can approach the government and say, "We have this information. What are you doing about it? Why aren't you investigating or prosecuting it?" The more thorough and aggressive these monitoring follow-up steps are, the more likely we will be able to level the playing field within a couple of years. It's a cooperative effort.

ERT: What incentive do governments have to prosecute their own companies that are involved in corrupt business transactions?

MS. LEWIS: Once the law is in place, a number of responsible and ethical companies will be aggressive about seeing that their firms don't commit corrupt acts. For instance, they may voluntarily modify their code of corporate conduct. We've found this to be the case in the US. Once the Foreign Corrupt Practices Act went into effect, many corporations said, "I don't want to be accused. I don't want to have to explain to my shareholders or the public that we've been charged with something that is criminal." Therefore, many of them set up systems to ensure that it doesn't happen.

Companies that don't adopt compliance systems or change their corrupt practices may face prosecutors who are willing to pursue the case. In this country, the Department of Justice is independent from the Department of Commerce, congress and other government departments. Since the Foreign Corrupt Practices Act was adopted, the Department of Justice has been quite aggressive about investigating and following through on cases.

My sense from talking to officials in other countries is that this will be the case there, too. Prosecutors understand that once the law passes, it is their duty to enforce it, and not to check whether it might negatively affect the trade balance. They understand that those types of questions were already discussed during the legislative process, and that after the law goes into the effect, asking them again is not part of their mandate.

ERT: Governments often exact bribes from companies. Does the convention address the government side or a government code of ethics?

MS. LEWIS: This is a bribe-givers convention, and the entities that give the bribes are corporations. Entities that receive the bribes are government officials in developing countries. This is not a convention that deals with the ethics of bribe-receiving government officials. That issue definitely needs to be addressed, but this convention does not do so.

ERT: Turning to some of the weaker parts of the convention, one thing that comes immediately to mind is the fact that the convention omits mention of foreign subsidiaries. Doesn't this represent a tremendous loophole?

MS. LEWIS: I should first mention that foreign subsidiaries are not covered in the US Foreign Corrupt Practices Act either,

***American corporations
keep their subsidiaries
on a tight leash because
they're afraid of being
embarrassed by possible
negative publicity.***

and I agree that it represents a potential loophole in the law. During the negotiations we did not get any of the other countries to agree to cover this issue in the convention, but we were able to convince them that it's a serious issue. We are very concerned that it could become a loophole through which companies could funnel their bribes. Countries have agreed to put this issue in an OECD future work plan.

We're hoping that by creating an international environment in which private corporations will be encouraged to have codes of conduct, they will voluntarily reign in their foreign subsidiaries. Although our Foreign Corrupt Practices Act doesn't cover this issue, many American corporations keep their foreign subsidiaries on a tight leash because they're afraid of being embarrassed by possible negative publicity.

ERT: The convention says that bribes can no longer be deducted as a legitimate business expense. Apparently, several signatories have expressed their intention to deny tax deductibility only to those who have a prior criminal conviction for foreign bribery. Doesn't this contravene the spirit of the OECD Convention?

MS. LEWIS: It contravenes the spirit of the convention, and, more importantly, the spirit of several ministerial recommendations that preceded the convention. The ministers said that there will be no more tax deductibility for bribes to foreign government officials. This wasn't even conditioned on the convention being passed. A couple of countries have signaled their intention, but they haven't told us definitively yet. We have made it clear in meetings at the OECD that this is not acceptable to us and that we are going to publicly object, and continuously publicly object, to any country that goes that route.

ERT: The convention doesn't cover payments to foreign political parties, right?

MS. LEWIS: The convention covers the circumstances of several types of party donations. Let's say a bribe-making company makes a payment to a party or party official, and the party passes it on to a sitting government employee. That is covered by the convention. If a government employee says to a bribing company, "I want \$2 million, but don't pay it directly to me. Pay it to the party." That is also covered by the convention.

These are the two most common circumstances of bribing party officials. But

suppose we have a third situation where the company bribes the party, and the money doesn't go to a government official, nor did an official direct the company to bribe the party. It simply bribed the party, and the money stays with the party. That scenario is not covered by the convention in its current language.

The convention does not cover payments to political parties, to political party officials or candidates. Most of the countries found it difficult to distinguish between mildly smelly campaign financial problems and what we could call quid-pro-quo deals where a payment is made to a political party which then promises to award the company with a certain government contract. Many OECD countries felt that line was extremely fuzzy and that it would not be easy to make those distinctions in their current laws.

ERT: Under the convention, if a government official gives a company an ultimatum, "Either you pay this bribe, or you don't conduct business in our country," what recourse is available to the company?

MS. LEWIS: We're going to ask US companies to report those situations to the US government, and we'll discuss them in OECD working group meetings. In some cases, if there are short deadlines, we may even call special sessions, or have a special experts' group, to look at them. The chances are if the government official is doing it to a US company, he's also doing it to German, UK and Japanese companies. Everybody has a problem.

We may agree on adopting, say, a diplomatic initiative from the OECD to the government of that country. We may use public diplomacy, by which I mean going public with speeches or op-ed pieces, either in the country or other places, to put pressure on the government in question. It will work best if we all stand together. We can't have the US company reporting to us and backing out of the potential contract, only to have, for example, a UK company rush in, pay the bribe, and do the business. If we stand together on this, we can be very effective.

ERT: How does a government obtain information that a company is committing a corrupt act?

MS. LEWIS: I assume they'll get it as we've been getting it in the US. Competitors, either from the same country or foreign countries, in the business community often complain to us. There are also government sources of information, such as embassies or other government employees. Our Justice Department has relied on these sources for years.

ERT: The World Bank and the IMF have supported the OECD Convention and have issued guidelines for their staff to eliminate opportunities for bribery. What do you think is the likelihood of them actually suspending loans to a country because of corruption?

MS. LEWIS: I would like to think that they will eventually enforce their guidelines aggressively. At some point this includes either denying the particular loan or suspending whole program operations to a country that doesn't clean up its act. This can be politically difficult because these countries are also active in or members of the World Bank, too. So, it's sort of like slapping one of your own family members on the hand. Tougher action still needs to be taken, but I think they're moving in the right direction. We need to encourage that.

ERT: Lastly, what overall impact do you think the convention will have on corruption in developing countries?

MS. LEWIS: I'm hoping it will virtually eliminate it over the next couple of years. When government officials request bribes from, say, European or Japanese companies that are bidding on large foreign government procurements in developing coun-

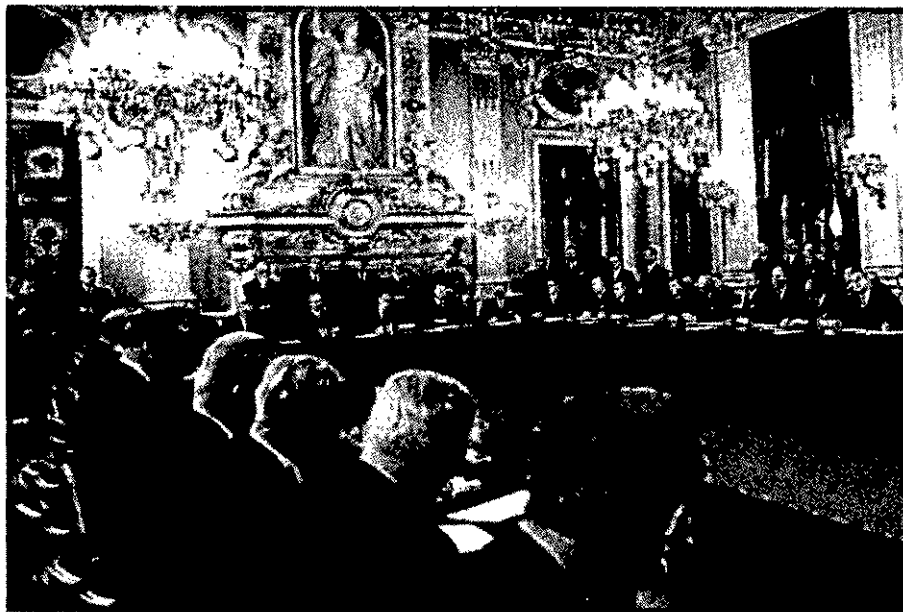


Photo: OECD

The convention will help eliminate corruption.

tries, all of these companies will line up and say, "Sorry, we have a criminal law that doesn't allow us to pay these fees."

If we can get everybody to consistently stick together, I think these requests are going to die out after a while. That is our goal. We need to reach a mutual level of trust where companies will know that everybody else is giving the same answer to the request for bribes. That's what we have to work toward over the next couple of years.

The current Asian financial crisis can at least be partially laid at the door of the corruption. I'm hoping that the new leaders in some of the countries that have suffered the most will now realize that it is in their best interests to eliminate corruption. Corruption is very dangerous to them. It threatens the very existence of their economies and governments. ☹☹

ERT's Next Issue: Information Technology

Emerging markets face a critical test over the next few years: how to adjust to and benefit from what is being lauded as the world's third major technological revolution—the Information Age. The next issue of Economic Reform Today, "Information Technology in the Global Economy," will focus on the regulatory issues central to ensure that emerging market economies realize the full potential of information technology.

OECD Convention

The following are selected excerpts from the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Article 1 The Offense of Bribery of Foreign Public Officials

Each Party shall take such measures as may be necessary to establish that it is a criminal offense under its law for any person intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business.

Each Party shall take any measures necessary to establish that complicity in, including incitement, aiding and abetting, or authorization of an act of bribery of a foreign public official shall be a criminal offense. Attempt and conspiracy to bribe a foreign public official shall be criminal offenses to the same extent as attempt and conspiracy to bribe a public official of that Party.

Article 3 Sanctions

The bribery of a foreign public official shall be punishable by effective, proportionate and dissuasive criminal penalties. The range of penalties shall be comparable to that applicable to the bribery of the Party's own public officials and shall, in the case of natural persons, include deprivation of liberty sufficient to enable effective mutual legal assistance and extradition.

In the event that, under the legal system of a Party, criminal responsibility is not applicable to legal persons, that Party shall ensure that legal persons shall be subject to effective, proportionate and dissuasive non-criminal sanctions, including monetary sanctions, for bribery of foreign public officials.

Article 4 Jurisdiction

Each Party which has jurisdiction to prosecute its nationals for offenses committed abroad shall take such measures as may be necessary to establish its jurisdiction to do so in respect of the bribery of a foreign public official, according to the same principles.

Article 5 Enforcement

Investigation and prosecution of the bribery of a foreign public official shall be subject to the applicable rules and principles of each Party. They shall not be influenced by considerations of national economic interest, the potential effect upon relations with another State or the identity of the natural or legal persons involved.

Article 7 Money Laundering

Each Party which has made bribery of its own public official a predicate offense for the purpose of the application of its money laundering legislation shall do so on the same terms for the bribery of a foreign public official, without regard to the place where the bribery occurred.

Article 8 Accounting

In order to combat bribery of foreign public officials effectively, each Party shall take such measures as may be necessary, within the framework of its laws and regulations regarding the maintenance of books and records, financial statement disclosures, and accounting and auditing standards, to prohibit the establishment of off-the-books accounts, the making of off-the-books or inadequately identified transactions, the recording of nonexistent expenditures, the entry of liabilities with incorrect identification of their object, as well as the use of false documents, by companies subject to those laws and regulations, for the purpose of bribing foreign public officials or of hiding such bribery.

How Bad is Corruption?

Corruption is perceived to be among the three most important obstacles to conducting business in all developing countries that were surveyed, according to a 1997 World Bank study. Exceptions to these findings are Asia (India, Fiji, Malaysia) and one transition region (Belarus, Moldova, Russia, Ukraine). The World Bank grouped the countries into regions and sub-regions.

The survey asked 4000 entrepreneurs in 69 countries to rate 15 obstacles by how seriously they obstruct business. The list included taxes, corruption, inadequate supply of infrastructure, policy instability,

labor regulations, crime and theft, price controls, foreign currency regulations, financing, foreign trade regulations, regulations for starting a new business, general uncertainty on costs of regulations, terrorism, safety or environmental regulations, and inflation.

Tax regulations and/or high taxes were among the four top obstacles in 20 out of 22 regions. They were the number one obstacle in 13 regions. This obstacle encompasses not only high taxes, but also tedious tax regulations, unclear tax laws and corrupt tax officials. ☹☹

Countries	Rank of Corruption
South Africa, Mauritius	1
Colombia, Ecuador, Venezuela	1
Benin, Mali, Nigeria	1
Bolivia, Paraguay, Peru	1
Guinea, Guinea-Bissau, Senegal	1
Cameroon, Chad, Congo	1
Armenia, Azerbaijan, Georgia	2
Kazakhstan, Kyrgyz Republic, Uzbekistan	2
Jordan, Morocco, West Bank and Gaza Strip	2
Kenya, Tanzania, Uganda, Zambia	2
Czech Republic, Hungary, Poland, Slovak Republic	3
Estonia, Latvia, Lithuania	3
Madagascar, Malawi, Mozambique, Zimbabwe	3
Albania, Bulgaria, FYR Macedonia, Turkey	3
Côte d'Ivoire, Ghana, Togo	3
Costa Rica, Jamaica, Mexico	4
Belarus, Moldova, Russia, Ukraine	6
Fiji, India, Malaysia	6
Italy, Portugal, Spain	6
Austria, France, Germany, Switzerland	9
Canada, United States	12
Ireland, United Kingdom	13

Source: "How Businesses See Government," IFC, Discussion paper 33, 1998.

Brazil: Targeting Corruption in Public Bidding

by Arthur Maranhão Costa,
Luiz Pedone and
David Fleischer

In September 1992, Brazil was rocked by the impeachment of President Fernando Collor de Mello—the first such action by constitutional means without military intervention. He was accused of masterminding a broad corruption conspiracy that involved rigged bidding on public contracts. A year later congress installed a committee to investigate allegations of massive corruption within its own joint budget committee and eventually issued a scathing report recommending the expulsion and investigation of dozens of deputies and senators.

In late 1994 another commission that had been set up to investigate collusion among the highest levels of government and Brazil's largest construction companies singled out the ministry of transportation as the nucleus of corruption. According to the commission, bidders sometimes colluded among themselves and with the tendering organizers by agreeing to rotate contract awards.

The various investigating committees partially attributed the problem to a 1986 law that regulated bidding on public contracts. In mid-1993 congress passed new bidding regulations.

Eliminating discretionary power

Before 1993, public officials had too much discretionary power in conducting bidding procedures, allowing them to manipulate bidding to benefit certain companies and to shut out others that were considered unsuitable. Irregularities in bidding procedures drove up the cost of public transactions, cut government rev-

enues and hindered the provision of certain public services. In addition, contracts were not monitored, and prices were often overstated.

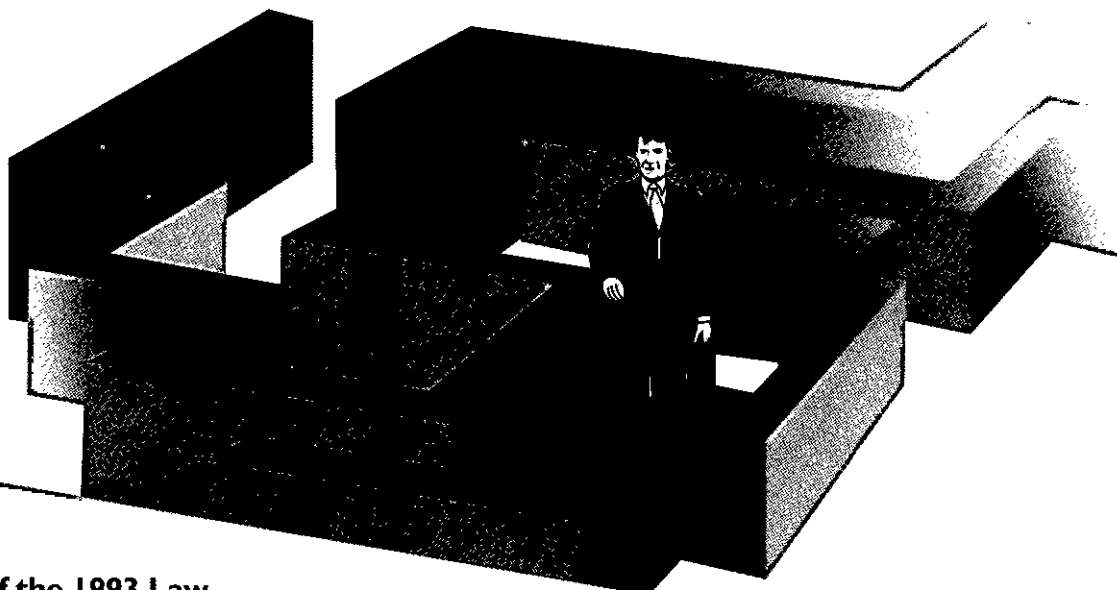
Before the adoption of the 1993 law, bidding in Brazil was conducted in such a way that only a few contractors bid on most public works contracts. For instance, 70% of the billing for projects that were carried out by the 150 largest civil construction companies was submitted by only seven major contractors.

The new law was intended to provide for the supervision and monitoring of the entire bidding procedure, and it introduced objective criteria about qualifying for public competitions. (See the table on page 15 for a more exhaustive list of innovations.) The excessively subjective criteria of the former regulation sometimes led to the establishment of rigid requirements concerning the object of the bidding, thereby eliminating small and medium-sized contractors from public competition.

Opening up the bidding process

Several government and business sectors have complained that the new law delays public transactions. However, while the imposed requirements may slow the contracting process, greater control of public transactions requires complying with certain procedures and requirements. In other words, speed and control are trade-offs, and choosing one necessarily comes at the expense of the other. Acting in the public interest demands that control take precedence over speedy government decisions.

Arthur Maranhão Costa is a visiting professor at the University of Brasília and a member-researcher of Transparency, Consciousness and Citizenship (TCC)-Brazil. Luiz Pedone is chairman of the department of political science, University of Brasília and director of research of TCC-Brazil. David Fleischer is a professor of political science, University of Brasília and President of TCC-Brazil.



Innovations of the 1993 Law

1. The entire bidding and contract execution procedure is public. The principal acts—invitation, announcement of the award, contract signing—must be published, and the public must have free access to information concerning bidding procedures and contracts. Any interested party can administratively or judicially challenge government actions.

2. The object of the bidding must be described in sufficient detail as to allow for predetermination of its quality. Consequently, the specification or quality of the object of the bidding is not the responsibility of the participants in the competition and is no longer a criterion in weighing proposals.

3. Participating companies are required to provide financial guarantees, capital, access to market financial resources, and access to equipment and technical personnel. The law does not require prior experience with respect to the object of the bidding. The required amount of capital that would guarantee performance of the contract is set at 10%, a non-exorbitant level that will not limit participation in the bidding.

4. The company that submits the lowest price is automatically awarded the contract. This provision reduces the discretionary authority of public officials.

5. The company may be required to demonstrate its capacity to perform the contract in advance, if it is suspected that it cannot carry out the contract. Delays in contract performance are subject to financial penalties and a prohibition against participating in other bidding procedures.

6. Additions to contracts are limited.

7. The bidding procedure can only be waived in narrowly defined cases and with detailed justifications.

8. Suppliers must be paid in chronological order. This means that the order of payments no longer depends on the contractor's influence in the public sector, and prevents the advance "sale" of accounts receivable.

9. Penalties and sanctions are established for public officials who disobeyed the law.

10. All bidding and contract execution procedures must be duly registered and are subject to internal and external audits.

A minimum amount of planning could easily solve the problem of slow transactions. In truly urgent cases, bidding could be waived, but this must be attended to with caution because this is currently happening in cases that bear no resemblance to an emergency situation.

The law's lowest price principle has been criticized for not always taking the highest quality into account. However, there is no evidence to support the assertion that adopting the lowest price criterion hurts quality. The law specifically allows public officials to exercise control over the quality of the object of the bidding. According to the law, public officials must monitor the performance of the contract. Public officials have extraordinary authority relative to private parties regarding the provisions of the contract, including the capabilities to impose fines or make unilateral changes in the contract. Therefore, allegations of loss of quality can be attributed to the lack of verification and supervision on the part of public officials, not to the law itself.

The law has also been criticized for opening up the bidding procedure to small, supposedly less reliable competitors because it limits the discretionary authority of public officials. It should be

pointed out in this connection that discretionary authority was not reduced in any way. In our opinion, such authority ought to be minimized.

Opening up the bidding procedure to small and medium-sized competitors is, in fact, the most significant improvement brought about by the law. It broadens competition and benefits the public sector by improving contracting conditions as well as benefiting the private sector by opening up the government contracting market to all interested parties.

Weaknesses in the law

Despite these strengths, the law remains deficient because it does not provide sufficiently objective criteria for granting exemptions or waivers. There are still too many cases where the bidding procedure can be waived. Consequently, an "emergency industry" is taking root due to the subjectivity of so-called emergency situations, public disasters and the fact that bidding procedures are not required in all cases.

In the first half of 1998, the government further altered the bidding process. The first modification raised the limits of contract values that required a formal bidding process, while the second estab-

The High Transaction Costs of Corruption

by CIPE

Corruption not only weakens public support for democratic institutions and economic reforms, but it also distorts government and economic transactions. According to studies by Dr. Douglass North, countries where the public does not participate in a government's decisionmaking process experience higher transaction costs. Democratic polities and decentralized market economies with well-defined and enforced property rights induce competition and reward the acquisition of productive skills and knowledge.

The Liberal Institute of Rio de Janeiro (ILRJ) worked with CIPE to show how corruption increases the cost of transactions in Brazil. One way that it did this was by looking at Brazil's judicial system. It explored how high transaction costs that are associated with settling commercial and labor disputes inhibited the bargaining process and placed a premium on conflict rather than resolution. ILRJ proposed policy solutions to this type of corruption.

ILRJ also conducted research into how corruption and insufficient transparency and accountability within public procurement procedures contributed to higher transaction costs. The results were higher transaction costs to businesses which frequently meant higher costs to consumers and reduced government revenues. ILRJ disseminated its findings to government and business leaders, the media and advocacy groups.

lished new criteria for the minimum price on contracts for engineering services. This latter point disqualified bids that fell outside the minimum and maximum range of bids established by the government. It also helped to protect the government against nonviable contracts while not overly restricting competition.

Congress also inserted a polemical modification. The 1993 law allowed contracts to be renewed, without a new bidding, by up to 25% of their original value. Congress increased this limit to 50%, but President Cardoso vetoed the proposal that would have made the bidding less transparent.

To remedy these situations, the use of bidding procedures must become accepted

and widespread to the extent that the non-use of the procedure is the exception. Government agencies and enterprises should grant exemptions and waivers sparingly and with greater caution.

Applying ethics to government contracts reduces the cost of doing business in Brazil. Restricting competition violates free market laws because it limits access to government contracting to only a few bidders with political influence. If a free market is the goal, the bidding law must be improved, not abolished or distorted. The scope and objectivity of competitive bidding must be expanded. ❁❁

European Business Association Seeks Transparency

by CIPE

Europe's small and medium-sized enterprises are particularly vulnerable to the absence of transparency in the Ecu 700 billion (\$777 billion) public procurement market. Gerhard Hammerschmied, director for enterprise policy in the Association of European Chambers of Commerce and Industry (Eurochambres), complained that the market lacks sufficient competition and that cross-border purchases comprise only a fraction of the total market. Furthermore, the rules that govern the public procurement market are often violated, and suppliers lack confidence in the overall system, Hammerschmied said.

In order to make the market transparent and more competitive, the Eurochambres has proposed that independent ombudsmen investigate violations of public procurement procedures. Eurochambres represents 1200 chambers of commerce in the EU and has a membership of 14,000 companies.

The Eurochambres has outlined several measures to enforce existing procurement rules and to make procedures more transparent, including establishing ombudsmen to identify problems and to discuss treatment of individual cases. Under the proposal, a Belgium company, for example, could complain to an ombudsman in its home country about being denied a contract in Portugal. The Belgium ombudsman could then challenge the decision to the ombudsman in Portugal. According to Hammerschmied, because the proposal will supplement existing responsibilities and bodies instead of creating new ones, it will not burden businesses with additional regulations.

Corruption in Bulgaria Threatens Social Stability

by CIPE

According to a CIPE-funded survey, 57% of adult Bulgarians believe that their politicians are primarily interested in securing special privileges for themselves and their friends. Bulgaria's Center for the Study of Democracy (CSD) conducted a national survey on perceptions of corruption and found that it engenders pessimism about the promise of economic reform and weakens confidence in democracy.

Low trust in public officials can derail a country's transition to a market economy. CSD's survey revealed that the majority of Bulgaria's population does not approve of the way reform is being implemented, though they agree that the transition to a market economy is inevitable.

Corruption steps in when citizens don't realize their legally established rights, the survey found. For instance, although nearly all Bulgarians know that the law entitles them to free medical treatment, 86% of survey respondents believe they must bribe doctors in order to receive medical services.

CSD's work on corruption builds on its programs that encourage privatization, capital markets and greater public participation in policymaking. Working with CIPE and NGOs, CSD developed an anti-corruption public awareness campaign

that was launched as a pilot program in the mid-1990s. The success of this initiative led to the recent creation of Coalition 2000, a widespread effort to fight corruption involving the private sector, NGOs, the academic community, and the Bulgarian government.

Other CIPE anti-corruption projects

In *Slovakia*, the Center for Economic Development (CED) has proposed recommendations to add transparency to the procedures for auctioning licenses and awarding public procurement contracts. CED has also developed a research and advocacy program to highlight corruption in the Slovak government and to propose legislation that would create a transparent, accountable and efficient system.

In *Ecuador*, the National Association of Entrepreneurs (ANDE) is making recommendations to combat corruption in the judicial system, government procurement procedures, customs, privatization process, and social security, as well as to make public financial management more transparent. ANDE will advocate legislative or constitutional reforms to reduce opportunities for corruption and generate business leadership and public support for the fight against corruption.

ANDE recently conducted a study of the country's legal system and how it breeds corruption. It found that since the republic was founded 167 years ago, some 90,250 legal norms have been created, of which 52,774 were in force in 1997. The sheer number of the country's overlapping, unclear and contradictory laws creates an environment of legal chaos and allows bureaucrats to enforce the laws at their discretion.

ANDE has disseminated this study to policymakers and business leaders. Its booklet has been sent to the Commission on Anti-Corruption as well as to civil society organizations, legislators, administration officials, the judiciary, political party leaders, presidential candidates, universities, and media representatives throughout the country.

It has recommended creating a permanent committee of jurists whose sole goal would be to codify and harmonize all of the existing legal norms in Ecuador. The response in Ecuadorian society to this recommendation was so overwhelmingly positive that it has been included in the revision of the legal code adopted by the recent constituent assembly. ☉☉

Combating Corruption in Oil-Rich Azerbaijan

by CIPE

Corruption is the main obstacle to business growth in Azerbaijan, according to a survey by the Entrepreneurship Development Foundation (EDF), a CIPE-funded non-profit and non-governmental organization in the capital, Baku. EDF's president, Sabit Bagirov, cites several factors that contribute to corruption in the country:

- public apathy and lack of awareness about citizens' rights,
- impunity for offenders, despite the existence of laws that punish bribe-takers,
- low salaries of government employees, and
- vague laws and regulations that permit government workers to take bribes.

Bagirov proposes several reforms that he believes will reduce corruption:

Institutional reform. The numbers of government institutions and state employees should be reduced. For example, he questions whether Azerbaijan continues to need housing management committees in the current environment of large-scale privatization of housing and when entrepreneurs are beginning to offer some of the services typically provided by government institutions.

Bagirov also calls for a change in how the public interacts with the

government. One possibility concerns developing the facilities that would enable the public to conduct their business with government agencies by using ordinary or electronic mail instead of requiring personal meetings.

Strengthen government control. Independent bodies or commissions that have the authority to investigate accusations of corruption and to hand the cases to the judiciary should be established. In addition, independent auditing bodies should inspect the government's financial performance. The lack of this kind of inspection encourages corrupt practices among government bodies that have discretionary use of funds.

Upgrade personnel policy. Personnel should be hired and promoted on the basis of merit, not according to their political or personal connections.

Upgrade the legislative system. Azerbaijan needs to adopt laws that will ensure the independence of the judiciary. In addition, regulations that delineate the responsibilities of government employees and the punishment for violators should be clearly stated.

Salary reform. Increasing the salaries of government workers may

be one of the country's most difficult challenges, but allowing them to earn a decent and predictable salary is crucial to reduce corruption.

Public monitoring. Ombudsmen who have the authority to investigate citizens' complaints of allegations of corruption should be established. This will encourage government employees to be responsible and honest. In addition, a law that gives citizens the right to ask the government for any information concerning its activities should be adopted.

EDF has published articles concerning OECD's Anti-Bribery Convention and Transparency International's anti-corruption work. It publishes monthly *Special Bulletins* that focus on long-term legislative and regulatory reform issues. The Bulletins are disseminated to the business community, parliament, government officials, think tanks, journalists, and academics.

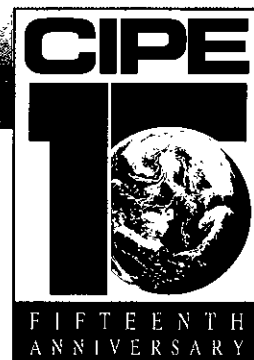
EDF plans to monitor Azerbaijan's 20 newspapers concerning the issue of corruption and to conduct an opinion poll and seminar about it. It plans to distribute the results to political parties, newspapers, libraries, universities, think tanks, and embassies. ☛☛

Corruption Versus Clean Business in Ukraine

by Inna Pidluska

Communism has left a legacy of corrupt business practices in the former Soviet Union, now known as the New Independent States (NIS), according to a number of recent international analyses of the current business environment. During the communist period, business managers responded to inefficiencies in the central planning system by cultivating personal relationships with government officials, allowing them to work around frequent changes in production targets and supply shortages. In today's evolving market conditions, the private sector in the NIS exhibits similar behavior by preferring to conduct its business in the shadow economy where corrupt relationships with public officials tend to be more predictable than the government's highly unstable policies. A 1997 World Bank survey of 3,600 entrepreneurs from 69 countries found that the credibility of corrupt transactions was far higher, while the credibility of government policy was lower, in the NIS than in any other world region.

Ukraine's President Leonid Kuchma has identified the main obstacle to business development as bureaucratic abuse of power, bribery and extortion. He also admitted that the government has failed to create conditions for conducting business honestly.



Victor Vasyukov, senior task officer of the General Department for Fighting Organized Crime of the Ukrainian Ministry of the Interior, admitted that current legislation stimulates corruption among civil servants. Business activities are regulated by as many as 32 laws, about 30 presidential decrees and over 80 resolutions. Furthermore, 32 ministries and departments have the right to issue licenses for various activities. How could any businessman keep up with all of this?

Deciphering government policy

One of the latest additions to this menagerie of policy pronouncements is a March 1998 presidential decree that introduced the term, "tax collateral." If a firm cannot pay its tax debt, this decree authorizes the government to seize all of its bank accounts, except its primary account. If there is no money in these accounts, the firm's property and property rights can be confiscated and sold as tax collateral. Remarkably, the decree did not concern state-owned enterprises, most of which have been bad debtors for years.

The big surprise for business managers is that tax collateral is applied retroactively to debt accumulated before the signing of the decree. Although the Cabinet of Ministers has yet to develop official mechanisms for

Inna Pidluska is UCIPR's project director for the Ukrainian edition of Economic Reform Today and economic roundtables.

CIPE PARTNER IN PROFILE

Ukrainian Center for Independent Political Research

Founded in 1991, the Ukrainian Center for Independent Political Research (UCIPR) is one of the leading public policy research institutes in Ukraine. It is best known for its popular weekly public affairs program, "The Fifth Corner," which currently has a 40% share of the audience in its time slot. UCIPR also publishes "Research Update," a weekly bulletin intended to influence policymakers on key reform issues, as well as a number of books on topics such as foreign policy and the role of Ukraine's media. In December 1996, UCIPR began working with CIPE to translate and disseminate *Economic Reform Today* in Ukraine. As a part of this activity, it has convened a series of roundtable meetings to discuss key economic policy concerns. More recently, UCIPR has begun to publish "Corruption Watch," a biweekly report that monitors the public discourse on this important topic.

enforcing the decree, there have been numerous cases throughout the country where local authorities have invoked the decree to confiscate the property or products of businesses. Due to massive pressure from entrepreneurs, business associations, politicians, and the media, there is still a strong chance that parliament will overturn the decree. Even if this were to happen, however, it still does not guarantee that it would cease to be enforced.

Regulation and inspections

In addition to the challenge that businesses face in keeping up with unstable government policies, they are also subject to the highly unpredictable behavior of inspection agencies. According to a recent study conducted by the International Finance Corporation (IFC), more than 30 government bodies have the power to inspect private enterprises at almost any time and for any reason. Bohdan Rybak, President of the Association of Entrepreneurs "Infobusiness," a CIPE partner in Ukraine, considers the major problem with such inspections to be the unavailability of clear rules and regulations. Furthermore, businessmen are often

unaware of the specific requirements of a particular governmental inspection agency. In short, the current regulatory system allows inspectors to use a great deal of discretion in their work. This is a breeding ground for corruption.

The requirements of inspection agencies also place a tremendous burden on businesses. For example, according to the IFC's survey, the

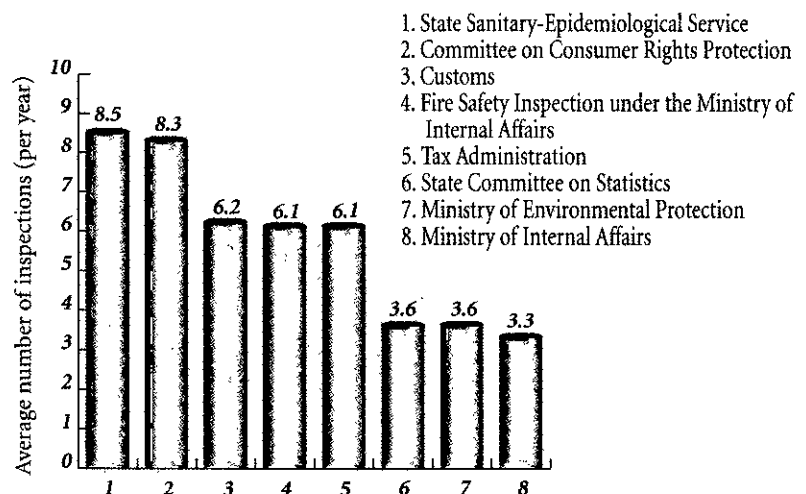
average Ukrainian manager spends two days per week on inspection issues. Firms must respond to an average of 78 inspections annually, while also receiving an average of 68 inquiries requiring written responses. The graph below provides a sample of some of the inspection agencies active in Ukraine and the average number of times they inspect a single business over the course of a year.

Moving into the shadows

The size of Ukraine's informal sector, or "shadow economy," reflects the high degree of corruption. It is currently estimated that seven out of ten enterprises work in the shadow economy. These companies have no protection from corruption and are open targets for bribery and other forms of graft.

A survey of enterprise managers by the Ukrainian Market Reform Education Program in June 1998 found that 96% of respondents attributed the stagnation and failure of privatized firms to high taxes. They also cited current tax policies as reasons for massive tax evasion and the expanding shadow economy. Other

Inspections by Government Agencies



Source: IFC - Ukraine, 1997.

factors included corruption among officials of the national authorities (59% of the responses), corruption among local civil servants (52%), and state regulation and interference with business activities (36%).

In mid-1994, President Kuchma announced broad taxation reform, but the first real attempt was a taxation package presented by the government for approval of lawmakers in November 1996. This initiative would have reduced the payroll tax to 32% from 51%, personal income tax to 30% from 40%, and the Chernobyl tax to 6% from 12%. Parliament voted down this package, and debate on tax reform has been frozen ever since. Until the tax situation changes, there is little hope of enticing companies to return to the formal economy.

Competing against corrupt firms

On top of the challenges that businesses face in coping with an unfriendly policy environment, there is

also the issue of keeping up with the competition. IFC's study found that 96% of respondents felt "it is impossible to compete fairly in Ukraine." In addition to the misuse of inspections as a means of harming competitors (45% of respondents), which is a form of collusion between competitors and civil servants, survey respondents also cited numerous other unfair practices that directly relate to the activities of competing businesses (see graph below).

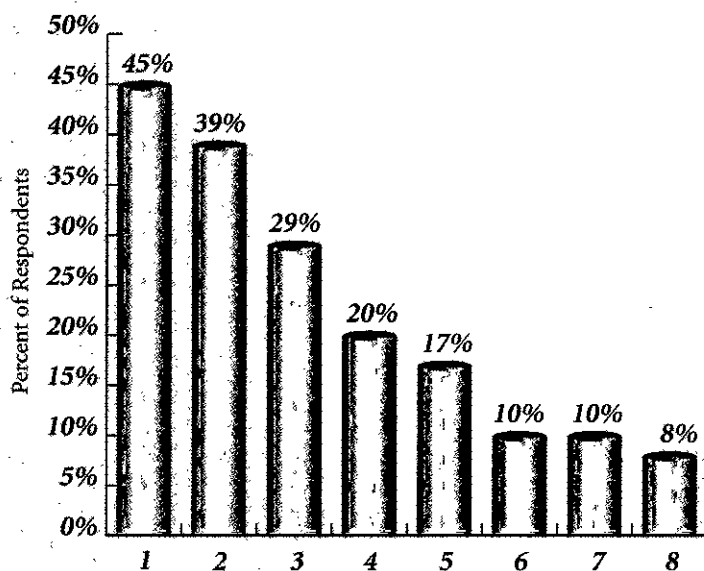
Successful businesses keep clean

Despite general skepticism about the prospects of eliminating corruption and bringing the major part of Ukraine's businesses out of the shadow economy in the foreseeable future, there is growing understanding of the need for "clean" business attitudes among entrepreneurs. An increasing number of well-established private businesses believe that keeping clean from corruption and bribery in the long run produces

more advantages than slipping into the "shadows."

Companies that want to manage the market instead of adjusting to it are becoming increasingly concerned about tax evasion and smuggling by their less law-abiding competitors. Consequently, they are urging that measures be taken to counter the shadow economy. Igor Kiriushyn, vice president of Shelton Company, a major importer and supplier of oil to Ukrainian refineries, claims that his company has never used barter. Shelton owns a network of gas stations and is the major shareholder of Ukraine's sixth largest bank, Ukrinbank, owning about 35% of the bank's stock. In 1997, Shelton made UAH 4 million net profit and paid UAH 12 million in taxes. According to Shelton's vice president, despite the very high tax burden, the need to maintain the company's positive reputation—a priority for Ukraine's five or six largest oil importers—discourages them from "getting dirty."

Methods of Unfair Competition



Source: IFC - Ukraine, 1997.

1. Corruption, use of state supervising agencies as punitive bodies
2. Falsifying information about competitor's product, slander, undermining competitor's image
3. "Technological and industrial espionage," theft of intellectual property; replication of ideas, technologies, innovations; use of competitor's trademarks and packaging
4. Price cuts
5. Violations of law, sales of contraband goods, tax evasion
6. Intentional non-payments or late payments to competitors
7. Physical threats, racketeering
8. Signing monopolist agreements

The stronger and "cleaner" the company, the more difficult it is for corrupt bureaucrats to extort bribes, Kiriushyn said. He added that bribes are paid in order to violate the law or to obtain a service that should not be provided. "There is no need to give bribes in this country," said Kiriushyn. "There is a need for good management and to make sure that one's staff perform their duties well." He argued that major companies cannot escape paying taxes, and because they have achieved a certain level of prominence, they gain respect and immunity from harassment by governmental inspection bodies. The problem is that new and small businesses find it increasingly difficult to achieve prominence in the environment of oppressive taxation and severe regulations.

Oleksandr V. Slobodyan, director general of the Obolon Corporation since 1990, who resigned recently after being elected a member of parliament, is one of the few "surviving" elected directors from the Gorbachev period. He was elected director by the working collective of the Obolon plant, a major producer of beer and sodas. Half a year later, Slobodyan succeeded in striking a rent-and-buy deal with the government that allowed the working collective to rent their plant and purchase it on installment at the book price. In mid-1992, Obolon received Privatization Certificate No.1 from the State Property Fund and became a closed joint-stock company. Currently the corporation has about 2,000 shareholders, and the largest package of shares—0.5% of the stock—belongs to a foreign investor.

Last year Obolon paid UAH 73.3 million, equivalent to 130% of its net profit, in taxes. Although he admits that high tax pressure impedes business development, Slobodyan claims that the company survives in today's market conditions by raising the quality of its products and building



Photo: Obolon

Obolon paid 130% of its net profits in taxes.

up its competitiveness. In 1997, the corporation's turnover grew 25.9%, and growth has exceeded 23% since January 1998. Obolon is building capacity by reinvesting profits and is determined to maintain its leadership in the industry. Currently, 11% of the net profit is paid to shareholders as dividends.

One of the ways in which the board of directors of Obolon keeps "clean" is by ensuring transparency of decisionmaking through a clear statement of the company's strategy and by making reports to regular meetings of shareholders. The board also calls meetings of shareholders to discuss important issues that may affect their interests. Decisions are made through voting by members of the board, and key directions are chosen through a vote of general shareholders at annual meetings based on the principles of accountability and business responsibility.

There are more disadvantages to running a shadow business other than the potential of damaging one's business reputation. Oleksandr Rzhavsky, a newly elected MP and founder of Corall Holding, a privately owned network of companies and a bank, argues that informal business activity prevents firms from accurately estimating the volume of business-related expenditures that will grow in

proportion to the scale of violations committed by owners and managers.

Coping with the problem— What to do?

If it is true that many of Ukraine's problems with corruption are rooted in its communist past, the situation is unlikely to improve quickly. However, all analysts agree that the most effective way to reduce the underlying causes of corruption would be to enhance the predictability of government regulations and intervention. The government and private sector can take the following specific initiatives:

Improve regulation and inspection procedures. In order to increase confidence in the government's regulatory role in the economy, efforts should be made to: simplify government regulations and inspections; systematize and unify the work of inspection agencies and the procedures for conducting inspections; publicize clear and understandable information on inspections and the rights and duties of inspection agencies, and make taxation bodies liable for unfounded verifications, or establish an agency that registers inspections and limits the number of inspections. Many businessmen believe this would discourage frequent inspections.

Unified business tax. In order to keep businesses out of the shadow

Business activities are regulated by as many as 32 laws, about 30 presidential decrees, and over 80 resolutions of the government. Furthermore, 32 ministries and departments have the right to issue licenses for various activities. How could any businessman keep up with all of this?

economy, urgent measures are needed to reduce the taxation pressure and replace at least a portion of multiple taxes with a unified business tax. The high cost of doing business in Ukraine also relates to the key objective of inspection agencies which is to extract the maximum amount of money from a company. In order to cope with this problem, tax compliance should be simplified, and control by inspection agencies should be made transparent.

Improve enforcement of "conflict of interest" legislation. Legislation that disallows conflicts of interest is already in place. These laws prohibit officials and MPs from using their positions to assist individuals or legal entities in entrepreneurial activities or in receiving subsidies, subventions, and loans or other benefits. However, the obscurity of these regulations leaves them unenforced. This legislation has become even more important because the March 1998 parliamentary elections produced a

group of 114 unaffiliated MPs, many of whom are businessmen.

Reform the status of civil servants. There is no consensus in the business community about whether increasing the salaries of civil servants will reduce corruption. However, most businessmen agree that the status, responsibilities and benefits of civil servants should be increased significantly, while their number should be reduced.

Develop business associations. Rather than relying on illicit negotiations with government officials that take place behind closed doors, entrepreneurs suggest developing business associations that would effectively lobby their interests in the parliament and the government. In a survey conducted by the Ukrainian Free Economy Foundation, almost 75% of the managers surveyed said that the most effective ways to advance their business interests were personal contacts and friendly relations with government officials. Fifty-nine percent said they would rather prefer to pay to be members of an effective lobby.

What will happen?

In his speech to the Cabinet of Ministers in June 1998, President Kuchma called upon the government to reduce the scope of opportunities for corrupt civil servants. In order to discourage the "shadowization" of the economy, the government plans to draft decrees that will simplify the regulatory burden of small enterprises. The new Ukrainian

parliament is also expected to be more pro-reform than the previous legislature. Major business owners and managers say that they came to the parliament to make positive changes to the unfavorable business environment. The economic transformation process appears to have reached a critical point, and their contribution to the president's reform course could help reach a consensus on burning economic issues.

The question is whether new policy actions will build business confidence in the government's role in the economy. Or, will these initiatives languish in debate and continue to undermine the credibility of government policy, thereby creating more incentives for enterprises to choose corruption over "clean" business? ☹☹

CIPE OFFERS NEW ONLINE RESOURCE FOR EXPERTS ON THE MIDDLE EAST AND NORTH AFRICA

Do you need information about the work of the major think tanks operating in the region? If so, you can access key data about these institutions, including their publications and upcoming events, by going to a new site on CIPE's web page: www.cipe.org/mena. The participating think tanks are based in Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, Syria, Tunisia, and Turkey.

CIPE also just created a new site — www.cipe.org/mdf — for the Mediterranean Development Forum, a project of the Economic Development Institute of the World Bank.

Bribing Customs: A Case Study by Motorola

Motorola offers an ongoing ethics program to its employees worldwide to teach them about its core values and to provide them with guidelines as to what is acceptable behavior in ethically sensitive issues. During the sessions, employees identify country-specific issues that may affect the company's growth or values and discuss how to resolve them.

In addition, the program relies on a Motorola University book, "Uncompromising Integrity," a presentation of 24 hypothetical case studies based on ethical issues that it and similar companies have experienced in multicultural situations. The company uses the fictionalized case studies to prompt dialogue about ethical behavior. Each case study is followed by several discussion questions and commentaries by experts in the field of ethical analysis concerning the case. The following presents an edited version of one of the cases.

Shamus O'Shaunessy was an aggressive engineer of Irish nationality who had won steady promotions at Motorola/Dublin. At age 42 he was promoted to be the director of the Motorola facility in Exotica, a nation with a culture very different from Ireland's. Shamus had never worked outside his native Ireland and he relished the challenge of his new foreign assignment.

A week after arriving in Exotica, Shamus began taking a hard look at every major cost figure. One item that quickly caught his eye was "freight forwarding costs." Shamus understood how important it was for Motorola to get its materials, parts and products cleared through Exotican Customs Service quickly, conveniently and predictably. But there was a

problem. He noticed that the fees charged by Motorola's freight forwarders had been escalating steeply for the past seven years—for no apparent reason.

Shamus called in Peter Plassitt, the manager in charge of shipping and logistics. Peter was a native Exotican who had been with Motorola for 21 years. He had a reputation of being eager to keep everything smooth and harmonious. Peter told Shamus that when Motorola established its Exotica facility 22 years ago, it hired three local freight forwarding companies, namely Golden Wings Expeditors, Quikshot Brothers and Magic Touch, Ltd.

The corporation received the best service from Magic Touch, and it grew to handle about 80-90% of Motorola's freight forwarding business in Exotica. The converse was also true: about 75% of Magic Touch's business was with Motorola. Peter explained: "Magic Touch understands the culture of the Exotican bureaucracy. They know how to handle all the messy details so we don't have to."

Later that day, Shamus felt troubled. Just what were those "messy details," he wondered. Why did it cost so much to handle them? And why did Peter seem reluctant to talk about them?

Before Shamus could answer these questions to his own satisfaction, Shamus' favorite newspaper, the *International Gold Street Journal*, published an article about corruption in Exotican Customs Service. The journalist singled out Magic Touch as one of the Exotican freight forwarders that has paid extra to receive expedited service. The article noted that Magic Touch represented Motorola which claimed to have

no reason to suspect Magic Touch of any wrongdoing. The article concluded by wondering whether the company really believed its own denials.

Shamus held a senior staff meeting where he pulled together the following facts:

- ❑ When Motorola first entered Exotica 22 years ago, it received written assurance from the Exotican Ministry of Development that this sort of practice did not go on and would not be allowed. Other multinationals received similar assurances.

- ❑ The situation has since changed. Inflation rates have been steep and the raises of the Exotican customs officials have fallen short of the inflation rate, leading to a loosening of discipline among officials.

- ❑ The Exotican government seems to tacitly assume that it is unnecessary to raise customs officials' salaries to keep up with inflation because they can find ways to obtain part of their income from under-the-table payments.

- ❑ Within the past few years, five senior and middle managers at Motorola/Exotica have quietly expressed the opinion that paying "forwarding fees" might be poor ethical practice, and, therefore, poor business practice.

- ❑ Two of these managers have also contended that because Magic Touch is identified with Motorola in the public's perception, Motorola must take a "brother's keeper" position whether it wanted to or not.

- ❑ Finally, all five managers are concerned that unless Motorola takes some kind of action, it might lose its reputation for uncompromising integrity and with it an important business advantage.

Discussion questions

- ❑ Knowing that freight forwarding charges were escalating, what was the responsibility of Motorola's management in Exotica?

- ❑ Assuming that Magic Touch was in fact making under-the-table payments, what should Motorola have done? Is there a linkage between the ethical positions of Motorola and Magic Touch? Is Motorola any more responsible for Magic Touch's ethics than Magic Touch is for Motorola's ethics?

- ❑ Assuming that the reports of corrupt payments are true, should responsibility be placed primarily on Magic Touch, the customs officials or the Exotican government? Which group is most likely to change and how?

- ❑ Who in Motorola should have asked more questions? When? What questions?

- ❑ Under the US Foreign Corrupt Practices Act, it is not illegal for a US company to make a "grease" payment to a local government official in order to promptly receive the same service that it would otherwise receive more slowly. Does this legal fact make under-the-table payments by Magic Touch ethically acceptable? ☹☹

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How to Fight Corruption on the Ground

by Petter Langseth

The lack of accountability of politicians and civil servants has played a major role in preventing sustainable development from taking root in most of the world's poorest countries. A combination of political will from the top and public pressure from the base is the most effective way to generate accountability.

Because democratic governments attain their legitimacy from the people, their credibility depends on accountability and transparency. The primary victims of corruption—citizens and the international community—are the groups that are the most demanding of honesty in the government, and they have the most to gain from economic life governed by the rule of law.

In order to establish an effective accountability system, policymakers need to focus their efforts on achieving the following goals:

- people in key executive or civil-service positions must strengthen the public sector's institutions;
- politicians and employees should be held collectively accountable for fulfilling the government's responsibilities and commitments;

- ordinary politicians and bureaucrats must be more responsive to the needs of private sector firms and the public; and

- citizens, the private sector, media, and civil society must be educated and empowered to increase the accountability of the public sector.

The Economic Development Institute (EDI) and one of its leading partners, the international non-governmental organization Transparency International (TI), work with clients to establish standards and ground rules for public servants by introducing leadership codes, codes of conduct, and declarations and monitoring of assets.

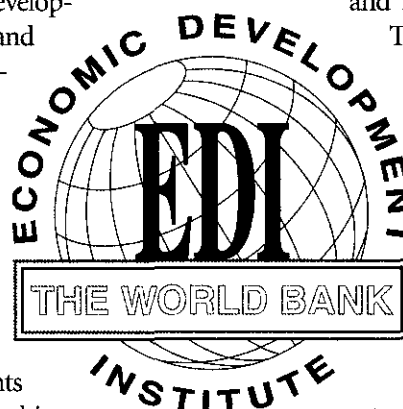
In recent years, EDI has helped clients organize integrity workshops and administer informal surveys that involve public sector officials in order to raise their awareness of the causes and consequences of corruption. EDI also disseminates the *TI Source Book*, World Bank publications on governance issues, as well as papers and articles by public sector officials and others in client countries.

EDI becomes involved in a country only at the government's invitation, which helps to prevent complaints that it

is interfering with the internal politics of the client country. To date, EDI has not formed partnerships with the ministries of finance, planning or donor coordination. Instead, its clients have been Uganda's Inspector General of Government, Tanzania's Prevention of Corruption Bureau, Ukraine's Minister of Justice and Bolivia's Vice President.

To minimize the possibility of misunderstandings between EDI and the government, there must be a clearly defined government actor accountable for the governance program. The actor also opens doors for effective work to be undertaken and disseminates information about what the government and other organizations are accomplishing.

EDI also requires that the government allow it to form a relationship with a civil-society or private-sector client. The second client can be the



Dr. Petter Langseth is a senior public sector management specialist in the World Bank's Economic Development Institute. He assists countries with anti-corruption and governance reform programs.

journalist association as in Uganda, the local chapter of TI as in Tanzania, Uganda and Mauritius, or the law development center as in Ukraine.

EDI works with private and public institutions to lower tolerance of corruption. It has adopted the concept of a National Integrity System that consists of eight institutions, or "pillars of integrity":

- executive
- parliament
- judiciary
- watchdog agencies, such as the offices of the auditor general and the ombudsman
- media
- private sector, including chambers of commerce, professional associations
- civil society, including TI chapters, churches and other NGOs
- law enforcement agencies

This list can be refined to include other key stakeholders. For example, depending on the circumstances of

the client country, EDI may occasionally include a pillar comprised of proponents of reform who provide leadership, support and help to protect those willing to reduce corruption in their ranks.

The EDI program

Because citizens possess immense influence, they must apply pressure on governments to make them more accountable. Accordingly, EDI focuses on educating the public. This strategy can take different forms:

- national and local surveys;
- citizens' charter;
- investigative journalism and other media-generated information; and
- exchanging experiences and lessons learned from other countries.

Services and Surveys. EDI and client governments survey households and firms in order to determine the effectiveness of government services. The surveys also have the more immediate use of providing

data on the current level of public services actually received by the public and on the degree of corruption in different service sectors as perceived by the public and the private sector. The studies are annual or biannual and can be used to monitor the extent to which any improvements are being made.

The public sector uses this service data when formulating its policies and programs. Data on corruption are useful in determining the extent of corruption within a country, the need for improved legislation, law enforcement and other measures as well as to suggest priority areas for action. More immediately, survey data can serve as background documentation for national and local workshops and seminars that are co-sponsored by EDI and its government and civil society partners.

Surveys increase public awareness and information because they ask people to consider the cost, coverage, timeliness, and quality of various

The World Bank's Approach to Fighting Corruption

In order to increase accountability and performance, a government can invite the World Bank to help it change the attitudes and expectations of public-sector employees. The Bank also helps ministries and municipalities to develop necessary anti-corruption tools and skills.

This governance and anti-corruption work is aimed at helping the public sector in client countries improve the quality, timeliness, cost, and coverage of services to civil society. Part of this effort involves changing the mindsets and incentives of public-sector employees to be more performance- or results-oriented. Public sector employees, experts in the field and the World Bank need accurate information about the level of services that actually reach the public, the degree of public satisfaction with the services and information about any problems encountered in service delivery. When combined with increased public pressure for change, this information will enable and oblige public servants to improve the performance of public-sector institutions.

In the recent past, governments and donors gave little recognition to the private sector, the general public or civil society organizations as important agents for change. Efforts to reduce corruption traditionally concentrated on expanding government facilities and employee skills, while donors focused on the executive branch of government particularly ministry programs. Typically, donor-assisted projects financed infrastructure equipment and technical skills training. These activities were important but inadequate to reduce systemic corruption.

The World Bank and the Economic Development Institute (EDI) have recently adopted a broader view of capacity building. This new approach is driven by the belief that elected politicians and public sector employees should focus on generating sustainable development results by meeting the needs of the general public and other clients. Internal and external pressure is needed to make the government more accountable and transparent.

public services. Increased awareness fosters public discussion and, ultimately, demand for change. It is essential that the public demands improved services, hiring, the awarding of contracts and other decisions be more transparent, and that the expenditure of public funds be accountable. Otherwise, politicians and bureaucrats who have vested interests in the status quo will be reluctant to change.

The surveys raise many questions. Examples include:

- To what extent does corruption hurt efforts to alleviate poverty by distorting decisionmaking?
- Who ultimately pays the cost for corruption?
- What is the role and impact of bribes paid by companies from developed countries to civil servants in developing countries?

● What is the role and impact of donors on corruption in a country?

● Who is paying and who is receiving bribes?

● Where is the money going?

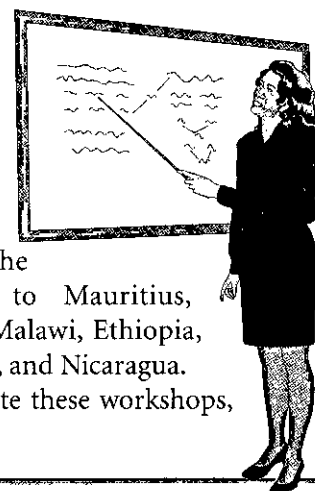
● Is there a link between paying a small bribe and improved services?

Citizens' Charter. One product of an integrity workshop can be the formulation of a Citizens' Charter, of which the Victoria Falls Charter is an example. The Victoria Falls Charter was prepared in 1997 by the participants of several Eastern and Southern African countries during a workshop on integrity in local government. It expands the number of pillars to include mayors, councilors, tender boards, neighborhood associations, and others stakeholders. It also sets out guiding principles for local government administration "committed to the provision of efficient, effective and fair services."

The Media. By drawing attention to corruption, journalists can turn corruption from a low-risk, high-profit activity for those involved into a high-risk, low-profit undertaking. EDI has held numerous workshops for investigative journalists. It has trained more than 70% of all print journalists and editors in Uganda and Tanzania. Regional workshops, study tours and exchanges have transferred the

lessons to Mauritius, Benin, Malawi, Ethiopia, Ukraine, and Nicaragua.

Despite these workshops,



Toppling a Corrupt Police Commissioner in Mauritius

It was recently revealed that up to 30% of Mauritius' revenues, almost 1.5 billion rupees, were failing to arrive in the national coffers. While this figure may be low for the African region, it is far too high for a small island state. This news originated when a whistle-blower in the customs department told the press of an importer who was consistently undervaluing goods. It transpired that the importer—a friend of the commissioner of police—was importing goods to sell to the police department. He had won every tender from the police department for about two years. Moreover, his latest consignment of three containers of uniforms landed ahead of the tender's closing date for the latest supplies.

The whistle-blower appears to have been motivated by a reward of 25% of the undervaluation. However, the events were complicated by the fact that the whistle-blower was assistant comptroller of customs (not someone on the front line) who was close to retirement. It is likely that he was aware of this particular fraudulent activity for a considerable period of time and that he was waiting for an extremely large shipment in order to maximize his reward.

The government of Mauritius responded to the crisis by establishing a commission of inquiry, whereupon the commissioner of police threatened to resign if the commission continued. The prime minister informed him that if he wished to resign, he should do so, but that the inquiry would proceed. The commissioner started to shred documents and threaten witnesses, including members of the police force.

The prime minister then activated the constitutional provisions for removing a constitutional office holder. This was the first time in the country's history that this step has been taken. The commissioner responded by organizing street protests and mounting a legal challenge to the proceedings but was suspended from office nonetheless. The actions of the prime minister were widely seen as a brave response, and surprised some because the commissioner had a strong political power base in the majority Hindu community. The commissioner claimed that the suspension and inquiry were invalid because he had not been formally charged prior to his suspension; his legal challenge eventually failed.

building the media into a positive force for national integrity has just begun. In Uganda, for example, the print media reaches a narrow elite (10%), while radio reaches a much wider public (95%). Broadcast journalists also need training. A greater challenge will be to encourage media owners and editors to allow a wide scope for investigative journalism and to take on the challenging role of nation building.

Information Exchange. In order to highlight problems facing other countries EDI draws upon its own experiences as well as those of the many World Bank partners. The *TI Source Book* discusses the experiences of various countries dealing with corruption, while EDI's governance periodical *Partnership* is a forum for the exchange of corruption-related ideas and experiences, particularly between developing and developed countries.

Building consensus

In order for these initiatives to be self-sustaining, public officials and the public in general must be committed to reducing corruption. The community is in the best position to know and understand its problems and to judge what solutions are possible. Local actors must drive the process because they are the ones who must bring about reform.

To achieve local "ownership," EDI assists clients in using various instruments, including seminars and workshops aimed at achieving bipartisan consensus and political support. To accomplish this, the actual workshop processes—media coverage to raise awareness, the diversity of the participants, small-group work to broaden discussion, and action planning as a basis to monitor progress—are as important as the workshop content. One remaining issue concerns whether or not to include members of the opposition in the workshop. While some governments, such as Ukraine's, have been reluctant to

open the process to include political opponents, others, including those of Mauritius, Uganda and Bolivia, have recognized that bipartisan participation in creating a national integrity system is essential to its credibility.

National or local integrity workshops promote consensus building by bringing together representatives of each of the integrity pillars of society. The activity is generally sponsored jointly by a government department, such as the ministry of justice, a representative organization of civil society, such as the national branch of TI, and EDI.

To ensure that the workshop leads to concrete results, participants work together to produce an action plan. Each participant accepts responsibility for ensuring follow-up on a specific element of the plan. For example, participants from Tanzania, Uganda and Mauritius signed an integrity pledge at the end of their workshops. Although pledges are not legally binding, the print and broadcast media widely publicize them and the names of the signatories which adds moral pressure for the participants to take them seriously. Pledges use public pride or public shame for failing to meet them as a valuable incentive.

Participants at a 1998 workshop on corruption in Mauritius agreed on the need to improve accountability and transparency throughout society. They adopted a national action plan that identified responsible actors and time frames for developing a national integrity system.

Policymakers in other countries may be interested in the ambition and specificity of Mauritius' action plan. The country's entire population—the government, general public, private sector, media, and NGOs—became involved in drafting and implementing the plan. The plan identifies time frames and responsible parties for the implementation of each recommendation. A follow-up

integrity workshop planned for 1999 will examine progress of this plan.

This holistic approach enables all stakeholders to participate in a coordinated effort to reduce corruption. Coordinating efforts makes it unlikely that one stakeholder will adopt an independent action that might undermine the actions of another.

Most people in Mauritius believe that corruption is getting worse. According to a 1998 survey, 42% of the population perceives the police, the customs department, senior government officials, and politicians as very corrupt. Private companies perceive the customs department and the police as the most corrupt institutions, according to a survey of 204 private companies.

Some of the tools to fight corruption are already in place. Examples include a computerized management information system for the customs department, new anti-corruption bills, commissions of inquiry that hear corruption cases, a political willingness to act against politicians who have an independent power base, and an organized private sector willing to help prevent corruption. ☺☺

Mauritius: An Action Plan

Below is the national integrity plan Mauritius adopted in 1998:

On-going efforts of civil society:

- Transparency (Mauritius) will institute a public awareness and media campaign, while T(M) Youth will spearhead a public awareness campaign in secondary schools.
- The ministry of education will design a code of conduct for teachers in order to increase accountability.
- The media, educational and religious organizations will coordinate efforts in the anti-corruption campaign.

On-going initiatives of the private sector:

- The Mauritius Export Processing Zone will design a code of ethics for managers of private sector companies, while the Joint Economic Council will increase transparency of political party financing.
- The Mauritius Chamber of Commerce and Industry will oversee a declaration of the assets of company managers in order to increase transparency and accountability in the private sector.
- The Bank of Mauritius will discourage the private sector from offering bribes in order to make company managers publicly accountable.
- The Chamber of Agriculture will monitor the protection of shareholders' interests.
- The chamber of commerce will monitor the control of monopolies and quasi-monopolies, while the registrar of companies will oversee improved monitoring of financial services, banking and insurance in order to increase compliance with revenue policies.

Watchdog agency & ombudsman efforts:

- By June 1998 the prime minister's office will review the role of the ombudsman, re-appraise institutions assigned to combat corruption, and strengthen anti-corruption legislation and institutions.

Efforts of the executive government:

- In order to increase compliance with policies and improve road safety, the executive will by October 1998 revise legislation enabling the national transport authority to "clean up" the vehicle fitness test through privatization and improved enforcement.
- By February 1999 the government will introduce and enforce a code of ethics in the public service.
- The Pay Research Bureau is reviewing its job appraisal work and creating a human resource division in order to increase transparency and accountability.
- By February 2000, the public service commission plans to oversee the declaration and monitoring of senior civil servants' assets.
- By February 2000, the electoral commission will revise the ceiling of political party campaign financing to a realistic level and implement the registration of political party fund-raisers with the electoral supervisory commission in order to increase transparency and reduce influence peddling.

Efforts to reform the judiciary:

- By February 1999 the chief justice will introduce a code of conduct for all sectors within the judiciary in order to increase accountability and transparency; by September 1998 the chief justice will investigate allegations of misconduct against the judicial staff in order to increase enforcement and improve public perception of the judiciary.

- By September 1998 the master and registrar of the supreme court as well as the head of civil service will delegate the recruitment and discipline of administrative staff and higher level officials to the judicial and legal service commission; by November 1998 they will establish a code of conduct for the judiciary's administrative staff.

Efforts to reform parliament:

The executive, speaker and members of the assembly will work together to complete the following efforts by February 1999:

- reduce the number of parliamentary holidays for ministers of parliament and increase the length of weekly sessions;
- maintain live broadcasts of parliamentary proceedings;
- increase the frequency of public accounts committee meetings and improve the committee's staffing;
- open the political accounts committee report to parliamentary debate in the assembly;
- directors of parastatal bodies to implement sanctions against parastatal bodies for late submission of annual reports to parliament in order to increase enforcement;
- the prime minister's office in collaboration with the electoral commission to increase the number of parliamentary committees discussing corruption reform in order to regulate political funding prior to the next election; and
- the speaker of the house in collaboration with the parliament and the executive branch to implement advanced written responses to parliament's questions, to seek media publication of the annual returns of assets, and to review and revise anti-corruption legislation.

Initiatives to reform the media:

- The prime minister's office will prepare by October 1998 legislation that liberalizes broadcasting and increases access to information in the ministries to encourage non-partisan news coverage.
- Media organizations and the Media Trust, the government body that administers a journalist-training fund, will promote balanced reporting, a code of conduct for journalists and specialized training.
- Media organizations and the Media Trust will seek balanced coverage of corruption, and they will encourage the media to increase public awareness about corruption.

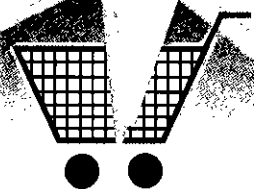
Efforts to reform the police:

- The prime minister's office will prepare by September 1998 legislation to set up an independent police complaints board, and it will encourage that complaints be given to the media, the director of public prosecutions (DPP) or ombudsman to improve the public confidence in the police.
- The prime minister's office will organize an independent group within the police force to investigate corruption in order to implement rule of law in a fair and objective manner.
- The DPP will oversee the declaration and monitoring of assets of police officers to increase accountability.
- The commissioner of police will implement and monitor a code of ethics for police to increase accountability.

Efforts to reform the customs department:

- The ministry of finance will review customs procedures to increase accountability.
- Parliament will draft legislation that will strengthen compliance to increase revenue collection.
- By February 1999 the ministry of finance and T(M) will establish a complaints bureau that reports to outsiders.
- The chamber of commerce will implement a code of ethics for all officers and will improve access to information regarding customs services in order to improve public perception about customs, increase service for traders, and increase accountability.
- The chamber of commerce in collaboration with T(M) will seek to raise public awareness; it will also work with the ministry of finance to implement a declaration of assets of customs officers and monitor such declarations to increase accountability.

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Information Technology in the Global Economy

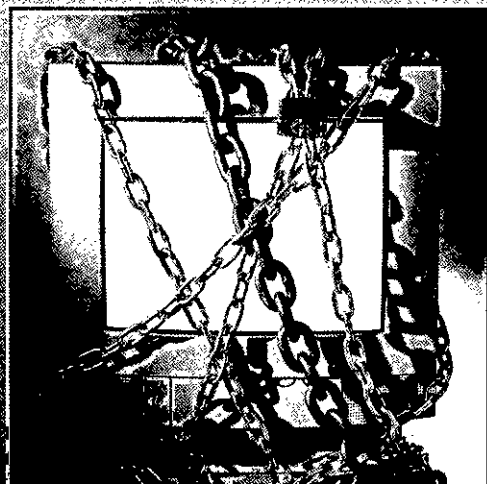
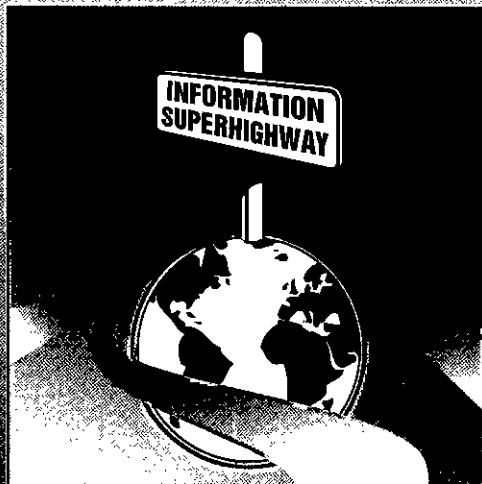
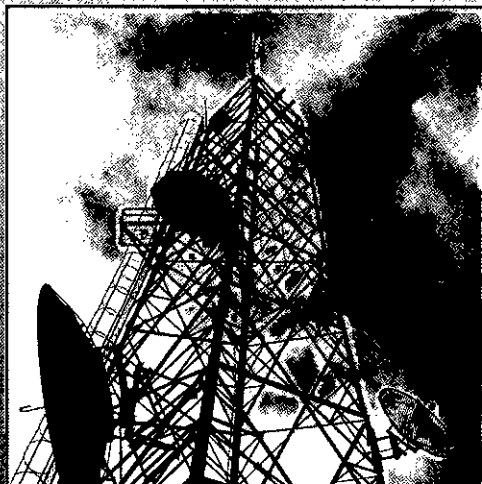
How Information Technology Can Promote Democracy

Understanding the Global Information Infrastructure

Taking Advantage of Information Technology

South Africa: Will Telkom's Monopoly Strangle E-commerce?

Indian Association Hones Its Internet Strategy



The information revolution is making available compelling new tools for promoting market reforms and democratic institutions. For both the US Chamber of Commerce and the Center for International Private Enterprise (CIPE), it has reshaped communications strategies and become a crucial tool in the way we do our work. At the Chamber, it has become one of the most important ways in which we communicate with our members. At CIPE, it represents a new and powerful means for disseminating information on privatization, democracy and other core values, as well as permitting the groups we work with overseas to communicate better with each other.



In recent years, information technology has been harnessed to promote business and market development. For example, broad-based electronic commerce did not exist before 1995, but now it constitutes a \$26 billion business that is expected to explode to \$1 trillion by the year 2003. This issue of *Economic Reform Today* explores some of those developments in articles such as those on understanding the global information infrastructure by P. Bai Akridge of IBM and case studies on South Africa and India.

However, the effort to use information technology to strengthen democracy is just in its infancy. This issue focuses on that effort, too, beginning with the survey article on page 2. It is the challenge of organizations like CIPE and its partner groups overseas to take the information technology we have developed in this century and transform it into tools that share information and build knowledge networks well into the 21st century. We have gotten a start on this effort by sponsoring projects that are creating virtual associations of think tanks in the Middle East and the Balkan regions. This initiative will help bolster the role these organizations play in shaping the policymaking process, and it provides another means for sharing reform experiences across national boundaries.

CIPE is leading this way with our own use of information technology in the electronic Forum on Economic Freedom. In addition to providing access to new regional associations of think tanks, look for the next issues of *Economic Reform Today* in English and Spanish—as well as special translations in other languages—to be placed on the Forum Web site at www.cipe.org. Through this site you can access a wealth of information readily available for downloading or ordering through our electronic bookstore. You can also access our Hungarian home page and in the near future our Russian home page. Many of the organizations mentioned in this issue may be accessed via links from our Economic Freedom Network section of our Web site. For those of you who do not have access to the World Wide Web but do have email, the Forum offers something for you as well. See the special section on conducting Internet research without browsing the Web in our Training Focus article to learn how. We encourage you to make use of these information technology tools and let us know what you think of them.

A handwritten signature in dark ink, reading "Willard A. Workman". The signature is fluid and cursive, with a large, stylized 'W' and 'A'.

Willard A. Workman
Vice President, CIPE & Vice President,
International, US Chamber of Commerce

ECONOMIC REFORM TODAY[®]



NUMBER THREE 1998

THE CIPE
MAGAZINE OF
CHANGE AND
PUBLIC POLICY

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How Information Technology Can Promote Democracy

by CIPE

"Fidel Castro once said: 'Socialism in Central Europe failed because people received more information than was necessary'. He understood very well the power of information. It is said here in Slovakia that, 'God created people strong and weak. Only Mr. Colt made them equal'. We think it is becoming clear that guns are being replaced by a much more peaceful tool for making people equal: the Internet. Both markets and democracy require competition which in turn is based on equality of opportunity. At the end of the 20th century, that opportunity cannot be real without access to information."

This statement was made by Eugen Jurzyca, who is on the front lines of the economic transition in Slovakia. His organization, the Center for Economic Development, is one of the many cutting-edge partner organizations that the Center for International Private Enterprise (CIPE) works with around the world. These organizations are pushing the frontiers of information technology to help their countries in the dual transitions to democracy and market-oriented economies. Mr. Jurzyca understands how crucial the strategic use of information technology can be to countries in transition.

In the US, for instance, the Internet has quickly come to influence local and national politics on an unprecedented scale. Through the Thomas service provided by the Library of Congress, citizens have direct access to bill summaries, their current status, floor activity, and voting outcomes. All federal agencies have their own Web sites that inform the public about their mission and services. Furthermore, most senators, representatives and their committees are

promoting citizen participation by integrating the Internet into their governing processes.

In July, 1998 CIPE was called upon by the United States House of Representatives Committee on Commerce to testify about its survey on how the Internet and electronic commerce can help to promote free-market philosophies, democratic principles and respect for political, civic and human rights around the world. The testimony of CIPE's executive director, John Sullivan, is available in both text and audio formats on CIPE'S Web site (www.cipe.org).

The survey, which provides the basis for this article, revealed that in at least some countries, organizations are using email to directly lobby government ministries, putting policy position statements on their Web sites, and mobilizing popular sentiment for political and economic issues. These creative uses of the Internet are beginning to change the way governments in developing countries make decisions as well as to empower citizens to strengthen the democratic process.

However, because the telecommunications infrastructure in many countries is undeveloped, people cannot fully exploit the benefits of the Internet. Users often encounter obstacles in terms of poor telephone lines, low bandwidth, an unresponsive telecommunications monopoly, and exorbitant user rates. In coming years, these problems are expected to fade, due to the twin forces of growing investment and electronic commerce (see p. 23).

While the Internet is being used to promote political change, e-commerce is transforming the business world. Three years ago electronic commerce didn't exist. Today, it has become a significant part of the global economy. In 1997 roughly \$26 billion in e-commerce was transacted on the Internet. This total is expected to explode to \$300 billion by 2001 and \$1 trillion by 2003.

For instance, Amazon.com, a virtual bookstore on the Web, was born in 1995. In three years, it has sold three million books, CDs and computer games to over three million people in 160 countries. Amazon.com is currently the most visited retail shopping site on the Web, according to an August 1998 survey by Media Matrix. In the future, the attractiveness of e-commerce will undoubtedly drive the growth of Internet usage in developing countries.

In the meantime, organizations in developing countries—Venezuela, Israel and Belarus, for example—are using the Internet to influence their political leaders. As they overcome the current infrastructure challenges to Internet access and their unfamiliarity with new technology, they will begin to realize how explosive the Internet can be in bringing about democratic market-oriented reform. CIPE is working with groups that are using the power of information technology to reshape their strategy of communication and advocacy. These groups use the Internet to promote change in a variety of ways, their

methods often determined by the type of political environment in which they operate, the extent of Internet connectivity in their countries, and the level of computer skills of the populace. These pioneers are using the Internet to influence the government, overcome censorship, share research, and reach the grassroots.

Direct advocacy

Some organizations are using the Internet to lobby governments directly and this usage is likely to grow as access improves. The effectiveness of this approach depends on the extent government officials are connected to the World Wide Web, their computer skills and knowledge, and their willingness to be influenced by information and opinions they receive via the Internet. Although governments may be unconnected or unresponsive, groups may use the Internet to mobilize the public's support for or opposition to specific issues.

In Venezuela, the Center for the Dissemination of Economic Information (CEDICE) (<http://www.cedice.org.ve>), a not-for-profit organization, sponsored in 1998 a cost-benefit study of a proposed agricultural law. After determining that it would have a negative effect on consumers, CEDICE launched a campaign over the Internet that consisted of 300 email messages to notify people about the negative impact of the law. The public's response was "massive," said Rocio Guijaro, CEDICE's general manager. The proposal was eventually defeated.

"The Internet is a very important tool with which society can pressure the government," she noted. Guijaro added that the Internet strengthens civil society because organizations and think tanks can use it to obtain information about the activities and research of other organizations.

The Israel/Palestine Center for Research and Information (IPCRI), a joint Palestinian-Israeli public policy

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think tank (<http://www.ipcri.org>), uses the Internet to lobby Israeli and Palestinian government officials. Co-Director Dr. Gershon Baskin said that IPCRI emails members of the Knesset and government ministries in the Palestinian National Authority on a regular basis. IPCRI also uses the Internet to circulate trade-policy materials and recommendations to policymakers on improving commerce and trade in this region and on limiting government involvement in the economy.

The Internet has been a tremendously effective means of communication for IPCRI. It invites people to attend roundtable forums via email, and the number of recipients on its email list has increased dramatically from 1,000 a year ago to over 5,000 today. "Email reaches more people faster and cheaper compared to communicating via fax," Baskin said. "A lot more people are coming to our meetings than before we started using the Internet this way."

IPCRI can be proactive because the area is highly connected. "As in the United States, there are many people connected in Israel," Baskin noted. "On the Palestinian side, Internet use is growing with people hooking up as fast as PalTel, the Palestinian telephone company, can give them telephones. Some Palestinian ministries are developing their own Web sites, and the Palestinian Authority sends out emails to explain its policy positions and publicize its reactions to events."

Baskin noted that Birzeit University offers a Web site (<http://www.birzeit.edu>) that contains comprehensive information about the use of the Internet in Palestine, including a list of servers and institutions that have Web pages.

Getting past censorship

Other groups use the Internet to provide an alternative source of information to government-controlled news and information. By combating and overcoming the legacy of government control over information, the Internet can reduce the power of censorship. It provides individuals and pro-democracy organizations with the tools to communicate with each other and with the outside world.

One group in Belarus is using the Internet to counter government-dominated news and information. The Independent Institute of Socioeconomic and Political Studies (IISEPS) considers the Internet to be an important instrument for promoting market economics and democratic values because the government controls nearly all of the country's mass media.

IISEPS uses the Internet to conduct research on economic and political reforms being undertaken in other transition economies. Its opportunity to make full use of the Internet has increased this year because it has gained access to leased data lines. It is constructing a home page that will include information about its activities and independent research on economics, sociology and politics.

It will also put online its quarterly bulletin, *IISEPS News*. These free materials will provide independent and objective information about the economic, political and social environment in Belarus and share the experiences of other developed and transitional countries. The site will appeal to nonprofit organizations, researchers, political parties, youth organizations, and policymakers. In an environment where independent sources of information are limited, IISEPS materials on the Internet will help to promote the principles of a free-market economy and democracy inside the country as well as to provide objective information about Belarus to the international community.

Sharing research

Disseminating research on economic topics can also bring about political change. This impact can be particularly strong in countries where research is typically conducted with a political purpose, where policy debate has been repressed, and where merely having access to alternative economic data represents a political act.

One example of this is CIPE's "Virtual Association of Middle East and North African Think Tanks." This is a Web site that functions as a clearinghouse for discourse among think tanks in the Middle East and North Africa region and the outside world (<http://www.cipe.org/mena>).

On this Web site, ten leading think tanks in Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, Syria, Tunisia, and Turkey list their publications and upcoming events. They also use it to conduct research and literature reviews of similar work; identify experts to carry out cooperative research; learn about the work of other groups that could lead to future cooperation; and improve their international awareness.

This Web site includes a one-page description of each organization with contact information and direct email options; links to the association member Web sites; a full bibliography of all publications produced by the organizations by country, author and organization; a calendar of events planned by each of them for the upcoming year; and an institution-building "tool kit" with links to information and Web sites of international nonprofit organizations that can provide technical assistance on a variety of topics.

Reaching the grass roots

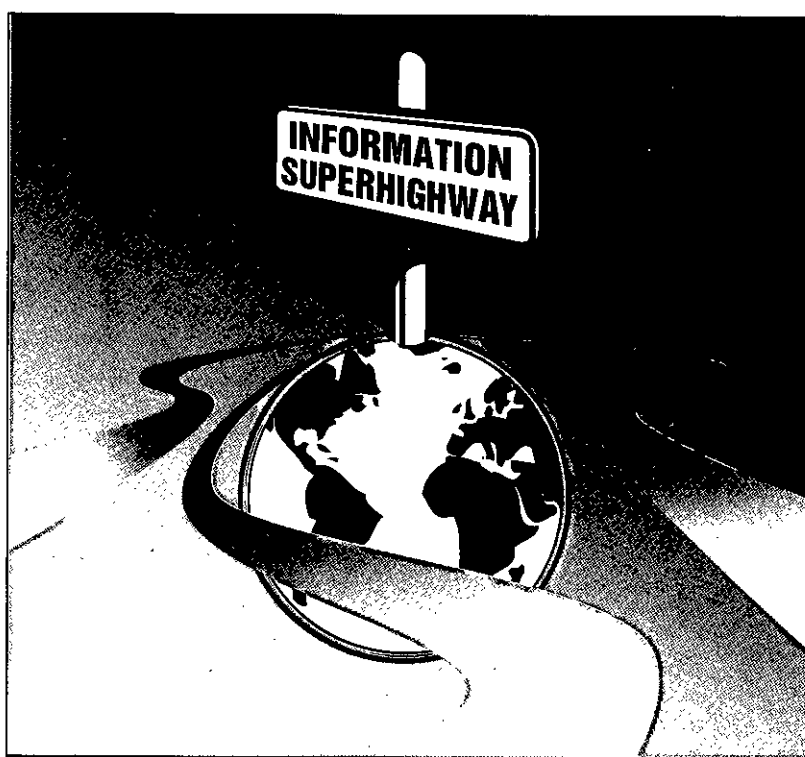
Some groups are promoting democracy by conducting research at the grass-roots level via the Internet. The National Center for Economic Research (CIEN) in Guatemala (<http://www.ufm.edu.gt/cien>) studied how other countries regulate property rights for water usage via the Internet. CIEN researchers used it to access journals, articles and national constitutions that described water rights in Australia, England, Ghana, Chile, Mexico, Canada, and the United States.

They found an online newsletter devoted to the topic and were able to correspond with academics specializing in the field. They have also mobilized Internet resources to complete research on decentralization, privatization, education, and health policy topics. Without access to the Internet, most of this information would never have reached Guatemala.

CIEN's institutional recommendations are currently well-grounded in a wealth of information. Documents are of better quality and timelier because manuscripts can be sent to the printers electronically. The benefits of constant communication with similar organizations in Latin Amer-

ica and the United States cannot be measured. The Internet has improved CIEN's research quality, strategic planning, and fund-raising activities, and has kept local and overseas audiences briefed on its latest activities.

As an increasing number of think tanks, business associations and democracy groups join the Internet, information is circulating more quickly and with greater effect. With varying speed and success, Internet users, both existing and potential, will eventually overcome the challenges

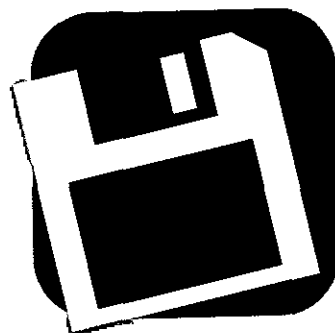


presented by the current inadequate telecommunications infrastructure.

The 20th century has shown that ideas have consequences, and when people adopt the ideas of liberty and free markets, they begin to question the status quo. Thousands of new organizations and leaders of new democracy movements and champions of private enterprise now have a tool—the Internet—that can push the information revolution to an entirely new level, a level that will benefit the US and the world. ☺☺

What CIPE's Web Site Offers

Four years ago, CIPE began to expand its use of the Internet by building a Web site (<http://www.cipe.org>). In 1997 the *Financial Times* of London selected it as Business Web Site of 1997 in the not-for-profit category. Today, much of CIPE's effort to leverage the Internet as a communications tool centers around this Web site, called the "Forum on Economic Freedom."



The number of hits on the Forum has increased steadily every month. CIPE can reach into such difficult environments as Vietnam despite its governmental efforts to limit access. Once into CIPE's home page, users are able to retrieve information on business and democracy, free trade, property rights, and freedom of economic information.

In addition to the entire library of *Economic Reform Today*, the Forum features CIPE working papers, speeches, press releases, and other useful information for policymakers, and they are often available in several languages.

Readers who do not have access to the World Wide Web but who do have email access can take advantage of the Forum's "listserv," which allows them to be notified of all new materials being offered by the Forum. These readers can also make use of the Forum's "email-on-demand" service to retrieve *Economic Reform Today* articles by email from the online library (see article by Sabre Foundation, p. 32). The Forum on Economic Freedom listserv is inexpensively expanding the readership of the printed version of *Economic Reform Today* while offering a broader range of information, dialogue and organizational networking.

CIPE's bookstore allows readers to purchase publications online by using a credit card without worrying about the security of their transaction. This method of online payment allows buyers to avoid the high cost of sending foreign currency-denominated checks.

The Forum on Economic Freedom is now exploring new ways of communicating information to policymakers around the world. Through cybercasting technology it is allowing Internet users to access the addresses of keynote speakers such as Jehan Sadat, Egypt's former First Lady, and Tom Donohue, President of the US Chamber of Commerce, who opened the conference CIPE sponsored in 1997 on strengthening women's business organizations. ☼☼

Taking Advantage of Information Technology

Dr. Carlos Braga is manager of the World Bank's Information for Development Program (*infoDev*). *infoDev* seeks to help developing countries benefit from information and communication technologies. *Economic Reform Today* asked Mr. Braga to explain how developing countries can take advantage of the information revolution.

ERT: In some of your published work, you have written that developing economies can use information technology to leapfrog the development stages. Can you explain how this will happen?

DR. BRAGA: Leapfrogging is a very ambitious proposition and it's not easy to accomplish, but some developing countries don't need to go through the same type of evolution as did the industrialized countries. In the Information Age, countries are able to leapfrog because the rapidly decreasing barriers to entry fostered by technological progress allow them to accelerate the development of their networks. Half of the world's population—basically, those living in developing countries—has never made a phone call and access to the Internet is a distant dream. But technological developments are vastly simplifying the process of access.

For example, Cambodia, Lebanon and Sri Lanka have limited telecom infrastructure, but cellular telephony has penetrated their markets at rates similar to those in industrialized countries. This has happened because wireless technology allows the delivery of these networks at a low

cost. In country after country we have found that there is a huge excess demand for wireless services and that people are willing to pay for these services. Of course there are limits, defined by disposable income and pricing, but addressing regulatory roadblocks will help to rapidly expand wireless services.

Of course, we are not talking about universal access, particularly relative to the Internet and more sophisticated applications of the global information infrastructure. But over the next ten years, penetration and access to value-added services will expand much more dramatically in developing countries than during the last five decades. This is happening not only because costs are dropping rapidly, but also because regulatory barriers to entry are being dismantled.

ERT: Is this leapfrogging process also open to very poor developing countries—particularly those that are commodity-driven and have a much less developed distribution network for their products?

DR. BRAGA: The potential benefits of information technology depend on a country's comparative advantage and industry structure. Companies are increasingly insisting that a country be efficient in its ability to manage information and be connected to the global information infrastructure.

Take, for example, a country that specializes in producing and exporting commodities. It must have access to information about the global commodities mar-

ket and it must be able to secure proper transportation. A foreign company with its own private networks may handle these matters, but it will need to have connectivity to be efficient vis-à-vis its competitors. Even for the least developed economies, efficiency of access and dissemination of information are becoming more and more important.

ERT: What challenges does information technology present to developing countries?

DR. BRAGA: The telecommunications industry is changing extremely quickly. The challenge is for countries to adjust their regulations in a way that will enable them to benefit from new alternatives and new delivery of services that are now appearing. This is why the private sector must lead the process and why public-private partnerships need a new kind of social contract to operate effectively in the information age.

ERT: What kind of regulatory framework will allow developing countries to benefit from the industry?

DR. BRAGA: First let me say that information technology is not a panacea for all the problems of developing countries. It will not revolutionize overnight how these economies operate. But it's a reality that the world economy is becoming more and more dependent on global networks that rely on information and communication technology, and

there are many opportunities for developing countries in this process. A country that does not have access to good telecommunications will not be able to have access to the Internet, and its consumers and companies will be at a significant disadvantage in the global economy.

Countries can adopt a mix of multilateral and unilateral regulations. In February of this year, the World Trade Organization (WTO) agreement on liberalizing telecommunications went into effect. Seventy-two countries are now parties to this agreement. This is important because for the first time there is a multilateral agreement in the area of telecommunications that is based on the concept of competition and market access. Of course, there are still many barriers to entry, but it's a completely different way to approach the industry than before.

In the past, the global telecommunications industry was characterized by monopolies that often set prices according to bilateral arrangements that had nothing to do with costs. Now the entire pricing system is becoming increasingly based on competition and costs. The ultimate beneficiaries of this revolutionary change are consumers.

A proper regulatory environment will allow countries to attract foreign and domestic investment as well as to form partnerships with technology providers that will take their in-

formation infrastructure to a much higher level of sophistication and at a much quicker pace. Through creative mechanisms, a country can entice the private sector to enter and even serve areas, like rural telephony, that markets do not find attractive.

ERT: More specifically, what are the most important policy objectives for government officials who want to foster the development of the Internet?

DR. BRAGA: Policymakers should be concerned with how to unleash foreign direct investment and private sector initiative. What can be done to foster a pro-competitive regulatory environment? The WTO is one mechanism through which a country can nurture this kind of environment, but it can also do so unilaterally.

Governments must be very careful about how they position themselves relative to the global information infrastructure. This is especially true in providing access to areas that are not particularly attractive for the private sector, for instance providing rural schools with telephony access to the global information infrastructure and structuring public-private partnerships that promote competition. El Salvador, for example, is trying to create a regulatory environment that will strategically nurture these kinds of partnerships and help them evolve. For these initiatives to prosper, governments must create the environment and flexibility—be it

A country that does not have access to good telecommunications will be at a significant disadvantage in the global economy.



through the regulatory arena or pilot projects that can experiment in areas such as long-distance education and tele-medicine.

If the regulatory environment does not create incentives for entry, a government monopoly may simply be transformed into a private monopoly. The pro-competitive rules of the game need to be detailed before the process of privatization takes place. A mechanism that permits access to the market by new entrants must be created. This is what the new technologies allow.

ERT: Where do international property rights protection and treaties fit into this leapfrogging process?

DR. BRAGA: Countries can learn from the experiences that other countries have had in multilateral negotiations under the WTO and the World Intellectual Property Organization. The problem is that multilateral agreements take a long time to fashion. In a fast-moving area like information technology, a country may find itself in a trap in the sense that the rules that are being fashioned are at odds with what the market is already delivering.

On the other hand, developing countries can selectively use existing international institutions to exploit the experiences of other countries. For instance, a patents and trademark office can be very efficient and "inexpensive" if it uses information technology to access data banks and connect to international agreements such as the Patent Cooperation Treaty to access expertise in other patent and trademark offices in the US, Europe, Japan, China, and Russia.

There are opportunities, and exploring them can be a challenge. But a country can leapfrog in terms of putting together effective and efficient institutions to administer intellectual property rights with a reasonable investment.

ERT: In your opinion, which countries seem to have acquired the right mix of policies that takes advantage of the economic potential of information technology? How have they achieved that?

DR. BRAGA: There are different models in the reform process, but what is criti-

cal is bringing in competition, trying to establish credible commitments, and giving transparency to the regime under which investors will operate. The countries that I am going to mention have done this unilaterally through their own reform process, in some cases reinforced by commitments at the multilateral level.

Two good examples in Latin America are Mexico and Chile. Over the last ten years Mexico has liberalized and increased competition in its telecommunications infrastructure. In spite of all of the macroeconomic problems that have characterized the Mexican economy after 1994, it is a good example of a country that has privatized and allowed foreign companies to enter its market. As a result, its information infrastructure has expanded significantly in a very short period of time.

An even more revolutionary example is Chile. Chile has basically completely opened its market. In terms of international telephony, it has increased the options for the consumer to such an extent that it's probably one of the most competitive markets in the world nowadays. It has had a significant impact in terms of costs and access to telecommunications from the point of view of companies in Chile.

In Africa, we see different approaches being adopted. Some countries are cautious in liberalizing, but most of them are signaling changing to pro-competitive rules in the future.

In Asia, Singapore's proactive approach with respect to telecommunications has put it on the leading edge of information infrastructure. The question is whether that kind of model and institutions can be applied to other economies.

So, as you can see, there are different ways to approach reform, but there's not one particular model that fits all sizes.

ERT: Does information technology tend to equalize development or widen the gap between poorer and richer countries?

DR. BRAGA: It depends on what we do with it. Information technology can be used as a threat to privacy or as a mechanism to increase the transparency of gov-

ernment activities and to promote democratic debate and free speech.

In general, the information technology revolution—the Internet is the best example in this context—is significantly increasing transparency and access to information. Collapsing barriers to entry cause the structure of the industry to change very quickly. At least in the initial stages of this rapid process, the gap between the countries at the frontier of the revolution and late starters may widen. This is how leapfrogging may occur and how countries can catch up with others. Overall, I am very optimistic about how information technology can open up development opportunities.

ERT: How serious is the Year 2000 problem (Y2K) in developing countries, and what steps should policy-makers take to minimize or eliminate the problem?


DR. BRAGA: The good news is that developing countries are much less dependent on information technology than industrialized countries. The bad news is that the Y2K problem will affect developing countries, some of them significantly. Of the 20 economies that the millennium bug will potentially affect the most, ten of them are developing countries, such as Russia, Brazil, China, India, and South Africa.

Even economies that are very limited in their use of information technology systems may be significantly affected. For example, the Y2K problem may affect an island that depends on the tourist trade because of the vulnerability of its radar system and airports. Airlines from other countries may not be willing to fly to the country.

The Y2K problem may also significantly affect telecommunications, finance, utilities, and power. From a technical standpoint, it's not a very challenging problem, but from a managerial standpoint, it's a real nightmare.

Developing countries should hope for the best, but prepare for the worst. Because it's simply impossible at this point in time for them to correct everything, they should invest in contingency planning for critical areas where they cannot afford services to fail. They must pick their fights. They should identify the kind of activities that may cause significant economic disruption and possibly political turmoil, for instance, the pension and payroll systems.

There are a few countries—South Africa, for example—that are making a significant effort in terms of Y2K initiatives. Its program covers not only awareness raising, but also tech-

nical assistance and careful monitoring of remediation activities both by the public and private sectors. Among the roughly 30 developing countries that have national Y2K plans at this stage, South Africa stands out as an example of good practices. Unfortunately, the majority of developing countries have not initiated national-level approaches to deal with the problem. 





Bulgaria's Internet: Nonprofit Organizations are at the Forefront

by Dinka Dinkova

After a slow start, the Internet is finally gaining popularity in Bulgaria. While the level of Internet access is far below that in Western Europe, it compares favorably to average figures for the region. A survey by *Vitosha Research* in May 1998 put the access rate at 1.1% in Bulgaria. According to a 1997 report published by the International Telecommunication Union (ITU), 2% of the population in Hungary, 1.9% in the Czech Republic, and 1.8% in Poland now have access to the Internet. Estonia (12.3%) and Slovakia (5%) are enjoying much greater access.

Despite the current low penetration in Bulgaria, the number of Internet Service Providers (ISPs) has tripled since early 1997. With no special regulations and license procedures, many companies are entering this highly competitive market. More than 100 ISPs are operating at the moment, and the largest has less than 10% market share. Current projections indicate that the size of the Web population in Bulgaria will double each year until 2001.

Grass-roots organizations and nonprofit organizations are providing most of the impetus for current and future growth. The current low Internet access rate can be attributed to regional political instabilities and Bulgaria's underdeveloped telecommunications infrastructure.

Underdeveloped telecom infrastructure

The war in former Yugoslavia and the international embargo on the warring

countries has practically paralyzed all infrastructure projects in the region. In addition, Bulgaria's relatively small market and the delayed liberalization of the telecom industry has reduced its attractiveness for large international providers. Furthermore, Bulgaria has suffered from a volatile domestic situation. For instance, in 1996 when the growth of Internet access was at its peak worldwide, Bulgaria was in the midst of the worst economic and political crisis since the onset of its transition.

As a result of its specialization under COMECON, Bulgaria now has the highest telephone density among Central and East European countries—32 telephone lines per 100 inhabitants (see chart). 1998 saw the completion of a Digital Overlay Network (DON) project which entailed the installation of 1,700 km of fiber optic cable, 900 km of digital microwave links based on SDH technology, 12 digital trunk exchanges, and digital subscriber capacities in the country's main administrative and business centers. Further upgrading and expansion of the network is expected with the forthcoming sale of the national telecom operator, Bulgarian Telecommunications Company, by early 1999.

Hardware and people

The Bulgarian computer market experienced a dramatic downfall of nearly 40% in 1996 but it is currently rapidly recovering. Indeed, the first quarter of 1998 may see a 75% growth. Bulgaria currently has 250,000-280,000 computers that are

Dinka Dinkova is Program Director of the Applied Research and Communications Fund in Sofia, Bulgaria.

capable of supporting basic Internet functions. The more optimistic interpretations of these figures have suggested that Bulgaria ranks among the top countries in the world in terms of the number of computers as compared to GDP per capita.

Obstacles to widespread computer access are not of a technical nature alone. The lack of knowledge and experience in using technology is equally crucial. Relatively few secondary schools are connected at present and less than 17% of university students have Internet access. Signs that this gap will be overcome in the academic realm during the next three or four years are not encouraging.

Nonprofit organizations as catalysts

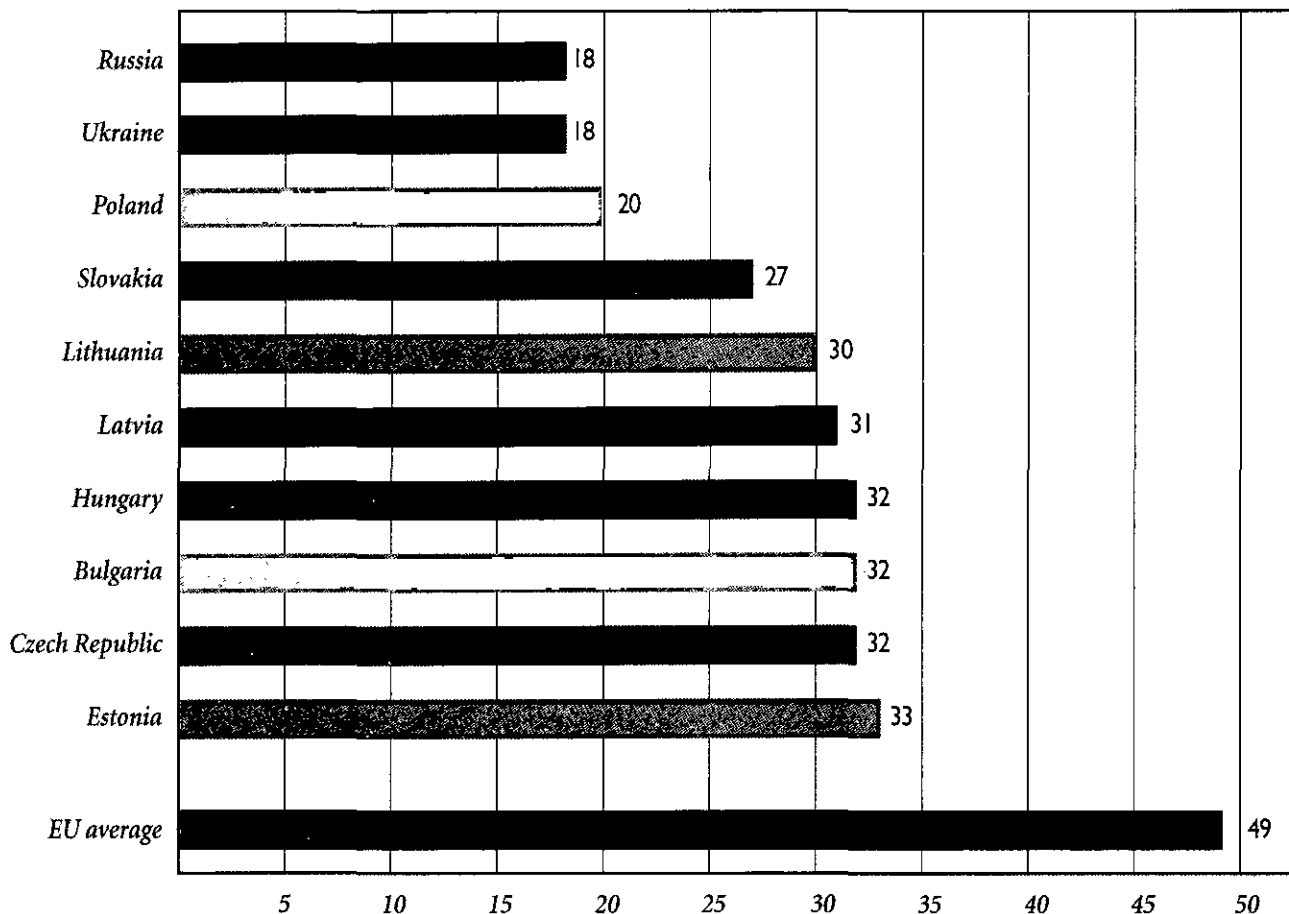
Given this situation, it is important to understand how nonprofit organizations have furthered the development of Inter-

net access in Bulgaria. In the early 1990s, connecting to the Internet was only possible by going through the national academic network, which owed much of its support to the Open Society Foundation (OSF). OSF operates a special program to develop Internet access for universities and secondary schools in the country. Its National Internet Initiative program connected more than 100 Bulgarian nonprofit organizations to the Internet in 1997 alone. Another program supports the access of Bulgarian primary and secondary schools to the International Communications Network of I*EARN Schools. Donations are made in the form of computers, modems, other communications equipment, as well as grants covering installation and connectivity costs.

In general, "third sector" organizations have quickly recognized the inherent

Teledensity in Selected Central and Eastern European Countries

(Telephone lines per 100 population)



Sources: *Business Central Europe*, September 1998; and World Bank, *Transition*, Nov.-Dec. 1996.

value of Internet technology and moved quickly to exploit its advantages. Email—by far the most popular Internet feature—has provided local nonprofit organizations with a relatively inexpensive way to communicate with colleagues and counterparts around the world. Some organizations have gone even further. With low production costs and practically no distribution costs, the Internet has become the preferred medium for organizations to disseminate information. Almost half of all current periodicals in Bulgaria are only available online.

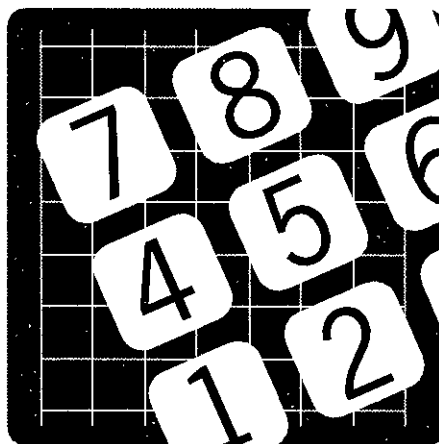
Major policy research institutes like the Center for the Study of Democracy (CSD) in Sofia have revised their entire communications strategies based on Internet technology. Over the past two years, CSD has developed a comprehensive Web site that disseminates survey data and policy analysis on major aspects of Bulgaria's transition.

Another example is the Applied Research and Communications Fund (ARC Fund). The ARC Fund is a specialized nonprofit organization established in late 1991 to deal with media and telecommunications projects. Since 1995, its activities have focused on disseminating information within the country. The first Internet project began in mid-1995 with financial assistance from the Center for International Private Enterprise (CIPE). The project was a pioneering effort to create an electronic catalogue of Web pages of major nonprofit organizations, economic policy institutes and business associations. The support provided by CIPE was used to build the technical and managerial groundwork of what is now a modern communications facility that provides Internet access and services to local users.

Since 1997 the project has evolved into a self-sustaining venture called *Bulgaria Online*. This public Internet service offers one of the richest collections of national content on the Web, including such features as a searchable digest of multilingual media sources about Bulgaria (*Bulgarian Index*), a *Bulgarian Statistics* database and a *Who's Who in Bulgarian Politics*. The site also hosts Web pages of the National Statistical Institute, the Bulgarian stock ex-

change, the Bulgarian privatization agency, and the Ministry of Industry, as well as online editions of several local newspapers and magazines.

To facilitate overseas access to these pages, the site is mirrored on CIPE's servers in Washington, DC (not actually on CIPE's Web site, but using CIPE's computer hardware in the United States). At the moment, *Bulgaria Online* registers



over 700,000 hits per month from people and organizations around the world. *Business Central Europe* magazine recently gave special recognition for its content and "value for those who need to keep up on Bulgaria."

An interesting example of how the Internet promotes free speech is provided by a group of Bulgarian journalists and lawyers who have established a "virtual" society on the Web. This initiative, called *Bulgarian Media Watch Society*, has responded to a growing need among the two communities to find a new, more open and democratic channel of communication. When the project was conceived in 1995, there were serious concerns about maintaining the freedom and impartiality of Bulgaria's media, which was becoming increasingly dependent upon economic and political group interests.

The Internet thus expanded the space available to free speech in the country. It has become a medium for professional exchanges on issues relating to media legislation, rights and responsibilities of journalists, and relations between journalists and the judiciary. Every week des-

igned moderators put forward topics for discussion which attract diverse and sometimes conflicting opinions. The issues debated have ranged from commentaries on the electronic media bill (recently passed by parliament) to the prerogatives of the judiciary. Since the goal is to involve as wide an audience as possible, summaries of the most interesting discussions appear regularly in *Kultura*, the weekly newspaper.

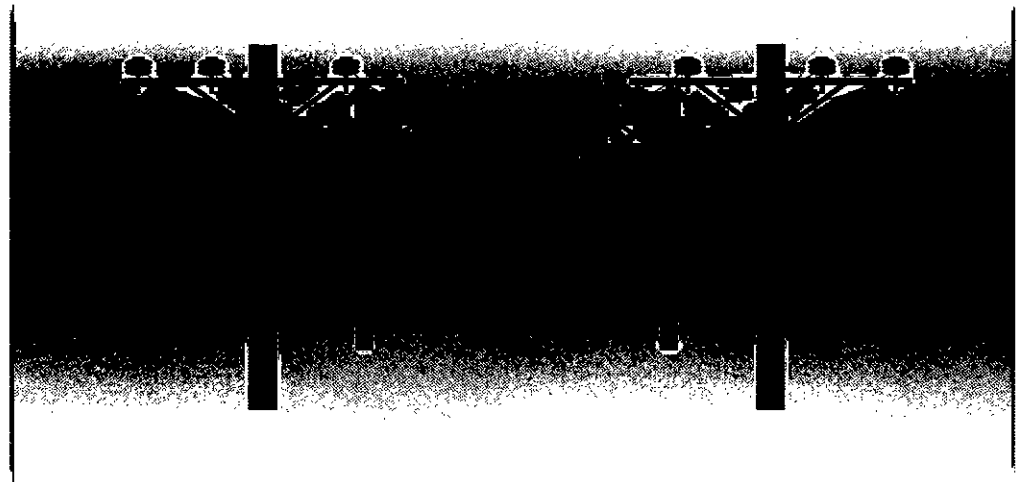
The government plays catch up

The government, unlike universities and nonprofit organizations, has been slower in catching up to such developments. The Internet was initially considered an exotic invention for scientists. However, since 1997 many prominent young politicians have tried to emulate Western communication strategies, further enhancing the popularity of the In-

ternet. The president, the parliament, ministries, many bureaucracies, and even small municipalities are now publishing information on the Web.

encourage citizen participation in municipal policy development. The importance of these developments might not be obvious to someone brought up under Western democratic traditions where citizens are entitled to fundamental rights as freedom of speech and information or a high quality of public service. However, in Bulgaria, which was dominated by the Soviet totalitarian model for nearly 50 years, the changes brought by the Internet have significant and far-reaching consequences.

The role of the Internet in Bulgarian society will increase with the expansion of its potential worldwide. In just a few years, knowledge of the Internet will be as essential as the ability to write and read, and if Bulgaria is to take full advantage of the new opportunities, its citizens should embrace the technology and learn to use it with confidence. The real challenge for



ternet. The president, the parliament, ministries, many bureaucracies, and even small municipalities are now publishing information on the Web.

A number of projects have also appeared at local and central government levels that use the Internet to enhance the transparency of public administration. The city of Sofia started an initiative recently to establish a Municipal Government Management Information System, to help increase the efficiency and accountability of the local administration, improve the quality of public service, and

the future is thus not so much developing the physical infrastructure because this will occur when conditions become favorable for private initiatives to secure the necessary investments and services. The more important task is to change the mentality of the people and to educate them to empower themselves by using the new technology. This is where Bulgarian nonprofit organizations will continue to play a major role as facilitators of the process of transition. ☼☼

Indian Association Hones Its Internet Strategy

by Vijai Kapur

The Confederation of Indian Industry (CII) is a business association that offers cutting-edge services to its members on the Internet. In only five years, CII has built an information technology-based communication strategy that has grown beyond electronic mail to currently encompass e-commerce and political advocacy. Along the way, it has encountered obstacles in terms of India's general unfamiliarity with the Internet, an unresponsive telecommunication monopoly, and inadequate telephone lines. As these problems have abated, CII's communication strategy has similarly evolved and grown. Through its Web site (<http://www.Indianindustry.com>) it now offers tailor-designed services for its members, promotes e-commerce, and lobbies the government for policies that promote business interests.

From ground zero

In 1993 CII—a not-for-profit organization with 35 offices in India and overseas and more than 3,800 corporate members—set up its Web site. Initially relying on its site as a simple, yet not very aggressive, advertising tool, CII used it to publicize

basic information on its organization and members. Users could search membership databases for possible joint venture partnerships or other business relationships.

However, this initiative was launched at a time when the idea of a home page in India was largely untried. There were only a few thousand Internet connections available in the country, and very little information on Indian business associations was available on the Internet.

Because Internet services were not widely available in India at that time, CII had a US company host its site. It also had to devote a lot of time and effort to train its members about the potential benefits of the Web. For instance, firms did not fully understand the difference between electronic publishing and printing. CII's current site explains what e-commerce is and why companies should use it.

India's underdeveloped telecommunications infrastructure also hindered the Internet's growth. The government-owned monopoly, Videsh Sanchar Nigam Limited (VSNL), was the sole provider of Internet services, while the Department of Communications (DoT) provided telecommunications services. DoT constituted a significant bottleneck in accessing VSNL's services because it transferred data at low speeds, its lines were filled with noise, and calls were

often unpredictable. Furthermore, VSNL's services were not available in all of India's major cities.

Expanding services

Starting in 1995, as Internet services became more widely accessible throughout India, CII began to expand its Internet strategy to offer the following services.

Attracting students. CII launched Project Inspire on its Web site. Inspire, a partnership between CII and the US Educational Foundation in India, informs Indian students in the US about job opportunities in India. The site includes an electronic bulletin board service that discusses the Indian economy and society. Over 16 Indian companies currently participate in Project Inspire.

Connecting all of CII. In 1997 CII connected its regional offices with its headquarters in New Delhi. This network allows CII offices to communicate with each other immediately about policy issues and business development opportunities. This not only helps headquarters keep in touch with its members, but also brings members together on important issues by offering them a way to communicate with each other.

Lobbying the government. CII works with the government, DoT and VSNL to promote the growth of the country's telecommunications sector and improve Internet access.

Vijai Kapur is Chairman of CII's National Committee on Communications.

CII has been instrumental in setting up a blueprint of a national information infrastructure that promotes the use of the Internet in governance, education and business. The blueprint recommends the following:

- ❑ allow the private sector to participate in the long-distance telecommunications sector, which will accelerate the creation of a national broadband backbone network to meet future demand;

After several rounds of discussions with CII and other associations, the government and DoT have formulated a licensing policy for private Internet service providers (ISPs). In addition, early in 1998 the Indian government set up a task force on information technology, and CII is one of its members. The task force has recommended over 100 measures to encourage the use of information technology in India, and it is using

line payment arrangements. Users can search CII's Web site for specific products or a certain company.

Many members prefer to use CII's home page rather than create their own individual page because it is less expensive and because they believe that linking up with CII will help them gain wider exposure to international industry associations, business groups and nonprofit organizations.

Publicizing policy positions. CII also uses its Web site to inform its members and the government about its positions on various policies and issues, thereby transmitting its views rapidly and to a wide audience. For instance, press releases and statements made by CII's president are placed on this site. Two recent examples dealt with:

- ✓ *Y2K.* A special section in its Web site discusses how Y2K may affect India and its businesses. CII hopes that companies will adopt some of the lessons showcased in this section about how other companies are trying to solve this problem. Publicizing the problem also has prompted the government to develop a specific Y2K policy.
- ✓ *Nuclear Tests.* Following India's 1998 nuclear tests, CII set up a separate Web site (<http://www.Indiainc.org>) to disseminate information on trade sanctions. Firms could use this site to obtain clear and objective information about the potential impact of the sanctions.

Industry associations are accustomed to getting people physically in one room, and their effectiveness has traditionally been measured according to the level and type of people present at their meetings. Business associations of the future may hold virtual meetings, and their efficacy may be judged according to their capability to manage virtual networks and meetings, communicate among each other, influence policy, and provide service to members. ☼

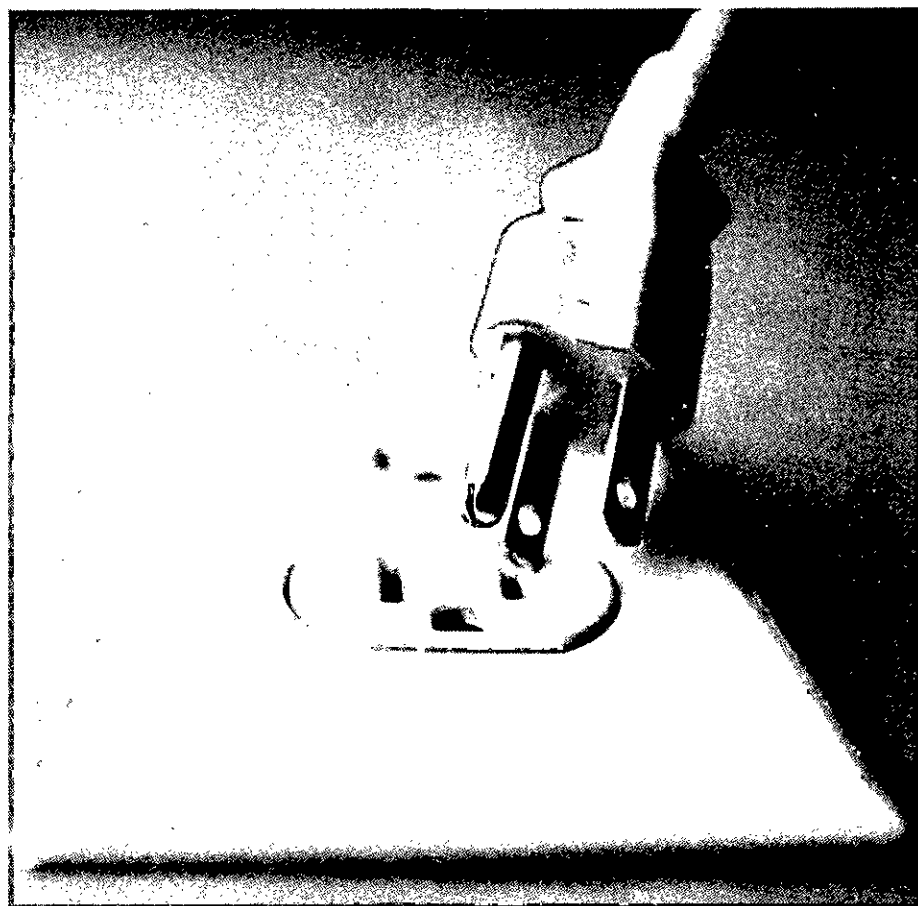


Photo: PhotoDisc Inc.

An undeveloped infrastructure hampers Internet growth.

- ❑ earmark part of the telecommunications license fees to develop India's telecommunications infrastructure in rural areas;
- ❑ promote standards and technologies that will increase access and use of the Internet;
- ❑ review education policies to meet the needs of the information age;
- ❑ increase national awareness about computer literacy beginning in primary school.

the Internet to disseminate draft recommendations, receive and share comments, and publicize its recommendations.

Launching e-commerce. CII offers three levels of e-commerce services for its members, depending on the size of the member company and what it wants to accomplish on the Internet. Members can use CII's Web site to write company profiles, advertise product catalogues, and offer on-

ASIA AND E-COMMERCE: INVESTMENT AND POLICY IMPERATIVES

by Michael C. Maibach

The challenge

In 1997 Intel invested 27% of its revenues in preparation for the future, \$2.4 billion in R&D and \$4.5 billion in new plant and equipment. These investments come at a time of great uncertainty, as well as opportunity, in the global economy. The world economy is rapidly moving to Internet-based electronic commerce. Indeed, the information revolution will surpass the global impact of the Industrial Revolution. Societies that choose the proper e-commerce investments and policies will certainly prosper.

Asia: exporting information technology

Information technology (IT) products have been a wonderful export business for Asian economies. High-tech exports account for 75% of Singapore's GDP and over 40% of Malaysia's GDP. South Korea's aggregate IT exports totaled \$40 billion in 1996.

However, in relative terms, Asian nations do not buy the technology they produce. In the US, for example, investment in IT infrastructure has exceeded 3.5% of GDP, while China, Indonesia, the Philippines, and Thailand are investing less than 1% of their GDP. Furthermore, the current financial crisis has prompted Asian companies to reduce their expenditures on information technology, at the same time that the US and Europe have stepped up their investments.

A billion connected computers

The Internet delivers a global electronic network that will have one billion computers connected by early in the next century. The number of URLs had grown from 20 million in 1995 to almost 300 million in 1997. Metcalf's Law holds that the potential value of these connected computers will increase exponentially as each new "netizen" (Internet + citizen) brings new users in the form of friends, associates, customers, and suppliers. Seventy-six percent of Internet users reside in the US and Europe. The United States is at least twice as connected to the World Wide Web as are Pacific Basin nations.

Megatrends and mega-challenges

A billion connected computers will make access to information technology a competitive necessity in the 21st Century. In these difficult times, will Asia choose to make the IT investments that will guarantee its future?

Education. There are 500 million illiterate adults in Asia. In the Information Age this is a critical threat. More than ever, knowledge is king. Using communications systems such as

Hughes's *Direct PC*, courses can be offered to any person or group with a PC and a receiver. IT products make remote PC education instruction available, affordable and adaptable.

Most people do not own and are not yet trained to use IT products such as PCs. While most IT activity rightly belongs in private markets, government should ensure that schools, libraries and other public places are "wired" and outfitted with PC communications technology. Teaching children to use this technology as part of their curriculum and giving adults access to the Internet in public places will create a ladder of opportunity for all segments of the population.

Health care. Fifty percent of the planet's adult population lives in Asia. Asian health care is often marginal. The US has one doctor for every 387 people. In Malaysia the ratio is 1/2000, while it is 1/6786 in Indonesia. PC-based tele-medicine would allow a doctor in Boston to care for a patient in Beijing or Bali.



In order to permit remote PC education and tele-medicine to thrive, governments should begin to discuss how to standardize the credentials of teachers, nurses, pharmacists, and doctors across national boundaries. Indeed, governments must reexamine all "certified" services, including insurance, banking, real estate, law, accounting, and engineering. This will entail years of negotiation and debate, but the time has come to address it.

Private and professional organizations may provide leadership in these areas. For example, bar associations can establish multinational committees to experiment with possible solutions.

E-commerce. A third area for opportunity in Asia is electronic commerce. Global e-commerce will have grown from zero to a \$300-plus billion business by the turn of the century. Three quarters of e-commerce will be business-to-business. Few enterprises can afford to ignore this commercial wave. E-commerce will not only create new business, it will also make transactions vastly more efficient.

Governments around the world are now grappling with the issue of taxing e-commerce. The first rule should be "do no harm." Government and industry should study the

issue and find solutions that are technology-neutral, as well as fair to all governments. Regulatory bodies must avoid placing analog-based telecom access charges on the Internet. Access charges are usually excessive because they contain subsidies created during the monopoly era of the telephone system. Sweeping the Internet into this regulatory regime will chill investment and growth. This issue will be joined wherever Internet protocol telephony begins to compete with traditional phone service. A "digital fire wall" is needed between the old, regulated analog world, and the new world of digital communications.

Broadband issues

Telecommunications deregulation. The world is racing to deregulate monopoly public telephone networks. Deregulation will foster competition which will bring in new investments and services. Among those services will be greater bandwidth—at home as well as at work. Digital customers are thirsty for bandwidth. Such "superhighways" are the key to high-data rate transmission that is vital to Internet use. Regulations and standards should also make ISDN and DSL technologies available and affordable.

PC-TV integration. Consumer electronics is moving from analog to digital. For example, the PC and TV technologies will converge. National regulatory and standard-setting policies for digital TV (DTV)—as well as devices such as the cable set-top-box—must establish market-driven "open" systems. TV cables, once switched and upgraded, will provide bandwidth competition to telecommunications systems for both voice and data.


Can Asia be an IT customer?

Asia has been an outstanding producer of IT products. The proliferation of IT products and technologies has created the Internet, e-commerce and tele-medicine. For Asia to share in the fruits of these developments—developments it helped to create—it must become a "customer" for technology products produced in the region and around the world. Wise and pro-free market public policies will complement those investments and create the national business environments that will foster success in the Information Age. ☛

Michael C. Maibach is Vice President, Government Affairs, at Intel Corporation.

South Africa: Will Telkom's Monopoly Strangle E-commerce?

by Arthur Goldstuck

he latest edition of the biannual Internet Domain Survey, the world's most elaborate measure of Internet connectivity, put South Africa in 20th place in the world in terms of the number of computers connected to the Internet. This ranking, measured at the end of July 1998, ought to have been a cause for rejoicing since it placed what is in reality a Third World country squarely within the arena of major league players in Internet utilization.

The reaction, however, was entirely the opposite: great consternation and mutual recriminations. The reason? South Africa ranked number 14 in January 1996. By July 1997 it had fallen to 18. The most recent announcement prompted Telkom, the monopoly telecommunications provider which is 70% owned by the government, and the Internet Service Providers Association which represents 30 major and minor ISPs, to trade accusations as to which one was responsible for the continuing ebb in South Africa's ability to compete globally via the Internet.

In late 1997 the South African Telecommunications Regulatory Authority (SATRA) cited this drop in rankings when it denied Telkom the right to exclusivity of Internet service provision in South Africa. Telkom has taken this decision to the courts, arguing that its five-year monopoly status over telephone services included a monopoly over Internet or Internet protocol (IP) connectivity. The government had granted Telkom a monopoly over telephone services in re-

turn for requiring it to deliver lines to under-served areas throughout the country. While the issue concerning extending Telkom's monopoly remains pending, the Internet industry faces business as usual, but with the shadow of a more restrictive regulatory framework hanging over it.

The perils of a monopoly

Were Telkom to be granted its sought-after IP monopoly, the Internet industry—now worth an estimated \$333 million—might be forced to abandon its subscriber base of more than 250,000 individuals and small companies and more than 2,000 corporate clients. Clearly, this would be a major setback for the industry as well as for its clients.

Furthermore, e-commerce has grown tremendously in recent years, and it is the driving force behind the expansion of the Internet. However, the legal battle for exclusive monopoly rights may conclude by imposing a regulatory framework that will retard the potential of more explosive growth of e-commerce.

South Africa is an instructive case study because it exemplifies a dilemma facing many policymakers in developing countries. Some are considering granting monopoly status to a company in return for requiring it to extend telephone services to rural or poor areas that do not have telephone access. In doing so, the government may also eventually encounter a creeping monopoly that wants to assert its authority over the Internet, an

Arthur Goldstuck is the founder of Media Africa (<http://www.mafrika.co.za>), an Internet research, consulting and publishing organization in South Africa.

area that thrives in an unregulated, entrepreneurial environment. Allowing the monopoly to extend its authority over the Internet may provide the rope that will ultimately strangle e-commerce.

The Internet's unforeseen growth

The Internet appeared in South Africa in the early 1990s, a time when the authorities had no interest in it. It entered on the back of electronic bulletin board systems (BBSs), which were computers that allowed an individual to dial in via modem and to exchange messages or download and upload files. Many BBSs were connected to computer networks set up by hobbyists, enthusiasts, academics, and researchers, while the networks were linked to the Internet via "friendly insiders" at academic institutions. As a consequence, any BBS user in South Africa could exchange electronic mail via the Internet. In the short period between 1992 and 1994, a strong core of Internet users emerged in South Africa under the nose of an unsuspecting Telkom.

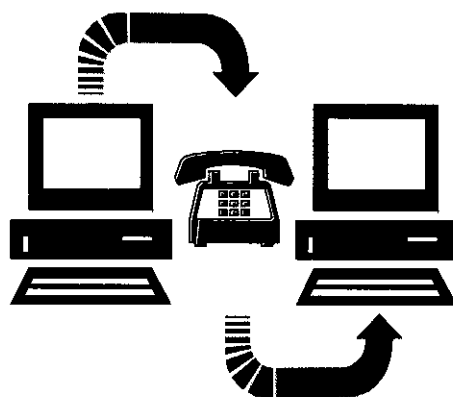
The first commercial ISP emerged in 1994 to an already existing audience. However, that year Telkom finally awoke to the presence of both the user community and the industry. It briefly threatened to close down this industry, partly by refusing to install additional telephone lines that were desperately required by the ISPs. This threat coincided with South Africa's transformation to a democratic society and proved a great embarrassment to the company that was trying to shrug off its roots in an apartheid society. An apparent iron-fist approach to small operators was an uncomfortable reminder of the all-too-recent era of tight control and aggressive suppression of dissent. The threat was withdrawn, the hold order was taken off the new telephone lines, and an industry that had been holding its breath prepared to explode.

Telkom moves in

It was not until 1996 that Telkom announced that it was entering the fray as an ISP. After testing its ability to provide this service, both in terms of infrastruc-

ture and access services, Telkom revealed its underlying motive: it applied to have the private provision of Internet services declared illegal.

Telkom justified this proposal by arguing that its monopoly status over telephone services entitled it to a monopoly over the Internet as well. The government had granted Telkom a monopoly over telephone services but in return required it to deliver 2.8 million new lines by March 2002, most of these going to under-served or "disadvantaged" areas. South Africa has a population of 40 million people, but only 4 million currently



have access to telephone lines. Another 120,000 lines will be installed as public telephones, primarily in rural areas. By March 2005, it is projected that 8.3 million lines will be connected.

The consequences have not been all that Telkom could have anticipated. It had assumed that its "new South Africa" credentials, along with its mission to connect the entire country, would have been enough to convince the regulators to accept its proposal to become the sole Internet provider. At the same time, it expected that its challenge to the independent ISPs would put a halt to their further expansion and drive subscribers to Telkom's subsidiaries and partners.

Instead, the ISP industry has continued to grow at a dramatic pace. In March 1998 the number of dial-up subscribers exceeded 250,000, up from 154,000 in September 1997, while the user base continues to expand by roughly 10% a month.

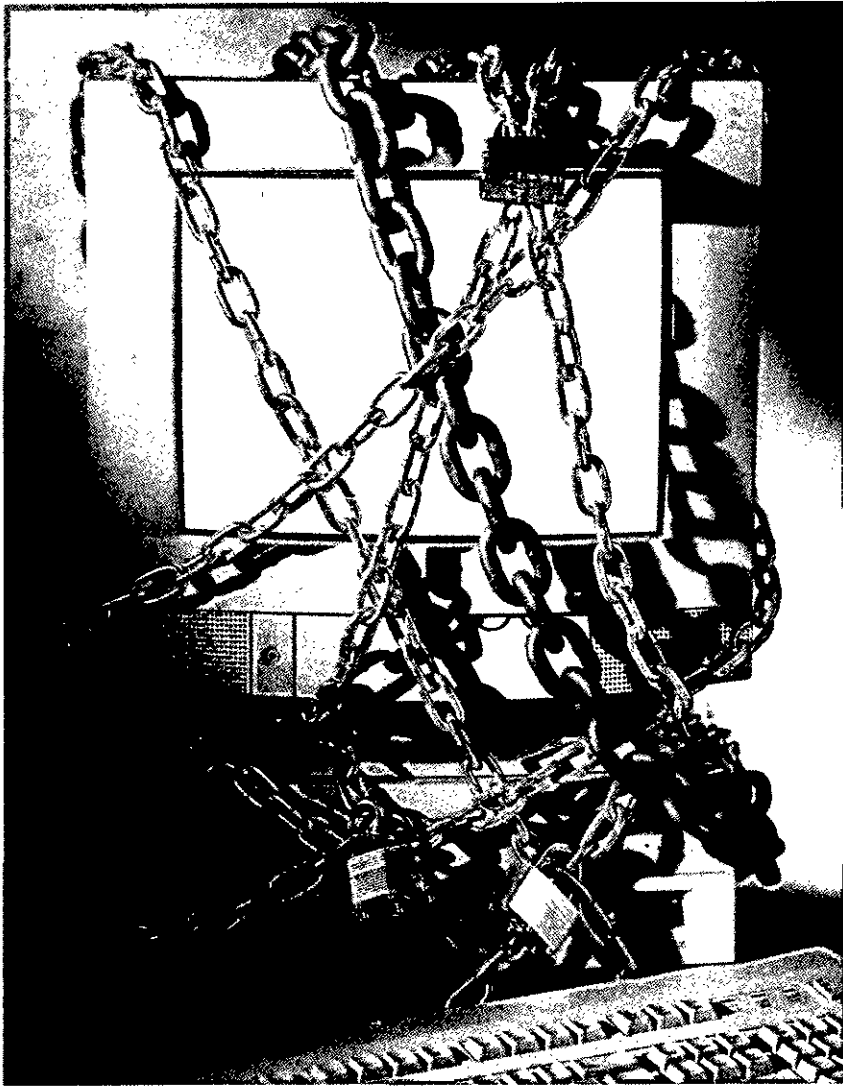


Photo: PhotoDisc, Inc.

Does monopoly help or hinder the Internet?

However, as indicated by the Internet Domain Survey, investment in infrastructure has slowed, due to uncertainty among ISPs about the outcome of Telkom's court challenge to their business as well as Telkom's reluctance to encourage their growth. As a result, while the number of subscribers continues to grow, Internet users are encountering ever-slower and less efficient access to the Internet.

Can e-commerce be harnessed?

E-commerce has been the driving force behind the expansion of the Internet in South Africa, and it will continue to grow whether or not Telkom is successful in its legal battle for exclusive monopoly rights. In 1998 consumers are expected to spend \$166 million via e-commerce, up 100% from \$83 million in 1997, according to a

1998 web commerce survey by Media Africa. While this represents less than 1% of GNP, if taken with roughly \$333 million invested by the ISPs and the value of new Internet-oriented corporations that are being formed through mergers and acquisitions, the Internet industry is quite significant. Furthermore, by 2002 spending on e-commerce will reach \$2.5 billion, according to BMI-Techknowledge, South Africa's main information technology research organization.

As the monopoly battle drags on, the Internet in South Africa will have grown from a fledgling industry into an economic force. This Internet economy has grown to the point where any attempt by the government to control or regulate it will certainly damage the economy.

If Telkom becomes the sole ISP or licensing authority for ISPs, it could also control the flow or nature of transactions across the network. Over the years Telkom has earned a reputation of offering lethargic service and inefficient billing, and consumers and the private sector are already suspicious of Telkom's ability to deliver business-critical services beyond telephony. The intrusion of a parastatal into the control of transactions would certainly undermine the growth of online transactions and reduce public confidence in the Internet economy.

Digging whose grave?

A telecommunications irony may shape the future of the Internet and e-commerce in South Africa. Telkom views the independent Internet industry as a threat to its monopoly, while the regulatory authorities have demonstrated a deeper appreciation for competition. Telkom's obligation to roll out universal telephone access will provide the platform on which ISPs will be able to offer universal Internet access. This would certainly ensure continued economic benefits of the Internet and e-commerce. However, if the government grants Telkom the right to be the sole Internet provider, the future of electronic commerce as a robust force in South Africa may be less certain. ☛☛

Postcards from Other African Countries

It is an often repeated fact that there are more phone lines in Manhattan than in sub-Saharan Africa. In many ways, South Africans are in a more fortunate situation than their counterparts in the rest of Africa. No other African country in the Internet Domain Survey was ranked in the world's top 60. Egypt came in at number 65, Zimbabwe at number 76, Kenya at 81, Namibia at 83, Botswana at 88, Morocco at 93, and Swaziland and Mauritius at 98 and 99, respectively.

Lurking within these rankings is a frustrating tale of bureaucratic red tape and monopolies' snails-pace response to rapidly changing opportunities. Many African governments claim that their citizens are eager and enthusiastic about using the Internet, but they have provided minimal financial support to exploit this enthusiasm.

Loathe to deregulate

While an entrepreneurial spirit is evident in the Internet industries in Egypt, Kenya and Zimbabwe, their economies are rigidly controlled, especially in telecommunications, an arena the governments see as highly strategic and not negotiable as a government fiefdom. Government officials in Kenya have stressed that they do not intend to retain control over Internet access. However, they have also said that basic social needs are more important than high-tech "luxuries."

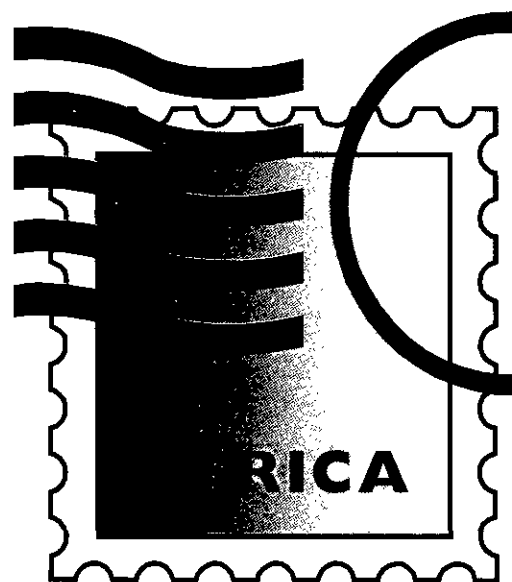
"Our priorities at the moment are good roads, rural electrification, agriculture, and so on," Kenya's Minister for Research, Technical Training and Technology, Zachary Onyonka, said in 1996. "Some elements of information technology therefore remain superfluous to our needs or capabilities, and while we accept that we cannot do without this vital tool, we must critically assess what aspects of information technology we need. Although we are currently under-represented on the Internet ... we should address the real issues, and these include the use-

fulness and relevance of certain equipment to us."

His comments, made at the opening of an exhibition that incorporated Kenya's first Internet conference, were greeted with dismay by the ISP industry which saw his remarks as justifying further delay in deregulating Internet access. Furthermore, the Kenyan government regards Internet access as jeopardizing its control of news and information flows, and it may be reluctant to deregulate an industry that could eventually threaten it.

This attitude permeates much of Africa. Countries often pay lip service to the notion of open competition on the Internet, while the monopoly supplier of infrastructure is openly antagonistic to the industry. In this kind of atmosphere, it is quite difficult to persuade the African public to fully and enthusiastically utilize the Internet.

It is unlikely that satellite communications will offer the public greater access to technology. In South Africa, where such communications are the preserve of Telkom, only one license has been issued to a private sector company to receive and broadcast Internet signals via satellite. Several other satellite transmission initiatives have been planned, but they depend on the goodwill of Telkom to let them through the regulatory red tape. Throughout the rest of Africa this prospect of satellite communications access is almost non-existent, although Senegal and Nigeria have made promising moves towards liberalizing cellular



phone and satellite communications, respectively.

Some countries are requiring their monopolies to provide telephony services to areas that have traditionally been underserved. For example, Telkom in South Africa will establish "telecentres" in rural areas where communities rather than individuals will be given access to communication facilities. This promises to be an efficient approach to the problem of unequal access. Other African governments may adopt this approach in order to recognize the benefits of communal and individual empowerment through access to resources. But the process will be drawn-out and slow as long as the government's appetite for control and regulation remains far heartier than its appetite for economic growth and empowerment of the public.

Politics intervenes

The benefits of electronic commerce are unlikely to be realized unless there is freer access to and freer competition for telecommunications resources. However,

governments are intervening in the allocation of resources for the telecommunications industry, thereby preventing e-commerce and Internet from playing the role of catalysts behind deregulation.

Relative to these thwarted domestic forces, international forces such as the World Trade Organization (WTO) will have a far greater impact in Africa but over a much longer period. The WTO's insistence that telecommunications industries be deregulated will allow private enterprise to invest in the Internet, thereby accelerating its global growth.

But this will be a gradual evolution, not a big bang. As a consequence, most of Africa will likely fall even further behind the global information revolution. It will not participate in the Internet's evolution into new forms and the rolling out of telecommunications backbones as will occur in deregulated economies. Unless politicians step aside, African economies will not be able to compete against deregulated economies that have plentiful telecommunications resources. ☹☹



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Will Electronic Commerce Drive the World Economy?

by CIPE

Three years ago, electronic commerce did not exist. In 1997, about \$26 billion in commercial traffic could be attributed to electronic transactions. A recent study of electronic commerce by the Organization for Economic Cooperation and Development determined that by 2003, this figure could rise to \$1 trillion—a 4,000%-plus increase in volume. While there is no easy way to estimate the impact of electronic commerce on the world economy, the statistics presented by this study make its future seem impressive indeed.

But OECD officials say these amounts are a drop in the bucket of total world commerce. In fact, today about 80% of electronic commerce is US-based. While the US share of global e-commerce is expected to drop to two-thirds

within the next five years, it is still expected that global business-to-business electronic commerce will comprise only 54% of direct marketing sales in the US alone. Global business-to-consumer commerce will play an even smaller part, accounting for no more than 20% of total e-commerce revenues in five years.

So what is holding back a significant boom in electronic commerce, particularly outside the United States? The issues vary around the world, but probably the biggest single reason is the enormous difference between the number of people connected to the Internet in the US compared to other parts of the world. This is expected to improve in the near term, but if policymakers in emerging markets want their

countries to benefit from electronic commerce, they will need to address the following concerns:

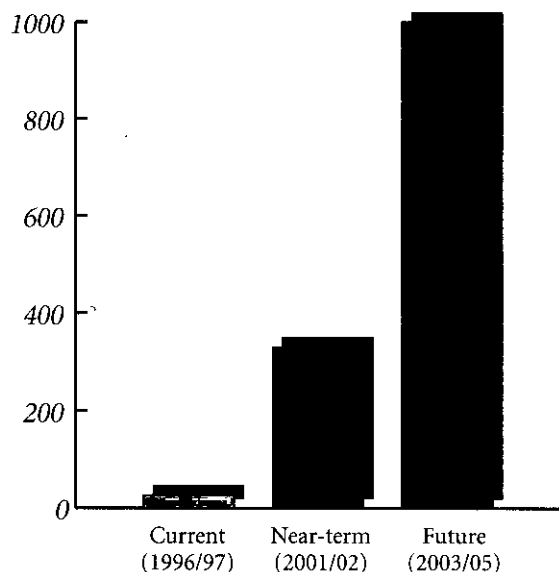
High cost of connectivity. Internet users often pay high per-minute fees to telecommunications monopolies for access to the Internet. Access costs will have to be brought down.

Poor communication lines. Users in many parts of the world have limited or poor access to the high-speed data access lines that electronic commerce relies on. More bandwidth will be needed.

Expensive computers. For consumers and small businesses in emerging market countries, the cost of purchasing a computer requires the outlay of a significant portion of income. Costs for setting up e-commerce will have to come down. ☹☹

Estimates of Global E-Commerce Sales

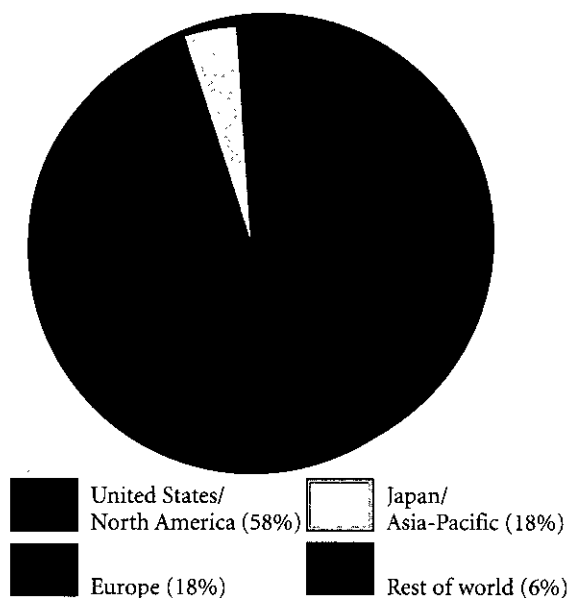
(billion \$)



Source: OECD estimates

Geographic Breakdown of E-Commerce

% of total



Source: IDC, 1997

Software Piracy and the Global Economy

by Brian T. Jones

By bolstering employment rates and national wealth, the software industry has had a tremendous impact on the global economy. For business PC applications alone, global revenues reached a whopping \$17.2 billion in 1997. Unfortunately, the same year saw another \$11.4 billion in revenues lost due to the work of a high-tech cat burglar—the software pirate.

Software piracy is the illegal duplication and/or distribution of software through one of the following methods:

- ☐ "Soft-lifting"—installing software onto more than one computer without proper licensing
- ☐ Counterfeiting
- ☐ Hard disk loading—selling computers that are preloaded with illegal copies of software
- ☐ Rental
- ☐ OEM unbundling—selling software that is legally sold only when bundled with another package
- ☐ The Internet

Why piracy hurts countries

In a world where only state-of-the-art technology can compete and succeed, some nations see software piracy as a way to enter the information technology-based global economy without great expense. Moreover, many countries seldom enforce their laws that protect intellectual property, if they exist at all.

The spread of software piracy in these countries actually hurts their own

economies because it deters smaller software developers from entering the market. In many countries, the demand for software may be met through counterfeit copies found on street corners at a fraction of the retail price. Neither domestic nor foreign producers can possibly develop software at a price that can compete with the price on the street. Thus, the dilemma of software piracy comes full-circle: a country may want to become high-tech, but its own laws—or lack thereof—will not allow its citizens a fair opportunity to establish this industry.

A 40% global piracy rate

In 1997 the global piracy rate was estimated at 40%. This means that for every 100 copies of a software application, 40 were illegal. In some countries, piracy rates have reached as high as 98% (see below).

Countries with the Highest Piracy Rates

Vietnam	98%
China	96%
Indonesia	93%
Bulgaria	93%
Oman	93%
CIS (except Russia)	92%
Russia	89%
El Salvador	89%
Bahrain	89%
Pakistan	88%

Source: BSA/SPA Worldwide Software Piracy Estimates, 1997.

Brian T. Jones is an anti-piracy specialist with the Software Publishers Association, the software industry's principal trade association that represents leading publishers as well as start-up firms in business, home, office, consumer, entertainment, and education markets. A copy of SPA's 1998 Report on Global Software Piracy may be found at: <http://www.spa.org/piracy/98report.htm>.

Although the piracy rate in the United States was 27%, one of the lowest rates in the world, the actual loss in US retail sales due to domestic piracy in 1997 exceeded \$2.8 billion, the largest loss in any single country (see below). In fact, since 1994 more than \$12 billion has been lost due to piracy in the United States alone. However, software piracy is by no means restricted to the US. While the US has experienced the most damage as an individual country, Asia-Pacific and Western Europe have also contributed greatly to worldwide loss, accounting for 34% and 22%, respectively, of worldwide software piracy.

Piracy patterns differ by region

Asia-Pacific is responsible for more software piracy than any other region in the world. The three highest piracy rates in the world were found in three Asian countries: Vietnam (98%), China (96%) and Indonesia (93%). Since the piracy rate is the ratio of illegal copies to total

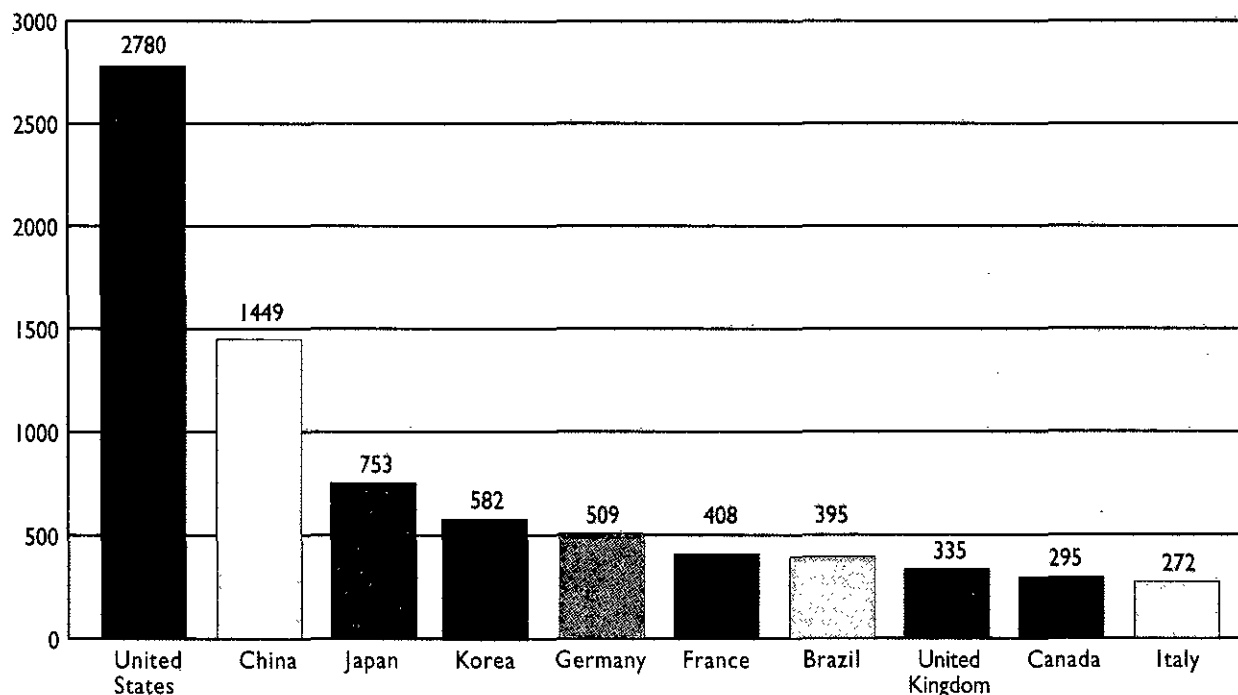
copies, Vietnam has only two legal copies of an application per 100 copies.

Although some Asian countries have recently established laws that protect intellectual property, the enforcement of these laws has been rather disappointing. For example, in China the number of illegal copies of software has surpassed the number of legal copies in Japan. In China it is not uncommon to find a drafting program with a retail price of \$3,750 being sold in a small shop for as low as \$25. How can a software developer possibly hope to compete with that?

China has taken minimal proactive measures against software pirates. In contrast, officials in Hong Kong have increased the number of raids on these kinds of corner shops, resulting in fines and jail time for the pirates. These improvements resulted from trade sanction threats against Hong Kong by the US Trade Representative (USTR), proving that governments can curb piracy.

Countries with the Largest Piracy Losses

(1997, \$ millions)



Source: BSA/SPA Worldwide Software Piracy Estimates, 1997.

Although the counterfeit market in Western Europe is not as rampant as in Asia, software piracy is still a large concern. Western Europe is similar to the United States in terms of wealth and software usage, but the piracy rates in many of the countries in this region are inexcusably high. As in the United States, many companies place one legitimate copy of a software program onto sometimes hundreds of machines as a way to cut expenses.

However, the money saved by using pirated software is offset by the lack of access to technical support and documentation, the inability to upgrade to new versions, the risk of acquiring a computer virus, and possible fines that may be assessed for copyright violations.



To eliminate piracy

Efforts to tame the piracy problem require a two-pronged approach involving enforcement and policy. The United States and many other countries provide legal protection of intellectual property—including software—by giving exclusive rights to the property owner.

In the United States, Title 17 of the Copyright Act of 1976 makes it illegal to duplicate software for any reason without the permission of the copyright holder, except when creating a back-up copy. Violators may suffer penalties as high as \$250,000 per title and five years imprisonment for criminal violations.

In addition, if an organization undergoes a software audit requested by an entity such as the Software Publishers Association (SPA), it must prove that enough licenses have been purchased to cover the number of copies found on the organization's computers. Non-compliant organizations face the possibilities of stiff fines and potentially damaging publicity. In order to avoid this scenario, organizations

must establish an effective software management plan that details the proper procedure for purchasing and installing software and the consequences for employees who install software illegally.

- ❑ Lawmakers should seek stronger penalties for copyright violations rather than the common slap-on-the-wrist technique that is found in many countries. They should oppose trade barriers that hinder the access of software companies to markets in Europe, Asia-Pacific and Latin America. If foreign companies cannot enter these regions legitimately, their software will leak in through other means.
- ❑ Support from governments and multilateral regimes such as the World Intellectual Property Organization is necessary to fight software piracy by introducing research and development tax credit systems, reducing capital gains taxes, and passing an international treaty that protects intellectual property and copyrights.
- ❑ In the United States, the USTR has a list of countries that face possible trade sanctions because they do not adequately protect intellectual property. Other nations should follow this lead in order to promote the importance of copyright protection and to emphasize that the theft of intellectual property will not be tolerated.
- ❑ Government agencies should inform software publishers of high rates of software piracy within their borders and work with them to deter the theft through contracts, government registration, litigation, and public policy.
- ❑ Government agencies themselves should be committed to using only legal software in their own offices. A government agency that runs on only one legitimate copy of a spreadsheet program is not setting a good example for its citizens. ☹☹

Understanding the Global Information Infrastructure

by P. Bai Akridge

The information technology revolution is upon us. It is crossing national and regional boundaries, undermining old social and economic institutions, and planting the seeds of new ones. It is challenging slow-moving bureaucracies, both public and private, and changing the way we learn, work, heal, and govern ourselves. This revolution is called the Global Information Infrastructure, or GII.

When fully realized, the GII will be a vast web of hundreds of thousands of networks that will affect everything from manufacturing and health care to the democratization of nations. These networks will run our factories, process our financial transactions, organize our work, increase our productivity, instruct us and our children, help physicians and hospitals to care for us, connect us more closely with friends and family, entertain us, and perform a myriad of other services not yet conceived. Electronic commerce is expected to expand quickly from about \$2 billion today to around \$300 billion by the year 2000.

In order to fully realize the benefits of the GII, it must be widely used

and be accessible through a wide variety of products and networks. Privacy and data security rules and regulations must be adequate and they must ensure a high level of trust. The best way for governments to encourage the growth of the GII is to eliminate trade, investment, technical, and other barriers that hinder competition.

Global benefits of GII

Creating and expanding markets. The GII is creating and expanding domestic and international markets as well as reducing the cost of trade. Indigenous artisans, small and medium businesses and multinational enterprises are selling goods and services in markets they never reached before. Cheaper and easier-to-use computers, as well as improved access to advanced telecommunications networks—both private and Internet—are making this possible.

For example, after successfully implementing a pilot Asynchronous Transfer Mode (ATM) network in 1997, Bulgaria is now building a full-scale, state-of-the-art, broadband information infrastructure to facilitate communications and commerce. IBM is working with the Bulgarian Telecommunications Company to develop the first Eastern European high-speed network for transmitting data, voice and video using the advanced ATM technology. Bulgaria's

capital, Sofia, will become one of the first European cities to provide ATM broadband telecommunications services that will enable large companies and their branches—cable television, banks and others—to offer and use video-on-demand, high-quality video conferencing and high-speed enhanced data services.

Expanding the economy. Developing the GII will add billions of dollars to the world economy. Integrating computing and information networks into the economy will make companies more productive, more competitive, and more adaptive to changing conditions. New job opportunities will be created in the processing, organizing, packaging, and dissemination of the commercial, information, and entertainment products that will flow through the GII. One of the most critical issues will be reforming education systems and training programs to prepare citizens to take advantage of emerging and future opportunities. Similarly, economies may need to adjust in order to produce goods and services more marketable in a global, networked economy.

Improving productivity. Expanding productivity is vital to the long-term economic viability of nations because firms are increasingly insisting on using fewer resources to create, provide, and maintain goods and services. As a result, overall costs will

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decrease while valuable resources will be freed to invest in other sources of economic growth and productivity. For example, electronic trading will save stock buyers and sellers millions of dollars annually and permit more efficient trading.

Promoting democracy. The GII will permit individuals to learn more about their governments and to participate more actively in governing. Most agencies of the US, Canadian and European Union governments maintain home pages on the World Wide Web, as do international agencies such as the United Nations, Organization for Economic Cooperation and Development, World Trade Organization, World Bank, International Monetary Fund, and Asia Pacific Economic Cooperation. Many other governments are in the process of making their information available, and political parties are also using the World Wide Web to disseminate their messages and to provide services to members.

Exchanging ideas and information. Access to ideas and information from around the world will perhaps do more than anything else to empower people and improve their lives. In some instances, the ability to access information can help save lives. For example, the Pan American Health Organization conducted a hemisphere-wide teleconference to present new methods for diagnosing and preventing the spread of AIDS. Without the innovations of the GII, crucial information on personal health and safety would not reach populations in need as quickly or easily.

Sector benefits. GII applications will assist manufacturers in coping with the complexities of exchanging information and data about product development between companies and across international borders. GII

will also continue to improve health care access and quality while reducing medical costs. Efficient access to adequate and reliable data can help determine how nations and societies can grow efficiently without damaging the environment. Information technology is also revolutionizing education around the world and changing the ways teachers instruct and students learn.

Benefits for developing economies

Nowhere on the globe are these potential benefits of the GII greater than in developing countries. The emerging GII, with its vast networks for connecting and processing data

PeopLink, a US-based, nonprofit organization, is using the Internet to enable indigenous artisans in Bangladesh, Guatemala, Haiti, Cambodia, Morocco, and other developing countries to market their handiwork around the world. Through the PeopLink Web site (<http://www.peoplink.org/gen/about.htm>), people around the world can learn about these artisans, their cultures, and their crafts as well as purchase their handiwork from an electronic catalog using a credit card. In this way, the Internet can give isolated artisans access to a global market and expose visitors to the Web site to cultures and peoples they never may have known about.

and images, can help countries leapfrog technological handicaps, thereby accelerating economic development and advancing social progress.

Some countries have incomplete telecommunications systems or have not invested heavily in infrastructure. They may actually be well positioned to rapidly join the GII because they will not need to write off large-scale investments in copper wire systems as will be required in other parts of the world.

The information infrastructure will also help developing countries compete on equal footing with their trading partners in industrial countries. Through the development of new networks, physicians in developing countries can have low-cost ac-

cess to medical databases and experts in developed countries. School children can communicate with their national and international peers.

Realizing the benefits of the GII will require economic and technical resources beyond those ordinarily available in developing countries. Because market and other risks limit international private investment, multilateral development banks (MDBs) are critically important. These institutions can play a key role in providing project finance assistance to developing country governments and private firms. The MDBs have traditionally focused on such infrastructure projects as ports, dams and transportation systems.

In the future, however, they will need to put greater emphasis on developing the information infrastructure which can help improve education, communications, public safety, banking and finance, environment, and health. The possibilities of having more complete and timely access to information through the GII, whether in banking, manufacturing or agricultural sectors, will open new avenues of growth and stability for these countries.

Building the foundation of GII

To fulfill its promise, the GII must integrate the following four essential elements:

Communications networks. This first building block comprises interconnected and interoperable communications networks, including telephone, cable, cellular/PCS, and satellites. The networks will provide services over a range of speeds and bandwidths, allow a variety of uses, and be capable of transmitting information in a combination of varied formats including text, image, audio, and video.

Computers. High-performance computers resident on the communications networks will be central to the ability of the GII to provide intelligent switching and enhanced network services. Easy-to-use network computers, laptops, palmtops, personal computers and workstations will mask the power and complexity of the underlying system and enable individual users to tap into the GII as easily as they now dial a phone. Developing this type of system depends on software, including operating systems and application packages. Applications to help users perform tasks quickly and easily must be widely available and easily accessible over the network.

Information and services. The vast range of information and services already available through the GII will continue to expand. For example, public and private databases and digital libraries that include material in text, video, image, and audio formats are already proliferating, as well as information services, network directories and search engines that assist users in locating, synthesizing and updating information. Two related features will also be important for successful GII implementation: multimedia and access through a single vendor. While the components of multimedia have been available individually for some time, it is the integration of these media that represents the sea change. Customers will seek a single vendor who can provide access to these multimedia services.

People. GII requires appropriate education and training, and this will affect what skills are taught and how the teaching is carried out at every level from grade schools to universities. GII will depend on the abilities of business people, medical personnel, educators, scholars, government employees, and ordinary individuals to take advantage of the rich and varied resources available through the system. The organizations that create, package, communicate, and sell

information through the GII must be staffed by people with a high level of technical education.

Removing barriers to building GII

Outlined below are several public policy principles and recommendations that are critical to extending a robust information infrastructure to the developing world.

Private-sector leadership and competition. In order to realize the full benefits of the innovations in the information technology industry, the private sector and the competitive marketplace must be the driving forces behind the evolving GII. Many governments have agreed in principle on the necessity of opening markets but engendering the political will to move forward is often difficult. Dismantling the regulatory barriers is a prerequisite for enabling competition and the new services that GII generates.

Market access. Governments can best contribute to building the GII by promoting an environment of open competition. This involves eliminating regulatory, trade, investment, and other barriers that stifle competition. The GII involves not only the telecommunications sector, but also service providers and manufacturers of hardware and software that create the physical networks. All these sectors must be open and competitive.

Governments can also enhance market access by being committed to national treatment that should apply to all investors. A country that seeks to limit trade or investment in these markets will slow the rate of growth of its infrastructure, deprive its companies and citizens of the best products and services at the best price, and undercut its competitiveness and quality of life.

Promoting competition. To ensure a rapid transition to a competitive marketplace in the telecommunications industry, the following measures should be taken:

- ❑ All telecommunications services and infrastructure should be opened to competition.
- ❑ Incumbent telecommunications operators must provide competitors with nondiscriminatory access to unbundled network facilities and services.
- ❑ The incumbent telecommunications operator's tariffs should be rebalanced to reflect costs that are free of distorting cross-subsidies.
- ❑ Regulatory authorities should be independent, and they should use objective, transparent procedures.

Eliminating barriers. Eliminating trade, investment, technical, and other barriers that hinder or prevent foreign competition should be a high priority for governments that want to promote the GII and enjoy its benefits. These include trade barriers that stifle imports and exports, investment barriers that hinder domestic and international foreign investment, and other government barriers that discriminate against foreign suppliers.

The 46 countries that signed the Information Technology Agreement (ITA) in December 1996 largely eliminated tariffs on information technology products. Other countries—China and South American and African nations—should agree to the ITA as soon as possible. In addition, the signatories to the ITA should adopt the ITA II with as broad a product coverage as possible.

Export control policies may address legitimate national security and foreign policy requirements, but they can also create major market access disincentives for the GII. Export controls on sophisticated new systems, such as massively parallel computers that are ideally suited for serving the technology needs of the GII, must also be relaxed or eliminated. Export controls should also be rapidly adjusted in order to take into account the rapid pace of technological ad-

vancement. Otherwise, even laptop computers can be subject to control.

Discriminatory investment barriers must be eliminated. The GII will require massive domestic and foreign investment, much of it in the services sector. Investment impediments include lack of national treatment, screening of foreign investment, restrictions on foreign service providers, market reservations, performance requirements, and domestic manufacturing requirements. In addition, withholding taxes on payments of dividends, royalties and interest should also be lowered.

Additional government policies contribute to restricting market access. These include discriminatory procurement practices; the absence of open and transparent procedures and regulations, such as the lack of harmonized trade-related administrative practices; inadequate or unenforced protection for intellectual property rights and licensing; restrictions on transborder data transmission; and restrictions on the transborder movement of people. These and similar government barriers and policies should be eliminated as soon as possible in order to promote the free flow of goods and services on which the GII depends.

Interoperability. The GII would be an impossibility without interoperability. Interoperability refers to the ability to use any information equipment to plug into any part of the GII and access any database or communicate through any network in any other part of the infrastructure. It allows diverse systems made by varied vendors to communicate with each other, thereby facilitating communications among users. User demand for enhanced interoperability is al-

ready driving the industry to respond aggressively, and market forces will cause interoperability to develop more rapidly compared to a formal standards process or governmental intervention.

Where appropriate, standards can further the goal of interoperability, however. The private sector is best positioned to weigh various factors in setting standards, including timeliness, breadth of support, technical superiority, and implementation costs. The industry-led, voluntary-standards development process is the best way to achieve the interoperability required for the GII.

In competitive markets, the private sector must lead the development of standards for interoperability. Competition drives innovation and the development of products. In noncompetitive markets, regulatory intervention may be necessary to en-

sure that internationally accepted standards are implemented.

Industry members of standards bodies and other forums that address GII interface specifications should ensure prompt action in accepting and adopting interfaces whose technical specifications are open to other manufacturers and service providers.

Developers of proprietary technology critical for GII interface standards should be able to license the technology on reasonable terms and conditions. This process is already functioning and can be seen in the work of the American National Standards Institute (ANSI), a nonprofit, privately funded organization. All interested parties are free to participate in the development of national standards under the procedures approved by ANSI. In 1994 ANSI established the Information Infrastructure Standards Panel (IISP) to accelerate

the development of voluntary standards critical to the GII. The work of ANSI and IISP provides a model for the international standards-setting process that will ensure continuing interoperability in the GII.

Data security and privacy. The GII will evolve only if users are confident that their information and transactions are private. It is essential that sensitive, personal and proprietary information be protected and made available in accordance with internationally accepted guidelines.

Data security involves protecting information from unauthorized or accidental access, modification, destruction, or disclosure. Encryption is cur-



Photo: digitalStock, Corbis

rently the best way to ensure security, particularly when transmitting information over electronic networks. Encryption can enable a number of security services, such as data integrity, authentication and data confidentiality.

Eliminating barriers

However, many countries, including the United States, impose export controls or usage restrictions that inhibit truly secure communications. These measures create an international environment that discourages or prevents businesses and other users from acquiring, employing, storing, or selling those cryptographic methods that best meet their needs. What is needed is an international policy that eliminates unnecessary barriers between nations and promotes broader international awareness of the importance of security on the networks without undermining legitimate government responsibilities and concerns.

Users need varied cryptographic techniques to fulfill the multiplicity of their needs. Users should have the freedom to choose the strength of the encryption, the method for encoding communication, and the key management system appropriate to its application and eventual destruction.

In order to ensure international acceptance and public confidence, encryption-based solutions must be available for public scrutiny. To assure complete interoperability, industry-led technical standards must be adopted in sufficient detail to meet the communication needs of users who employ varied cryptographic solutions. This will ensure complete disclosure and specification of interfaces.

Encryption methods must be widely accepted by business and governments around the world and remain free of unnecessary government control. National encryption methods that are not internationally acceptable do not satisfy the needs of international business for secure

worldwide communications and can create serious harm to networks in home countries and abroad.

Encryption should be implemented in a flexible way. It should be usable in either hardware or software, and vendors and users should be free to make technical and economic choices about modes of operation and implementation.

The unauthorized disclosure of keys can have significant and possibly unrecoverable economic consequences. Therefore, those holding keys or key recovery information in trust for others should be liable for any improper disclosure. These trusted parties, including government agents, should be liable for theft, loss or any improper disclosure of keys.

Governments should agree that their lawful access to encryption keys or recovery information should be no greater than the access they have for the underlying plain text.

Intellectual property protection. Strong protection of intellectual property will fuel competition and innovations that are the engines for the GII. Creators of hardware, software and content will not participate in the GII unless there are appropriate systems in place internationally that enable them to set and enforce the terms and conditions under which their works are made available. Moreover, the public will not buy the products and services available on the GII unless they are provided under equitable and reasonable terms and unless reliability and integrity are assured.

The copyright, patent and other intellectual property issues involved with the global network are not fundamentally different from those faced by right-holders in the pre-networked environment. Copyright law, for example, protects intangible rights in authors' intellectual creations, regardless of their form. Copyright law is well suited as a framework to protect software and

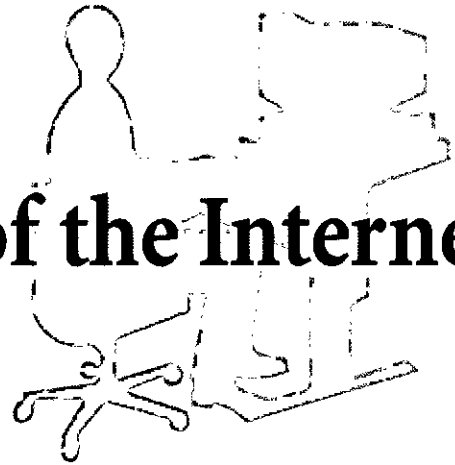
other types of works in the digital realm. Also, an effectively functioning patent system that encourages and protects innovations in technology should also address the requirements of the GII.

However, because of national variations in these laws, international harmonization has become increasingly important. Such international agreements as the Berne Copyright Convention and the GATT Trade-Related Aspects of Intellectual Property Agreement provide useful frameworks within which to develop greater international consistency to protect intellectual property rights.

The following critical issues illustrate areas where greater harmonization is necessary:

- ❑ Countries should not discriminate in granting and protecting intellectual property rights of their own nationals and foreign nationals. This rule prevents inequities in national legal schemes and reduces international retaliation in the fields of intellectual property and trade.
- ❑ Compulsory licensing of intellectual property rights should be prohibited. Intellectual property rights should be licensed and exercised only with the author's or right-holder's free consent. ☛

Making Creative Use of the Internet



by Kimberly Bartlett and Rebecca Schneider

The Internet has become an invaluable tool in developing countries for think tanks, advocacy groups and business associations. Because connecting to the World Wide Web is often very expensive in areas where the telecommunications infrastructure is undeveloped or highly regulated, these groups use the Internet primarily to communicate with individuals and other groups via email.

However, if they use the Internet creatively, they will find that its functions go far beyond a simple two-way communication tool. For example, on the Internet:

- think tanks can disseminate their research, conduct research on unemployment statistics, find other organizations that conduct similar work, and locate a paper delivered at a conference.
- advocacy groups can educate the public about a newly passed law, engage the community in a debate about an issue, and directly lobby government officials.

- business associations can recruit new members, offer services that are only accessible to existing members, and lobby the government for pro-business policies.

The activities of the Internet can be divided into four overlapping and complementary realms: two-way communication, conducting research, disseminating information, and public relations. Each of the following discussions introduces the basic steps and instructions connected with that particular use of the Internet. Users who are more experienced with the Internet can concentrate on the specific functions of the World Wide Web. In addition, there is a glossary attached to this article that explains some technical terms.

Two-way communication

The ability to communicate quickly, inexpensively and informally with individuals and organizations is a hallmark of the Internet. Electronic mail can be an excellent tool for communicating within and between organizations, and it creates new possibilities for conducting business with target audiences. Individuals can use the Web to set up a free email account. The Internet can be accessed at many public sites such as libraries, universities and nonprofit community centers.

Users can use email to enter into electronic discussion groups. Internet Relay Chat (IRC) allows participants to conduct a text-based live conference or "chat." Individuals can create a channel, or chat area, while others in that channel can see what has been written. Private channels can be easily created for multi-person conferences. For instructions on how to get started with IRC, see the Web site <http://www.undernet.org/documents/>. Groups that do not have access to the World Wide Web can send email to this address to retrieve instructions.

Conducting research

The World Wide Web is the primary navigation tool used by people to "travel" the Internet via hypertext links. The Web gives users the ability to go laterally from one document to another, while search engines can assist researchers in finding papers, bibliographies and contacts. These search engines include Altavista (<http://altavista.digital.com>), "assisted" search engines that use natural-language processing (AskJeeves, <http://www.askjeeves.com>), and "directory" sites that group Internet resources by topic (Yahoo!, <http://www.yahoo.com>).

Researchers can access thousands of discussion groups, which are also known as "newsgroups," via Usenet (<http://usenet.miningco.com>). The Web

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contains thousands of newsgroups, each focusing on a different topic. Because newsgroup messages are stored on newsgroups, to retrieve messages a user must have access to both a newsgroup and a newsreader such as those available through Microsoft Explorer and Netscape Navigator, or a specific newsreader software program such as NewsWatcher (Macintosh), Free Agent (Windows) and "nn" (UNIX). Users must have access to these newsgroups in order to access such groups as soc.org.non-profit (those involved in nonprofit work) and alt.usenet.newbies (people new to Usenet who have to ask questions).

Those who are new to the Internet may find HELPNET@vm.temple.edu a useful discussion list. To subscribe to this list, send the command "SUBSCRIBE HELP-NET Firstname Lastname" in the body of an email message to LISTSERV@vm.temple.edu.

A user can gain access to a newsgroup or electronic discussion list without having access to the World Wide Web. However, those who have access to the Web can search a newsgroup for specific information. One such site is DejaNews (<http://www.dejanews.com>). A description of the many discussion lists that are available on the Web can be found at <http://www.liszt.com>, "Liszt: the mailing list directory."

Disseminating information

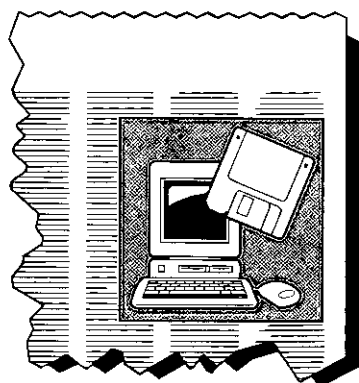
It is helpful to conceptualize the Internet as a place with a ready-made audience, where the only effort needed to "introduce" oneself is developing a Web site or posting a message to a discussion list or newsgroup. This type of electronic communication reaches a much wider audience than paper publishing or telephone calls.

Most Internet-based publishing is carried out on the World Wide Web, and documents can be offered in almost any language of any country. The two most popular methods are

Private and public granting agencies often place their grant guidelines and information on particular programs on Web sites. Some agencies accept proposals via email which saves valuable time for proposal writers. On-line organizations, such as the Foundation Center (<http://www.foundationcenter.org>), have extensive links to grant-making institutions on the Internet as well as links to other resources of interest to the grant-seeker.

"HTML" (HyperText Markup Language) and Adobe Acrobat. HTML allows individuals to format a World Wide Web-document to include images, links and sophisticated graphic displays. More information about HTML can be found at the World Wide Web Consortium Web site at <http://www.w3.org>.

Adobe Acrobat Exchange (<http://www.adobe.com>) gives institutions



the capability to use non-English language materials that require special fonts to communicate with Internet users who do not have such fonts. For example, Russian language documents in a Cyrillic font can be viewed by people in Latin America who do not have Cyrillic fonts on their computers. These documents can also be distributed via email. As mentioned above, electronic discussion lists and Usenet newsgroups can announce electronically published materials.

In order to improve its communication capabilities, an organization should have both an email address and, when possible, a Web page. A

Web page is identified by an Internet address, also known as URL (Uniform Resource Locator). The URL defines the address of the document and begins with "http:", "gopher:", or "ftp:". Letters of introduction sent by regular mail should include an email address and URL so that people will know the Web site address if they want to correspond via email. An organization may also design an interactive Web page that solicits "audience" participation or offers attention-grabbing "news" that brings readers to a calendar and current events list before they begin navigating the rest of the site.

An organization can expand readership by creating an electronic discussion list. A Web page should be designed in a way that makes it simple for interested parties to sign up to automatically receive updates from the organization. Additionally, an organization may want to post articles on its Web site to inform visitors of topical and information news. This will also encourage readers to return to the site.

Public relations

The image that an organization portrays on its Web site may determine how users perceive the organization. A professional presentation style may capture the interest of a funder or policymaker.

The Internet and the World Wide Web can provide organizations with significant exposure to outside audiences. A simple, well-designed Web site that provides current information about an institution can readily

inform individuals of project developments, opportunities for collaboration and volunteer positions.

For helpful suggestions on how to use the Internet for outreach purposes visit the NetAction Web site (<http://www.netaction.org>) or the Benton Foundation site (<http://www.benton.org>).

Both sites are examples of organizations that successfully incorporate the Internet into their outreach efforts. It is important to remember that this information can also be retrieved through email.

There are for-profit organizations on the Internet that offer free or re-

duced-cost Web hosting services to nonprofit organizations. One example is Interglobal Media (<http://www.interglobal.com>). Web Pages Inc. (<http://www.webpagesinc.com>) offers free Web page design services. ☼☼

Internet Research Without Internet Browsing

Even if you only have email you can obtain considerable information through the Internet. The technology behind this is known as *email-on-demand*, where an email message from you will prompt the computer on the receiving end to automatically send you information.

For example, CIPE's email on-demand service can provide you with articles from recent issues of *Economic Reform Today*. The entire library of these recent issues that are available on the Web are also available via email. All you need to do is send the appropriate email message to have a selected article sent to your email box. The text-only format

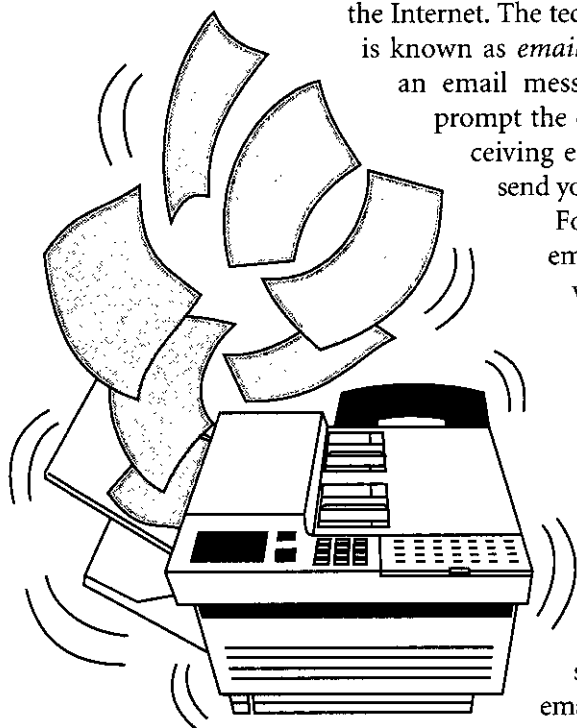
makes it easy to work with the document in any word-processing software you may have.

To use CIPE's email-on-demand service, just send an email message as follows:

- 1) address it to:
majordomo@mail.cipe.org
- 2) leave the Subject line blank
- 3) type **get cipe-files INDEX** into the body of your message. This will automatically bring you a complete index of available *Economic Reform Today* articles along with the proper command to send for receiving each one.

An important note: this system is *case-sensitive*. For example, if you type **get cipe-files index** the computer will not understand your request.

If you encounter any difficulty using the service, feel free to contact CIPE at cipe@cipe.org.



Offering Services to Members-Only

Business associations may find it useful to offer special members-only services on their Web site. In addition to information available to the general public, an association can set up a separate section that is accessible only to those with a password. This service may not only be helpful to provide

timely information for existing members, but also as a recruiting tool to attract potential members.

Coparmex, a federation of business associations in Mexico, offers several services only for its members on its Web site (<http://www.coparmex.org.mx>). For example, it publishes two monthly

publications, *Entorno* and *Boletín Técnico*, concerning labor, legal and ecology issues. While the general public can read only a few articles on the Coparmex Web site, members can access the entire text of all the articles by entering their passwords. ☼☼

Glossary of IT Terms

- ◆ **Backbone**—A high-speed line or series of connections that form a major pathway within a network.
- ◆ **Bandwidth**—Your Internet connection's capacity to transfer data. Usually measured in bits-per-second. A full page of English text is about 16,000 bits. A fast modem can move about 15,000 bits in one second.
- ◆ **Browser**—Software that enables you to see Web pages. Mosaic was the first browser, while Netscape and Internet Explorer are the most commonly used nowadays. The advent of browsers transformed the Internet into the colorful, user-friendly Web we know and use. Browsers take text files written in HTML (see HTML) and assemble all the relevant pieces into one colorful, easy-to-view page.
- ◆ **Domain name**—The unique name that identifies an Internet site. The Internet is divided into domains on a hierarchical basis. A domain is an individual network. The domain name system maps Internet protocol addresses to individual computers within the domain. Internet email addresses include domain name information.
- ◆ **E-commerce**—The buying and selling of goods and services over the World Wide Web and the Internet, electronic funds transfers, smart cards, digital cash, and all other ways of doing business over digital networks.
- ◆ **Encryption**—The process of converting data into "unreadable code" so that prying eyes cannot understand the content. Encryption is necessary because valuable and sensitive information is often sent from one computer to another via a network that technically can be accessed by anybody.
- ◆ **FAQ**—Frequently Asked Questions. FAQs are online documents that list and answer the most common questions on a particular subject. There are hundreds of FAQs on the Internet, on subjects as diverse as gardening and virtual reality. FAQs were developed by people who grew tired of repeatedly answering the same questions.
- ◆ **Host**—Any computer directly connected to a network that acts as a repository for services—for example, email, Usenet, newsgroups, FTP, or World Wide Web—for other computers on the network (see also Server).
- ◆ **HTML**—HyperText Markup Language. The coding language used to create most documents used on the World Wide Web. HTML looks a lot like old-fashioned typesetting code, where you surround a block of text with codes that indicate how it should appear. You can also specify that a block of text, or a word, is linked to another file on the Internet.
- ◆ **Internet**—Sometimes simply called "the Net," the Internet is a worldwide system of computer networks—a network of networks in which users at any one computer can get information from any other computer. To accomplish this all the computers on the Internet have to use a common set of rules for communication. Those rules are called protocols, and the Internet uses a set of protocols called TCP/IP (Transmission Control Protocol/Internet Protocol). Many people equate the World Wide Web with the Internet. In fact, the Internet is like the highway, and the World Wide Web is like a truck that uses that highway to get from place to place (see WWW).
- ◆ **Interoperability**—The ability of disparate hardware and/or software systems to communicate with each other in order to accomplish a particular task. This can be done by adhering to certain standards or providing specialized technical accommodations.
- ◆ **ISDN**—Integrated Services Digital Network. A way to move more data over existing regular phone lines. ISDN is rapidly becoming available in much of the US, and in most markets it is comparably priced to standard analog phone circuits. It can provide speeds of roughly 128,000 bits-per-second over regular phone lines.
- ◆ **ISP**—Internet Service Provider. A company that provides access to the Internet by handling the link from your PC to the rest of the Internet. The ISP's central computer is linked to the rest of the Internet so the persons using its services only pay the telephone charges to connect from their home computer to the ISP's central computer.
- ◆ **Leased-line**—A phone line that is rented for exclusive 24-hour, seven days-a-week use from your location to another location. The highest speed data connections require a leased line.
- ◆ **Network**—You have a computer network when you connect two or more computers so that they can share resources.
- ◆ **Protocol**—The standard or set of rules that two computers use to communicate with each other. It assures that different networks can work together. The success of the Internet—indeed, its very existence—depends on people voluntarily agreeing to configure their hardware and software to the TCP/IP standard protocol. Take FTP (File Transfer Protocol) as an example. When you contact a computer to download a file, the computers communicate with a series of pre-agreed-upon rules. The "conversation" between the computers goes something like this: "I want that file," and "here it comes." (Also see URL.)

- ◆ **Search engine**—A program that lets you do keyword searches for information on the Internet. The search may cover titles of documents, URLs, headers, or a full text. Online search engines include Excite, Infoseek, Yahoo, and AltaVista. Yahoo and Excite are expansive catalogs of Web sites that have been intuitively divided into categories. Others, like HotBot or AltaVista, look for any sites containing the keyword you seek.
- ◆ **Server**—A computer or a software package that provides a specific kind of service to client software running on other computers. The term can refer to a particular piece of software, such as a World Wide Web server, or to the machine on which the software is running. A single server computer could have several different server software packages running on it, thus providing many different servers to clients on the network.
- ◆ **URL**—Everything on the Web has its own distinct address, or URL. Web pages, images and scripts all have a distinct location, which usually begins with "HTTP" ("hypertext transfer protocol") followed by a colon and two slashes (<http://>). Although based on the file you're accessing, the preamble can vary, replacing HTTP with FTP, or "file transfer protocol" (used to transfer software or other large files); telnet (which is used to log onto a remote computer); or file, which means the browser is reading a document from your computer rather than from a remote server.
- ◆ **WIPO**—The World Intellectual Property Organization. An intergovernmental organization responsible for promoting the protection of intellectual property throughout the world. Intellectual property comprises inventions, trademarks, industrial designs, and appellations of origin. It also includes copyrights for musical, artistic, photographic, and audiovisual works.
- ◆ **WWW**—World Wide Web, the most widely used part of the Internet. Its outstanding feature is hypertext, a method of instant cross-referencing. In most Web sites, certain words or phrases appear in text of a different color than the rest; often this text is also underlined (for instance, www.cipe.org). When you select one of these words or phrases, you will be transferred to the site or page that is relevant to this word or phrase. Using the Web, you have access to millions of pages of information. Web "surfing" is done with a Web browser; the most popular are Netscape Navigator and Microsoft Internet Explorer.
- ◆ **Y2K**—The Year 2000 problem. The inability of computer programs to correctly distinguish the century from a date that has only two year digits. During the seventies and eighties, the turn of the century seemed so remote and memory/disk was so expensive that most programs stored only the last two digits of the years. It is difficult to estimate how serious the "century meltdown" will be. Although few programs written decades ago are still being used in their original form, blocks of code might have migrated to newer software, thereby trying to track all of them down seems impossible. Even setting the computer's clock forward to 11:59 PM December 31, 1999 and waiting to see what happens is only a partial solution if the computer relies on other systems over which you have no control such as customers' or suppliers' computers.

Disseminating Economic Research in China

The China Center for Economic Research (CCER), a research and teaching institute affiliated with Beijing University, plans to use the Internet to publish research and information on key economic issues, such as the reform of state-owned enterprises and pension systems. An electronic clearinghouse, to be known as China Economics Network (CEN), will serve as a channel for Chinese economists to communicate domestically and internationally about economic liberalization and development.

Nothing like this currently exists

in China. CEN will create a national network of economists and economic policymakers, provide them with constantly updated information on market economics, and facilitate communication and information-sharing among them. CCER plans to put online information on economics education, biographies of Chinese economists, research papers or abstracts related to China's economic reforms, and papers on world economic development and cooperation.

In late 1998, CCER will link economics departments at ten top

universities in China. In the following years, it will include all major universities and economic think tanks throughout the country. CEN will also be linked to all the major overseas economic organizations, including the US National Bureau of Economic Research and the American Economics Association. CCER plans to become a hub for exchanges and interactions involving reform and development issues in China and other countries.

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ECONOMIC[®] REFORM TODAY



Growing an Entrepreneurial Economy

Educating Tomorrow's Entrepreneurs

Strengthening the Voice of Business

Romantic: From Entrepreneurship Education to Policy Advocacy

Making Education Count

Kenya: Sharpening Business Skills



Letter from the Publisher

As an affiliate of the US Chamber of Commerce, the Center for International Private Enterprise has always placed a high priority on business as the engine of economic growth, job creation and prosperity. In the United States, private enterprise in the form of small-scale business constitutes the backbone of the economy.

The broad-based experience of business—both large and small—is an important input for the policymaking process of this country. When public policy incorporates business concerns, this allows the business community to do what it does best—create jobs. That is why unemployment is so low in the United States. Our experience has also taught us that when regulatory structures or tax policy gets heavy handed, small business gets hurt first. This is a fact that every government in the world needs to learn.

The fostering of entrepreneurship discussed in this issue of *Economic Reform Today* is highly dependent on sound public policy that builds institutions supportive of business. The interview with Paul Holden of the Enterprise Research Institute emphasizes that entrepreneurship training can only be effective in this framework.

The education of entrepreneurs can take many forms—all of which are important for stimulating jobs in small business. Allan Gibb in his technical paper discusses how entrepreneurship training differs from building business skills. His article is useful for educators because it explains the importance of establishing an appropriate curriculum for entrepreneurship training at various educational levels.

Also in this issue, Victor Pratt, Ion Anton and Sarah Kreimer and Jennifer Hidde highlight important examples of organizations that have set up successful training programs in Kenya, Romania and the West Bank/Gaza Strip. Going beyond the classroom, it is especially important to provide ongoing education for entrepreneurs in public policy issues that affect them. Our special feature article "Strengthening the Voice of Business" explores how the advocacy programs of business associations and grassroots organizations in five countries are meeting this need. Finally, several articles explore the special training requirements of different societal groups: Andrina Lever and Lorraine Corner discuss women entrepreneurs, while Margaret Worthington-Smith and Fiona Macaulay describe a special program for younger, less educated entrepreneurs in South Africa.

We hope this issue of *Economic Reform Today* is useful for policymakers, educators and business leaders to formulate effective entrepreneurship training programs. We look forward to hearing your comments about it.



A handwritten signature in dark ink that reads "Willard A. Workman".

Willard A. Workman
Vice President, CIPE & Vice President,
International, US Chamber of Commerce

ECONOMIC REFORM TODAY



NUMBER FOUR 1998

THE CIPE
MAGAZINE OF
CHANGE AND
PUBLIC POLICY

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Growing an Entrepreneurial Economy

by CIPE

Starting a business requires courage even in the best of times: courage to take the risk of putting your own money into an idea; courage to take on the competition; and courage to take a leap into an unknown future. Throughout the world, millions of entrepreneurs display such courage as they create new businesses. This creative process is the lifeblood of the strong private sectors that drive growth and propel nations forward.

How can policymakers ensure that entrepreneurship thrives in their countries? Their first effort must be to establish an environment in which entrepreneurship can flourish. Secondly, they must instill the values of entrepreneurship in future generations through sound education policies and programs.

Experience has shown that nations that support their courageous entrepreneurs have grown and prospered over the last 30 years, while nations that have placed barriers to the growth of their small business enterprises have done poorly. Even among countries that previously discouraged or prohibited such activity in favor of the government as the driving force for economic growth, there is now growing recognition of the importance of fostering entrepreneurial activity.

Professor Allen Gibb, Chairman of the Small Business Centre at Durham University Business School in the United Kingdom and one of the authors in this issue

of *Economic Reform Today*, aptly describes the need for entrepreneurship education:

While the word "enterprise" is ambiguous enough to embrace industry, business management, and new venture creation as well as the development of personal and social skills, there is increasingly a more precise emphasis upon entrepreneurship. This seems to be in recognition of the need for societies, organizations and individual citizens to develop the capacity to enjoy and cope with an increasingly competitive, uncertain and complex world involving higher rates of innovation and change.

Government plays its most important role in helping its entrepreneurs blaze a trail of prosperity by implementing policies that create a business-friendly environment. These conditions must be in place before sustained growth and progress can be achieved.

What are the right elements? The answer, of course, will not be exactly the same for every country, but there are some basic principles that serve as a framework. Policymakers should focus their efforts on three key areas:

◆ A Market-oriented Environment

The path to prosperity begins with governments creating an environment where the private sector can flourish. This enabling environment requires sound policies in four basic areas: securing private

property rights, rationalizing the legal system, improving government administration, and building physical infrastructure.

Private Property Rights. The right to own private property is a vital aspect of building up the private sector. The desire for profit is the reason entrepreneurs take the risks of engaging in new business ventures or other forms of economic activity that benefit society as a whole. Along the same lines, the opportunity to earn and use profits as they wish motivates corporations to make business decisions that maximize profits. As they engage in lines of business where they perceive opportunities for profit, corporations meet the demands of consumers, which again benefits society as a whole.

Legal System. The legal structure of a market economy creates a marketplace that functions smoothly and efficiently for both producers and consumers. An impartial judicial system is the key to enforcing contracts. Contracts evolved as a legally enforceable way to establish the conditions and obligations under which transactions take place.

Government Administration. In creating an environment that encourages business, government institutions play the key role. Effective government institutions are open, decentralized, stable, and impartial. They create conditions that allow citizens to participate and compete in the marketplace under conditions of equality. It is especially important for the private sector to be able to voice its concerns and participate in the formation of laws that will affect business operations. In many countries, this is accomplished through voluntarily formed business associations that make sure their members' interests are represented as policies, laws and regulations are developed.

Infrastructure. Finally, a healthy business environment must rely on ade-

quate physical infrastructure and support services to flourish. Roads, ports and telecommunications facilities must be modern and in good condition. Support services, such as legal advice, insurance, accounting, and consulting services must be allowed to operate in response to market demand.

◆ Business Training

Business training and development programs are important, especially in countries where the private sector has not flourished in recent years or in fact has never existed. Effective programs focus on several important areas: improving hands-on business skills, improving the general economic knowledge of entrepreneurs and teaching them the importance of broader public policy issues and how these affect them as business owners. Many of the organizations presented in this issue of *Economic Reform Today* provide innovative examples of programs that effectively meet this pressing need for education and training.

◆ Finance and Credit Assistance

While government's most important function is to create a sound business environment, there are other assistance programs that may also help small businesses prosper and grow. Small businesses are a vital part of the private sector as a whole, but are more vulnerable to harsh economic climates. Perhaps the greatest obstacle for small enterprises lies in getting loans from banks to fund their operations. This problem is especially acute in developing countries, where many small businesses operate outside the legal economy. The entrepreneurs who run these ventures usually have little to offer for collateral and often have had no prior contact with the banking system.

Programs that can provide access to risk capital for new and small businesses can help these enterprises

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get off the ground. One useful example of how the government can play an effective role in this process is the network of privately-owned and profit-seeking small business investment companies (SBICs) that exist in the United States. Using capital and funds borrowed from the U.S. Small Business Administration (SBA), they provide financing to small businesses in the form of equity securities and long-term loans.

All three of these elements are vital, but they are also interdependent. It is not enough just to provide training and technical assistance or to create small, special lending programs. In too many countries, entrepreneurs must deal with laws and regulations that have become so complex

that it is nearly impossible to start a new firm or expand existing operations. In a now-famous example of bureaucratic overkill and its stifling effects on economic activity, the Institute for Liberty and Democracy in Peru discovered that to register a business required 11 different procedures lasting a total of 289 days. The lesson is that entrepreneurship thrives under conditions where citizens participate and compete in the marketplace under conditions of equality and are not unduly burdened by regulation. Under such conditions entrepreneurs can apply the creative process that drives economic growth and propels their nations forward. ☛☛

Making Education Count

Paul Holden

What is the proper role of education in fostering entrepreneurship? The answer to that question depends on where a country is in its overall economic reform effort. In this *Economic Reform Today* interview, Dr. Paul Holden discusses how entrepreneurial education is an important part of instilling the values of democratic, market-oriented reforms and reforming the business environment. His point is that business education cannot be successful unless the groundwork is laid for a strong business environment. In Latin America, the region he focuses on, it is clear that national reform agendas remain unfinished.

ERT: Where does entrepreneurial education fit into the economic reform process?

DR. HOLDEN: It depends what you mean by entrepreneurial education. If it means trying to teach someone to be an entrepreneur, I would say that it's unlikely to be successful. If it's trying to teach better business techniques to potential or existing entrepreneurs, then I would say it's filling a real need. Many people who have started small businesses do not have a good grounding in business skills such as organization, accounting, and systems controls. This is where there is a huge need for further education. Combined with other institutional reforms, this approach has the potential to make a real difference.

By contrast, an increasing number of countries are promoting small business

assistance programs, and many of them involve subsidies and financial guarantees. None of them is effective because they work around existing barriers, as opposed to identifying the barriers and doing something about them. Not only are they third or fourth best solutions, but they're typically captured by vested interests, including those government agencies promoting the programs—they often exist more to provide employment to government officials than to help spur businesses.

This is one of the strongest messages that we try to convey in our courses. You do not promote entrepreneurship by helping a favored few work around the obstacles that are inherent in the existing system. You work on removing the barriers that are stifling business formation and growth. So in this sense general reform and business education are complementary. Policy should be creating a pro-business environment while at the same time promoting entrepreneurial education. As the business environment improves, an increasing number of potential entrepreneurs will try to put their ideas and vision into practice by starting their own businesses. In addition, educating people will provide a pressure group for change, because once they encounter the hoops they have to jump through in establishing a business, they will want to alter the policy environment.

ERT: How would you describe the general state of the business environment in Latin America?

Dr. Paul Holden is the Director of The Enterprise Research Institute (ERI) and The Enterprise Research Foundation. He is also co-author of "Unshackling the Private Sector," a World Bank publication that describes and analyzes the reforms that have taken place in Latin America and how they have affected the private sector.

DR. HOLDEN: The problem is that the reform agenda has not been completed. In many countries, significant parts of the economy remain in state hands, labor regulations hamper the effective working of labor markets, and the institutions that support economic activity are inadequate. Latin America still needs a second generation of reforms to improve judicial dispute resolution mechanisms, strengthen property rights, and reduce regulation. In particular, strengthening property rights for both fixed and movable property is a vital part of the process of reform. This has the potential to greatly improve the welfare of the poor by giving them secure title to the land on which they are squatting, as well as to contribute to financial market development by providing better collateral for loans to businesses.

Latin America has an underdeveloped financial system. The ratio of credit to GDP is very low, and the main source of lending is banks. Because it is often impossible to use anything but prime real estate as security for loans, many of the second- and third-tier financial institutions that are prevalent in industrial countries "which usually take business assets as collateral for their lending" don't exist in Latin America. The rich array of institutions channeling savings towards investments that exists in the United States is very underdeveloped in Latin America.

Markets need effective institutions to work properly. They provide the rules that underpin market exchange. Economic development requires that transactions take place over longer distances and over longer time horizons. It involves substantial investment of both physical and human capital. People need to be able to take risks, which is why we need institutions that help manage risk effectively. For example, the legal system is needed to help formalize and enforce contracts. Property rights are needed to provide collateral for loans. Institutional strengthening is a key element in fostering further progress.

ERT: Latin America's economy has undergone tremendous change since adopting market-oriented reforms about 15 years

ago. In particular, inflation has fallen sharply in most countries and income has risen. In spite of the higher growth rates, however, income disparities are growing and people are viewing economic reforms with increasing skepticism. Even though they have generally been market-oriented, have the policies implemented in most countries in the region been misguided?

DR. HOLDEN: No, not at all. Compared with how things were in the 1980s, virtually every country in Latin America is far better off now. For example, inflation was endemic in the region. This placed a particular burden on the poor. In most countries now, prices are relatively stable. In spite of this, however, the reforms that have taken place have not produced the results that many people had hoped for. In particular, the vast disparities in income and wealth have not diminished and, in some cases, have actually increased.

ERT: In your book, you argue that the absence of formal institutions or the presence of weak institutions induces the private sector to develop its own methods of containing risks. This increases transaction costs and warps private sector growth. Could you explain this process?

DR. HOLDEN: Institutions determine the transactions costs that underlie production, exchange and interactions in the marketplace. As an economy develops and changes, the nature of the institutional structure must evolve to accommodate



the more complex and specialized nature of transactions. In the absence of formal institutions the private sector has developed its own methods of containing risk, including resorting to informal arrangements, avoiding complex, impersonal or long-term contracts, and hiring facilitators to deal with the inefficiencies of existing institutions. All these activities raise transactions costs and inhibit private sector development.

Where formal institutions are weak, high transaction costs undermine the ability of the private sector to engage in increasingly specialized activities. More highly evolved institutions allow for a greater division of labor and specialization, which in turn promotes higher productivity and reduces the costs of doing business. As specialization increases, the minimum scale of production rises. This is a process that demands widespread markets and increasingly complex and impersonal transactions. To attenuate the risks of such impersonality, property rights need to be clearly delineated, and a framework for enforcing contracts needs to be developed. In order for markets to function efficiently, these transactions costs need to be kept to a minimum.

In Latin America, this process has evolved into two very distinct patterns of exchange, both of which point to weak institutions. First, the very rich in Latin America tend to deal primarily with those whom they know, thereby making it very hard for outsiders to break into the market. Entrepreneurship—one of the chief avenues for upward mobility in the United States and other industrial countries—is only available to a very limited group of people in Latin America.

The second type of market behavior that has evolved is informality. Latin America's informal economy is huge, and for good reason: there are incentives for people to stay in the informal sector. This typically involves cash or spot transactions, which are antithetical to long-term economic growth. Latin America lacks the incentives for people to move into the formal market. They are cut off from access to the institutions that underlie the market economy.

ERT: How does informality hurt economic growth?

DR. HOLDEN: Because it does not provide incentives for investment in either knowledge or equipment that would improve productivity and raise living standards. ERI has conducted surveys in a number of countries which show that the informal economy is primarily made up of people who are struggling to feed their families. They are pushed into this type of activity because they can't get jobs in the formal sector, not because they are budding entrepreneurs. I'm not saying that there isn't any entrepreneurship in the informal economy. For example, the mini-bus/taxi sector in Peru is certainly an example of powerful entrepreneurial activity. But, in general, most people who work in the informal economy don't want to be entrepreneurs. They want to have jobs in the formal economy.

ERT: What kind of policies can be adopted in order to eliminate or reduce informality in these countries?

DR. HOLDEN: First, removing some of the costs of becoming formal will reduce the size of this sector. Reducing the cost of company formation, making the judicial system more accessible, reforming restrictive laws regarding hiring and dismissing workers, and simplifying the tax system are examples of measures that will reduce the size of the informal sector. Second, policy measures should be aimed at encouraging informal firms to become formal rather than trying to directly aid members of the informal sector. Therefore, improving the overall business environment is one of the most effective ways to encourage formality.

For example, Peru conducted an experiment that I find quite interesting. The most significant development was the titling program that gave secure title to slum dwellers in Lima and other Peruvian cities using techniques developed by Hernando de Soto's Instituto Libertad y Democracia, much of it under CIPE sponsorship. For the first time this allowed real property to be used as security for loans and, as such, mobilized wealth

that had been ineligible for use until this happened. As a result close to a million new properties have been titled and registered. Many have used their new titles as security for loans to improve their properties or to start small businesses.

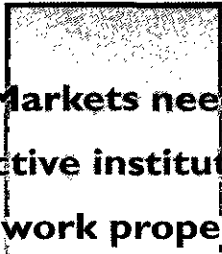
At the same time, the government adopted a combination of "a stick and carrot" approach towards informality. There were very few taxpayers in the informal sector, and a lot of social costs associated with informality in terms of crowded streets, crime, sidewalk squatters, and so on. Informal retailers in the downtown area of Lima were forced into the formal economy through a combination of penalties and rewards. Anybody trading in the street was moved into covered premises with sanitation and security. In return all are forced to pay the value-added tax (VAT). If these entrepreneurs in the informal sector did not have tax receipts, they were fined and evicted, essentially putting them out of business.

Realizing that information on the status of small business tax payments would help banks with decisions on loans, the tax authority, SUNAT, approached the Inter-American Development Bank for funds to put it on-line. This proved to be an inspired move. The banks identified timely tax payments as a key character issue for prospective borrowers. Since the VAT is paid as a percentage of sales, it also allowed the banks to check the accuracy of sales data given by borrowers who rarely have formal accounting information to support their applications. Most banks in Peru now access the SUNAT database on a regular basis.

Demonstrating the usefulness of such information also led to a demand for credit bureaus. Initially a company took the SUNAT data and packaged it in a more easily accessible format. Once the Superintendent of Banks forced the commercial banks to make available the credit histories of their customers,

three widely used credit bureaus were founded. TRW and Equifax, large US credit bureaus, have entered into partnerships with two of them.

The result of more secure property rights on the one hand and much better credit information on the other has been a revolution in banking practices. Banks, including foreign banks which entered after the financial sector was liberalized, are now targeting small businesses, graphically demonstrating the benefits of opening up the banking system to foreign entrants. Locally owned banks have been forced to become more efficient. Credit to the private sector in Peru has jumped from the equivalent of 10% of GDP a few years ago to nearly 30% of GDP



**Markets need
effective institutions
to work properly.**

now. Although this is far lower than in the industrial countries, it is a respectable figure in Latin America.

The fact that property-titling reform was done in conjunction with a new approach to informal trading is, in my view, extremely important because a piecemeal approach to reform is rarely successful. The new incentives in Lima have pushed people in the informal sector towards entering the formal economy and gradually escaping the spiral of poverty. As a result there's been significant small business growth in the area.

ERT: What else constitutes a second generation reform?

DR. HOLDEN: The high cost of business registration must be re-

duced. This is a significant barrier to small business development and growth. The process is not only costly, but procuring licenses and permits from many different government offices requires a significant time investment. The cost of registering businesses in Latin America is significantly higher than in the United States, and in terms of average income it is probably higher by a factor of ten.

In addition, business regulations need to be simplified and rationalized. Businesses are regulated by a myriad of conflicting rules and regulations at nearly all levels of government. In my book, I write about a factory in Sao Paulo that was subject to a variety of fire regulations in terms of how high the fire extinguisher should be hung on the wall. Because of conflicting state and federal regulations, the businessman had two hooks on the wall. Depending on which inspector was outside, he hung the fire extinguishers on the appropriate hook. Eventually, the inspectors realized what was happening and they conspired to arrive at the same time, forcing the factory manager to pay them off. In this way, regulation can be a source of a great deal of corruption.

Another reform area lies in improving and strengthening property rights, particularly in secure transactions. In most Latin American countries it is enormously difficult for a business to use its assets as security for loans. This also applies to farmers. Due to the way that property is defined, the possibility for a farmer to borrow money to buy seeds and fertilizer using future crops as security doesn't exist. Defining property rights structures by providing stronger incentives for productive behavior is an important area for improving the way markets function. If we were to start here, we'd see huge progress. ☺☺

Policy Options to Promote Entrepreneurship

The OECD recently conducted an in-depth study of the policies that foster entrepreneurship in five countries—Australia, The Netherlands, Spain, Sweden, and the United States. The following presents some of its broad policy guidelines that can be applied to developing countries as well. Each country needs to examine how these could best be applied within its own situation.

Broad policy guidelines

Examine the overall institutional framework within which economic activity takes place in order to establish whether it provides maximum scope for entrepreneurship to flourish. In particular:

- ◆ Identify and dismantle remaining barriers to competition which limit the incentives of enterprises to innovate and perform more dynamically. Promote competition in all sectors of the economy, including the provision of public services. Provide effective protection of intellectual property.
- ◆ Examine whether current regulations governing financial institutions and/or financial markets inhibit or facilitate the availability and optimal allocation of finance for entrepreneurial activities.
- ◆ Allow scope for flexible employment contracts to be negotiated, with remuneration arrangements and working conditions that are well adapted to the needs of dynamic enterprises. Relax employment protection measures that inhibit restructuring or discourage entrepreneurs from taking on new workers.
- ◆ Examine the costs of complying with government-imposed administrative or regulatory requirements and identify where reduc-

tions could be made, either by removing the requirements to comply or by reducing the administrative burden involved (including through better coordination among various government agencies).

- ◆ Examine the overall effects of the tax system on entrepreneurship, and identify features that discourage entrepreneurs or the financing of entrepreneurial activity. Ensure that the tax system is transparent and that compliance is straightforward.
- ◆ Review and simplify the registration procedures required to create a business. Ensure that firms are able to close quickly should they wish to do so.
- ◆ Ensure that personal bankruptcy legislation provides an appropriate balance between encouraging risk-taking and protecting creditors.
- ◆ Reexamine the effects that social insurance provisions may have on encouraging or discouraging would-be entrepreneurs.

Ensure that specific programs designed to foster entrepreneurship operate as part of an integrated and coherent strategy that complements the framework conditions. In particular:

- ◆ Avoid policies that stem from a too-narrow definition of entrepreneurship (e.g., that entrepreneurship is only about start-ups or only about high-technology) and which may divert attention from getting the broader economic policy settings right.
- ◆ Widen the target population for entrepreneurship programs, where possible, to attract the participation of women, the young and minorities.

- ◆ Undertake regular and comprehensive evaluation of programs, and ensure that evaluation findings are acted on.

Improve the effectiveness of entrepreneurship programs by drawing on the knowledge of local levels of government. In particular:

- ◆ Ensure that resources for programs to foster entrepreneurship are decentralized where appropriate in order to better tailor programs to the specific needs of an area and its business.
- ◆ Provide regular opportunities to exchange information at a national level on the experiences of local authorities in designing and implementing entrepreneurship programs.

Seek to identify and implement low-cost and effective programs with minimal distortionary effects on market incentives. For example:

- ◆ Promote public awareness of entrepreneurship and examine the role the education system could play in developing entrepreneurial skills and attitudes.
- ◆ Increase opportunities for the unemployed to create their own jobs through self-employment schemes.
- ◆ Facilitate networking among firms in order to foster a culture of mutual cooperation and risk-taking.
- ◆ Promote the entrepreneurial non-profit sector by contracting-out where possible the delivery of public services that meet pressing demands in economic and social development. ☛☛

OECD. *Fostering Entrepreneurship*, 1998, pp. 28-30. Used with permission of OECD.



Sharing Business Skills in Kenya

by Victor Pratt

Since its inception twelve years ago, Kenya Management Assistance Program (K-MAP), has grappled with the arduous task of dealing with the three main obstacles that stifle the development of small enterprises: lack of management skills, lack of access to credit and lack of an enabling environment. In tackling these constraints, K-MAP has sought to develop mutually beneficial linkages among large, medium and small enterprises. These ties are vital to the sustainability and growth of all businesses. Large, well-established companies and small-scale entrepreneurs have been attracted by the relevance, simplicity and applicability of this strategy that transfers technical and management skills.

Counseling out of self-interest

In 1986, 74 large, well-established companies in Kenya agreed to release some of their top and middle managers for one day a month to provide one-on-one business counseling to existing and potential small-scale entrepreneurs. The one-on-one counseling method was adopted because most small-scale African entrepreneurs lack a strong formal educational background and thus prefer a practical, interactive form of business education.

Apart from being pragmatic, this approach makes it possible for entrepreneurs—otherwise known as “clients”—to discuss their business problems freely and privately with people who have succeeded as executives in larger organizations. It

also allows counseling to be conducted in a local language which helps to establish rapport. Moreover, counseling is conducted at the business premises of the client.

Over the years, the program has provided one-on-one counseling to over 10,000 small businesses in the manufacturing, commerce, engineering, agribusiness, communications, textile, insurance, tourism, and service sectors throughout Kenya. Counselors assist small entrepreneurs in business planning, marketing, product development, quality assurance, costing and pricing, record keeping, inventory control, and import-export trade.

By sharing its management know-how with smaller enterprises, the Kenyan business community has introduced a new dimension to African private-sector thinking: those who succeed in business can and should assist upcoming, less experienced entrepreneurs. They realize that support for small business means more jobs, which in turn translates into more purchasing power and an expanded tax base. With over 500,000 people entering the job market every year and with fewer than 100,000 jobs being created in the formal sector, Kenya's private sector realized that creating small businesses offered the only hope for the jobless. The ranks of the unemployed include university graduates and high school dropouts, as well as those who have been laid off.

The businesses that participate in K-MAP's program have also recognized that helping to foster the growth of efficient

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small businesses provides their own companies with opportunities for subcontracting, distributorships, franchising, and other forms of productive linkages. This helps them to achieve economies of scale that enhance their competitiveness in an increasingly competitive world where protectionism and import substitution are giving way to globalization and market liberalization.

This was the mindset of the original 74 companies that agreed to support the implementation of K-MAP's concept. These initial sponsors laid the foundation for a membership that has grown to 200 companies that contribute roughly 800 counselors to a skills bank. They have invested more than 120,000 hours guiding and advising over 10,000 existing and potential small businesses in the manufacturing, tourism, engineering, agribusiness, communications and service sectors throughout Kenya. Multinational corporations represent 26% of the total membership, while the remaining 74% are domestic Kenyan companies. The sponsors include multinationals such as Philips Electronics, Toyota Motors, Shell Kenya, PricewaterhouseCoopers, Procter & Gamble, and General Motors.

Enhancing counselors' skills

In order to sustain this program, the linkages among large, medium and small businesses must be based on a shared vision, common goals and mutual profitability and growth. Therefore, K-MAP equips its counselors with necessary guidance tools while giving them something to take back to their own companies. This capacity enhancement program focuses on improving interpersonal, team building, communication, leadership, diagnostic and problem-solving skills. So far, some 400 counselors have benefited from this plan. K-MAP counselors provide guidance from startup through the operational phase of the business.

As part of its business counseling services, K-MAP recently introduced a weekly business Q&A column in the influential weekly newspaper, *The East African*. This column tackles issues confronted by business operators in East Africa.

In addition to counseling and training, K-MAP carries out research on matters that are pertinent to small business. Research enables K-MAP to develop new products, improve current ones and enrich its knowledge base. It also publishes booklets on issues related to small business development. Topics of current publications include how to plan and start a business, negotiating a small business loan, and export/import trade.

Facilitating credit

Inability to access credit is as much an obstacle to developing a small business as is the lack of management and technical skills. It is particularly unfortunate when a small business has developed expansion plans but lacks the financial resources to implement them. In 1991, K-MAP made a breakthrough when Barclays Bank agreed to require only 50% collateral of the loan value—in the past it required 100% collateral—when extending working capital loans. Loans extended under this special program range from \$2,200 to \$80,000 and are available exclusively to small businesses backed by K-MAP management skills and know-how.



African entrepreneurs prefer practical business education.

Photo: K-Map

Barclays relies on K-MAP to identify and assess the financial needs of its clients and to assist them in preparing bankable business plans, which are then recommended to the bank for consideration. The bank retains all lending decisionmaking authority.

In the recent past, formal financial institutions in Kenya viewed small enterprises as "high risk—high cost entities." Kenya's small enterprise sector received less than 3% of total lending. By reducing the risks and transaction costs through its business counseling and training programs, K-MAP has convinced financial institutions to regard the small enterprise sector as an opportunity for growth, not a risk to be avoided. Because of this new perception, these institutions are beginning to base their lending decisions more on cash flow than on demonstrated capital.

In addition to its skills-leveraging program, K-MAP is active in the Small Enterprise Credit Association (SECA). SECA is a nonprofit organization that unites banks, non-bank financial institutions and other nonprofit entities to develop innovative approaches for increasing credit flows to small and medium-size enterprises (SMEs).

Changing the policy environment

The small business environment in Kenya, and throughout much of Africa, is characterized by repressive laws and imposing administrative barriers. Thirty-five years after the country's political independence, colonial laws and administrative systems that were designed to keep Africans out of business still remain intact. Policymakers are generally suspicious of and sometimes hostile to profit making, although profit is the basis of taxation

HOW K-MAP'S COUNSELING PROGRAM WORKS

K-MAP targets small and medium-sized enterprises that employ up to 30 employees in a variety of sectors. Prospective clients are screened for commitment and their potential for success. Upon registration and payment of a \$50 fee, a client is entitled to five counseling sessions. Should counseling be required after the first five sessions, which is usually not the case, the client is required to pay an additional \$50 fee. A counselor is assigned to a client for eight hours a month.

After reviewing applications and résumé, K-MAP's guidance counselors interview the short-listed candidates to determine their business experience, education, and personality suitability for counseling. Those who are accepted undergo an induction process to introduce them to K-MAP and its approach to business development services. K-MAP conducts quarterly counselor training programs for new counselors that

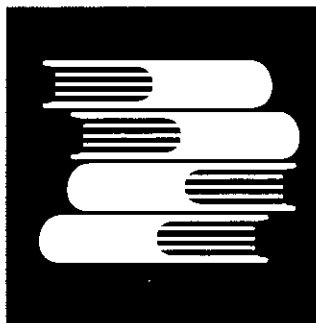
are designed to improve their techniques and human relation skills. Counselors have found these courses very valuable for their guidance activities, as well as for their individual professional development.

In assigning counselors to clients, K-MAP first identifies the client's perceived and real needs. Then, the counseling coordinator matches what the client needs with a specific skill area and identifies suitable counselors, including location of the client and language compatibility. K-MAP then sends a letter to both the coun-

selor and the client, informing each of the arrangement. K-MAP leaves the client and counselor to agree on timing and work methods that are convenient to both. This is done in order to promote rapport and ownership of the counseling process.

Counselors produce a short standardized report for K-MAP after each session describing the session's details. Clients are encouraged to report back to K-MAP with feedback, and they may change counselors if they feel that their current counselor is unsuitable.

Workshop training sessions, which are run on a fee basis, supplement one-on-one counseling, thereby permitting small-scale entrepreneurs to interact and learn from each other. The workshops are facilitated by experienced K-MAP counselors and include a mobile training unit for rural outreach.



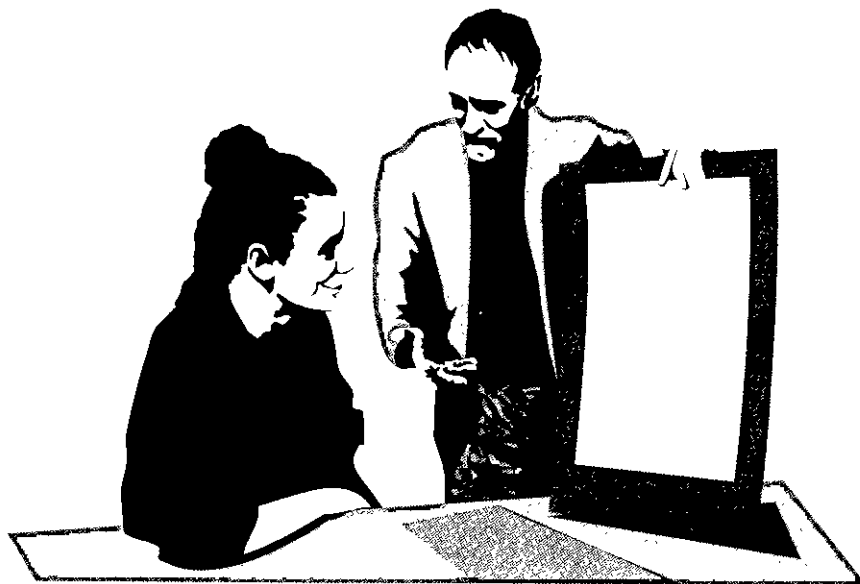
and government revenues. Entrepreneurs complain of long delays in obtaining business registration and trade licenses, over-centralization of services, complicated tax forms, too many controls, as well as outright misinterpretation of laws by those entrusted to administer them.

Of the total 900,000 businesses in Kenya, more than 70% operate in the informal sector. This high informality rate clearly suggests the need for drastic reforms in the legal and administrative landscape. A K-MAP survey carried out in 1995 led to the establishment of a broad-based, private sector, nonprofit organization, the Committee for the Improvement of Small Business Environment (CISBE). This group is currently working with a government inter-ministerial committee to simplify laws and administrative procedures. The importance of this work is underscored by the key role SMEs must play in creating jobs and enhancing the competitiveness of Kenyan products. Simplifying legislation—and repealing restrictive laws when necessary—will help create the conditions where micro-enterprises will grow into small modern enterprises. As part of its lobbying activities, K-MAP provides input into the work of several government-established national bodies that are aimed at improving the environment for small business.

Sales growth and job creation

K-MAP'S programs have helped its clients increase their sales revenues, assets, job creation, and overall survival rate. From 1992-1994, revenues among its clients grew 292%, asset size 189%, and employment 106%. From 1994 to 1996, sales grew by 741%. Moreover, the task of creating one job was achieved at a cost of \$400, compared to the World Bank's estimate that \$4,000 is needed to create one job in other developing countries.

The quality of the advisory services is also reflected in the extremely high survival rate enjoyed by the enterprises receiving K-MAP assistance. From 1994 to 1997 the overall survival rate within the first two years of operation among K-MAP clients was 94%, compared with the national average of less than 10%.



K-MAP is sustainable because local people are pulling together to use their talents to pursue local solutions to their economic challenges. The Kenyan business community contributes over 80% of K-MAP's operational budget in the form of skills and cash. K-MAP plans to achieve 100% financial sustainability by 2000, and an endowment fund has been set up as part of an overall strategy to become completely self-reliant. The long-term sustainability of K-MAP as an institution lies in its ability to develop affordable market-driven products and services that are vital to the success of SMEs.

Future challenges

K-MAP faces the major challenge of mobilizing additional resources to cope with ever-growing demand for its services. It plans to mobilize additional resources in order to expand its outreach into all 64 of Kenya's districts. Of particular importance is the need to continue to enhance the capacity of its counselors in order to sustain the spirit of "give and take" which is central to the philosophy of K-MAP.

Because lack of access to credit constrains SME development, K-MAP will continue to provide the information that financial institutions need to base lending decisions more on cash flow rather than on tangible collateral. To this end, K-MAP will seek collaboration with support insti-

tutions such as the SME Guarantee Trust and the Small Enterprise Credit Association (SECA) to improve the situation.

Investment enterprises in Kenya and other developing countries must prepare themselves for competition. Through its newly launched training program, K-MAP has positioned itself to assist SMEs in gaining access to information, technology, as well as to contacts that will enable them to effectively compete in the global marketplace.

The Committee for the Improvement of Small Business Environment (CISBE) will expand its scope to encourage the private sector and civil society to take a broader role in participating in policy formulation and legislative review of the economy. Similarly, CISBE plans to em-

bark on a campaign to convince policymakers that the profit motive benefits the economy.

The success of K-MAP's approach to small-business development has attracted considerable interest from other developing countries in the region. Some—Nigeria, Uganda, South Africa, Cameroon, Zambia, Zimbabwe, Namibia, Malawi, Ethiopia, Madagascar, Mauritius, Tanzania—have expressed their desire to replicate the concept. African Management Assistance Program (A-MAP) is being established in response to such requests. A-MAP will provide a continental forum for sharing of experiences and networking as well as promote joint research on common problems and publish training material. 🌐

HOW COUNSELING HELPED A TILE MAKER


Joseph Munene is an entrepreneur who has tried to build his business by utilizing local materials. In 1989 he started making roofing tiles using sand, cement, and sisal fiber with one machine. As the number of orders started to increase, he realized that he would need more financing to keep up with growing demand, as well as advertising that would target individual developers. Munene obtained a loan from the Small Enterprise Finance Company, a provider of credit to small enterprises, to construct a workshop and to purchase machinery that would allow mass production of the tiles.

Munene had heard about K-MAP. One day he saw an advertisement for a seminar on "Production Management and Quality Assurance." Because this was a topic he felt he needed to know more about, he registered to be a K-MAP client. Leonard Radoli of McCann Erickson was assigned as a counselor to guide Munene, and they focused on developing an effective marketing strategy.

Implementing the promotion strategies has paid dividends for Munene. His company, Shelter Works Limited, now produces fiber concrete roofing for less than the cost of clay or conventional concrete tiles. His nine employees operate four machines, and he has found affordable advertising in K-MAP's quarterly magazine, *Small Business Forum*, which targets his market.

West Bank and Gaza Strip: Teaching Entrepreneurship and Democracy

by Sarah Kreimer and Jennifer Hidde

 The Palestinian economy needs to create jobs. Unemployment currently runs between 40% to 50%. The very young population—roughly 60% are under the age of 17—means that the economy must create 10,000 new jobs each year to accommodate new job seekers. In addition, the number of Palestinians who work in Israel has dropped to 40,000-50,000, down from 150,000 before the 1991 Gulf War.

Ironically, the Palestinian economy has significantly deteriorated from the onset of the peace process. Since 1993 the border between the Palestinian Autonomous Area and Israel has been partially closed. Furthermore, following every Palestinian bomb attack in Israel, the Israeli government closes the border with the Palestinian area. It periodically imposes an internal closure, limiting movement between Palestinian towns, thereby hampering the free flow of goods, services and people between Palestine and Israel. Because Israel is the primary market for Palestinian products and access to all international markets occurs through Israeli ports and airports, these closures severely damage the Palestinian economy.

Against this restrictive political and economic backdrop, the Center for Jewish Arab Economic Development (CJAED), an Israeli nonprofit organization founded by Israeli Arab and Jewish business lead-

ers, together with the Palestinian Association for Vocational Training (PAVT), offers entrepreneurial courses to stimulate the Palestinian economy. The courses help entrepreneurs create jobs and make the Palestinian economy less dependent on goods and services that are brought from Israel.

Self-reliant in business

CJAED and PAVT offer basic courses in entrepreneurial strategies, tactics and skills. This year, in order to strengthen the practice of civil society in the private sector, they added a civil society and democracy component to these business classes.

The courses include about 100 hours of study over four to five months and are taught in Arabic. The lecturers—Palestinians and Israeli Arabs—teach practical skills, such as business planning, marketing, financial management, and commercial and labor law.

The courses feature guest lecturers, such as local bank officials. There are many banks in the Palestinian Area, but the politically risky environment has made them extremely conservative. It is generally the case in these areas that loan applicants whose families have ample collateral receive loans, while those without collateral encounter tremendous obstacles. During CJAED's courses, loan officers discuss the kind of financial informa-

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Jennifer Hidde is the Center's Development Director.

tion they look for when considering a loan application. In addition, they represent important contacts with whom entrepreneurs will be in touch during their business career. In the future loan officers may be a little more willing to take an applicant's business plan more seriously if they know he took an entrepreneurship course at CJAED/PAVT.

One of the criteria to be admitted to a class is that students have an idea of the kind of business they want to establish or expand. Throughout the course, they will develop a business plan based on this idea, and by the end, they will decide whether to go forward with their original plan, alter it, or drop the idea altogether.

Students come from a variety of backgrounds and with all types of business ideas. For example, one class may be comprised of a woman in her fifties with little formal education who wants to provide additional income for her family, a man in mid-career who operates a business, and a young college graduate looking to open a business because there are no formal jobs in his field. One student saw a business opportunity in the large number of foreign nationals who live in Ramallah. She wanted to open up an English-speaking preschool. The feasibility study confirmed the viability of the idea, and she began working on it.

In Jenin, an agricultural area, many students have explored the potential market for canned goods. Because fresh tomatoes, cucumbers and eggplants may rot in trucks that are forced to wait to cross into Israel during a border closure, canning may provide farmers with an alternative way to market their produce.

One Palestinian graduate signed a joint venture agreement with an Israeli exporter of Christmas-related products. Under the agreement, the Palestinian partner will provide olive wood and glass products from Bethlehem and Hebron, while the Israeli partner will market the goods abroad.

More than profits

While the courses have always focused on skills needed to develop a business strategy and the basics of developing or

enlarging an entrepreneur's business idea, CJAED this year incorporated a civil society component to its regular business classes. This module teaches students that profits are not the sole measure of the success of a business. A successful business also contributes to society and people of its community. CJAED wants its students to realize that a business community has certain needs and demands, and also that it can influence the government.

Associations must act

Business associations can play a crucial role in countries undergoing democratic and market transitions. It is in the interests of the private sector, government and other constituencies to unite entrepreneurs so that they interact in an organized yet participatory manner in order to promote business opportunities. With these concepts as a starting point, CJAED has developed a preliminary course outline for the civil society component. It includes examining the role of business associations in democratic society, relations between governments and public systems, and business as a tool for democracy.

The business community needs to be more vocal in letting the Palestinian Authority know what policies are required to strengthen the economy. The Palestinian Authority has been overwhelmingly concerned with political goals, with the result that there has been relatively little focus on economic development. More specifically, the business community needs to promote easier trade across borders and to ensure that laws, especially tax collection, are applied in a uniform way.

Many Palestinian business people do not belong to a chamber of commerce or a manufacturers' association. This means that the Palestinian business community does not wield the same kind of power as does the Israeli business community. In the democracy component of its classes, CJAED introduces Palestinian entrepreneurs to Israeli business institutions. Students learn from the Israelis' experience of lobbying their government as well as how to contribute toward the expansion of effective business associations in the Palestinian Area.

In addition to running courses, CJAED has initiated a Palestinian-Israeli business forum, designed to stimulate joint ventures between Israeli and Palestinian businesspeople. The forum brings together Israeli and Palestinian business leaders from different sectors—as varied as software and textiles—to meet one another, exchange business ideas, examine the economic environment in which each works, and propose specific ideas for business cooperation.

During the period of political turmoil preceding President Clinton's late 1998 visit to Israel and the Palestinian Area, the textile arm of the forum met, involving 40 of the region's textile producers. Almost 20 business owners from Gaza received permits to cross the border into Israel in order to attend the meeting. Virtually all

of the participants came with a specific proposal for business cooperation, and many left with important contacts.

The participants concluded that for the next meeting they should tour Palestinian textile businesses, hoping that Israeli producers will become acquainted with the business capabilities of their counterparts. In the current political climate, when most Israelis fear to enter the Palestinian Areas, this step demonstrated the degree of trust that has developed among participants of the forum.

Through the courses and forum, CJAED hopes to strengthen the local economy in the Palestinian Area and stimulate a network of Palestinian-Israeli business connections, thereby building a broader base for peace and democracy. ☺☺

CIPE'S NEWEST PUBLICATIONS

CIPE is proud to announce the release of two new publications, which tackle head-on the increasingly important issues of corporate governance and financial management.

In Search of Good Directors: Corporate Boards in Market and Transition Economies is a timely publication that addresses the role of directors and shareholders in a corporation. Due to increased demand for information on corporate governance, CIPE recently updated this publication and added invaluable material from the National Association of Corporate Directors and the Institutional Shareholders Services. The cost per copy is \$18 plus shipping charges.

CIPE's ***Financial Management Handbook*** is designed expressly for association executives given that many of them do not have a background in finance. The book not only details the many aspects of accounting, but also provides useful tips on how to design successful strategic plans and budgets. An essential manual for anyone seeking to better manage an association regardless of its size and location, the handbook costs \$15.00 plus shipping charges and is available in English, French and Russian.

To purchase these books—or to learn about other CIPE publications—visit our electronic bookstore located at www.cipe.org, or contact Amy Wormwood by fax (202) 721-9250 or by email cipe@cipe.org

Strengthening the Voice of Business

by CIPE

To be comprehensive and effective, entrepreneurial training must be conducted in an environment that allows business to flourish. Education certainly helps people to hone their business skills, but experience has shown that it alone cannot spark an entrepreneurial process. A successful effort is one that couples educational goals with an advocacy program for political reform in areas that affect small business.

For grass-roots organizations and business associations, this means educating their members about government policies and gathering their often disparate views into one voice. Organizing in this way increases the likelihood that the government will adopt specific reform measures. In addition, small entrepreneurs, the larger business community and public policymakers alike will discover that the very act of advocating for reform strengthens the democratic process of governance itself.

The following article takes a look at how several CIPE-funded projects have organized various interests—companies, business associations, and women-operated businesses—to develop policy positions and represent a unified voice before the government, and at the same time educate their members on policies that affect them.

Nigeria

The Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) is a voluntary business association that promotes the interests of business through advocacy. In 1998, it outlined its positions on important business and economic issues in a booklet, *National Business Agenda*. This 33-page pamphlet discusses 30 major issues that are vital to the effective and efficient management of the Nigerian economy. They include tax reform, foreign exchange, privatization, external debt, non-oil exports, rural development, political stability, and reform of Nigeria's stock exchange.

This presentation is part of its strategy to influence public policy by actively engaging the government. "NACCIMA will not only make suggestions about business and economic agendas," said Lawrence Adekunle, its Director General. "We will also examine the process of implementation of these agendas, including the degree of success or failure of some of these programs and policies as they affect business and the economy."

One issue that NACCIMA will pay close attention to is privatization. Adekunle complains that the country's poor infrastructure inhibits the growth of its economy and business.

"Nigeria cannot compete with the rest of the world," he said. "Public utilities are not efficient. Electricity is sporadic, roads are inadequate, and communication is poor. All this increases the cost of doing business in Nigeria and impedes our ability to compete globally. In this context, privatization is key."

Guardedly optimistic, Adekunle points to recent signs that the government may be moving in the right direction. For instance, it recently invited private sector companies to purchase parts of utilities, including electricity, the downstream oil sector, and other government-owned companies. Adekunle argues that if the government allowed competition to come about through privatization, these institutions would be more efficient and consumer-oriented.

According to him, NACCIMA's work, coupled with its *National Business Agenda*, has encouraged the government to remove a number of laws that inhibit competition. In particular, the telecommunications industry—previously a government-controlled industry—has opened to competition. The oil refining business is currently being opened up to allow private companies to import and sell oil.

Positive signs?

In the past, Adekunle argues, the government believed that it had all

the answers to Nigeria's many business and economic problems. It did not allow other groups to provide input into its decisionmaking process. He believes he has seen a shift in the government's willingness to listen to the views of the private sector. To facilitate this process, NACCIMA is encouraging a deeper level of public-private cooperation by promoting workshops and through advocacy work.

"Government officials are recognizing that they do not have all the answers and cannot solve all the problems," he said. "Now they solicit opinions and seek input from NACCIMA. For instance, the government wanted to know our view of improving infrastructure, and we pointed out the opportunity to privatize aspects of road construction and maintenance. This is a dimension that was not there before."

Malawi

The National Association of Business Women (NABW) is a nonprofit organization in Malawi that acts as an incubator of small businesses operated by women. It not only provides small loans to members, but also promotes their interests with the government. Since NABW was established seven years ago, its ranks have exploded from 2,000 to over 14,000 members.

Malawi is one of southern Africa's poorest nations, with a per capita GDP of \$210, average life expectancy of 40 years, national literacy averaging 22%, and a high dependence on agriculture. Seventy percent of the population is unable to read and write, 85% lives in rural areas, and 34% of all households are headed by women. According to a survey conducted by NABW, only 21% of women have received education beyond the primary school level.

NABW's efforts to promote the economic empowerment of women culminated in a national meeting in

1998, attended by high government officials, where its members spelled out the issues that particularly affect women. NABW distributed thousands of copies of its "National Call to Action" to government, media, its members, and other business and civic organizations.

"The Call to Action' was a manifesto of the private community," exulted Joyce Banda, NABW's Executive Director. "The meeting was the first time in Malawi that ordinary persons have sat at the same table with government policymakers to discuss issues that concern them. This is a bottom-up approach to influencing the government. For the first time, the government realized that it would have to take women seriously, and it has begun to address some of the issues."

NABW identified some barriers to women in starting and developing businesses in four sectors: agribusiness, soft goods (textiles, garments, handicrafts), tourism, and professional services (legal, accounting, health, and consulting). At the meeting, the women called on the government to actively promote their inter-

ests in these sectors. They expressed particular interest in reforming Malawi's land titling system because it discriminates against them as business operators. "Women in the informal sector can operate businesses, but they cannot own land," Banda complained. "Because they do not have title deeds, they can't use land as loan collateral at banks."

NABW's work has begun to pay dividends. It is providing input to government committees that are exploring ways to change the land-titling policy and improve government services to women-operated businesses. In addition, the government has agreed to adopt a preferential purchase plan whereby it will increase the amount of government supplies purchased from women-run businesses, and it will increase the number of women who can enter vocational training centers.

Poland

To prepare for Poland's impending integration into the European Union, businesses have united to present their policy recommenda-

NACCIMA'S POSITION ON SMALL BUSINESSES

The Issue

What sort of assistance do small and medium-size enterprises need?

Why the Issues are Important

Macroeconomic, financial, legislative, fiscal, infrastructural and general policies directly affect the growth and competitiveness of small and medium-size enterprises (SMEs). Currently these policies are working against the SMEs. In the past, a number of measures that were put in place by the government to promote the growth of SMEs proved to be ineffective. There were bureaucratic bottlenecks, institutional proliferation and rigidity problems. SMEs also face the problems of gaining access to financial and credit systems.

NACCIMA's Position

NACCIMA believes that SMEs are central to strengthening the technological base of the Nigerian manufacturing sector and increasing employment. The government must deliberately encourage innovation of the SMEs in order for them to develop new products and services for domestic consumption and export.



tions to the government. In 1998, representatives from the business community, a coalition of business organizations and high-level officials from the government formed a committee to study ways to bring about tax reform. It summarized its findings—simplify payment procedures and overhaul tax rates—in the “White Book of Taxes,” which it formally presented to parliament. After debating the proposal, however, parliament decided to postpone a decision on the issue of tax reform.

Despite this setback, Mieczyslaw Bak, President of the Institute for Private Enterprise and Democracy, which was a member of the committee, is optimistic that parliament will pass the tax reform. He explains, “The trade unions are very strong in parliament right now and they oppose many of our proposals. We must convince them otherwise.”

He said that the committee will continue to present the government with its position on critical economic reforms necessary to the country’s integration into the European Union. “If we want our businesses to be ready for the increase in competition that will come with integration, we need to reform many regulations, especially in the area of taxes. The government has four to five years to make the necessary changes. It

knows it must listen to the business community.”

According to Bak, one of the more valuable lessons to be learned from this experience is the effectiveness of a unified position of the business community. “A coalition of private sector companies can be very effective in presenting its conclusions to the government,” he said. “In the past, business spoke through a variety of organizations, which splintered its voice. In recent years the private sector reorganized in order to present a unified front and formally lobby the government. A coalition of business interests can be an effective lobbying force.”

Paraguay

The Federation of Production, Industry and Commerce (FEPRINCO), founded almost 50 years ago, represents approximately 70 Paraguayan business organizations from the industrial, manufacturing and commercial sectors. It is the country’s central business organization and the principal voice of the business community vis-a-vis the government. In order to help unite the private sector in advocating for reform, FEPRINCO developed a National Business Agenda as a vehicle for launching a legislative advisory program. The

agenda contains a general set of economic principles from which it will base specific policy positions on market reforms.

The National Business Agenda reviewed the government’s economic program and identified further reforms that would consolidate the country’s transition to democracy and a market economy. The agenda also identified opportunities for reform in such areas as public administration, transparency in the policymaking process, electoral reform, investment in human capital, a new legal framework for informal economic activities, and poverty alleviation.

According to Virgilio Levaggi, an International Labor Organization official who was a consultant to the FEPRINCO project, the agenda was beneficial because it presented a unified voice of the private sector to the government. It was also extremely instructive in informing both the business community and government policymakers about economic reform and thrusting them into the process of governance, thereby strengthening their commitment to democracy.

Levaggi adds that members of the different business organizations in Paraguay worked on a variety of issues and became familiar with economic policies of which they had not been aware. “Now the leaders of the private sector are informed about the guidelines of the economic reform,” he said. “In addition, the government has received clear information about the needs of the private sector, something that is unusual in most Latin American countries. In this way, the National Business Agenda has strengthened the linkage between employers’ organizations and the government, which is crucial to both parties in the national effort to establish a stable reform policy.”

The National Business Agenda has also helped foster a closer relationship between FEPRINCO and the

country's legislature, opening opportunities to work together to craft legislation. Collaboration between the public sector and the government has not been the norm in Paraguay, but members of congress now frequently request opinions and recommendations from FEPRINCO and its member associations. As a result, several new legislative initiatives have been approved, including the following areas: copyrights and patents, leases, reactivation of the agricultural sector, construction of new roads and infrastructure, and modification of the use of social security funds.

In the future, FEPRINCO plans to build upon its National Business Agenda to launch a separate legislative advisory program. It will develop bulletins on critical issues contained in the agenda that will be used to create business and public support for specific market reforms. To complement the bulletins, FEPRINCO will organize seminars to present its recommendations and hold press conferences to disseminate information to a wider audience.

Nicaragua and Bolivia

Pro Mujer is a nonprofit organization created to help women in developing countries raise themselves and their families out of poverty through training, credit and access to other resources. Its clients are very poor, low-skilled women with minimal education in Nicaragua and Bolivia. According to Lynne Patterson, Pro Mujer's Executive Director, they work in the informal sector because they do not have the education or skills that would qualify them to compete for jobs in the formal sector.

Pro Mujer offers a training program that includes six areas: communal banking, business skills, civic education, empowerment, child development, and health. The communal banking component provides women with small loans ranging

from \$50 to \$600. Prior to receiving a loan, women receive basic business training and produce a business plan. The plan entails identifying the purpose of the business and the loan, as well as projecting the business's expected expenses and income.

In addition, women learn how to organize and operate the communal bank through which the loan is granted. The bank elects a board of directors and establishes a credit committee that approves the loans which are solicited by its membership. Because women do not have property or other types of collateral, the bank operates by peer guarantee. In the event an individual defaults, the rest of the group must pay off her loan.

Not a panacea

Patterson argues that while micro-credit can play a role in reducing poverty, it is not a stand-alone intervention. "It should not be viewed as the panacea that will alleviate poverty," she said. "Poor people have other needs that are not met by small loans. When they receive loans, women tend to do what they know best, which is to sell products on the street. This means that they often end up competing with each other in a highly saturated market. In Nicaragua, women sell to each other and nobody has very much money to buy anything."

To be truly effective, Patterson reasons, micro-credit needs to be part of a comprehensive package that offers economic analysis and education. Examining the economy—including sector analysis and market studies—will help to identify growth opportunities for small businesses. In addition, women must be given business training that will enable them to develop these opportunities.

According to Patterson, an anti-poverty package should also include organizing women in order to make them more effective in changing policies detrimental to their busi-



Photo: Pro Mujer

Micro-credit is not enough.

nesses. Pro Mujer encourages businesswomen to either join or form organizations in order to represent their interests before the government and policymakers. For instance, women may find that the government needs to facilitate policies that help them obtain stalls in the market, pay taxes, or receive licenses.

The poor also have health needs, Patterson notes. A small loan cannot keep a woman or her children healthy. A program that empowers women and eliminates poverty must also focus on providing basic health services, such as pre- and post-natal care, child immunizations and contraceptives. If a woman gives birth every year or if that child is sick, she will be not be an effective business woman. ☹☹

From Entrepreneurship Education to Policy Advocacy

by Ion Anton

The biggest obstacle to conducting business in Romania is institutional. Inadequate access to information and poorly developed markets, along with legal impediments and bureaucratic red tape, conspire to thwart the plans of the aspiring businessperson. The International Center for Entrepreneurial Studies (ICES), a Romanian think tank, was founded in order to bring business education to the incipient private sector. However, years of educational programs and participant feedback have shown ICES it needs to broaden its mission to also focus on public advocacy. The country's business environment must be reformed in order to allow entrepreneurs to implement their skills and plans.

Founded as a nonprofit organization after the 1989 Romanian anti-Communist revolution and supported by the Center for International Private Enterprise (CIPE), ICES offers entrepreneurial programs that have trained more than 3,000 entrepreneurs and managers. In its early stages, the Center emphasized entrepreneurial development and private enterprise development through entrepreneurial education. It operated

on the premise that skilled human resources can strengthen the private sector, thereby facilitating the country's transition to a market-oriented economy. ICES sought to stimulate the formation of private businesses by introducing such courses as "Fundamentals of Market Economics," "The Role of Entrepreneurs," and "How to Start a Business."

The course curricula and materials used in the Entrepreneurial Development Program have been progressively refined to reflect the growing need for practical information expressed by course participants, and to ensure the continued relevance of the material in the rapidly evolving Romanian environment. Topics include market economics, entrepreneurial motivation, starting a business, developing a business plan and the legal environment for private businesses, as well as marketing, financing, banking, and accounting. Training material includes case studies of existing Romanian enterprises.

In addition, ICES has offered seminars about privatization, covering such topics as the legal framework, asset evaluation, privatization techniques, restructuring, raising capital, and business planning. ICES also worked with emerging local business associations to train their members and their own trainers. These efforts were intended to multiply the educa-

tional impact and create public awareness about issues that affected the business environment.

There was evidence of better-than-average performance of program participants—as evidenced by business startups and growth of existing businesses—despite the fact that Romania's barriers to business persisted and even increased. Many entrepreneurs believed that the unfriendly business environment obstructed and discouraged their goals and they expressed deep dissatisfaction with the overall climate towards entrepreneurship. As a result, many businesses, while aspiring towards a transparent system, preferred to remain in the informal sector, which is estimated to account for 35% of Romania's GDP.

One entrepreneur from a major Transylvanian city privately admitted to conducting business in the informal sector, despite his attendance at two ICES entrepreneurial training programs. He said that he felt defenseless in the country's current anti-business environment.

Institutional barriers

Romania's business environment represents a serious concern for the business community, according to a survey of entrepreneurial program participants. Feedback showed that participants felt education alone was not enough in order

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to succeed in business. The trainees were asked to what extent they agreed with the statement that "they can succeed under any circumstances." 2% "very strongly agreed" with the statement, 16% "strongly

agreed," and 50% "slightly agreed." The remaining 31% "very slightly agreed" with the statement.

Based on the survey feedback, ICES identified some of the major legal and regulatory barriers that

confront entrepreneurs. One way to overcome these obstacles is to create specific legislative-focused actions that promote private-sector growth through advocacy targeted at policymakers. To this end, ICES arranges regular meetings with representatives of major independent business associations at the national level to discuss recommendations and urge them to join together to submit policy proposals to the government and parliament. One-on-one meetings were held with key policymakers to promote the implementation of these policy recommendations.

Advocating for Reform

Once the great hope of reform in southeast Europe, Romania has moved from the potential of cutting-edge reform to become a leading example of the perils of special-interest politics in a coalition government. Far from providing entrepreneurs with the conditions needed to operate freely and profitably, the Romanian government continues to develop legislation that favors established interests which can circumvent the democratic process at the expense of small and medium entrepreneurs who struggle to have their voices heard in policy development circles.

It is against this backdrop that the Strategic Alliance of Business Associations (SABA), a coalition of 30 chambers of commerce and business associations, launched its activities. SABA is an ad hoc coalition of market reform-minded organizations that collaborate to improve advocacy for SMEs. It has grown to become the leading representative of small- and medium-sized businesses throughout Romania, and has grown in stature to the point that the Romanian Chamber of Commerce and Industry has joined SABA's ranks.

SABA has pressed the Romanian government for action in many areas including foreign investment law, tax reform, SME financing, competition policy, and privatization.

SABA has shown itself to be a

well-organized and vocal representative of business interests. It has begun to establish a track record of successful advocacy initiatives including:

- ♦ stopping an initiative to create a public-law system of chambers controlled by the Romanian government;
- ♦ progress in reopening the Romanian Development Agency, following its closure and incorporation of its functions into a "super-ministry;"
- ♦ progress towards establishing a Small and Medium Enterprise Development Agency with wide input from the country's entrepreneurs;
- ♦ acceptance of SABA recommendations on tax reform legislation, which the US-Romania Action Commission also supports;
- ♦ a successful "fiscal strike" by entrepreneurs to force the government into regular consultations with SABA members;
- ♦ inclusion of SABA into the Economic Advising Council of the President of Romania;
- ♦ the establishment of a government-led working group to examine SABA's recommendation to develop an industrial policy based on "economic clusters" in which economic development is created around a large, competitive regional producer or industry.

Emphasizing advocacy

Meanwhile, formal businesses have been establishing a large number of business associations, including local chambers of commerce and industry, employers' associations, and professional associations—the latter through voluntary memberships. Because these organizations are geographically and functionally diverse, they wield more authority when representing the interests of their members to the government.

One of the first collaborations between ICES and business associations involved advocating the inclusion of the emerging private sector in designing and implementing the country's overall privatization program. ICES believed that including the business community in the construction of this vital plan would improve economic democracy and corporate governance.

The focus of ICES reached a turning point when a group of 30 business associations set up a strategic alliance in order to pursue joint advocacy. The group requested that ICES provide technical assistance in its lobbying efforts. As a consequence, ICES adopted a dual-track approach to its goals by expanding its activities to include entrepreneurship education and advocacy.

ICES advocacy efforts have since focused on disseminating law drafts

to members of the Strategic Alliance of Business Associations (SABA) for feedback, collecting their recommendations, and presenting them as policy papers. These papers have been used as background for policy roundtables, to which policymakers have also been invited. As a result, the government has adopted several ICES/SABA policy recommendations. ICES has also conducted strategic policy research concerning tax reform, private sector develop-

ment, and private sector financing through venture capital.

Benefits of dual-track approach

The current hostile business environment is characterized by high taxation, high and volatile interest rates, contradictory laws, corruption, and bureaucratic red tape. However, training programs can certainly help business people cope with this environment, and ongoing contact between ICES and entrepreneurs will

provide essential feedback concerning their needs and requirements.

Entrepreneurs have also appreciated the dual-track approach which ICES has taken. They want the government to adopt pro-business policies, while education supports their entrepreneurial spirit and offers management skills to make market risk-taking more manageable. To be globally competitive, training and advocacy must continue. ☼☼

A Teacher's Guide

In the early 1990s, the International Center for Entrepreneurial Studies, the University of Maryland's Dingman Center, and CIPE developed a core curriculum for Romanian trainers. The courses covered the essential elements needed to expose potential entrepreneurs to the realities of business life. The following list presents some of the subjects included in the core curriculum:

Introduction to Business and Economics

- Global economy
- Wealth distribution
- Relationship between government and industry
- Regulation in a "free-market" economy
- Tax structure
- Stock, bond, and futures markets
- Banks and thrifts

Basic Concepts of Entrepreneurship

- Dynamics of change
- Opportunities and resources
- Entrepreneurial viewpoint and personality
- Risk and risk/reward factor
- Case histories

Venturing

- Innovation
- Objective analysis
- Creation of a team

Strategic Planning in New Ventures

- Business definition
- Market research and analysis
- Competition analysis
- Formulation of overall business strategy

Financial Planning in New Ventures

- Financial statements
- Financial projections
- Determination of funding requirements
- Debt and equity financing
- Valuation of company

Winning Business Plan

- Business plan objectives and targets
- Step-by-step guide to business plan preparation
- Presentation of business plans to financial community
- Operations plan from business plan

Raising Capital

- Fundraising tools and team
- Financiers' considerations
- Sources of funding: equity and debt capital
- Negotiating the deal

Organization for Success

- Company name
- Organization forms
- Board of directors
- Structuring the company organization
- Attracting outstanding key employees
- Infrastructure without bureaucracy

Montenegro: Laying the Foundation of Entrepreneurship

by Petar Ivanovic

The Center for Entrepreneurship (CEP) in Podgorica, Montenegro offers a wide range of products for entrepreneurs, including seminars, consulting and research. It also trains entrepreneurs on how to write business plans, run their businesses and introduce new products. In 1998 more than 50 new businesses started due to CEP's consulting and training services.

Challenges run deep, however. Yugoslavia's history has made people resistant to the concept of entrepreneurship. Although unemployment is high in Montenegro—around 45%, according to CEP surveys—most people do not have an entrepreneurial spirit.

Since social ownership of property was the predominant form of ownership over the last 45 years, people born after the Second World War view the private sector and the notion of risk with a large degree of skepticism. Business persons often make decisions without being concerned about risk because they assume that the government will cover their losses if they do not succeed.

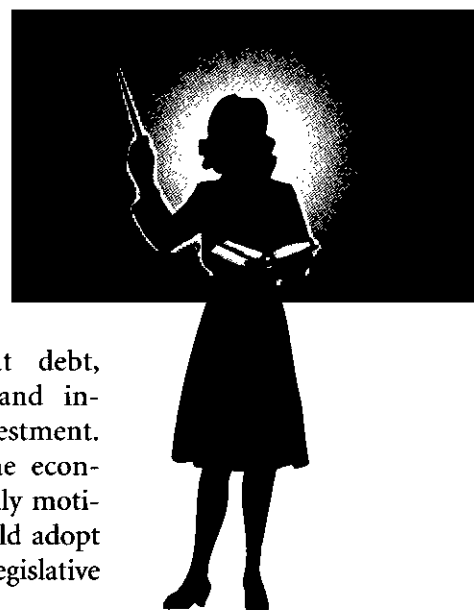
Despite these deep-seated attitudes, however, CEP sees an opportunity among young people. Therefore, it also focuses

on elementary and high schools. It has launched a project to establish entrepreneurship as a new curricula subject. If this pilot project is successful, CEP will train teachers about entrepreneurship, thereby enabling them to pass their skills on to their students. Introducing young people to the concept of entrepreneurship will make them less resistant to the private sector, as well as help them understand what government needs to do in order to make the business community develop.

CEP plans to help graduate students to find jobs in the private or public sectors. This project is based on the long-term goal of influencing future policymakers. With the right training, graduates who work in the government may be able to create an environment receptive to business interests, especially in the areas of privatization and property rights reform.

CEP also plans to educate government officials about the potential rewards of the private sector. In order to understand the benefits of economic reform and privatization, they must learn about key issues such as how to reduce government debt, strengthen capital markets and increase competition and investment. They must also recognize the economic consequences of politically motivated decisions, and they should adopt a regularized and transparent legislative process. ☼

Petar Ivanovic is one of the founders and Executive Director of the Center for Entrepreneurship in Podgorica, Montenegro. CIPE has opened an office in Montenegro and is funding a program with CEP.



Educating Women: Teaching the Very Poor

by Lorraine Corner

Although women's and men's gender roles in developing countries are clearly different, it may seem that women and men entrepreneurs have very similar business roles and therefore similar training needs. However, the experience of the United Nations Development Fund for Women (UNIFEM) over the past decade in several East and Southeast Asian countries suggests that poor women have some distinct needs that should be explicitly addressed in entrepreneurial education programs.

Unique situation

The unique training requirements of women entrepreneurs who live near the subsistence level arise primarily from the convergence of women's businesses and traditional gender roles. Particularly in micro and cottage enterprises, women's businesses are linked very directly to their gender roles of housewife and mother. Women in developing countries usually start up small businesses to help meet the primary responsi-

bility of providing their families with food, clothing, education, and health care. Women's businesses also tend to utilize skills acquired through their domestic roles, and many businesses are physically located in the domestic environment.

In contrast to most men's businesses, women's businesses are often so closely integrated into household activities that there is no clear distinction between business and household activities. For example, many women who operate small sundry stores or food processing enterprises draw freely on their business stocks and earnings for household consumption. As a result, they have little idea of the real earnings of the business and are unable to analyze its performance or price goods appropriately.

In entrepreneurial education programs for women, learning how to separate the enterprise from the household should be a key focus of training. The results of such a separation can be quite dramatic and empowering for women. For example, in a Philippines slum area, both the women operating small sundry (*sari-sari*) stores and their husbands assumed that the stores merely supplemented the husband's cash earnings, on which the households and the women were mainly dependent. A business training program implemented by a nonprofit organization

taught the women easy methods of maintaining separate accounts, thereby showing that the stores actually provided the major share of household income.

This simple finding empowered women in two ways. First, they began to take their enterprises and their own economic roles much more seriously, and they began to invest time and effort to upgrade their businesses. Second, the discovery that they were not economically dependent on their husbands encouraged some women to gradually negotiate a more equal relationship within the household, particularly in relation to decision making.

A related training need that often has greater implications for women than men is that of simple business analysis skills. The failure to maintain separate accounts means that women cannot accurately identify and measure income and expenditures. In particular, since women's primary household responsibilities are unpaid, they tend to overlook the costs of their own labor, thereby selling their products below cost. As a result, many small women's businesses are considered to be vehicles to generate a cash flow rather than a profit. That is, while the cash generated by the business may enable the household to meet its basic short-term needs, a financial analysis may reveal that the business actually in-

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curred losses since the numbers do not include the opportunity cost of the women's labor.

Wanted: business skills

Access to credit. If women are unable to analyze their enterprises, they cannot identify their business weaknesses and vulnerabilities. Since women entrepreneurs usually have more difficulty than men in gaining access to credit, women in the micro and cottage enterprises often emphasize credit as the biggest obstacle to business development.

Women fish processors in Vietnam approached a UNIFEM project for access to subsidized credit, on the grounds that their small enterprises could not pay market interest rates. However, most of the women were actually using informal sources of credit from money lenders, friends or family. They did not realize that their effective interest rate was often well above the market rate because it was not clearly identified in the repayment method.

The availability of credit was a problem, but the rate of interest was not. The real credit issues were the women's lack of access to collateral and their need for flexible repayment arrangements that would take into account the long gestation period between the purchase of raw materials and the readiness of the fish sauce and fish paste produced by fermentation methods for the market.

Solid bookkeeping practices not only help women to accurately identify the nature of their credit problems, they also enable women to place the issue of credit in proper perspective. Although often considered the primary need of small businesses, credit should only become an issue after analysis has established that the business is economically viable and has the potential to generate profit.

From this perspective, the major training needs of most small businesses, particularly those operated by



Photo: Francisco Mejia

Women's businesses are often too closely integrated with their households.

women, lie in the areas of product development, productivity and technology development, and marketing. At the micro and cottage level, women entrepreneurs are particularly handicapped in these areas by the combined impact of gender stereotypes and their more limited business experiences relative to men

Developing the right products. When they come to the market as consumers, poor women tend to be almost completely price driven. The key for them is to find the cheapest price. When they enter the market as producers, they tend to extend this experience, automatically positioning themselves at the low end of the market where competition is strongest and the potential for adding value is minimal.

Women have less exposure than men to education, travel and the media. As a result, most poor women entrepreneurs do not understand that some buyers might be motivated

by quality, usefulness or fashion. Therefore, they often do not even consider targeting their products to the middle, much less the higher end, of the market.

Mastering technology. Gender stereotypes also tend to exclude women from information about technologies and from learning the skills needed to master the often quite simple mechanized technologies that could greatly increase the productivity and profitability of their enterprises. The Vietnamese fish processing project mentioned above trained women to use very simple fish grinding machines that were readily available and affordable to many households. The project found that the training not only enabled the women to utilize this technology, it also encouraged some to become more adventurous in seeking other forms of mechanization. ☛☛

Building Strength and Confidence

by Andrina G. Lever

The trend towards entrepreneurship and self-employment has exploded in the last decade of the 20th century, and women have played an important role in this phenomenon. There are several major reasons why the number of women-operated businesses has grown so dramatically in some countries:

- ♦ better education;
- ♦ increase in opportunities;
- ♦ developments in technology;
- ♦ better access to credit; and
- ♦ improved access to information.

However, there are also several negative developments that have fueled this trend:

- ♦ the increase in single mother households;
- ♦ the need for more than one family income;
- ♦ dissatisfaction with the work environment; and
- ♦ the need to support oneself and one's family.

Although most woman-owned businesses are small or medium-sized and many operate in the informal sector, they substantially contribute to their countries' economies. However, in many developing economies, women's business ventures are often not regarded as "business" because they are a necessity for survival.

Many of the challenges that women in business encounter are similar to those all small businesses face regardless of ownership or gender. The challenge may be more complicated for women, however, because of gender or the influence of cultural, ethnic, political, and economic biases. Women's management styles also tend to differ from men's due to their different skill sets and life experiences.

However, as in business in general, women entrepreneurs benefit dramatically, especially in strength and confidence, from learning, training, sharing, and association. Women prosper from networking, sharing their knowledge and experiences, and mutual support.

Benefits of association

Women entrepreneurs show up in the most amazing places with interesting tales about doing business against all odds. One such young woman is Hilda Broomfield Letemplier, a native Canadian Inuit woman, who lives in the remote, northern community in Labrador, Canada. In 1991, with great difficulty, she went into the pressure-pipe steel fabrication business with her husband.

In November 1997, Ms. Letemplier attended Canada's first ever businesswomen's trade mission to the United States. At the conference in Washington, DC, she joined more than 100 other Canadian businesswomen to participate in policy discussions with government officials, workshops about conducting business across the border, and business-

matching sessions with other businesswomen and business leaders.

Her participation in the trade mission to Washington taught her about the standards and certification required for US-bound exports. Today she is president and majority shareholder of Labrador's first manufacturing company. She has since obtained her ISO 9002 certification, developed her Web site, and is well on the way to meeting the requirements for US certification. In addition, although Ms. Letemplier lives in one of the most inaccessible parts of Canada, she now feels connected to women entrepreneurs across Canada and no longer alone in her business venture.

While the purpose of the trade mission was to encourage and assist Canadian women to conduct more business across the border, it also brought other very important but less tangible benefits. The Canadian women participants conducted more business among themselves than with US companies, and they formed new support organizations, such as the Women in Software and Technology Association and a Canadian chapter of Organization of Women in Trade. In addition, many participants joined existing organizations such as the Women Entrepreneurs of Canada and the Women Business Owners of Canada.

Training women entrepreneurs

Barbara Mowat, President and CEO of Impact Communications Ltd. in Canada, has developed a highly successful and unique training program that provides practical

Andrina G. Lever is President of the Women Entrepreneurs of Canada Foundation.

training to entrepreneurs, as well as a means for them to sell and distribute their products. Participation in Ms. Mowat's program is done by applying and submitting a product for a strict adjudication process. Her goal is to help people, especially those in remote and rural communities, bring their products to the market.

Upon acceptance into her program, entrepreneurs participate in a series of practical business workshops delivered by experts. After they graduate, they design their own display and participate in the largest trade shows in Canada. In the 12 years that Ms. Mowat has been running her program, she has helped more than 5,000 micro-entrepreneurs establish viable businesses and export their products. She is now expanding her own business.

Women mentors

Recent research in both Canada and the US has shown that women benefit tremendously from a formal mentoring program. Such programs as Canada's "Step In," "Step Up" and "Step Ahead" programs have proved

very successful. Originally started as an initiative of the Ministry for Economic Development, they are now run privately by various business-women's associations. These programs are available in various parts of Canada and apply to specific stages of growth of a company.

Most of the programs pair a successfully established woman entrepreneur with a protégée. The programs require participation in specific workshops and training sessions each month over a ten-month period. In addition, the mentor must agree to spend a minimum of two hours per month on a one-on-one basis with her protégée. Mentoring by established women entrepreneurs is an ideal way to learn about the practical aspects of business while enriching the experiences of both women.

Carol Rock is an innovative woman in rural Ontario who has created Women in Rural Economic Development (WRED). Ms. Rock's program, Web site (www.sentex.net/~wred) and newsletter, which is delivered to isolated women across Cana-

da, have given support and opportunities to hundreds of women who have sound business ideas.

Help for rural business women

As a nonprofit organization, WRED ensures women's participation, builds local leadership capacity, offers a rural perspective, and seeks to build partnership alliances. In October 1998, Ms. Rock hosted the Connections 1998 Conference in Stratford, Ontario, which was attended by more than 350 women from across Canada. They received strong business direction from community leaders, bankers, professional advisors, and experienced entrepreneurs, along with the opportunity to showcase their products and services.

As women entrepreneurs continue to grow and face the challenges of managing new ventures and expanding their businesses, the value of their connections, and continued learning will provide some of the most valuable and insightful experiences of entrepreneurship. ☼



HANDBOOK AVAILABLE

CIPE has published a "how to" study to assist women entrepreneurs build effective business organizations worldwide. The ideas in the handbook were presented at CIPE's 1997 conference attended by more than 120 women from over 55 countries. As a result of the conference women entrepreneurs already have created new organizations in Brazil, China, Croatia, Nicaragua, the Philippines, and Romania. News about these new organizations and the achievements of conference participants are detailed in a bi-monthly women's newsletter launched by CIPE this year.

The conference study contains invaluable information on boosting membership, using today's technology, building Web sites, and contains a one-of-a-kind directory of international businesswomen. To obtain these valuable publications, contact Amy Wormwood either via fax (202/721-9250) or email (cipe@cipe.org). The study sells for \$10, and the annual subscription to the newsletter is \$12 or is sent to readers free via email.

Educating Tomorrow's Entrepreneurs

by Allan Gibb

Over the past two decades there has been a growing debate about how well educational systems prepare young people for adult life in general and "enterprise" in the world of work in particular. This debate recognizes the need for societies, organizations and individual citizens to improve their capacity to cope with an increasingly competitive, uncertain and complex role involving higher rates of innovation and change. While the concept of "enterprise" is ambiguous enough to embrace a wide range of educational initiatives—including industry awareness, business management, new venture creation, and the development of personal and social skills, among others—there is an increasing awareness of entrepreneurship as a distinct educational challenge that needs to be addressed.

This need raises several major issues for educational systems. The most important is how to operationalize the "entrepreneurship" concept in an educational context. Secondly, in an area of much confusion there is an important need to be

quite clear as to why the issue is of such importance. Thirdly, there is a need to consider what entrepreneurial educational initiatives mean for the organization of schools and colleges and for teacher competence. This is of great importance if entrepreneurship education is to become embedded within the standard curriculum, as opposed to being an "add-on" in certain classes.

Finally, there is a range of questions relevant to the "process" of developing entrepreneurial initiatives in schools. These include: how to establish clear objectives and targets; how to distinguish among the needs of different groups within the education system; how to make decisions concerning where entrepreneurship fits into the curriculum at different levels (primary, secondary and further education); deciding how to assess and accredit entrepreneurship education; and how to determine the most effective links between the business community and education. This article will briefly address each of these issues.

Concept into practice

Academics have debated the notion of entrepreneurship for several centuries and still there is little agreement. Much of the debate seems more concerned with identifying further researchable questions than

with meeting the needs of practitioners. However, there is almost universal agreement that entrepreneurship is centrally concerned with the way that individuals and organizations create and implement new ideas and ways of doing things, respond proactively to the environment and thus provoke change involving various degrees of uncertainty and complexity.

In the educational context, it is the *behaviors* associated with entrepreneurship that are important. These behaviors, widely associated with the more generic notion of an "enterprising person" are spelled out in the next page. Underpinning these behaviors are *certain skills and attributes*. There has been much academic debate about whether the attributes can be developed in individuals or are the product of genetics. The weight of opinion supports the notion that they can be influenced considerably.

Knowledge is a contextual element in "developing" behaviors in education. For example, it is possible to encourage entrepreneurial behavior within the context of the standard curriculum subjects, such as language and literature, mathematics, geography, history, science and so on. It is also possible to address it within a more specific business education context, for example, the task of creating a new venture where the

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Entrepreneurial Behaviors

- ◆ grasping opportunity
- ◆ taking initiative
- ◆ solving problems creatively
- ◆ managing autonomously
- ◆ taking responsibility for, and ownership of, things
- ◆ seeing things through
- ◆ networking effectively to manage interdependence
- ◆ putting things together creatively
- ◆ using judgment to take calculated risk.

Entrepreneurial Attributes

- ◆ achievement orientation and ambition
- ◆ self confidence and self esteem
- ◆ perseverance
- ◆ high internal locus of control (autonomy)
- ◆ action orientation
- ◆ preference for learning by doing
- ◆ hardworking
- ◆ determination
- ◆ creativity

Entrepreneurial Skills

- ◆ creative problem solving
- ◆ persuading
- ◆ negotiating
- ◆ selling
- ◆ proposing
- ◆ holistically managing business/projects/situations
- ◆ strategic thinking
- ◆ intuitive decision making under uncertainty
- ◆ networking

knowledge base will be substantially related to the process of venture start-ups and associated tasks and learning requirements. It is important to recognize that, in taking this approach, skills in themselves will also have a knowledge context relating to the task in hand.

With this understanding, entrepreneurship/enterprise can therefore be defined as follows for educational purposes:

Behaviors, skills and attributes applied individually and/or collectively to help individuals and organizations of all kinds to create, cope with and enjoy change and innovation involving higher levels of uncertainty and complexity as a means of achieving personal fulfillment.

It is important to note that this definition embraces organizations of all kinds. It is not solely a function of business activity. There are social entrepreneurs, educational entrepreneurs, religious entrepreneurs, and entrepreneurs in a range of nonprofit organizations.

The behaviors most commonly associated with the entrepreneur are shown at left. In general, they paint

an image of the active person who gets things done, thinks strategically on his/her feet, and harnesses resources imaginatively.

Backing up these behaviors are a number of attributes which, it is argued, can be developed, although nature has undoubtedly endowed individuals with different combinations and quantities of these. They support the notion of an individual or team wanting to achieve and be capable of driving change through new ideas and innovations, rather than sitting back and responding to events.

Unlike attributes, it is possible to assert with more certainty that the skills commonly associated with entrepreneurship can be developed. These skills are tightly tied to entrepreneurial attributes and support the pursuit of behaviors as identified at left.

Different from business

It is very important not to confuse entrepreneurship with being "business-like" or "professional" in the administrative management sense. Such confusion is dangerous. Many of the mechanisms and associated values and beliefs of corporate and adminis-

DIFFERENT PERCEPTIONS, DIFFERENT NEEDS

Qualities governments and corporations value

VS

Qualities of entrepreneurial organizations

order
formality
accountability
information
clear demarcation
planning
corporate strategy
control measures
formal standards
transparency
functional expertise
systems
positional authority
formal performance appraisal

untidiness
informality
trusting
personal observation
overlapping
intuitive
"tactically strategic"
"I do it my way"
personal monitoring
ambiguous
holistic
"feely"
owner managed
customer/network exposed

trative management are the antithesis of entrepreneurship (see the left-hand side of the table on page 33). Yet at times they are brought into the educational curriculum and even management systems under the entrepreneurship label.

The entrepreneurial organization, particularly small businesses, can be characterized by the right hand side of the table. Large organizations have been dramatically downsizing and decentralizing over the past decade or so in search of the flexibility associated with qualities on the right side of the table. Young people in the future are more likely to find themselves working in organizations closer to the entrepreneurial mode.

In the developing country context, it can be argued that the two columns in the table characterize the divide between the "modern" corporate and bureaucratic sector and culture and the massive informal sector of micro-business. The divide is clearly evident through Asia, Africa and Latin America and is unfortunately now manifesting itself in the transition economies. The lack of real empathy between the two sides means that building relationships based upon trust is difficult and, without this, the emergence of a dynamic, entrepreneurial, independently owned business sector is almost impossible.

In the transition economies, it is the absence of an entrepreneurial culture among the stakeholder environment of banks, professional services, government, regulatory authorities, and the education sector that prevents the legitimization of entrepreneurial activity. The result is the channeling of most of the emergent individual entrepreneurial behavior into the informal sector or criminal activity.

Education underpins culture. The lesson from this is that entrepreneurship education is for everyone, not just the small business entrepreneur. Unless this is accepted, the emerging

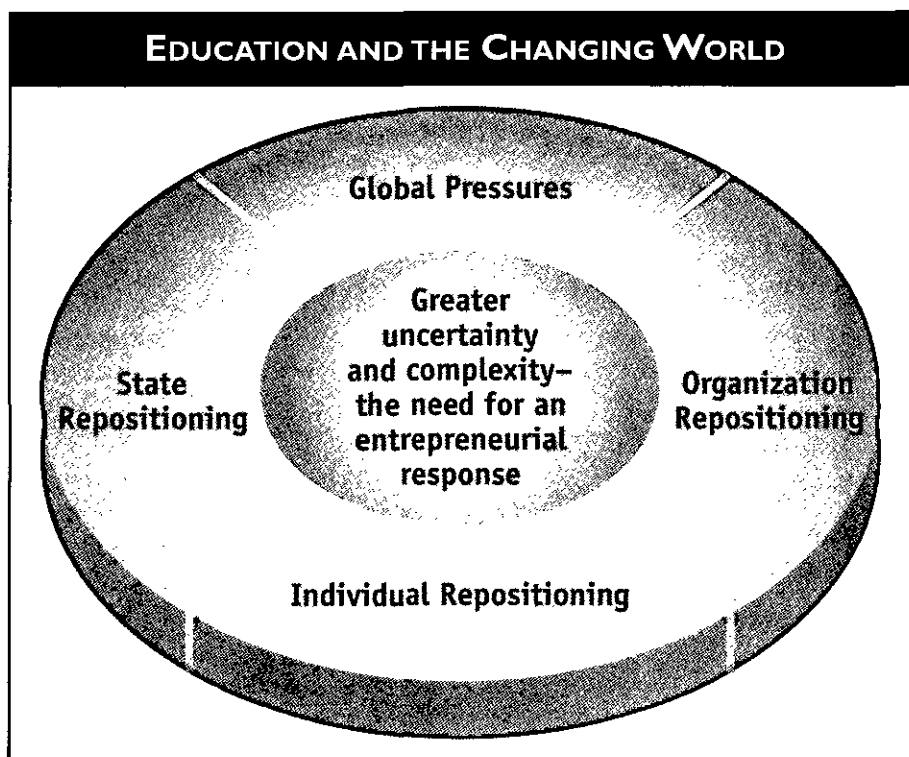


Chart 1

independent business sector will face substantial barriers to growth and entrepreneurial energy will be siphoned off into deviancy.

In the educational and managerial contexts, it is important to understand that entrepreneurship is embodied in sets of values and beliefs relating to ways of doing, seeing and communicating things. In turn, this is reflected in ways of organizing things and, importantly for education, ways of learning things.

Another common mistake is to assume that entrepreneurial behaviors, skills and attributes are synonymous with interpersonal or transferable skills. They are not. Problem solving is very different from creative problem solving. Communication, presentation skills, numeracy, and literacy underpin entrepreneurial skills but are not at all identical with them. It is perfectly possible to utilize fully conventional interpersonal skills in bureaucratic occupations and organizations.

Overall, a greater focus upon entrepreneurship in the education system will demand reexamination and questioning of many existing educa-

tion/industry models that claim to be entrepreneurial, but are not. For example, it is perfectly possible to have substantial work experience programs in schools that are not entrepreneurial in nature. There are many "new venture" programs that are not organized in a particularly entrepreneurial manner. Students may undertake individual projects, accumulating business knowledge without any notion of the experience being entrepreneurial.

For the future

Why is the question of entrepreneurship in the education system becoming more important? The simple answer is that we are living in a society that is increasingly demanding all kinds of entrepreneurial behavior. Most of the political and policy statements concerning the need for entrepreneurship and entrepreneurial education are wrapped up in the rhetoric of international competitiveness. Space does not permit for analysis here, but the pressures for greater individual and collective entrepreneurial behavior, in response

to global pressures upon society, organizations and individuals, are set out in Chart 1 (see page 34).

At the global level, many factors combine to bring much greater opportunity but also greater uncertainty, including political realignments, reduced trade barriers, the great significance of information and communication technologies, higher rates of product and technological obsolescence, greater product differentiation, international standards for business. Other factors at play include greater opportunities for travel and personal transfer, the growth of the English language as an international medium of exchange, wider lifestyle choices, and the impact of massive international capital flows.

At the societal level, there are many factors contributing to greater complexity and uncertainty. These include the withdrawal of the boundaries of the state, public spending pressures, privatization, deregulation, the creation of "markets" in public services, the outsourcing of social services, more business involvement in partnerships with governments and resulting new forms of governance including nonprofit organizations, the growing use of business methods in all walks of life, standard setting and benchmarking. There is also the growing impact of pressure groups in society, the legitimization of activities earlier thought of as deviant, the decline of religion, mounting concerns over the environment, the growing power of minority rights groups, and increasing propensity to challenge issues in courts of law.

The same climate of growing complexity and uncertainty presents itself at the organizational level as a result of the downsizing, delayering, decentralization, re-engineering, higher levels of subcontracting, new forms of purchasing partnerships and strategic alliances, capital mobility, international sourcing, spin-outs and spin-offs, the impact of software on virtual reality management, merg-

ers/alliances and global company rationalizations. Other prevalent trends are the demands for flexibility in the workforce and mobility of personnel, and the growth of professional, white collar small businesses linked with the increasing dominance of the human knowledge base of the company over that of physical assets.

As a reflection of everything above, the individual is faced in the work environment with greater career rewards and job uncertainty, a greater probability of part-time and contract employment, greater pressure for geographical mobility, more pressure and wider responsibility at work and more stress. At home, he/she is increasingly likely to be divorced, to be a single parent, to have multiple relations, to be faced with a reduced public social security net, and with a greater imperative to provide for his own pension arrangements, for taking responsibility for property, and for managing credit. As a consumer, the individual is increasingly faced with the bewildering choice of products and services about which there is growing information

and with greater responsibility for choice in learning.

If these scenarios are projected into the future, it becomes clear that there will be a greater need for all kinds of entrepreneurial behaviors. If there is to be an educational response of value, it must be sensitive to the factors identified above, as well as the pressures that this will place on the individual and the organization.

The basic educational challenge

Much of what currently goes on in schools under the label of entrepreneurship is an "add on" to the curriculum sometimes "taught" by visiting business mentors. However, in order to embed entrepreneurship in the education system, it must reflect the culture of the school itself, the organization of the classroom and the ability of the teacher.

It has long been evident that maximizing the contribution of entrepreneurial behavior to organizational effectiveness requires high degrees of decentralization and empowerment. Enterprise is the antithesis of com-



mand and control. In order to create a climate for teaching entrepreneurship, schools need to:

- ◆ create and reinforce a strong sense of individual ownership, activities and outcomes;
- ◆ reinforce associated feelings of freedom and personal ability to make things happen;
- ◆ maximize the opportunity for individuals to take responsibility for a wide and integrated range of tasks;
- ◆ reinforce the notion of responsibility to see things through;
- ◆ strongly focus the organization on defining excellence through the eyes of its key stakeholders;
- ◆ encourage staff to develop their own stakeholder networks in line with strategy;
- ◆ link rewards to satisfying stakeholder needs and thus school excellence;
- ◆ tolerate ambiguity and allow mistakes as a basis for learning;
- ◆ encourage strategic thinking before formal planning;
- ◆ emphasize the importance of personal trust and "know who" as a basis for management rather than formal relationships;
- ◆ avoid too strict demarcation and encourage informal overlap between departments and groups as a basis for developing a common culture; and
- ◆ build ways of learning on the job through staff development.

If the school/college "lives" entrepreneurship, the institution will give more support to risk-takers. The reward for entrepreneurial organization is that teachers will be in a position to gain considerable insight.

In the classroom

The challenge in bringing entrepreneurship into the classroom is to

organize it around the structural characteristics identified above. The aim should be to allow young people to experience and feel the concept, rather than just learn about it in the conventional sense. The emphasis must be upon pedagogy as it encourages learning: by doing; by exchange; by copying and learning from the experience; by experimentation; by risk taking and "positive" mistake making; by creative problem solving; by feedback through social interaction; by dramatization and role playing; by close exposure to role models; and in particular interaction with the outside/adult world.

Excellent teachers have always used such enterprising methods as learning vehicles. Yet such approaches are often seen to be part of a "progressive" and "trendy" educational method, opposed by those who look for more discipline in the classroom with a greater emphasis upon traditional learning. This prejudice will need to be overcome before substantive progress can be made in entrepreneurship education.

It seems perfectly possible to combine good exam results with the development of personal entrepreneurial skills, and to mix progressive with more traditional methods as appropriate. This is certainly the experience of Durham University Business School in running programs for hundreds of teachers in the United Kingdom and across the world over the past twelve years.

The "excellent" teacher will take easily to the entrepreneurial concept and will see it as central to educational objectives. The entrepreneurial teacher will be one who masters the art: knowing how much ownership and control of learning to give to students; maximizing social learning; encouraging student networking; developing motivation and commitment of students to see things through; encouraging calcu-

lated risk taking; seeking and taking up opportunities in an innovative fashion; and involving students in taking personal responsibility for development of learning.

The challenges ahead

If we are to take entrepreneurship education more seriously and seek to establish it as a fundamental part of the curriculum, a number of additional major issues need to be addressed. These include setting clear objectives; differentiating the program to cater to students with different needs; maximizing the gateways into the curriculum; and finding appropriate methods of assessment and accreditation.

Objectives and outcomes

Introducing entrepreneurship into the school and college curriculum will mean building upon existing industry/community links and related programs. Once this has been done, care must be taken in distinguishing among various objectives, in deciding which approaches are most relevant to the school and college context, in determining whether they will be specialist programs or a part of the wider curriculum, and in determining exactly what outcomes should be targeted. The key issues are:

The Curriculum Objectives Question

- ◆ to create the capacity to start a new venture
- ◆ to provide insight into working in a small venture
- ◆ to develop "business" understanding in general
- ◆ to develop personal "enterprise"

The Appropriate Location

- ◆ at school
- ◆ at a vocational institute
- ◆ at a higher education institute
- ◆ at a business location

The Program Approach

- ◆ a specialist business program
- ◆ full academic curriculum for all subjects
- ◆ extra-curricular program

Desired Outcome for Participants

- ◆ to start a new venture
- ◆ to work effectively in a small organization
- ◆ to work effectively in the flexible labor market
- ◆ to develop personal entrepreneurial skills

In practice, there can be considerable overlap and integration among the above choices. For example, in terms of outcomes, young people can be prepared to enter a world of work in which they are more likely to become part of the increasingly flexible labor market. They will have to manage their lives in the world described earlier. At the same time most, but not all, will work in small organizations. A minority will become self-employed and/or start new ventures. The choices presented are of importance in the process of careful objective setting. However, it is important to note that the outcomes set out above do not just focus upon business but upon organizational settings for work of all kinds.

Students' different needs

The above discussion of objectives, targets and outcomes is a reminder that within the education system, different student groups have different needs that might be served by entrepreneurship education. Within secondary schools, there are many groups with different needs. These include school leavers; low academic achievers; drop-outs; high academic flyers; those who face unemployment; those heading towards higher or further education; those who because of their personal background are more likely to engage in

family activity; students with disabilities or special educational needs; women; and ethnic minorities.

There are also different needs at the primary, secondary and tertiary educational levels. Primary school objectives are more likely to concentrate upon personal "enterprise" development and cross curricula activity and socialization with adults. Tertiary education efforts may focus more upon the "hard" business end of self-employment and entrepreneurship.

Gateways into the curriculum

Entrepreneurship as defined above can find its way into a broad swath of the curriculum. It can be introduced anywhere as part of the teaching process. Decisions about what should be included and at which level follow from consideration of desired outcomes, the needs of different groups and priorities, the dictate of the existing curriculum, notions of progression and, importantly, the degree to which entrepreneurship training is regarded as an

"extra curricular" activity rather than an intrinsic part of the school curriculum (see Chart 2 below).

Assessment and accreditation

Assessment of entrepreneurial behaviors, attributes and skills as set out earlier is a formidable task. While there is some evidence that teachers can recognize entrepreneurial behaviors, there is no common code for recognition, and no satisfactory measurement system that allows behaviors to be coded comparatively, and thus weighs development progress over time.

However, there are proxies in terms of measuring and evaluating outcomes from entrepreneurial processes, such as progress in project development and completion. Some would argue that a business plan is a measure but it is not altogether a satisfactory one. One can be very entrepreneurial in producing a business plan. Equally, the plan can be the result of a very formal and uninspiring process. Setting up and running a venture (real or simulated) is also

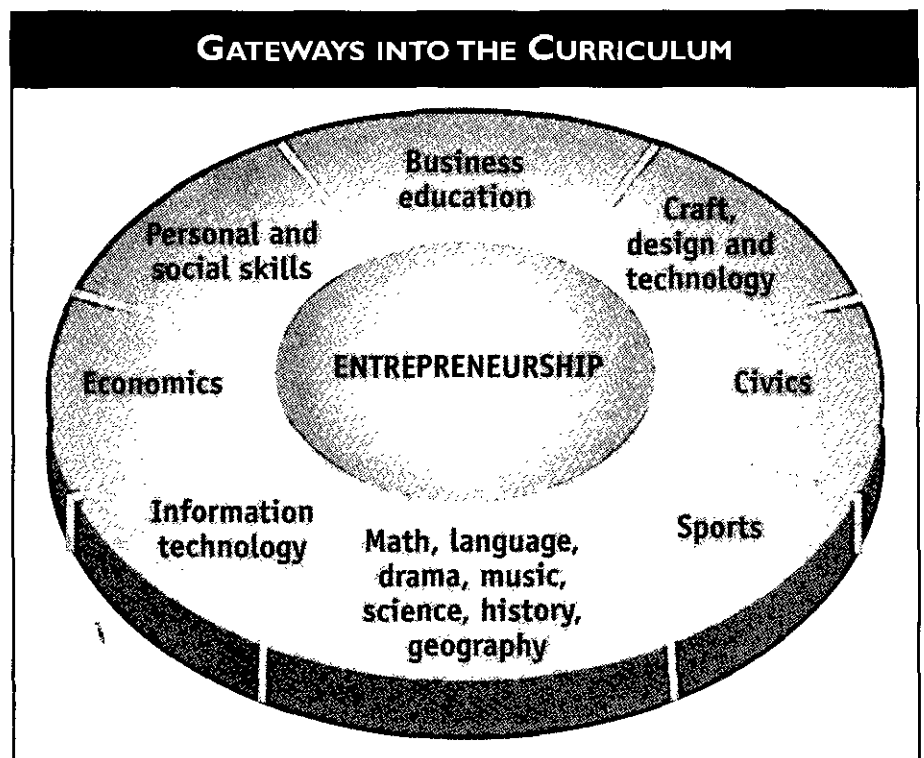


Chart 2

another measure perhaps nearer to the mark, because assessing the degree of entrepreneurship involved in the process and the personal development resulting from this is very subjective indeed. This work has been done in assessing adult entrepreneurial attributes but not applied to the education system. Unless more progress is made in assessment methods, the issue of accreditation will be kept on the back burner.

The way forward

Around the world, entrepreneurship and enterprise education is beginning to take hold. Programs with these labels have appeared in the school curricula in India, Malaysia, Canada, Australia, Russia and many countries of Central and Eastern Europe, in Latin America and across Western Europe. The US leads in innovative approaches. A visitor to the EPCOT Center receives a clear sense of this.

There is worldwide potential to build more entrepreneurial approaches around existing schools, business and industry initiatives. Existing programs that can be "entrepreneurially enhanced" include those focused upon:

- ◆ creating a much greater economic awareness among young people of all ages;
- ◆ creating a wider understanding of industry, business and management;
- ◆ developing understanding of small business and its management systems;
- ◆ introducing young people to the concept of new venture development via simulation exercises in schools;
- ◆ developing transferable skills such as communication, presentation, negotiation, problem solving, as well as IT competency;
- ◆ opening gateways to better career planning;
- ◆ providing work experience for students and teachers; and
- ◆ creating business partnerships between schools and colleges and individuals or groups of firms.

The above list underlines the potential for the role of business in partnering education with entrepreneurship. If this is to be successful, then care must be taken to find clear concepts and objectives so that the challenges of entrepreneurship edu-

cation are clearly recognized and not confused with broader aspects of schools. The business community must understand how the entrepreneurship curriculum goes beyond the classroom to the culture of the school or college, its impact on the organization of classroom activity (perhaps redefining a classroom in this process), and the competencies and development needs of teachers. The challenge is to build from existing practice to achieve a more coordinated approach, taking the best from different programs. Schools and businesses collectively need to reflect deeply upon issues of progression.

Overall, business will need to reappraise its own role in designing new ways of preparing young people for the entrepreneurial challenge of the 21st century. There needs to be new kinds of partnerships between schools and business. Business mentors need different skills and perhaps training and development. Without a substantial debate, it may be difficult to achieve the goal of adopting education to the diverse entrepreneurial needs of the next century. ☛☛

Latvia: Entrepreneurship for the Masses

by Janis Stabins

In 1992, when the Latvian Entrepreneurship and Management Academy, Ltd. (LEMA) launched its Working for Myself program, it was the country's sole educational establishment to teach the fundamentals of business. At that time, private business was in its very early stage of development, and there were no teachers who were qualified to teach entrepreneurship. LEMA's courses offered progressive thinking and an entirely new type of education. They were designed to enable participants to absorb needed information while gaining practical experience. The enduring popularity of the courses can be attributed to the diverse range of age groups and experience levels they engage.

Since 1993, LEMA has increased, with funding from CIPE, the number and variety of its classes. One program, Small Business Survival Support, teaches basic tools of small business management, the psychological aspects of entrepreneurship and risk-taking behavior. It is taught in both Latvian and Russian languages at universities, high schools and vocational institutes, as well as in large government and medium-size private firms across the country. The

curriculum covers issues such as cash management, debtor/creditor relationships, coping with inflation, basic business systems, finding new creditworthy customers and building international contacts, supply management, and coping with the regulatory environment.

In 1996, LEMA launched Flexible Entrepreneurship Education for Adults, which promotes growth in the small business sector based on the principles of flexible learning. This correspondence education program targets adults who have little or no access to information or formal entrepreneurial training. It is particularly popular in urban and former industrial areas with extensive unemployment.

Teaching via TV

This ten-month program combines LEMA's educational television series with monthly manuals and individual evaluations with experienced instructors. The curriculum, which was developed in cooperation with Riga Commerce School, covers a variety of subjects including communication skills, computers and management. The current primary course, "Practical Entrepreneurship," will soon be joined by a course called "How to Increase My Earnings and Be in Demand in the Job Market."

One of LEMA's more innovative programs is its weekly television se-

ries, "Business ABCs for Everybody." This program, which began in 1993, is broadcast across Latvia and has the potential to reach the country's population of 2.6 million people. Currently the country's second most popular educational series—55,000 weekly viewers—and one of the most popular television programs overall, the series focuses on problems and challenges experienced by private businesses. According to LEMA surveys, the viewing audience primarily comprises people who want to start a business, develop their existing businesses, or improve their skills.

In the program, LEMA's trainers provide basic answers to issues such as using banking services, dealing with changing legislation, choosing trustworthy business partners, and advertising effectively. For people who want more advanced learning, LEMA offers course manuals to supplement the television series. By taking tests through the mail, viewers can also earn completion certificates.

In 1996, LEMA broadcast "Your Business Plan," which encouraged viewers to develop business ideas and formulate them in a business plan. When the series concluded, 64 viewers sent business plans to LEMA. Plans ranged from tulip growing to trucking, and several plans were later implemented. ☛☛

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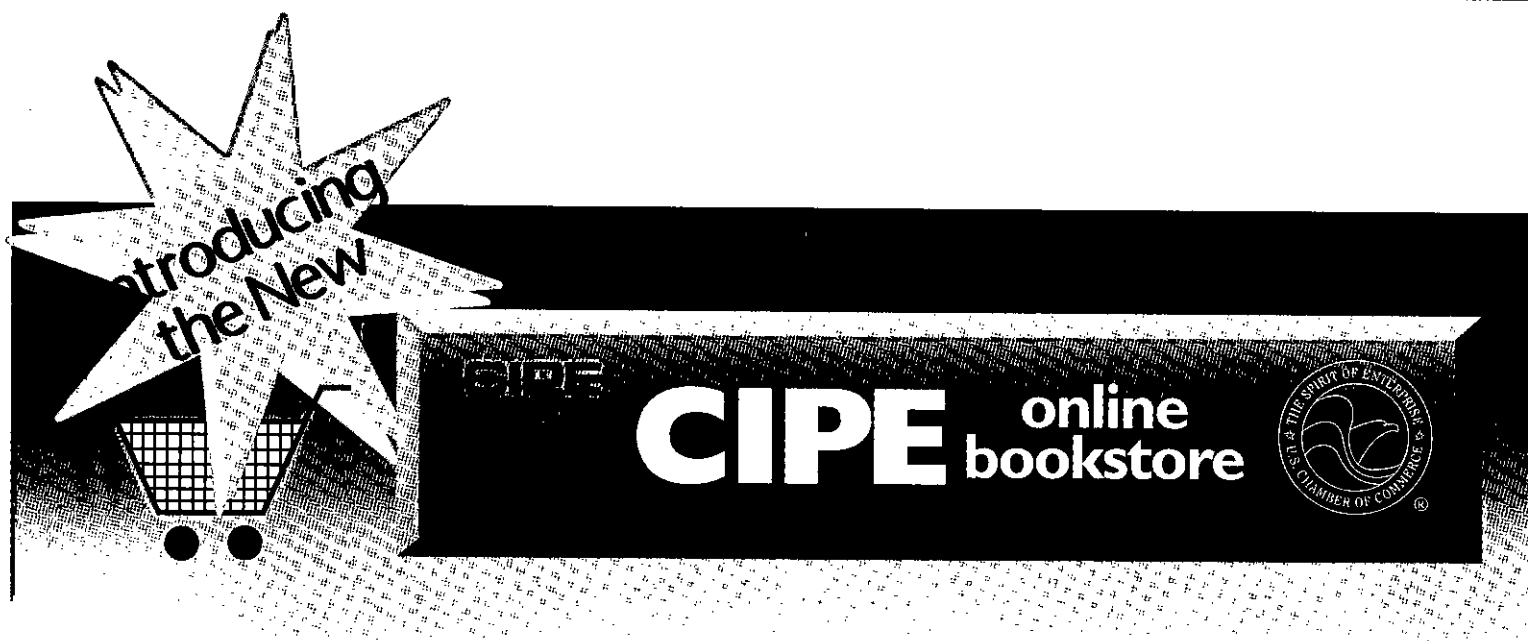
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