

Building an Anti-Corruption Strategy

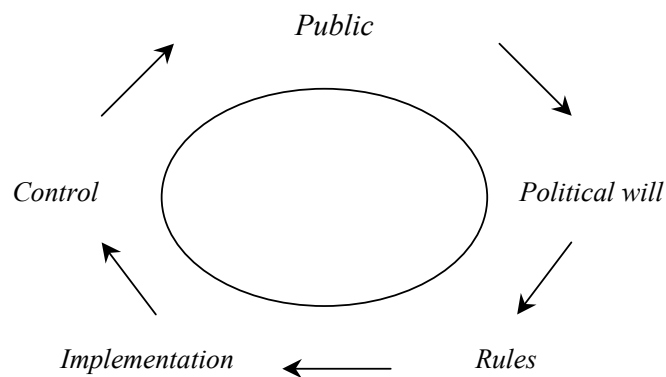
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As already mentioned, corruption is a common problem of many countries, and even of integrated units, as e.g. the European union must counter this problem. It is thus possible to learn from the experience of other countries, what tools and what succession of measures led to success there. The international non-governmental organisation Transparency International (hereinafter referred to as TI), having its office in Berlin, has performed several analyses and studies, and implemented models reflecting the experience of several countries⁴. Some examples are: *The Anti-Corruption Handbook*⁵, *The Integrity Pact*⁶, or international comparisons of countries according to the Corruption Perception Index.

The fight against corruption may be illustrated by a **spiral movement**⁷:



Public opinion pressure. It is necessary to improve the citizens' perceptiveness in respect of the corruption issues and their impacts, but also their knowledge of the anti-corruption tools. To create civil pressure it is necessary to guarantee access to information, and to work with the public opinion (in a sense of an explanation campaign on how transparent relations may

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⁵ Also published in Slovak translation in 2000.

⁶ For more details see *The Integrity Pact – the Concept, the Model and the Present Applications, 2000*.

⁷ Zemanovičová, D.: How to manage interaction between government and civil society, international workshop "Fighting Corruption: Practical Examples, Vilnius 2001"

contribute to the citizen's benefit). In this way, informal rules may sanction non-transparency and corruption, and exert **pressure on politicians** to adopt measures for reduction of the space for corruption. The politicians will not act without efficient public pressure, especially if this involves areas that directly relate to them.

1. ANTI-CORRUPTION PROGRAMMES

Following that corruption takes place at **regional, national as well as supranational level**, strategies for the fight against corruption strategies have also been developing on several levels.

Anti – corruption programs can be conducted on various levels, for example on:

- state government level
- local – government level
- political party level etc.

1.1. State level

A complex strategy must take all the mentioned points into consideration and must present an attack on **several fronts at the same time**. The majority of countries, however, are not able to do everything at once. The reformers must therefore decide, in which areas most serious problems are felt, and what strategy will be the most effective.

The programs of fight against corruption have been applied in several countries, e.g. in Columbia, in the Czech Republic, Slovak Republic and in several African countries. Italian sources report that, as a result of the anti-corruption campaign “Clean Hands” there was a decrease in costs for highway construction by 20%⁸.

Possible obstacles

Generalization of experience from several countries worldwide indicates that **the anti-corruption effort may be hindered by**⁹:

- power limitations at the supreme level (the new-coming administration may attempt to counter corruption, however, it inherits a corrupt bureaucratic apparatus hindering any change),
- non-existence of will at the supreme level,
- too ambitious promises resulting in excessive expectations and following loss of the citizens' confidence (aims that may be reached on a short-term basis, or “quick solutions” are often necessary in order to ensure public support),
- fragmentation and lack of co-ordination in reforms, resulting in absence of any accountable subject,
- reforms that are excessively based on laws and enforcement (resulting in repressive measures and following enforcement abuse, which may elicit further corruption),

⁸ *ibid.*

⁹ Pope, J.: Source Book, TI Berlin, 2000.

- reforms ignoring corruption at the supreme level, while focusing on “small fish” (laws are being enforced in an unjust and unequal manner, which puts the lawfulness in question and weakens the preventive effect),
- inability to establish institutional mechanisms that would survive the reformers,
- inability of the governments to involve the civil society and the private sector in the process.

As a rule, **the anti-corruption measures** include the following elements¹⁰:

1. clear **declaration of the political will** of the political elite that they will fight against corruption anywhere it is discovered,
2. main attention focus on corruption **prevention and system changes** (more than on the chase after the “witches”),
3. approval of an integral anti-corruption legislation and establishment of institutions, the integrity of which is ensured (including investigators, prosecutors and judges),
4. identification of public sector activities that tend most to corruption development, and subsequent change of crucial laws and administrative procedures,
5. provision of such wage level of the civil servants, which to a sufficient degree reflects the extent of their responsibility and which is, as far as possible, comparable to the private sector wages,
6. investigation of the legislative and administrative appeal possibilities for the purpose of provision of their preventive effects,
7. establishment of partnership between the government and the civil society – including the private sector as well as with the professional and religious organizations,
8. implementation of changes that will ensure that corruption becomes a highly hazardous activity with little profit.

Many times anti-corruption programs focus on:

- prevention,
- repression,
- awareness raising.

Governmental Anti – corruption strategy should be also an **open material**:

- for wide discussion and involvement of various stakeholders like NGOs, media that could come up with suggestions (not just the governmental piece of paper)
- that could be updated when the changes occur and new needs will appear (to allow flexibility)

1.2. Political party level

In order to increase integrity of the political party and improve its perception between general public and its electorate political party may start with introducing Integrity System of Political Party.

For more information please see Attachment 1.

¹⁰ Pope, J.: Source Book 2000, TI Berlin, 2000.

2. ACTIVITIES OF SUPRANATIONAL INSTITUTIONS

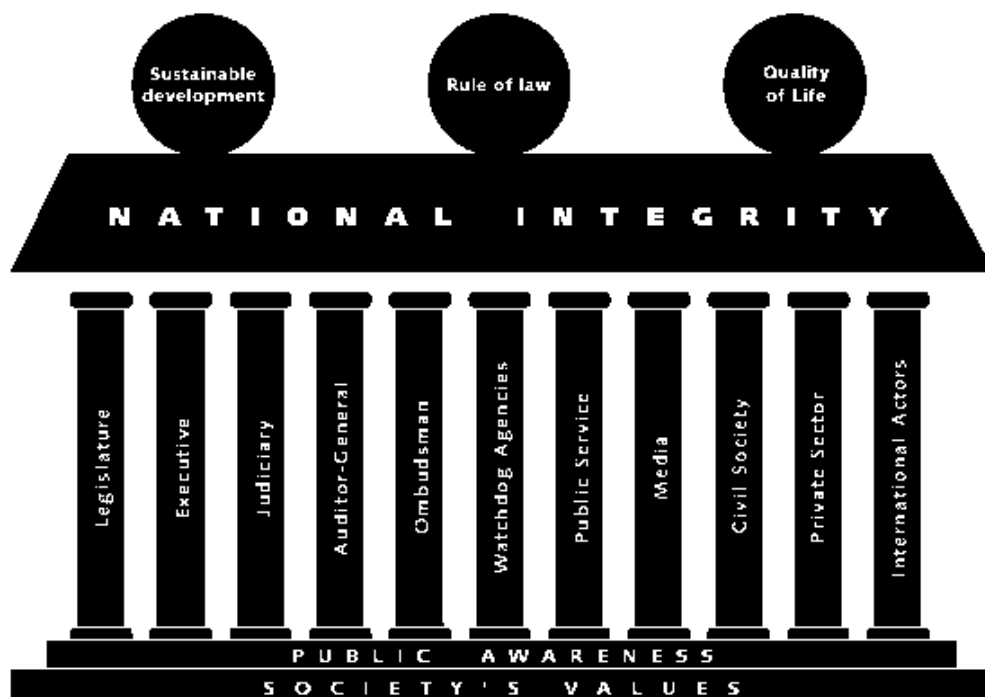
Several programs were adopted for regional blocs, e.g. for the African countries, or Balkan countries. At the American summit in 1994 the governments undertook:

- to promote discussion on the most serious problems faced by the public administration, and to agree upon the priorities of reforms contributing to transparency of governmental activities and to improved public controllability;
- to provide proper supervision over the public administration offices by strengthening of the internal control mechanisms, including investigation and enforcement capacities in relation to corruption, and to facilitate public access to information, necessary for external control;
- to define the criteria of conflict of interests regarding civil servants, and to introduce efficient measures against unlawful enrichment, including severe penalties against the employees abusing public offices for the purpose of personal enrichment;
- to appeal to the governments of countries to adopt and set into force measures against bribery in all financial and business transactions;
- to develop international co-operation mechanisms in the area of judiciary and banks, and thus to enable prompt and effective action in international investigation of corruption cases;
- to pay attention to governmental regulations, tax levies, judicial procedures and election and legislation processes;
- to develop an international strategy of fight against corruption (in the public as well as private sector), taking into account any agreements and the national legislation. This strategy would include extradition and rendition of prosecuted persons, and prosecution of the accused, which would be achieved via a new agreement in terms of the already existing international co-operation system.

Several initiatives in the fight against corruption have come from supra-national institutions (OECD, World Bank, EU).

3. INITIATORS OF ANTI-CORRUPTION CHANGES

Government or civil society itself cannot effectively combat corruption. See the scheme below.



Source: Pope, Jeremy: Source Book, TI Berlin, 2000

National Program of the Fight against Corruption¹¹ was adopted in Slovakia in the year 2000, which was created on the base of NGOs and government co-operation.

Anti-corruption strategies can have both -coalition as well as opposition parties. NGOs and political parties themselves should have their own integrity system.¹² It is possible to successfully develop anti-corruption strategies also at local level. The fight against corruption is becoming more and more in international interest and organizations such as OECD and The World Bank are becoming the leaders in such a fight.

Trainings:

We will analyze the process of creation of an anti-corruption strategy, key players, effects and risks using the information on situation in one Bolivian City.

Letter 1

Few municipal officials will face situations as extreme as the one encountered by Ronald Maclean - Abaroa when he took over as mayor of La Paz, Bolivia.

On September 13, 1985, I was sworn in as the first elected mayor of La Paz since 1948. I knew I would be facing a difficult task, but I never imagined how grave the situation was. I quickly discovered that I had better find someone to loan me money to survive into the next month, because my new salary was the equivalent of only US\$45 per month. Not only that, I

¹¹ www.government.gov.sk

¹² For more information see Attachment 1.

would find it almost impossible to form my immediate staff since they would be paid even less. At the end of that day, I boarded the mayor's vehicle, a decrepit 1978 four-wheel drive, to return home, wondering if I had not fallen into a trap from which it was impossible to escape, short of resigning from my first elected office.

The idea that radical change was essential turned out to be my savior. I was facing a limiting case. Bolivia was still in the midst of its worst economic crisis ever. The former president had had to cut his term short and leave office before being driven from it by the army, the people or most likely a combination of both. Though an honest president, he was unable nonetheless to reverse the economic collapse. In August inflation had reached an estimated annual rate, of 40, 000 percent.

The next day I returned to my office, wondering where to start my reforms. The four-wheel drive had broken down, and I had to drive to work in my own car. While parking in front of city hall; I noticed that there among the crippled vehicles were two conspicuously fancy cars. One belonged, I later learned, to a, foreign expert working with the municipality The other, an elegant sedan, belonged to the cashier of city hall. I had my first hints of where the resources were.

The cashier was a fifth-class bureaucrat with a minimal salary who, I came to know, had the habit of changing several times a week which car he drove to work. He made no secret of his obvious prosperity. In fact he routinely offered loans to the impoverished municipal employees, including some of his superiors, charging a "competitive" weekly interest rate.

Later, up in my office, I developed a deep sense of isolation. Accustomed to working in the private sector, where I managed fair-sized mining companies, I was used to working with a team. In my newly elected post, there was nothing that resembled a team. All the people I found looked and acted more like survivors of a wreck than anything else. The professional staff was earning an average of about LIS\$30 per month Many employees were anxiously seeking alternative sources of income to take home. Corruption, if not always on", the scale of the cashier, was" everywhere.

Bolivia had just had a change of government at the national level, and the new administration was from a different party than my own. I would not be able to count on support from the national government, as had been customary in the recent past when mayors were appointed by the president and subsidized by the national treasury. New laws meant that cities were on their own financially, and I learned that in two weeks I would have to meet a payroll that was worth roughly 120 percent of the total monthly revenues of La Paz! Part of this was due to the hyperinflation and the changes in federal support. But part, of it, maybe a lot of it, was due to corruption.

I found many signs of malignancy in the municipality. The degree of institutional decay was such that authority had virtually collapsed in the municipality. Everyone was looking to survive in terms of income generation, and therefore corruption was widespread. Tax collectors used techniques ranging from extortion to speed money to arrangements for lower taxes in exchange for a bribe. Property taxes were particularly vulnerable to collusion between taxpayers and corrupt officials. A new assessment was needed as the result of the hyperinflation; and a legion of municipal functionaries was ready to hit the streets, meet property owners, and "negotiate" a property value that would suit both owners and

functionaries well, but one far below the true value. The result would be a tax saving for the property owners, particularly the rich; a bribe for the colluding functionary; and city unable to provide services because it lacked even minimal resources.

The city government was in effect a huge “construction company” that was not constructing much. The city owned tractors, trucks, and all kinds of construction machinery. There were 4,000 city laborers, who were paid meager, fixed salaries and were only coming to work an average of five hours a day. Machinery was also used for a similar amount of time, rendering it extremely inefficient given its high capital cost. But I found that the use of gasoline, oil, and spare parts was abnormally high. Surely they were being sold in the black market, I thought, and soon this suspicion was sadly verified. New tires and expensive machinery parts such as fuel injectors, pumps, and Caterpillar parts were available for sale; and in exchange broken and used parts were “replaced” on the city’s machinery.

Finally, there was the municipal police, a “soft police” that did not conduct criminal investigations or carry arms but was responsible for regulating the informal sector, inspecting the markets for cleanliness, and keeping order among the city vendors. This, too, was a source of corruption, as the municipal police would extort money in exchange for letting vendors undertake both legal and illegal activities.

Work in groups:

- Describe the types of corruption on the base of the mentioned example from La Paz.
- Which types of corruption do you consider the most serious and harmful?
- Propose some anti-corruption measures and describe their positives and risks.
- Each group presents its opinions on a plenary session.

Letter 2

Wherever I found problems in service delivery or the prompt completion of public works or the collection of revenues, they happened not just to be associated with inefficient organization but almost always with corruption.

The more I learned about municipal performance, the more I tripped over suspect behavior. So I turned around and started using the formula of corruption $C = M + D - A$ as the organizing principle for my attempt to reinvent city government in La Paz. (In Spanish there is no word for “accountability,” so we use “transparency” and the formula is $C = M + D - T$.)

I came to realize that the introduction of competition, the reduction of bureaucratic discretion and leeway, and the increase of accountability were the keys to solving my institutional bottlenecks and roadblocks. In fact, I have come to believe that in La Paz, as perhaps in other municipalities, years and decades of predatory behavior by public institutions have developed systematic or intrinsic corruption. In a Darwinian way, these sick institutions seem to have evolved into complex and sophisticated corruption machines, with a shape, size, and modus operandi and also the statutory legitimacy “fit” for corruption.

*I could give many examples. Let me just describe one. Construction permits were a great source of corruption and frustration. According to existing city legislation, **all** new construction work in the city had to be approved by the Urban Development Department of the municipality. Not only that, any modification in existing construction, such as remodeling or just putting in a new door outside or **inside** any building, also had to be authorized. Needless to say, waiting to receive all these authorizations could amount to years-unless you paid a bribe.*

I learned of the corruption and applied the formula. This led, first, to a reconsideration of which permits were necessary and to a redesign of the processes for granting permits. We deregulated. For the regulations that stayed, we simplified the procedures and publicized them, so that citizens could not be tricked into thinking that a regulation said something it didn't or involved steps it didn't.

We also began to break the monopoly of granting permits, which in turn led me to solve a structural problem. In fact, even if corruption had not existed, the formula's "anti-corruption medicine" turned out in many areas of city government to be perfect for avoiding costly inefficiency and delays as well as an expensive burden on municipal resources.

There are certain professions with a surplus of supply in Bolivia, and one of them is architecture. So I decided to propose that the professional association of architects make it possible for members to become certified by the city, so they could grant the construction permits on behalf of the city, complying with city norms and regulations, and for a fee which the market would set. The architects in turn would have to pass an exam demonstrating knowledge of the city's regulatory norms called USPA, and deposit a bond that the city would collect if they failed to perform their duty professionally and honestly. The architects' association had to agree to help implement, monitor, and if need be sanction.

We did not get this step implemented until 1996, after I was reelected. We added more than a hundred private architects to cope with the huge demand for permits, cutting waiting time dramatically. Certified architects just filled in a form with all the necessary information and issued a signed, sealed, and numbered construction permit. Then a few, well paid officials of the Urban Development Department would conduct a sample test of some of the permits and go through a complete checkup. If irregularities surfaced, the city could take action along with the architects' association, which could also advocate on behalf of its members should officials extort them with improper allegations. The illegal market for corruption, where delays and monopoly raised the price, was thereby subverted.

This is one example of a broad principle. I used the formula $C = M + D - A$ as the marco ordenador [guiding principle] of my terms as mayor.

Letter 3

Every year the mayor must present the city's operational budget to the city council. In the budget, priorities are set for the public works over the coming year. Of course, each urban improvement has an impact not only on the well being of the citizens in the particular area where construction takes place, but also affects and improves the real estate value of the properties and land in that neighborhood.

I soon learned that the funds available to the city for infrastructure were woefully insufficient to meet the multiple needs of the neighborhoods. Therefore, I needed a strategy for setting priorities among the many competing demands. During the first years of my administration, my technical staff developed and presented to me a selection of public works and locations. That selection left the majority of the citizens unhappy, especially the poorer ones who lived far from the center of town and lacked almost everything. These people were not prepared to wait passively for promised improvements to materialize years later.

The first summer of my tenure, and every summer thereafter, I recruited a group of advanced graduate students, mostly from Harvard University and the Massachusetts Institute of Technology (MIT) in the United States, to come to La Paz to work with me. I posed the problem to them, and together we developed a decision model using several, weighted variables to assign priorities to the set of public works that gave the city the greatest value added. For instance, the model assigned greater importance (weighted more heavily in analytic terms) to projects that benefited larger numbers of people, poor people, and children. To my surprise, projects which were comparatively low in the list of priorities presented to me by my technical department jumped ahead dramatically in priority under the model's multivariate evaluations. It seemed that, without increasing outlays, the city could reach many more people, extend them greater benefits, and increase their well being.

Some months into my tenure as mayor, I had started to conduct citywide polls to determine our most urgent needs as perceived by the citizens themselves. Some general correlations were found with the Harvard MIT model, but I still believed I needed additional information before establishing final priorities and releasing construction funds. So, we devised a questionnaire that listed the specific public works proposed by the municipality's technical office and distributed it to the "barrios," asking the neighbors to assign their own priorities to these public works and make any comments regarding these or other projects they find more important for their barrio.

To preserve anonymity, we distributed "suggestion boxes" around the city. Although we did not have what I regarded as a "satisfactory" number of responses, the many we did have did not necessarily resemble the order of priorities suggested by the technical staff or the cost-benefit choices of the model. Instead, many expensive works on the staff's list which had in turn been relegated to much lower priority by the model were not even mentioned or received few marks in the anonymous citizen responses to the questionnaire.

As a consequence, I decided to make a personal inspection of the sites of these suspicious works: To my surprise, they were for the most part located in sparsely populated areas, and seemed designed more to expand the city than provide services for existing neighborhoods. Moreover, during some of my surprise inspections, I found municipal machinery and employees constructing new streets and other works that were not included in the list of municipal building programs. Only then did it become clear to me that medium-level personnel of the municipality, usually with direct control over machinery and labor, had developed their own 'agenda and priorities to construct public works that were neither preferred by the citizens nor rated highly in the cost-benefit model.

These works were accomplished in exchange for "favors" – otherwise known as bribes – offered either by a group of neighbors or by individuals who were speculating on land and would collude with city employees and technicians whom they paid with land in the same

area where they completed urban improvement projects. In some cases, the neighbors in poor areas had to pool their money to have urgently needed urban improvements made in their barrio, in direct disregard for the formally approved operating budget for public construction. In many cases, middle-level technical bureaucrats decided where and when to do what public works in exchange for favors, bribes, or in-kind transfers (usually land). In the eyes of the municipal engineers and technicians who engaged in these corrupt activities, this scheme compensated them (and then some!) for their barely subsistence wages (US\$15-30 per month). In fact, it transformed some of them into prosperous land barons and real estate speculators.

This corrupt system was eliminated by contracting out public works under a step-by-step, incentive-based contracting process that links payments to satisfactory completion of project milestones. It was the participation of the people, through questionnaires and direct contact in their own neighborhoods that made possible the detection of the corrupt exchange of public works for property or side payments.

Thus, introducing reliable information, analysis, and policy formulation on the supply side and encouraging and ensuring the participation of citizens from the demand side to help calibrate and correct the results of the supply-side work led to a much-improved system for delivering public goods and services.

Letter 4

Mayor MacLean-Abaroa describes an example of “low-hanging fruit” in La Paz in 1985.

Perhaps the most evident and generalized form of corruption occurred in the corridors and the main hall of the municipality. Hundreds of citizens wandered through, trying to complete some paperwork or make a tax payment. Because of the total disorganization and the lack of information for citizens, there emerged dozens of “tramitadores” who offered their services to “arrange” a citizen’s paperwork or permit problems.

The first extortion of citizens occurred when they delivered their documents to these tramitadores. Then, when the paperwork was finished, very often illegally, the citizen was required to pay a “recognition,” in addition to the official cost of the transaction. Receipts even for the official sums were infrequent, and it was clearly the case that much of the money was stolen by corrupt officials. What citizens did get was basically a kind of temporary “protection” from being molested by inspectors and the like.

The first step we adopted was to isolate those doing the paperwork from the public. We did not permit tramitadores or anyone else to wander freely from desk to desk “running signatures” and stamps. All transactions had to be deposited in a single place and be given a control number. They had to be picked up a few days later from another place. The functionaries who processed these transactions were kept practically secluded on the second, floor of the municipality, where they had no way of “conversing” with the clients.

To complement this step, we opened accounts in the banking system so that tax payments could be made directly and municipal cashiers couldn't profit from a “float” to speculate in the black market with dollars, which was then common.

These simple measures didn't cut the grand corruption, but they did eliminate a major source of abuse and discretion that affected many citizens. Within a few weeks one could walk the corridors of city hall without colliding with hundreds of anxious and confused citizens, victims of extortion and veiled threats. Citizens found it easier to find out where their transaction was in the system, through a computer-based central registry of transactions. They could perceive that the situation had changed for the better.

Letter 5 „Frying big fish“

An important point we had to bear in mind (and still have to) is the status of people we prosecute. The public tends to measure effectiveness by status! Will they all be small, unimportant people, or will there be amongst them a proportionate number of high-status people? Nothing will kill public confidence quicker than the belief that the anti-corruption effort is directed only at those below a certain level in society.

In city hall in 1985, the cashier was a mixture of Robin Hood and the godfather. He would loan money to employees and perhaps help them with illicit supplements to their meager pay. I was told that he even “advanced” funds to the mayor, when for example an urgent trip came up and the usual processes for obtaining money were thought too slow. As I mentioned earlier, the cashier himself lived like a king. He was thought to be an untouchable because of his services in the municipality and his excellent connections in the treasury of the nation.

I realized that it was necessary to give a very visible signal that the old order was over and that the new democratically elected authority was not willing to go along with corruption. The most conspicuous representative of the old order of corruption was the infamous cashier, whom we summarily dismissed to the astonishment and the not-very-timid opposition of many functionaries who assured me that the city couldn't work without the almost “magical” powers of this cashier.

The cashier's dismissal was the first of many other measures that followed, aimed at combating corruption.

Letter 6

Ronald MacLean-Abaroa's strategy was different, even though it also included supply-side elements. He understood that at the heart of institutional rot are broken-down systems of information and incentives. He took to heart the formula $C = M + D - A$.

Diagnosis

His first step was to undertake a number of diagnostic activities. Where was the corruption, how bad was it, what were its causes and possible cures? Workshops with senior officials, which we earlier called "participatory diagnosis," not only gathered useful information (Box 12) but also motivated these officials to devise their own strategies for reform. Special studies also helped, ranging from the highly informal {interviews with secretaries-a repository of institutional knowledge about transgressions) to systems analyses of procurement.

Strategy

After sizing up his daunting problems, Mayor MacLean-Abaroa applied an early version of the framework for policy analysis (Box 4) to each of the city's major activities (for example, works, revenue collection, permits and licenses, procurement, auditing, and evaluation). The city government undertook a number of impressive steps toward improvement.

Public works. *The mayor used the city's financial crisis to defend the firing of large numbers of employees, particularly laborers in the public works area. He took this opportunity to redefine the city's mission as carrying out emergency repairs but not major projects. In the latter case, it would supervise but not undertake the works. Mayor MacLean-Abaroa obtained foreign aid for municipal works, most of which he applied directly to public works projects. (He used the remainder to help reform city administration, as the subsequent section on personnel discusses.)*

Which city works projects should be built? Mayor MacLean-Abaro used a variety of techniques to estimate the value of various kinds of public works projects to neighborhoods and to the city more generally. These techniques ranged from surveys of local groups to benefit-cost studies using high-powered outside advisers.

Revenue collection. *Revenue collection was assigned to banks rather than city employees, reducing the scope for bribery and extortion by city officials. The complicated system for evaluating the value of property was replaced with an "auto-evaluation", wherein citizens would declare the value of their properties under the veiled threat that the city might purchase their properties at the value the citizens declared. The result was a remarkable increase in city revenues.*

Permits and licenses. *The mayor deregulated some activities, so that no permits were required and no bribes could be extorted. He abolished the office of price control.*

He developed a single register of all applications for permits and licenses. Applicants would come to a desk staffed by registry employees, not by those actually evaluating and granting permits and licenses. Each application was entered into a system that enabled its progress to be monitored. The scope for bribe-taking was reduced, and the information gathered through the system could be used to help evaluate the performance of offices and individual employees. The system was never fully implemented, but it did make a difference. He undertook a great effort to simplify and streamline the granting of permits and licenses. Then he published a "Manual for Pacenos," which described each process in detail so citizens knew what to expect and were less easily extorted based on their ignorance.

For building permits, he created a plan to involve private sector architects under the aegis of the College of Architects. They would take some responsibility for reviewing and warranting the quality and legality of the construction plans. Adding more than 100 private sector architects would speed up approvals and improve the quality of the reviews.

Procurement. *Systems that formerly took many steps, very difficult to monitor, were simplified to fewer steps, with more effort at monitoring carefully each step.*

Personnel. *Efforts were made to increase the professionalism of the city's staff through meritocratic recruiting and promotion. Young people were brought in under a plan called "Bolivia Jóven." Thanks to personnel cuts, enhanced revenues, and foreign aid, salaries*

were raised, to the point that within two years they were competitive with the private sector. By "topping up" the salaries of key officials, the city was able to attract real talent to the important jobs of planning and supervising municipal projects, especially in the area of public works. Training was radically increased, and a special program funded by the World Bank had as a central objective the upgrading of city personnel. A new Institute for Municipal Training was set up.

Auditing. A project was undertaken with a major consulting firm to design and implement an integrated financial management system, running from requests for materials and public works through their procurement, warehousing, and supervision. Unfortunately, this system was not completed before MacLean-Abaroa left office.

Letter 7

La Paz ten years later

Upon assuming office in 1996 MacLean-Abaroa invited Robert Klitgaard to La Paz for an assessment of the city's financial situation and a look at the overall municipal strategy. It had been four-and-one-half years since MacLean-Abaroa left the mayor's office and two mayors had served in the interim. It was amazing how corruption had once again emerged.

Works. The Chamber of Construction, a group of private firms, had made public complaints in the previous administration concerning extortion. None had been heeded. According to some people inside the municipality, winning contracts requires a bribe of 10-15 percent. When public works are completed and payment is to be made, a bribe of 10 percent is often sought "for the [political], party." The threat of nonpayment is real, as the city's short-term debt including nonpayment had risen sharply in the previous two years. By 1996 the city was \$20 million in arrears.

Tax collection. The "auto-evaluation" system eroded when it became clear that the city had no effective penalty for understating the value of one's property. (The threat to buy the property for a multiple of its declared value turned out to be illegal, and after a few years its credibility waned.) In 1995 a new system was installed that provided "automatic" valuations depending on self-declared housing characteristics. The result was a large number of much higher tax assessments for the poor and lower-middle class. Large protests followed, and thousands of individual complaints had to be addressed, usually by simply adjusting the assessment downward. Public anger continued, and one member of the previous administration believes that the bad taste of this episode led to the incumbent mayor's defeat. In any case, a form of tax evasion through under-declaration led to an estimated shortfall of at least 100 percent in property tax revenues.

Permits and licenses. The single registry for applications for permits and licenses and other transactions had broken down completely. The official in charge described, in a memorandum in February 1996, an "almost infinite" list of reasons, which revolved around the rapid rotation of officials seeking their own and their party's interest in obtaining bribes. It is now routine- "all the time, every day"-to pay speed money of B.200 (about US\$40) for the "revision of paperwork."

The system of the architects' evaluating building plans was finally implemented, after being ready for four years. The architects still took a slice of the fee paid by all those seeking building permits, but apparently they simply checked that the square meters declared were correct (and that the correct fee was paid).

When asked to live up to the original agreement to confirm the quality and legality of the plans, the College of Architects now complained that it did not want corruption moved from the city government to the college. (However, the college did wish to continue receiving its allotment of funds.)

Procurement. *Collusion had become common. Outsiders who submitted lower bids were rejected by corrupt municipal personnel according to vague standards of quality. As mentioned above, bid-padding coexisted with bribes at both the award and payment stages.*

Personnel. *Salaries remained relatively high, but pay and promotion were not linked with performance. Instead, political appointments were so common that an estimated 40 percent of managerial and technical employees had been replaced by the previous administration, and an estimated 70 percent turned over in the administration before that. Secretaries were told that they would not receive pay raises unless they joined the mayor's political party. Why was this not the source of outraged public complaint? The simple reason is that any idea of career paths had broken down. As one secretary put it: "For four years we've lived with controlled minds and closed mouths. If anyone would make a complaint [about illicit activities], he would lose his job. But everyone would comment to each other privately about what was going on."*

Moreover, the internal systems for investigating complaints and for auditing had become victims of influence and incompetence. The accounts and records were now virtually useless, according to a team of experts working on the integrated system of financial management-which, by the way, still had not been put into place after four years. Though the design had not been completed entirely, another reason for the delay in implementing the new system was (in the words of the program's managers) "resistance by city employees who do not for their own reasons wish to be part of a system of financial management."

There was also centralized corruption. "The previous mayor set up an office called OPCC, the Office of Planning, Coordination, and Control," related the new director of this office. "OPCC centralized everything, every decision. At the end every permit and every license and every contract had to be approved there. This became the source of much abuse. We've nicknamed it the Office of Planning and Collection of Coimas [bribes] ."

In some ways the situation was better than in 1985. Some of the reforms undertaken then had stuck. The deregulation of some areas of the city economy permanently removed the corruption that formerly attended the enforcement of those regulations. Cutting back the role of the city government in other ways also helped. For example, the city had not returned to being a major construction company, although its stock of equipment had been enlarged through a foreign aid project. But unfortunately the process of selecting and supervising public works projects had deteriorated, and major forms of corruption had emerged again.

In a poll of Paceaños in February 1996, 50 percent of the population agreed that "the level of corruption with respect to the past is worse." Another 43 percent said it was the same. No

one said it was better-the other 7 percent said "don't know " (The poll was referring to all levels of government, not just the city.) Some 74 percent of the respondents said that Bolivian politicians are less honest than those in other parts of Latin America are. When asked whether the primary motive of politicians was public service, "economic ambition," or "ambition for power," 84 percent of male respondents and 52 percent of females said "economic ambition. Only 9 percent of the combined sample said "public service."

Not surprisingly, the mismanagement and corruption in La Paz were accompanied by an alarming trend in city finances. Mayor MacLean-Abaroa's last full year in office was 1990 (under Bolivian law he had to resign about halfway through 1991, in order to become a candidate for reelection at the end of that year). From 1990 to 1995, the deficit of expenditures over current income (excluding capital transfers and foreign aid) rose from approximately US\$ 1.2 million (4 percent of current income) to about US\$40.7 million (87 percent of current income). Over the same period and again using current dollars, total investment moved from US\$ 10.4 million to US\$ 14.6 million, whereas current expenditures grew much faster, from US\$8.5 million to US\$32.0 million in 1995.

What had gone wrong? And what could be done now to deal with the problems?

Attachment 1:

Miroslav Beblavý
Emília Sičáková

Political Party's Integrity System (Basic outline)

I. Why political party needs integrity system:

- to improve and keep integrity and trust of electorate and general public (not just to be “clean” but also to be perceived as “clean”)

II. Basic recommendation concerning Political Party's Integrity System (PPIS):

- to be drafted as **internal system** (knowing and understanding of PPIS should be required from all members of a political party)
- political party member's **acceptance** of the system shall be **ensured by a signature** when he/she joins the political party, or by the party's representative when he/she takes office
- generally **accessible internal rules** of a political party

III. Principles of PPIS:

- both ex ante and ex post are solved
- internal system + public part
- superstructure (necessity to integrate legal requirements into a consistent whole)

IV. Pillars of political party's integrity:

1. financing of the political party
- political party's incomes - political party's expenditure
2. political party's business activity
3. interaction between public finance and activities of members and representatives of the party
3.1. control of party representatives in decisive positions (according to party's structure), e.g. 3.1.1. central 3.1.2. regional
3.2. control of party representatives in non-decisive positions

3.3 control of party representatives in decisive positions

- they are nominated by a particular political party into bodies of business and non-business legal entities

3.4. conditions for establishing a „Great China wall“ between the public finance and party representatives + members

4. sanctions

V. Detailed outline of respective pillars:

1. financing of the political party

(including requirements of legal norms)

Ex ante:

following possibilities:

- gift – necessity to define a value of gift from which its accepting needs to be approved
 - to define the approval process and party members who shall approve the gift
 - to make public information on the value of the gift as well as on the donor (legal entity or individual)
- loans – publication of information on the lender, on the payment or non-payment of the loan
- information – to define an information system on income sources (for details, see the amendment of the Act on association in political parties)
 - to ensure that the mentioned information be accessible to general public – e.g. on the political party’s website (delays of publishing shall be defined – amount and source)

Ex post:

- audit of finances
 - necessity to define the audit’s criteria, including e.g.:
 - inspection of incomes – e.g. do all means of the political party originate from sources authorized by law?
 - inspection of expenditure – e.g. are these really all means that were used for financing of the party’s activity?
 - to define the procedure of auditor’s selection (e.g. by lot) and how often the audit shall be performed (e.g. on a yearly basis)
 - to define public accessibility to the audit conclusions (e.g. on the political party’s website)
- to make public information on expenditure in the annual report – e.g. in breakdown according to types of expenditure and particular events, for instance as follows:
 - apparatus – for particular regions
 - party’s events
 - public events
 - advertising and promotion etc.

2. party's business activity

A political party cannot neither directly nor indirectly (by means of a legal entity whose shareholder it is) apply for an order subject to the Act on public procurement, nor for other business contracts with a public institution or with an institution in which the State has a decisive influence.

3. interaction between public finance and activities of members and representatives of the party

3.1.1. Control of party representatives in decisive positions (according to political party's structure) – *central*

All deputies of the National Council of the Slovak Republic, ministers and State secretaries nominated by a certain political party, should publicly declare the following:

- declaration of property and declaration of taxes – their own ones, as well as those of their close relatives – upon taking office.
- financial and non-financial interests - upon taking office (hereinafter „Register of interests“)

In case of declaration of property and declaration of taxes, the following needs to be defined:

- how often these should be submitted
- whether only the declaration of property should be submitted, or also the declaration of taxes
- whether they shall be submitted only by the party member or also by his/her close relatives
- whether they shall be submitted on an internal basis or whether they shall be made public

In case of the Register of Interests, the following needs to be defined:

- persons obliged to submit and complete the information in the Register of Interests
- manner and frequency of completion of information in the Registry
- manner of their publication

3.1.2. Control of party representatives in decisive positions (distribution with link to party's structure) – *regional*

From a certain level upwards, the political party's representatives in decisive positions/places on a regional level should:

- submit the declaration of property and declaration of taxes – their own ones, as well as those of their close relatives – upon taking office.
- financial and non-financial interests - upon taking office (hereinafter „Register of interests“)

It is necessary to:

- define which decisive places shall be concerned – e.g. mayors of larger towns, deputies of higher territorial units etc.
- differentiate, on the basis of importance and “abusability” of position, the following:
 - how often
 - whether only the declaration of property should be submitted, or also the declaration of taxes
 - whether they shall be submitted only by the party member or also by his/her close relatives
 - whether they shall be submitted on an internal basis or whether they shall be made public.

In case of the Register of Interests, the following needs to be defined:

- persons obliged to submit and complete the information in the Register of Interests
- manner and frequency of completion of information in the Registry
- manner of making their publication

3.2. Control of political party representatives in non-decisive positions

For instance:

- political party representatives in districts and regions
- chairmen and vice-chairmen of a political party.
- rest of the supreme body

The following shall also be considered in non-decisive positions:

- submitting of declaration of property and declaration of taxes – by party members, as well as by their close relatives – upon taking office
- declaration of their financial and non-financial interests - upon taking office (hereinafter „Register of interests“)

It is necessary to:

- define which non-decisive places shall be concerned
 - how often
 - whether only the declaration of property should be submitted, or also the declaration of taxes
 - whether they shall be submitted only by the party member or also by his/her close relatives
 - whether they shall be submitted on an internal basis or whether they shall be made public

In case of the Register of Interests, the following needs to be defined:

- persons obliged to submit and complete the information in the Register of Interests
- manner and frequency of completion of information in the Registry
- manner of their publication

3.3. Control of political party representatives in decisive positions, nominated by a particular political party into bodies of business and non-business legal entities

A political party should make public the names and detailed information on the party's nominees for bodies of business and non-business entities, as well as how they have been nominated.

This group should be required, depending on "abusability" of their position, to submit a Register of Interests and possibly also a declaration of property or a declaration of incomes. Their modalities need to be defined, i.e.:

- how often they should be submitted
- whether only the declaration of property should be submitted, or also the declaration of taxes
- whether they shall be submitted only by the party member or also by his/her close relatives
- whether they shall be submitted on an internal basis or whether they shall be made public

In case of the Register of Interests, the following needs to be defined:

- persons obliged to submit and complete the information in the Register of Interests
- manner and frequency of completion of information in the Registry
- manner of their publication

The Attachment 2 gives an example of how to solve a financial conflict of interests in public administration, which can suitably be modified also for the situation of a political party.

3.4. "Great China Wall"

A group of the party representatives (e.g. chairman, vice-chairman, board members, deputies, other members in public positions etc.) should be defined, for whom it shall apply that legal entities in which they (or their close relatives) have their shares or of whose bodies they are members, shall not be allowed to apply for orders within the public procurement procedure, as well as for other business contracts with a public institution or with an institution in which the State has a decisive influence. Otherwise, they would have to publicly declare such activities.

The Attachment 2 gives an example of how to solve financial conflict of interests in public administration, which can suitably be modified also for the situation of a political party.

4. Sanctions

For instance:

- exclusion from the party
- removal from office
- publication

to be defined for all types of breaches of the adopted internal regulations
decision-making mechanism shall be defined

Attachment 2

**Example of how to solve a financial conflict of interests
in public administration ¹³**

The employee is not allowed, within his/her official duties, to take part in any matter in which he/she or other persons have a financial interest, provided the matter has a direct impact on his/her financial interests or on interests of other persons.

What is important is that the prohibition should apply also to financial interests of the employee's husband/wife, minor children, and to any persons for whom the employee acts as officer, director, administrator, general partner or worker. The prohibition should apply also to financial interests of a person with whom the employee negotiates a possible future employment.

Dispensation from the prohibition can be reached when the employee is not to take part in the matter concerned. The dispensation is not necessary when the employee has solved the interest concerned or abandoned it in other way.

Let us look in detail at two groups of financial interests – business activity and ownership of shares.

• **Business activity**

If the employee of public administration is involved in other business activities, a possibility arises of indirect conflict of interest due to lack of time or even due to direct conflict of interests, in case the business activity concerned is in some way linked to official duties of the employee of public administration.

When taking into consideration this disqualifying aspect, the essence of the office concerned needs to be considered (mission; activities performed by the office; position of the individual employee in the office; character of labor relation – full-time or part-time; powers of the employee; his/her responsibilities; information given at his/her disposal within performance of his/her activities etc.)

It is furthermore necessary:

- to define those positions in public administration activities, which are incompatible with business activity,
- to define a position which must be abandoned and time when it must be abandoned (certain positions of importance can be assumed only under the condition that the person has abandoned all other positions)

There are several ways how to solve this situation:

- requirement to give up the mentioned activities as a precondition to assume the office,

¹³ For details see E.Sičáková, D.Zemanovičová, *Konflikt záujmov, etika a etický kódex vo verejnej správe [Conflict of Interests, Ethics and Code of Ethics in Public Administration]*, CPHR – Transparency International Slovakia, 2000

- requirement to place the interest in the so-called “blind trust”,
- requirement to abandon everyday management of business activities.

One of the tools used abroad is the so-called “blind trust”, which helps to prevent the conflict of interest by a temporary transfer of private financial interests to an independent party. In this kind of trust, the trustee (administrator of property) performs all decisions related to the property entrusted. The owner is given only information to which he/she is entitled by law.

- **Ownership of shares**

The danger of conflict of interests due to ownership of shares is in most cases a rather significant issue. The usual preventive measure involves registration of interests or even a precondition of their abandonment before assuming the office. Nevertheless, solutions to this problem vary, depending on nature of the office and positions of individual employees.

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Work in groups:

If there was realized a survey in your country/city, which areas would be considered the most corrupt? Choose one of them.

Fill in the following table

Area where corruption risk exists	Causes	Which actors contribute to corruption	Which actors restrain corruption	Which measures should be taken

Choose one area and analyze the following questions:

- What are the costs or eventually benefits from corruption behavior?
- Which preventive measures could restrict corruption in this area?
- What benefit could be reached restricting corruption in this area, eventually increasing effectiveness related with preventive measures? What costs it will reacquire?
- What are the mutual bonds (positive, negative) of several anti-corruption measures?
- Which steps/mechanisms would be optimal?
- Who could be your ally in preparation and adoption of the anti-corruption measures?
- What interests could be endangered? Who could be a potential enemy?
- How could you gain corruption information from citizens?
- How would you handle the question of leadership and integrity of a political party itself?