Corruption, in varying degrees, is a global issue. All countries deal with this issue in some form, but those that exhibit the political will to alleviate it are reaping rewards in the global economy. The reason for this is relatively simple. Corruption erodes competitiveness.

The Cost of Corruption

In a report by IMD International in April of 2001, a strong link was made between lack of corruption and the competitiveness of the economy. The following table illustrates this point, as it shows clearly that the five most competitive countries in the world are also some of the least corrupt:

<table>
<thead>
<tr>
<th>Country</th>
<th>2001 Rank</th>
<th>2000 Rank</th>
<th>Competitiveness Rank 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>16</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>4</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>9</td>
<td>11</td>
<td>4</td>
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<tr>
<td>Netherlands</td>
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<td>9</td>
<td>5</td>
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<td>South Africa</td>
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<td>Russia</td>
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</tr>
<tr>
<td>Columbia</td>
<td>50</td>
<td>60</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: Corruption Rankings: Transparency International; Competitiveness Ranking: IMD International

Note: Rank is 1 being the least corrupt country according to Transparency International criteria, and 91 is being the most corrupt according to the criteria.

In basic terms, the study indicates that corruption, in combination with other factors, erodes a country’s ability to create and sustain competitiveness. It clearly indicates that corruption has a cost, one of which is the inability to compete.

Corruption, however, is more than just an economic issue. In fact, categorizing it as just an economic issue minimizes the real impact it has on society as a whole. Corruption not only erodes rule of law, but also creates an environment that is a downward spiral both socially and educationally. When generations of citizens come to accept corruption as a normal way to
conduct business and gain advantage in society, the moral fiber of society begins to unravel. Examples of this impact can be found in dozens of transitional economies.

The cost of corruption can also be measured in the fact that it centralizes wealth in the hands of those that are best positioned to profit from non-transparent activities. Transparency in the marketplace builds the foundation for equal distribution of wealth by creating a system where individual initiative replaces individual influence.

Possibly the most devastating cost of corruption is its creation of a downward spiral of hopelessness in society. Sociologists agree that where there is little hope, there is also little initiative. Where there is little initiative, there is little effort, and where there is little effort there is little accomplishment. Without accomplishment, individuals pass on frustration and hopelessness to generation after generation.

Private Sector’s Responsibility

There is no doubt the private sector has a responsibility to combat corruption. The private sector must set an example by establishing fair and transparent practices as the way of doing business. Ethical behavior and transparent processes should not be the exception, but the rule. In many transitional countries, the private sector has continually lambasted government for failing to address corruption, while at the same time failing to address it in the private sector. A successful market economy cannot be built on a fractured foundation, which is why the private sector must play a critical and prolonged role in addressing the issue of corruption.

Of course, the most basic way for the private sector to be involved is through the establishment of fair and transparent processes. These include corporate governance and business ethics to name just two. In addition, the private sector, including the media of course, must demand accountability by those who don’t follow the rules, regardless of whether they are members of government or corporate CEOs.

Role of Business Associations

Business associations are the glue that cements the private sector’s movement toward market reforms. Because of this, they are key players in the establishment of measures that combat corruption. Associations can accomplish what individual companies, regardless of their size, can’t, and because of this they offer the best chance for the private sector to achieve success. There are several ways associations can address the issue of corruption:

First of all, business associations can demand that government sign and enforce the OECD anti-corruption convention and subsequent legislation. They can put the government on notice that those not choosing to follow these rules will be held accountable in the court of public opinion if not in a court of law.

Second, business associations play a key role in serving as information sources for government, the media, and the public at large. Associations have access to volumes of information on the affect that corruption has on society as a whole, and they can use this information to become a resource to government instead of an adversary.
Third, business associations play a critical role as “watchdogs” of government’s movement toward fairness and transparency. Government must be aware that its actions are being monitored and that the “light of public opinion” will shine on these actions. Business associations must shine the spotlight into every corner of government, and into the private sector as well.

Fourth, and one of the most important roles of business associations in the battle against corruption, is their continual support of increased private sector reforms. It is no secret that corruption is bad for business. It is also evident that business is bad for corruption. This being the case, the faster market reforms take place, the more corruption will be reduced, as one of the main causes of corruption is the un-level playing field caused by unfair and non-transparent practices.

Finally, business associations must do everything possible to establish ethical behavior as a societal norm. To this regard, the associations themselves must be above reproach. They must set the highest standard for their activities as an example for their members, government, the media and society as a whole.

Case Studies

My organization, the Center for International Private Enterprise (CIPE), has worked with numerous business associations around the world that are addressing the issue of corruption, and are working tirelessly to institute reforms.

National Association for Entrepreneurs (ANDE), Ecuador: The National Association of Entrepreneurs (ANDE), Ecuador created a research and advocacy program targeted at eliminating some of the main opportunities for corruption. ANDE’s focus has not been to blame past corruption on any one particular group but rather to initiate reforms that will change the direction of business and institute clean practices. Its studies showed that since the Republic of Ecuador was founded 167 years ago some 92,250 legal norms have been created of which 52,774 were in force in 1997. The sheer number of overlapping, unclear, and contradictory laws has created an environment of legal chaos and leaves the application and enforcement of laws to the discretion of bureaucrats. Since Ecuador is a civil code country (as opposed to a common law country), courts could not reconcile law or create precedents. To address this issue, ANDE recommended creating a seven-member judicial committee empowered to codify and reconcile Ecuador’s laws. ANDE’s advocacy campaign was able to secure inclusion of the committee into Ecuador’s new constitution.

Center for the Study of Democracy (CSD), Bulgaria — Coalition 2000 was created by the CSD based on the center's original groundbreaking work in Bulgaria. The Coalition involves a number of Bulgarian non-governmental organizations (NGOs) working in cooperation with government institutions and individuals. The goals of Coalition 2000 include promoting public awareness of corruption, establishing mechanisms that support anti-corruption efforts, contributing to the development of democratic institutions, and serving as a "watchdog" over the reform process. CSD is organizing these efforts through a large-scale public advocacy campaign and the organization of expert working-groups. The working groups will develop policy amendments that help to deter corruption and focus attention on practical implementation of transparent and clear rules of the game.
Center for Economic Development (CED), Slovak Republic — CED implemented a program to eradicate corruption from the Slovak Republic’s public and private sectors through a "Clean Hands" program based upon seminars, advocacy and research. CED analyzed the level of corruption by administering a survey to local entrepreneurs and business leaders. Based on the survey’s results CED organized a series of advocacy programs to educate the business community on the negative impacts of corruption. CED developed a series of concise and easy to understand articles detailing the effects of corruption and the need for reform. These articles were subsequently published in CED’s Slovak Economic Sheet, where they can be easily obtained and reprinted by local journalists. Following the fall of the Meciar government, the new government introduced many of the policy recommendations in the areas of public procurement and auctioning of licenses. In addition, CED’s study on the linkages between tax rates, corruption and the growth of the hidden (informal) economy has caused the political leadership in Solvakia to take another look at how rules and taxes are administered.

Entrepreneurship Development Foundation (EDF), Azerbaijan — As a starting point, EDF carried out a survey of the obstacles facing private business, and corruption came out as the top problem. The project is based on those survey results and is composed of four activities: the publication of special bulletins, creation of small business informational packets, corruption research, and polling. The special bulletins focus on topics relating to corruption and are distributed to both universities and policymakers. The corruption research initiative monitors articles in 24 newspapers for anti-corruption coverage, and an opinion poll will be conducted of the business community to keep informed of its needs. Two new components will be added: first, several part time Azerbaijani attorneys and businessmen will begin an in-depth analysis of 16 existing laws to identify the areas of undue discretionary power by government officials, often leading to corruption. Secondly, a series of 20 weekly economic training sessions for business journalists (emphasizing corruption issues) will be undertaken.

Center for Media Freedom and Responsibility (CMFR), Philippines/Regional — CMFR has undertaken the job of improving the flow of economic information throughout Southeast Asia. Just before the Asia economic crisis hit, CMFR organized a conference focusing on the dissemination of information that discussed the region-wide reforms needed for continued economic growth. CMFR identified the lack of information and the relatively untapped media resources that could be transformed into responsible organizations that keep government and business transparent. Program activities included focus group discussions, regional conferences and publication of papers.

Coordinating Analytical Center for Business Associations of Ukraine - The Center has developed a major advocacy program to attack the issues of multiple inspections and burdensome taxation systems described above. As noted, Ukrainian firms can face as many as 100 inspections and numerous taxes and fees. The Center advocated for and won a form of small business simplification program. Thanks to its work, a fixed (or flat) tax was introduced for small firms, and inspections were reduced from 100 to 22 per year. These innovative solutions were buttressed by a decrees issued by the State Committee for Enterprise Development that created an Inspection Register. Every inspector going to perform an inspection of a company has to sign the register giving his or her name; position; the name and position of a superior officer who authorized the inspection; telephone number and address of the relevant state inspection
agency, as well as the purpose of the inspection. The result has been a considerable increase in
the number of firms in the formal sector, probably due to the reduction in the transactions costs
resulting from the improved business environment.

Liberal Institute of Rio de Janeiro (ILRJ), Brazil - The ILRJ created a project called
"Reducing Transactions Costs in Brazil," based on the ideas of the new institutional economics.
The project documented that Brazil’s cumbersome bureaucracy and lack of transparency were
creating much higher costs for business and much lower benefits for consumers than needed to
be the case. Seven of the 11 specific recommendations in ILRJ’s study have been adopted by law
or decree, and another was incorporated into a draft bill pending now. Policies adopted include:
better dissemination of bidding rules; reduction of discretionary power of bureaucrats; better
definitions of decision-making authority; more competition among contract bidders; broader
criteria for evaluating proposals; and waiving bidding requirements only in urgent cases. The
reason that these ideas were adopted was a combination of a clear intellectual argument, a
deteriorating economy, and an aggressive communications and advocacy program including
media coverage.

Open Doors Campaign (Romania)- The Open Doors Campaign is an advocacy effort initiated
by Romanian business associations in the information technology, manufacturing and tourism
sectors. The purpose of this campaign is to establish business associations as partners with
government in developing a transparent and non-corrupt environment in which the private sector
can thrive. By initiating a national advocacy tour to develop grassroots support for their
initiatives, the business associations earned the respect of the government and Members of
Parliament, while establishing a professional advocacy process that is rapidly becoming a model
for the private sector as a whole. Of the anti-corruption initiatives promoted by the business
associations, 65% have been adopted or are under consideration by the government.

Conclusions

The role that business associations play in the fight against corruption is an important
one. Associations can provide information by creating an inventory of legal barriers and
duplicative regulations; they can disseminate this information to government and the media as
well as their members; through their advocacy actions they can create accountability; and they
can continue to push for market reforms that will make corruption both unnecessary and
undesirable. After all, to reduce corruption, countries must reduce the reasons it occurs in the
first place: poverty, lack of transparency and commitment to market reforms.

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