
Center for International Private Enterprise
Evaluation Report



REDUCING CORRUPTION

A Report on Two Anti-Corruption Projects:

“Reducing Transaction Costs”

The Liberal Institute of Rio de Janeiro (ILRJ), Brazil

“Strategies to Combat Corruption”

The Association of National Entrepreneurs (ANDE), Ecuador

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EXECUTIVE SUMMARY

The two projects addressed in this evaluation focused on changing specific procedures, as well as promoting strategies to curb corruption. Both projects completed all proposed activities competently, with the exception of the Liberal Institute's diagnosis of deregulation. Furthermore, these projects achieved most of their broader impact goals.

In Brazil, the Liberal Institute of Rio de Janeiro (ILRJ) has for over a decade produced in-depth diagnostic studies on key public policy issues. These studies recommend specific measures to reduce costs while enhancing competition and economic efficiency. The study recommendations are often promoted in seminars to enhance awareness among key stakeholders, as well as the public at large. For this project that highlighted reducing transaction costs, the ILRJ was to focus its studies and awareness-raising on three key areas: labor courts, procurement and deregulation.

ILRJ produced two in-depth diagnostic studies on labor courts and government procurement. A third study on deregulation was never thoroughly completed. The two completed studies, as well as the outline of the never completed deregulation study were used to orient two conferences in Brasilia (September 1996) attended by key congressional stakeholders and the press.

A summary of ILRJ project impact includes:

- ◆ Two of the four labor court study recommendations regarding abolishing “classista” representatives and facilitating pre-trial negotiation have been adopted
- ◆ More than half of the eleven procurement study recommendations have been adopted and other recommendations are being considered for adoption
- ◆ While a thorough deregulation study was not completed, a preliminary study raised awareness on the dangers of a regulation regime increasing transaction costs

ILRJ, working with its sister chapter in Brasilia and collaborating with the National Confederation of Industry, was successful in effecting changes of law and procedures in as much as it focused on discreet areas of reform where it was in a position to utilize diagnostic studies to catalyze a strong constituency of interest to reduce transaction costs.

ILRJ's strength lies in the credibility of its diagnostic studies that have earned a solid reputation by employing credible data to examine the correlation between costs and benefits of given policies. On the other hand, ILRJ is not organizationally well positioned to facilitate a broader debate with a heterogeneous constituency regarding ongoing, second generation reform in key areas such as deregulation, taxation, and rule of law.

Looking to the future, ILRJ's potential for effecting reform will rest on the same careful focus on discreet or ripe reform issues. It is struggling to reorganize, build alliances and refocus to play a larger role. If it is successful, its impact on the ongoing debate on tax and judicial reform could be significant. Furthermore, if ILRJ manages greater organizational coherence in its various (eight) regional chapters, it could play a decisive role in helping advocate and design competent municipal and regional financial management systems. Regional and local governments manage a full third of the government budget yet for the most part, these entities are utilizing makeshift and opaque financial systems which enable inefficiency and misuse of public funds. Apparently these systems are ripe for change and evidence in the region to date suggests that the state and local context is generally more responsive to pressures for change and more amenable to well organized reform advocacy programs.

In Ecuador, the Association of National Entrepreneurs (ANDE), a membership organization representing several hundred business concerns, has since the early 1990 focused its efforts increasingly on advocating the strengthening of the young democratic institutions and modernizing the nation's outdated economic policies.

In keeping with these objectives, ANDE produced six diagnostic studies focusing on: administration of justice, government procurement, customs, privatization, social security, and transparency in financial management/budgeting. These six studies, each published in booklet form, were both polished and later presented to a broader audience at working luncheons attended by key stakeholders in each sector.

A summary of ANDE project impact includes:

- ◆ Study recommendations have been integrated into the National Anti-Corruption Action Plan which President Mahaud presented publicly at the Carter Center in early 1999
- ◆ ANDE is represented on newly established boards to oversee key reforms
- ◆ The project solidified the working relationship among key NGOs
- ◆ The studies and project outreach enhanced awareness among key stakeholders and the public at large about both strategies and specific measures to reduce corruption

A Ley Marco (or broad legislative consent giving the executive significant flexibility in negotiating privatization and implementing institutional reform) is being considered by Congress. The fate of this law will determine to a great extent the level of progress on implementing anti-corruption and reform programs recommended in the ANDE bulletins and integrated into the anti-corruption Plan of Action. As of this writing it is unclear whether the executive will be able to negotiate a workable "Ley Marco" through the legislature

As a facilitator of civil society consensus on key reform issues, ANDE is a very credible stakeholder whether addressing the wider public, the press, legislators, members of the executive or representatives of the international community. It is in a position, therefore, to propose both discreet technical changes to reduce corruption opportunities and encourage the development of a broad-based integrated reform/modernization strategy.

Looking to the future, this ability to work on the larger, longer-term reform framework with dozens of other key stakeholder organizations, the press and donors, while encouraging specific and concrete reform measures that enhance efficiency while reducing corruption opportunities, makes ANDE a significant factor. This varied approach is admittedly a mid to long-term strategy that includes strengthening citizenship, enhancing social capital, and providing public access to fashion more responsive, efficient and democratic institutions over several generations of reform.

The shorter-term tact that ANDE can best employ to further this strategy is contingent on political factors such as:

- ◆ the ability of the executive to earn legislative authority to negotiate privatization and implement proposed institutional reform programs; and
- ◆ the authority (and competency) of the implementing mechanism (once legislative authority is given).

Regarding a possible CIPE regional strategy for developing anti-corruption, integrity or institutional reform projects, these two projects and other regional experience suggest that a many-pronged approach offers the best opportunity for short, mid and long-term success. In order to take advantage of opportunities for change and sustain reform efforts, projects should be designed to achieve discreet short-

term reform measures and develop a broader constituency to sustain reform at one and the same time. Key factors in sustaining reform are technical proficiency and broad-based support. This implies that CIPE projects should:

- ◆ work to effect immediate change in laws and procedures as opportunities emerge;
 - ◆ reach out to varied stakeholders to enhance trust and build social capital, develop consensus among a broad constituency for an ongoing reform effort; and
 - ◆ engage large donors to ensure that national reform and anti-corruption efforts are contextualized and enjoy broad ownership.
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INTRODUCTION

This Report will cover:

- 1) The success or lack of success with which the activities required of each project were completed;
- 2) The impact these activities had upon level of debate, promoting strategies to combat corruption, changes in laws and policy as well as and other broader project and CIPE objectives;
- 3) The national and organizational context in which these activities were accomplished;
- 4) The validity of presuppositions related to both contextual factors – political will, public interest in issue, commitment and leverage of key stakeholder groups, institutional capacity to digest and implement reform – and project methodology;
- 5) Recommended next steps for grantee organizations and CIPE that flow from these two projects;

Finally, the evaluation will include:

- 6) A brief comparisons of the two projects; and
- 7) Comments on what these projects suggest about a possible CIPE anti-corruption strategy for the region.

METHODOLOGY

In order to: 1) explicitly evaluate the various components of each project; 2) assess levels of achieving broader objectives and; 3) identify anti-corruption opportunities suggested by the two projects, the evaluation utilized a number of sources of information.

- 1) *Background Interviews*: with donor representatives, advocacy and academic organizations, as well as regional governance and development experts.
- 2) *Structured Interviews with Grantee Staff and Key Stakeholders*: in Rio de Janeiro (May 24 - 26, 1999); Brasilia (May 26 - 30, 1999) and; Quito (May 31–June 4, 1999) with key personnel at both the Liberal Institute and ANDE, and with select in-country stakeholders and experts from the private sector, the NGO community, the press, donor community, consumer, youth, religious and professional organizations as well as relevant state entities. (see Annex A for a list of in-country persons interviewed)
- 3) *File and Literature Review*: including project documents, mission statements, final reports, diagnostic studies, commentary on forums and other project events, promotional documents, press reports, speeches, government documentation on changes in procedures, legislation, policy and strategy (including action plans), documentation regarding consensus building and participatory action planning experiences and methodologies employed by key donor, academic and grant making organizations, as well as, studies assessing economic and institutional reform efforts in the region.

I. BRAZIL

Background

In late 1970's early 1980s hyperinflation began undermining the Brazilian economy whose macro-economic performance had been impressive since the 1950's. Driven to a great extent by excessive state spending on government programs, bureaucracy and state enterprises, inflation was addressed frontally by the government of President Cardoso beginning in 1993 with "Plan Real". Privatization of a number of key state enterprises has helped cut spending and significantly reduce the size of the foreign debt. This, as well as enhanced fiscal discipline, has generated a sharp reduction in inflation.

Late 1998 shocks sparked by the financial market collapse in Russia have led to sharp outflows of investment in Brazil deflating the currency and feeding a recessionary trend that included high unemployment. The economy over the last few months has recovered more quickly than many expected and the state has managed the immediate fiscal crunch. But clearly more hardship is in the forecast. Most polls rate unemployment the primary public concern.

Observers agree that there is very little likelihood of any slippage back to renewed levels of state ownership, spending and intervention. But there remains some question whether ongoing second generation economic and institutional reform will be energetically embraced to modernize the state that still is large and costly. While the first stage of reforms have helped Brazil overcome hyperinflation, the nation's competitive standing still remains weak even as compared with neighbors.

After re-election late last year then devaluation of the currency, President Cardoso has been beset by political troubles. His popularity ratings are at record lows, his cabinet is in some disarray and key tax reforms measures are floundering as the four party coalition that supported him in Congress has begun to sag. On the other hand a center-right majority in Congress is for the first time experimenting with taking the reform initiative. Special legislative commissions are preparing to present tax and judicial reform proposals sometime this year. It is uncertain whether the President will pay these initiatives any heed. Based on a loop-hole in the 1988 constitution, the Executive has managed to mostly manhandle Congress (even one that has for the most part supported his reform agenda) by utilizing provisional executive measures that are renewable monthly without congressional vote. This means that the central question in Brazil is whether further institutional reform is on the President's agenda for this year. By spring next year the campaigning for late 2000 municipal elections will supercede reform considerations.

The President could let the reform process drift leaving the Brazilian state in limbo between modern/global and costly/interventionist. The fundamental institutional framework for steady growth, strong and sustainable investment, low unemployment and decent services is not yet in place.

The constituency that has pressed for reform is also less than vigorous and uniform. Even the most avid advocates of reform have benefited richly from state subsidies, protection and interventions over the years. The electoral system set up during the military years weighs heavily toward the more feudal north that for the time being is pro- liberalization but not squarely pro-modernization. This all suggests that most Brazilian stakeholders who have supported privatization and reform efforts have done so for short and mid term returns to overcome the inflation crisis. The support for long term, integrated reform is not easy to come by. This mirrors a regional trend – reforms initiated during crisis have stalled when the worst of the crisis is overcome.

Various private sector groups have coined the slogan "Custo Brasil" to mobilize ongoing support for liberalization to reduce transaction costs that make Brazilian goods less competitive on the global market. This tact has proved effective in focusing reform and liberalization efforts on benefits to Brazil's

economy. As of yet, however, this has been championed by industry and has not been systematically related to employment and consumer prices where a potentially vast constituency for change remains mostly untapped.

Organization

The Liberal Institute of Rio de Janeiro was founded 15 years ago by Donald Steward as a vehicle to translate, disseminate and study liberal writings and most particularly those by Fredrich Hayek. Over the years, seven additional branches of the Institute were founded in other cities enjoying a total membership of several thousand entrepreneurs. Six years ago, with CIPE support, the ILRJ began publishing a monthly series of diagnostic studies on key national issues. These “Notas,” addressing everything from constitutional reform to fighting poverty, combine theory, empirical data, and cross country analysis to advocate a series of measures to improve public service and economic performance. These studies along with research published in the Institute’s quarterly magazine “Think Tank” and more in-depth white papers have been systematically distributed to key stakeholders in and out of government. These writing and related seminars have been part of the liberalizing trend in Brazil offering liberal policy options that were taboo a few decades ago. But much like the government reform process is having trouble going from stage one – urgent reforms – to stage two and more underlying institutional reengineering, ILRJ is finding it difficult to go from effecting the debate as outsiders with whom some have been willing to fashion a tactical alliance on given projects, to being part of a broad and deep strategic alliance for substantive and ongoing change.

Membership for the key chapters – Rio and Sao Paolo – has shrunk since the apparent victories (including the CIPE financed studies and conferences) in effecting policy. Furthermore, despite fundraising efforts, many chapters have not been successful in attracting new sources of support.

Evaluator’s Note

The Liberal Institute’s diagnostic studies have earned a reputation for professionalism. A select and specialized audience find them very effective in buttressing the case for reducing state intervention to improve public policy in a number of key areas. The Institute’s role as a facilitator of debate to help develop a broader consensus for change is more suspect. The Liberal Institute has been part of a transformation of outlook in Brazil, however it remains ideologically isolated. In given discreet cases it can effect changes in law where a strong specialized constituency already exists. In order to position itself to have significant impact on the broader transaction cost debate and design projects to effect institutional change systematically ILRJ will have to go through some transformation of identity and organizational reach. The leadership is aware of this crossroads.

Project – Reducing Transaction Costs

The Liberal Institute of Rio de Janeiro had experience before this CIPE project in:

- 1- producing in-depth diagnostic studies on key policy issues;
- 2- organizing conferences in an effort to press for implementation of specific policy recommendations, and;
- 3- lobbying with like-minded stakeholders for legal and policy changes.

The CIPE-funded transaction cost project focused on three key areas - government regulation, labor courts and government procurement – that were explicitly related to the Confederation of Industries ongoing “Custo Brasil” effort. More significantly, this project explicitly linked diagnostic studies to conferences to build support for legislative changes and to lobby for passage of specific laws. This

project, therefore, represented an extension of the Liberal Institute's methodology to effect change by linking components in an integrated fashion folded into an alliance with a key stakeholder group (in this case the Confederation of Industry).

The broader objectives of the project were:

- To develop data on the causes of high transaction costs in Brazil, economic impact and political and social consequences
- To propose prescriptive recommendations for reducing such costs
- To encourage government officials to implement the workshop recommendations through outreach activities such as workshops with business and government leaders, media, and advocacy

The diagnostic studies were written according to the specifications laid out in the agreement with CIPE. The two studies on labor courts and procurement contained the detailed empirical data that strongly supported specific policy recommendations and changes in law. The study on deregulation was not successful in amassing the data that justified specific recommendations. According to the author, the newness of the regulation regime (following privatization) meant that little reliable data was available. The study, therefore, never produced a "Nota" with specific recommendations based on data.

Procurement: Of the 11 specific recommendations offered by the diagnostic study or "Nota," seven have been adopted by law or by decree. An eighth recommendation has been indirectly adopted through a broad draft bill on fiscal responsibility. Those adopted include:

- 1- better dissemination of bidding rules (including creation of a databank);
- 2- minimizing discretionary power of the purchasing agent by enhancing transparency;
- 3- clarifying definition of decision levels;
- 4- enhancing competition among bidders;
- 5- pre-qualifying bidders according to clear rules;
- 6- broadening the criteria (beyond only lowest price) for evaluating proposals;
- 7- making provision for dismissal of bidding requirements in urgent cases.

Labor Courts: Of the several major recommendations offered by the diagnostic study, two substantive recommendations have been adopted and are presently reflected in new laws. Arbitration has been adopted in commercial cases to reduce the caseload and length of cases. And in the middle of May (1999), a law abolishing the "classista" representatives was adopted. The first represents an important precedent for settling disputes and the second overcame the interest of specialized labor lawyers who performed this representative function that served to sharpen disputes and thus increase the cost and length of cases.

The key to the success of the Labor Court and Procurement efforts had to do with a number of factors.

- 1- The focus – the high cost and dubious utility of Labor Courts and the antiquated, inefficient and influence rift Procurement System – had for a long time been the focus of concern among many key stakeholders;
- 2- The use of substantive, solid empirical data – in the case of Labor Courts on numbers and length of cases, costs, over the years while in the case of Procurement cost of lack of transparency and competition;
- 3- The several cycles of efforts to implement changes which suggested the most likely avenues for effective action;

- 4- The specificity of the recommendation in the diagnostic study (justified by convincing empirical study of cost and benefit) offers a clear list of next steps and methods of measuring progress in their implementation;
- 5- The success in facilitating – utilizing stakeholder conferences and discreet lobbying – the development of a specialized constituency for change;
- 6- Finally, in the case of the Labor Court work there was good timing – a contextual factor beyond the reach of the CIPE – as press focus on corruption in the building of a labor court generated a public demand for change.

Deregulation: The elements in the deregulation component were generically the same as the other studies. But as mentioned above, little empirical data was available to buttress recommendations. Specific recommendations supported by data were not made or adopted. While falling well short of its objectives, the outline of a study presented at the September conferences were successful in raising awareness regarding the dangers of an excessive deregulation regime growing in the wake of privatization

Outreach Activities

Two one day conferences in Brasilia were organized to present the recommendations, disseminate the studies, illicit press coverage and build awareness particularly among key members of Congress.

- Over one hundred key stakeholders attended the September 17, 1996 conference. The conference was organized into three panel discussions (one each on Labor Courts, Procurement, and Deregulation) that included presentations of the “Nota” findings and recommendations as well as presentations by other experts on the issues.
- The Second conference on September 19, 1996 was organized in a similar fashion yet attracted a considerably smaller audience.

Pre-suppositions

The Liberal Institute of Rio had assumed that the weight of its intellectual arguments particularly as focused on a group of mostly ideologically friendly members of the government and legislators in alliance with the Confederation of Industry – a natural and long standing ally – would be enough to effect change to reduce transaction costs. This project proved this presupposition largely correct. However, circumstances have changed somewhat. In the face of

the Institute’s sagging membership and financial support, and flagging will of President Cardoso to press for ongoing reforms, these presuppositions are being re-examined in regard to future efforts.

Evaluator’s Comments

This project was highly successful. All objectives were met or exceeded particularly regarding labor courts and procurement. In these two areas, data was developed, recommendations were proposed, a stakeholder constituency was cultivated, officials were systematically lobbied and many recommendations were adopted. The relative failure of the deregulation component in relation to labor courts and procurement suggests that the Liberal Institute’s approach was successful when very carefully selected (ripe) reforms were targeted utilizing empirical data to justify very specific recommendations. The specificity of recommendations in areas long perceived as inefficient or corrupt made the development of outreach mechanisms to engage friendly audiences relatively easy.

Looking to the future, other very specific and ripe targets could be identified and targeted for reform. At the same time a broader approach, engaging various potential constituencies may prove essential if a wide ranging reform agenda is to succeed.

Recent studies region-wide strongly suggest that technocrats and private sector advocates of liberal reform remain to most of the populace and most of the press suspect as motors of positive change and guardians of national policy. In times of acute crisis they have been deferred to. But as urgency (in the case of Brazil, hyperinflation) has passed these experts are being dismissed by many as merely self-interested. To take a sustainable leadership role for change, it would appear that these expert groups will have to reach out to a broader and mostly skeptical audience. This will require a significant refocus of approach to build social capital. Should, however, this broader strategy be engaged, the long term benefits for reform, civil society vitality and democratic governance could be significant.

Recommendations for the Liberal Institute

- 1- The Liberal Institute has a comparative advantage in producing credible diagnostic studies with specific recommendations for reducing transaction costs. The identifying of the ripe areas for change on which to focus these studies (complemented by conferences) could be a study in and of itself suggesting a project strategy for the Institute.
- 2- The network of eight regional Institutes could coordinate a concerted effort to address the budget decentralization issue that has a decisive effect on transaction costs. The Liberal Institute enjoys some comparative advantage in advocating and helping design more transparent and effective financial management and budgeting systems in various key regions and municipalities amenable to change. Several donors are apparently inclined towards supporting new projects in this area.
- 3- Even while the Institute's roots are in liberal writings, its ability in the longer term to effect policy will have much to do with its success in fostering alliances with what some would term unlikely partners. Reaching out more systematically to labor, youth and consumer groups on the issue of economic performance, transaction costs, costs of goods and job creation could in the long term help create a strong constituency for sustained reform. A first step in this direction could be a pilot program in one reform area with a given new constituency.

Recommendations for CIPE

- 1- A CIPE pilot project administered by the Institute to engage perhaps labor leaders addressing a discreet reform issue could help the Institute develop the broader alliance approach.
- 2- CIPE could help the Institute develop a project designed to identify a number of specific areas ripe for discreet reform.
- 3- CIPE in collaboration with other donors could work with all eight Institute chapters to design and implement a financial management reform program for given municipalities and regional governments.

ILRJ Management Response: ILRJ management has reviewed the evaluation report. ILRJ agrees with all findings and recommendations contained in this report.

II. ECUADOR

Background

Over the course of the 1990's, a Vice President and President were removed from office in Ecuador due to allegations of corruption. Presently, one Ex-President is in jail and another is being pursued by the authorities on allegations of corruption. Yet all this public clamor, and political fire against corruption and abuse of power has not produced substantive reform. In fact, the scandals have served to undermine reform and modernization efforts.

Presently, Ecuador is mired in an acute fiscal crisis. Without IMF approval for fresh loans the state will not be able to meet expenses for services as basic as social security. Part of the IMF conditions for further new loans is privatization of telephone, electric and parts of the state petroleum industry. Yet after two false starts, privatization remains a promise that will be difficult to keep.

Politics is at the core of the problem exacerbated by a rift between regions and institutional weakness. The President faces an opposition Congress that up to now has been unwilling to give him the flexibility to negotiate privatization and remains highly suspicious of many of the other reform elements. By most indicators, the populace shares many of Congress' suspicions that privatization rather than improving services and paying off debts is a give away to a few well placed insiders. This standoff is characteristic of countries in the region after the first or second generation of reform have improved macro-economic performance and reduced the urgency for change. Ecuador is in the unique position of suffering inertia before even the first generation of macro-economic stabilization reforms have been consolidated.

The last time the current President worked to balance payments, he was almost forced from office. Unable in early spring to manage concessions from Congress for a tax hike to meet expenses and stay within IMF mandated guidelines, the President sharply hiked gasoline taxes (or reduced subsidies) which precipitated a taxi strike that shut down the capital. An agreement with Congress averted the immediate crisis. But still the government does not have the public or congressional support to systematically raise taxes, implement basic reforms or negotiate privatization to meet the nations fiscal needs. Meanwhile this year macro-economic growth (hurt by natural as well as political crisis) will be negative, unemployment and underemployment will grow and the already high poverty levels will rise.

While President Mahuad has a strategy to put the country's macro-economic house in order, reform and reduce the state, attract foreign investment, stimulate economic growth and encourage swift development of the promising tourism sector, there is little evidence of a tactical means to get all this done. A very ambitious Anti-Corruption Plan of Action was announced by the President at the Carter Center covered by CNN earlier this year. But again there is no clear provision for implementation.

Any progress on these critical fronts is presently resting to a great extent on a Ley Marco that the Executive is negotiating with Congress. Passage of this law would give the executive broad authority to negotiate privatization, and implement key reforms as well as endow the Civil Anti-Corruption Commission with the authority to implement anti-corruption measures. At this writing, the fate of this law remains very uncertain. And some are concerned that the political deal-making to ensure passage could spawn a whole new wave of scandal.

The silver lining may prove to be a mostly mature and cohesive civil society community. A group of over 40 NGOs of various political and sector stripes enjoying impressive outreach have played a critical role in recommending policy on reform and anti-corruption. Whatever the fate of the "Ley Marco," this active NGO network is likely to play a pivotal role in building the social trust to implement reform and anti-corruption measures.

Organization

The Association of National Entrepreneurs (ANDE) was founded over 40 years ago. Its activities over the years have included among other things: training middle management, developing (with USAID assistance) a Bank of Development for small businesses, a ten year economic diversification program to develop the fresh flower industry (now the nation's 4th leading export employing 60,000 mostly women workers). In the 1990's this membership organization representing several hundred business concerns focused its efforts increasingly on advocating the strengthening of the young democratic institutions and modernizing the nation's outdated economic policies. The CIPE funded legislative program that helped spawn a new agrarian and export law among other things reflects this renewed focus.

Well funded, staffed by talented personnel, and benefiting from an active, diverse, very well connected board, ANDE enjoys a wide latitude of action. This has allowed it to credibly address a variety of key economic and governance concerns with a broad variety of other allies. Since the Bucaram scandal (1996-97), ANDE, with the aid of CIPE funding and project advice, has become a central force in developing policy options, and facilitating consensus among a network of civil society organizations – from consumer to religious groups – on corruption prevention strategies. It is now represented on most of the mixed and civil society boards to oversee privatization, and key reforms. Given the political inertia alluded to above, the network of NGOs with ANDE leadership is likely to be a motor for reaching broad consensus on implementation of key institutional, privatization and anticorruption reforms.

Evaluator's Note

ANDE is a solid organization with talented program personnel. As a facilitator of civil society consensus on key reform issues it is a very credible stakeholder whether addressing the wider public, the press, legislators, members of the executive or representatives of the international community. It is in a position to drive both discreet technical changes to reduce corruption opportunities and encourage the development of a broad-based integrated reform/modernization strategy. Given its capacity and the nation's urgent reform needs, it probably should work on both simultaneously. The specific tact in each case will depend on the fate of ongoing executive-congressional negotiation regarding the "Ley Marco." Given its skill, ANDE can even play a significant role in encouraging the two sides (executive - legislature) to come to a workable agreement.

Project – Strategies for Reducing Corruption

The Strategies for Reducing Corruption project responded to a widely perceived need to develop a broad-based anti-corruption prevention strategy to get a long stalled reform agenda on track in Ecuador. In this regard, the project would constructively link corruption prevention to institutional reform/modernization by building a relatively broad based (if mostly expert) consensus for concrete actions emerging from a broader strategy for institutional change. The project concentrated, as detailed above, on administration of justice, procurement, customs, privatization, social security and financial management/budgeting. The selection of these six general areas of focus responded to the need to address broad issues and preserve latitude for developing consensus on priorities and approach. In comparison to the project in Brazil, the focus of this project was much broader in keeping with the need to build the foundation of a reform and anti-corruption effort.

Each diagnostic study combined technical expertise of the consultant – in each case an accomplished expert in the field with experience in reforms in other countries and contexts – with participatory stakeholder meetings to produce a document that reflected a consensus on technically sophisticated

recommendations. Furthermore, each study was presented to the press and public by a relatively broad group of sector stakeholders to enhance impact and credibility as well as broaden ownership.

The stated objectives of this project were:

- To identify and promote strategies to combat corruption;
- To advocate legislative, institutional or constitutional reform in order to reduce opportunities for corruption;
- To generate business leadership and public support for the fight against corruption; and
- To strengthen democratic institutions in Ecuador.

Each study, in keeping with the project plan, contained four basic elements:

- 1- An introduction to the theme by the Director of ANDE including a statement of ANDE's position on the issue;
- 2- A diagnostic – historical, empirical and institutional – of the issue by a recognized expert (consultant);
- 3- Alternative approaches to address the problems – including corruption – identified; and
- 4- And outline of short, medium and long-term measures to be taken to implement the recommendations.

Administration of Justice: Written by a well-respected AID/IaDB consultant and expert on accounting and legal system modernization, this brief study reviews ongoing judicial reform efforts in Ecuador. Its three key specific recommendations are:

- 1- codifying and rationalizing the knot of overlapping laws;
- 2- modernizing (increased speed and efficiency) the legal process and;
- 3- matching efficacy of administration of justice to growing demand, are justified by historical, empirical and political analysis.

Public Contracting/Procurement: This is a comprehensive primer on how the procurement system needs to be modernized – in keeping with a region-wide trend – to avoid habitual (and well publicized) misuse and encourage competition. The study addresses the various institutions involved and corresponding adjustment in their roles, laws and the constitution to generate the proper balance of effectiveness and control.

Customs: A very straightforward diagnosis by an Ex-Director for the need for reform of laws, processes and enhance personnel training. This study like the others, briefly addresses the reform of this sector in relation to the historical corruption that has plagued Ecuador, offering mechanisms for changing the institutional culture in keeping with the “island of integrity” notion.

Social Security: This very thorough study offers a convincing blueprint of downstream costs and benefits of comprehensive reform. It details steps to be taken to recover the reform initiative in this area.

Privatization: Drafted by the key architect of privatization in Bolivia, the study reviews the issues, institutions and interests at play while addressing some of the variables in the key sectors under consideration for privatization. In a very common sense fashion it demystifies an issue that in Ecuador is shrouded in dark mystery and legend.

Transparency in Financial Management/Budgeting: This study reviews in a very broad fashion the issue of the government role in transparent budgeting and financial management and its effect on various key economic sectors.

Outreach Activities

A working luncheon focusing on each topic (one luncheon for each topic) with key stakeholders (usually about a dozen) moderated by the consultant contracted to draft the study was conducted during the diagnosis preparation stage. The process of exchanging ideas to reach consensus varied from group to group. But in each case, a consensus was reached and was reflected in the final study document. The stakeholders who participated in the process are acknowledged at the end of each study document. These key stakeholders were brought together for a second working luncheon at which the final document was reviewed and presented to the press.

The outreach:

- was limited to key stakeholders in and out of government;
- built a consensus among these sector stakeholder;
- generated a technically proficient documents accessible to a relatively wide audience; and
- addressed long-term strategies as well as mid and short-term concrete reform recommendations.

Presuppositions

The methodological presupposition was that diagnostic studies with recommendations generated and supported by a key group of specialized sector stakeholders, would produce both a strong demand for concrete action and support for a broader strategy for reform.

The contextual presuppositions were more fluid in keeping with the particularly changeable political environment in Ecuador over the last several years. The logic was that if solid recommendations supported by a significant constituency were put on the table eventually part of the strategy and measures would be taken up as political circumstance allowed. The strategy has been adopted by the Mahuad government (reflected in the Anti-Corruption Action Plan). While there are plans for implementation and ANDE has been placed on reform review boards, the political circumstances to allow for implementation of specific measures have yet to appear.

Evaluator's Comments

This program was extremely successful. The National Anti-Corruption Action Plan marketed by the President since early 1999 and financed by the World Bank adopted (almost verbatim) the recommendations produced and promoted by this project's studies. The studies, integrated into the National Anti-Corruption Action Plan, actively advocate specific legislative, institutional and constitutional reforms designed to reduce opportunities for corruption. Due to the support they have generated, the studies have placed at least a portion of the private sector in a leadership position in promoting greater accountability. Furthermore, and despite political distractions, several of the study recommendations (regarding Customs, Comptroller and Judiciary modernization for example) have attracted relatively broad public support. Finally, both the reform objectives the project studies advocate and the participatory means the project employed to promote these goals has worked to strengthen democratic practices and institutions in Ecuador.

Key skill-steps utilized to produce and market these studies were:

- 1- credible, expert drafting/consulting;
- 2- facilitating of consensus among key stakeholders;
- 3- presenting the consensual document by utilizing the press, and key contacts;
- 4- follow-up by disseminating, discussing, and integrating with studies and projects by other stakeholders and donors

The studies produced and promoted in this manner have clarified reform issues for stakeholders, and have offered a strategy and intermediate action options that have been taken up by other donors (World Bank in particular) and other institutions (Civil Anti-Corruption Commission). As commented above, the specific next steps to continue the momentum for generating a broad based integrated strategy with a larger coalition of support, as well as priority measures to be implemented, will depend on the level of agreement reached between the Executive and Legislature. Whatever the level of this agreement, the project and follow-up have generated a framework, options and level of operational cohesion that will ensure progress on both the concrete, discreet changes in procedure and the broader integrated strategic effort.

The likelihood of future success will probably have much to do with further exploration into:

- consensus building with a larger group of stakeholders to build a constituency for sustainable change;
- more focused efforts to implement specific concrete reform measures.

ANDE has plans for working further on both fronts.

Recommendations for ANDE

- 1- ANDE might focus more of its outreach, consensus building and facilitating on key congressional committees to encourage passage of critical laws and make reform inroads in Congress;
- 2- As part of the ongoing development of the National Anti-Corruption Plan of Action there are plans for participatory workshops or forums to foster support for the plan as well as refine and contextualize it further. ANDE, working in collaboration with its NGO network partners, could prove instrumental in ensuring that these events are truly broad based and participatory. By fostering greater outreach with a broad cross-section of stakeholders utilizing participatory techniques, ANDE can encourage wider support for a coherent reform strategy as well as concrete actions. Also the adopting of a participatory approach by both the government and multinational donors can serve to enhance social capital, strengthen the democratic process and encourage public support for institutions;
- 3- Even beyond the context of the Anti-Corruption Action Plan, ANDE can drive more systematic outreach programs for the press, unions, youth, consumer and other groups in order to foster awareness of and consensus on reform and anti-corruption measures and strategies;
- 4- ANDE can play a pivotal role in developing a capable and credible implementation mechanism for the National Anti-Corruption Action Plan and other reform initiatives. There is a clear need for an adroit and credible implementation mechanism, responsive to a broad base of systematically engaged stakeholders;

- 5- ANDE is in a position to manage some discreet short-term reforms including codification of law (to simplify and clarify) and abolishing outdated regulations that slow development of the tourist industry.

Recommendations for CIPE

- 1- ANDE is a particularly talented and well positioned organization that CIPE (in collaboration with other donors) could work with to develop a model of the multi-pronged approach to reform and anti-corruption. This would involve short-term measures and longer term constituency and strategy building. Ecuador, despite the political liabilities, could be a good place to focus as much of the groundwork has been laid, ANDE is particularly skilled, the NGO community is working together, and the need for such work is great.
- 2- In a similar manner but on a less ambitious scale, CIPE may want to utilize its relationship with ANDE and Ecuador to: i) systematically engage select international donors – IDB, World Bank, OECD – to weaving together the larger strategy with participatory elements, implementation mechanisms and short term measures; ii) begin developing models for building alliances and offering training to, the press, labor groups, youth organizations and others.

ANDE Management Response: ANDE management has reviewed the evaluation report. ANDE agrees with all findings and recommendations contained in this report.

III. CONCLUSION

A comparison of the two organizations and projects

ANDE enjoys some obvious advantages in experience, versatility and outreach over the younger Liberal Institute. This means that it is able to credibly engage more stakeholders, has more access to the halls of power and enjoys the support of a variety of donors. It, however, is operating in a considerably more unsteady political environment. The Liberal Institute has a very strong niche in studies and diagnostic reports. This can prove to be the base of a diverse and effective reform program but it will take some reorganization to accomplish.

Each organization produced very professional and technically proficient diagnostic studies that were appropriate to their given audiences. The projects were successful in as much as they were well accommodated to the particular opportunities offered by the organizations' capacity and the context in which they were conducted. The Liberal Institute fell short on one study (deregulation) because it focused on an area that was not ripe for reform and its recommendations were less than specific and well documented.

The contribution of CIPE program staff was significant. Balancing efforts to encourage project reach with allowing for adjustment to local opportunities had much to do with cultivating a constructive dialog with the project organizations. In both cases, Ecuador and Brazil, the dialog clearly enhanced the projects effectiveness. Ongoing dialog with CIPE is likely to a significant factor for the two grantee organizations developing ever more effective projects and strategies.

The Projects as related to CIPE's overall Objectives or Focus

Of CIPE's eight key priorities, both these projects addressed one: "combat corruption and support democratic values," explicitly. The project in Ecuador directly "promoted privatization as a key step to

improving competitiveness,” while the project in Brazil advocated privatization in as much as it applied to labor disputes, deregulation and procurement. The priority “reform institutional structures bringing the informal sector into the formal economy” was indirectly addressed by both these projects. The other five CIPE priorities are implied, if obliquely, by both projects. It could be argued that effectively curbing corruption and reforming key institutions would establish the foundation upon which all of the CIPE’s objectives would thrive.

Comments on CIPE Regional Strategy Options these Projects Suggest

CIPE faces a number of viable options with regard to corruption prevention or integrity programs in the region. These options range from very selective engagement in projects designed to produce very specific changes in law/procedure, to broad based, participatory reform strategy building. This evaluation recommends exploring project opportunities that include: encouraging specific changes in law with building a broader reform strategy; working with small groups of specialized stakeholders, as well as, building a broader (and deeper) constituency for reform.

Both of these projects took place in a political context given to rapid change producing sudden openings and closing of opportunities to effect policy. This is to be expected in most of the countries in the region, despite the vast variety in national characteristics.

This fluidity suggests that combined with a focus on short-term action – which is usually contingent on rapidly changeable political opportunities and will – most projects should work explicitly on building a broad constituency for reform. On the one hand, over time this larger constituency is likely to generate a more sustainable and constant political disposition towards ongoing reform. Additionally, the building of such a coalition implies significantly enhancing social capital, the benefits of which promise to be long-lasting and profound. By all accounts, a factor undermining reform and economic development in Ecuador and Brazil, as in most of the region, is a notable shortage of social capital or trust.

As many experts have noted, the chief reasons why many first-generation reforms throughout the region have not led to more sustained effort are: i) the immediate and acute fiscal / economic crisis is overcome and ii) those who advocated and implemented changes are not trusted by much of the rest of society. Not only have the benefits of reform been uneven, but to a great extent, much of the populace has not participated or been encouraged to participate in the reform debate. Furthermore, based on past experience (and feeding a culture of distrust), most citizens expect that if a given group designs policy it is that same group that will benefit to the detriment of other groups. The prevailing ethos implies that it is particularly difficult to fight corruption or reform honestly, if rent seeking and corruption are pervasive. This is the catch 22 at the core of the reform inertia in the region.

The private sector working with CIPE could play a central role in helping define options in a broadly participatory fashion and enhancing social capital. A program that stresses participation as a process, checks and balance as a mechanism, and win-win as a unifying principal, would enjoy a relatively high likelihood of encouraging constructive change. This could both enhance the private sector’s image as concerned for the overall public good and systematically move the reform debate forward.

The design or focus of any such effort will necessarily vary from country to country and be driven locally, responding to opportunities and idiosyncrasies. In some cases, like Honduras, an anti-corruption program will have a markedly ethical, religious orientation. In Guatemala, it would have a peace enhancing focus. In other contexts, as perhaps Ecuador, a focus on anti-corruption can prove distracting if not defined as explicitly corruption prevention through institutional reform. Likewise, in many cases focusing on service enhancement or economic (job) growth would be a more effective means of galvanizing a broad constituency for institutional change while encouraging adoption of concrete reform

measures. Whatever the focus, the framework remains much the same; generating a consensus among a broad based constituency for substantive institutional change implemented step by step.

In many countries, the private sector could well prove the key bridge between a political leadership - elite/international organizations - that tend to be insulated and various citizen groups looking for access and opportunity. There exist methodologies for fostering constructive participation to build consensus for a significant constituency. While some fear that there are high risks implicit in programs involving uninitiated citizens, probably the risks of not systematically reaching out to a broad base of citizenry in the region are far greater for democracy, economic stability and representative institutions. If this systematic connection between leadership and citizens is not forged and trust enhanced, reforms will continue to be delayed and those attempted will remain fragile. In as much as key groups remain on the outside of the debate regarding design, implementation and evaluation of reforms, they will likely remain highly distrustful of reform programs and anti-corruption action plans. Furthermore, these groups (which often include much of the press) will remain free to be irresponsible in their assessments, feed cynicism and even open inroads to destructive and radical solutions. In countries where social capital and trust are low, the state is generally assigned a larger and more commanding role. Therefore, the dangers of not addressing social capital at a time when inequity and cynicism are growing are self evident if not immediate. The most significant challenge involves adapting participatory methodologies to given national or local circumstances.

Many international organizations (World Bank, IADB and OECD) are working on helping countries design broad, integrated longer-term strategies to fight corruption, build integrity and reform institutions. In fact, to date the institutional reform/corruption prevention debate has been dominated by experts and focused on the needs, demands and requirements of the international lending organizations. Until and unless the debate addresses citizens directly, trust frontally, and transparency transparently there is likely to be no continuity in reform and corruption prevention. In the absence of local organizations contextualizing these efforts, enhancing local ownership, the programs will remain superficial and as such unsustainable. While called participatory, these efforts tend toward the generic and government run. This represents a key opportunity for private sector groups in collaboration with other civil society organizations to become the protagonists in initiating a participatory process for implementing specific reforms, building more effective institutions and enhancing social capital. CIPE, working with donors and local partners in embracing a multi-pronged approach could be a catalyst in this process.

Elements of this strategy may include:

- 1- The grantee, in keeping with the two CIPE projects evaluated above, should act as facilitators of consensus and expert diagnostics.
- 2- Focusing on: i) wide participation as a process to enhance social capital, build consensus and forge a constituency; ii) checks and balances as mechanism to ensure institutional balance.
- 3- Working with the media, women's, consumer and youth groups on reform of obsolete and costly regulations (for example pricing for hotels and restaurant in Ecuador or rent policy in Nicaragua) as first steps in ongoing efforts to build a constituency and participatory methodology for designing, implementing and evaluating reform.
- 4- Grafting participatory roots onto the IADB, World Bank, and OECD integrated reform/anti-corruption strategies initiated or planned for a number of countries in the region. In their more ambitious form they are called "proyectos de nacion" that implies building a social contract with a very broad spectrum of stakeholders. But multinationals need authentic local stakeholders to design credible programs that are locally driven and truly broad based. The IADB is working on these issues in

Nicaragua and Honduras with plans to spark projects throughout Central America. The World Bank is working in Bolivia and Ecuador. The OECD has plans for most of the other countries in the region.

- 5- Working at the local or sub-national level – such as financial management reform in select Brazilian provinces or cities – to take advantage of relative amenability to public pressure.
- 6- Working with young entrepreneur organizations that region-wide have shown a very particular interest in working on anti-corruption and longer-term reform and have the skill and credibility to convince insiders while reaching-out to less well connected sectors.
- 7- Establishing a mechanism for citizens to systematically evaluate the effectiveness of these programs to enhance credibility and develop client focus.

An important early step for CIPE to further develop this strategy could be to meet with key international organization stakeholders in Washington. Some indicators that can be considered to encourage a multi-pronged approach:

- Short-term: laws changed, policies altered, processes simplified, access to information improved, consensus reached on measures to be adopted;
- Longer term: new groups engaged, documents utilizing accessible language, participatory mechanisms applied, access to service information facilitated, evaluation mechanisms driven by citizens.

IV. ACKNOWLEDGEMENT

Over the course of this assessment the evaluator spoke or met with dozen of people in Washington, who contributed to his understanding of the projects, the context in which they were conducted and strategies for anti-corruption, integrity and reform programs in the region. Organizations consulted include the World Bank, Inter-American Development Bank, the Inter-American Dialog, Transparency International (Berlin), The Miami Herald, The US State Department, USAID, Casals and Associates, OECD (Paris).

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Partirio Rivadeniero and staff of ANDE in Quito;
Arthur Chagas and Roberto Fendt at Liberal Institute in Rio;
Nelson Lehmann, Luis Zottman and Ambassador Penna at the Liberal Institute in Brasilia.

Annex A: List of persons interviewed

In Brazil:

Liberal Institute:

Arthur Chagas Diniz, President Liberal Institute of Rio (ILRJ)
Roberto Fendt, Vice President and Consultant (ILRJ)
Donald Stewart, Founder and President of Board (ILRJ)
Og F. Leme, Professor and in house Consultant (ILRJ)
Nelson Lehmann, Executive Director, Liberal Institute of Brasilia (IL-BSB)
Jose de Meira Penna, President of IL-BSB
Luis Zottman, Director, IL-BSB

“Notas” Editorial Board:

Antonio Carlos Porto Goncalves, Fundacion Getulio Vargas
Jose Luis Carvalho, Consultant for Deregulation Study
Fabio Pegurier, Professor of Economics

Liberal Institute Constituencies:

Amaury Temporal, Director of International Business Center
Jose Augusto Coelho Fernandes, Executive Director, Confederation of Industry
Group of six young entrepreneurs associated with ILRJ
Dr. Pereira Fereira and Assistant on Economic Matters, Chair of Tax Reform Commission in Congress
VP of CNI Sao Paolo
Paes Landim, Congressman
Marco Cintra, Congressman

Others:

Wilson Figueiredo, Vice President and Chief Editorialist, Jornal do Brasil (Daily)
Fernando Luis Vieira Ferreira, Executive Director Military Club
Mother Maria de Fatima Maron Famos, Chancellor, Santa Ursula University

Chair of Philosophy Department, Santa Ursula University
Jose Angel Gonzalez Vilas, Entrepreneur
Marcus Flavia, Consultant
Janice Webber, Director USAID Brasilia
Peter Garinski, Economic Officer US Embassy Brasilia

In Ecuador:ANDE:

Patricio Rivadeneira, Executive Director

ANDE Board of Directors:

Solon Espinosa	Leopoldo Baez
Juan Werner	Juan Acosta
Cesar Duran	Luis Sarzosa

ANDE Constituency:

Luis Hidalgo, Consultant
Miguel Rivadeneira, Radio and Print Journalist
Luis Lopez, Consultant
Andrea Sandoval, Transparency International Local Chapter (CLD)
Valeria Merino, Director, TI Local Chapter
Hermel Flores, Foundation of Ecuadorian Engineers
Fausto Mejia, School of Engineers
Oscar Teran, Integrity Foundation
Danilo Baquero, TI local Chapter
Fabian Melo, School of Architecture

Others:

Francisco Huerta, El Expreso Daily
Miriam Garces, CEPAM
Petronio Lopez, School of Electrical Engineers
Ximena Moreno De Solines, Puce Law School
Walter Enriquez, Central Law School
Wilma Chamorro, Consumers Group
Pablo Pinto, Bank of Pichincha Foundation
Reinaldo Valarexo CONUEP
Dario Moreira, CONUEP
Janet Entwistle, Resident Representative World Bank
Boris Cronejo, Fundacion Esquel
Jose Gonzalo Bonilla, Fundacion Esquel
Gisela de Alvarez, British Embassy
Hilda Arellano, Director USAID

Also the evaluator attended a luncheon sponsored by the Federation of Bi-National Chambers of Commerce at which President Mahuad delivered a speech and answered questions regarding the government's reform and economic strategy.