



# Role of the Parliament in Curbing Corruption in SEE

RACVIAC, May 2009

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## Corruption - key political economy agenda

- Washington Consensus of early 1990's no mention of corruption control or governance in its list of 10 key reforms - considered as a country's internal political matter and not an impediment to development
- 1996 Annual Meetings of IMF and World Bank - turning point in the development community's approach to corruption - new empirical research showed a strong correlation between control of corruption and higher income levels
- Parliament, in addition to the executive and judiciary, must play a vital role to successfully combat corruption
- GOPAC formed in 2002 - corruption (i) threat to democracy, (ii) undermine economic development, (iii) violate social justice, and (iv) destroy trust in state institutions

## Causes and cost of corruption

### □ Some causes of corruption:

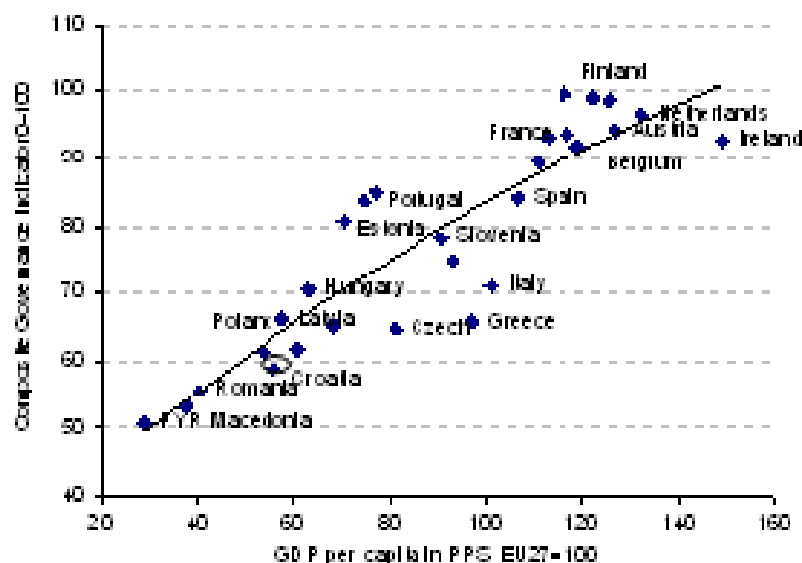
- Weak public institutions and inadequate framework for government accountability
- Poverty creates perverse incentives for public officials, businesses and households
- Lack of transparency, inadequate oversight, weak enforcement, ineffective electoral systems
- Associated with absence of civil liberties
- Unprofessional civil service
- A state's intrusive stance in the economy
- Uncompetitive private sector and concentration of economic power in monopolies

□ **Corruption has significant negative impact on economic growth especially impacting the poor** - if a country improves its corruption score by 2.38% on a 10-point scale, its GDP would rise by more than 0.5 percentage point

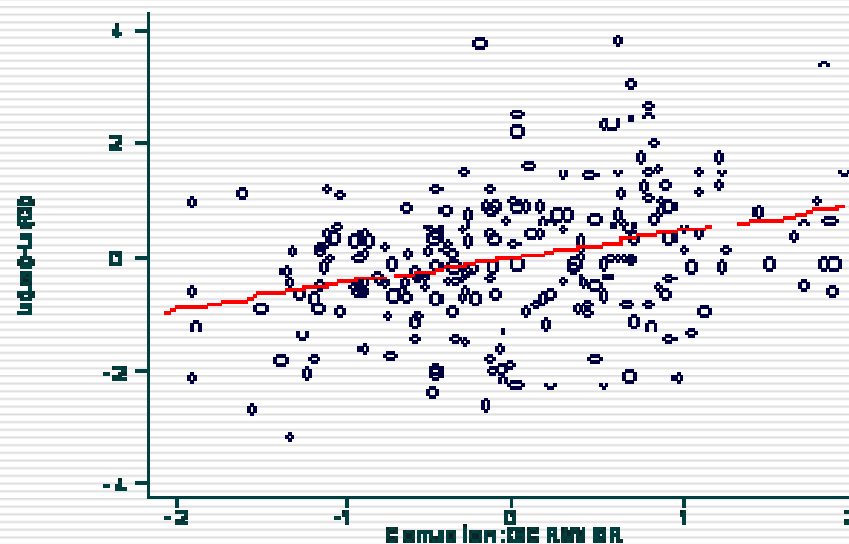
## Corruption - a key challenge for development

- Governance, state capacity, rule of law, and democracy correlated to growth; however, difficult to translate these conclusions into practical recommendations as to how much change in governance matter
- Example: the cost of weak governance affects the volume and quality of FDI flows (in favor of portfolio flows and bank lending relative to FDI flows) which makes the host country more vulnerable to financial crises

Governance matters for growth



Governance and Capital Inflow Structure

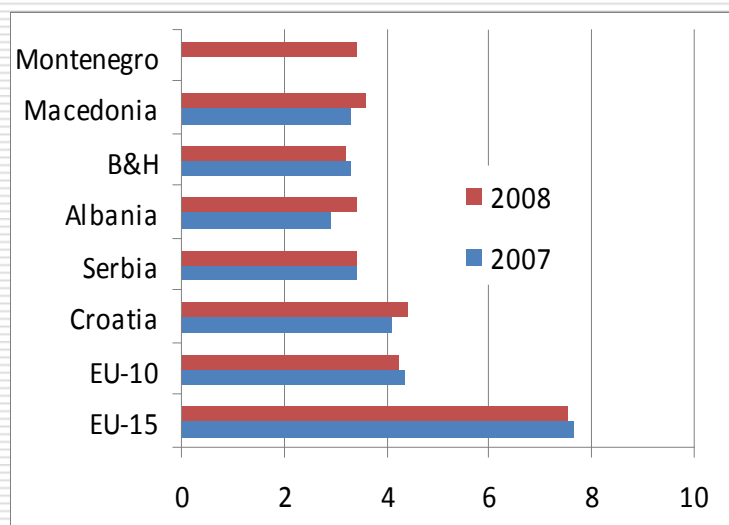


Sources: World Bank Governance Indicators, EUROSTAT, Financial Sector Governance: the Role of the Public and Private Sector

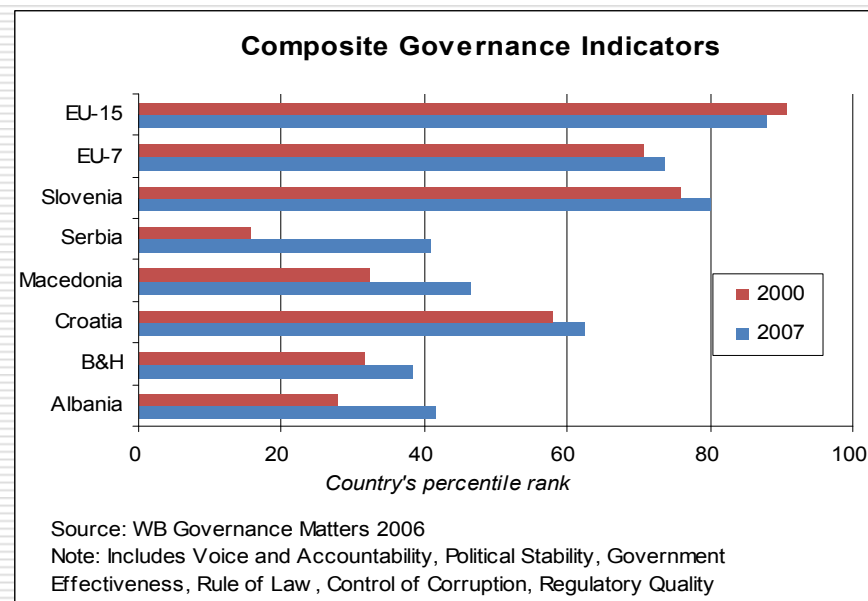
## Corruption - manifestation of weak public sector governance

- A systemic phenomenon in SEE - not yet significantly improved their anti-corruption stance (except Albania and Turkey)
- It acts as an arbitrary tax - increases costs and disrupts an efficient allocation of resources and fair distribution of income. This further leads to increased income inequality and poverty, with reduced long-term economic growth
- Anti-corruption should become core element of reforms in the run-up to EU membership; however, “the EU accession process cannot yet be deemed a sustainable remedy” (TI, 2008).

Corruption Perception Index, TI



Composite Governance Indicators



## Corruption - destroys social capital

- ❑ Trusting societies have less corruption and, oppositely, high corruption destroys social capital and people are less likely to endorse high moral standards and legal behavior
- ❑ Alternatively, people who believe that legal system is fair and impartial are more likely to trust their governments (indicator of institutional development)
- ❑ SEE region has a considerably low level of mutual trust among its overall population - more than two times lower than the EU average
- ❑ Past surveys in some SEE countries found a relatively high level of opportunism especially among the youth - a real danger of maintaining the unfortunate current state of affairs over the long term

# Multifaceted Anti-Corruption Strategy

## **Institutional Restraints on Power:**

- Independent and effective judiciary
- Independent prosecution, enforcement
- Legislative oversight

## **Public Sector Management:**

- Meritocratic civil service with adequate pay
- Budget management (coverage, treasury, procurement, audit)
- Tax and customs
- Sectoral service delivery (health, education, energy)
- Decentralization with accountability

## **Political Accountability:**

- Political competition
- Transparency in party financing
- Asset declarations, conflict-of-interest rules
- Freedom of information & the press
- Investigative journalism

## **Civil Society Participation:**

- Public hearings of draft laws
- Citizen oversight
- Role for NGOs

## **Competitive Private Sector:**

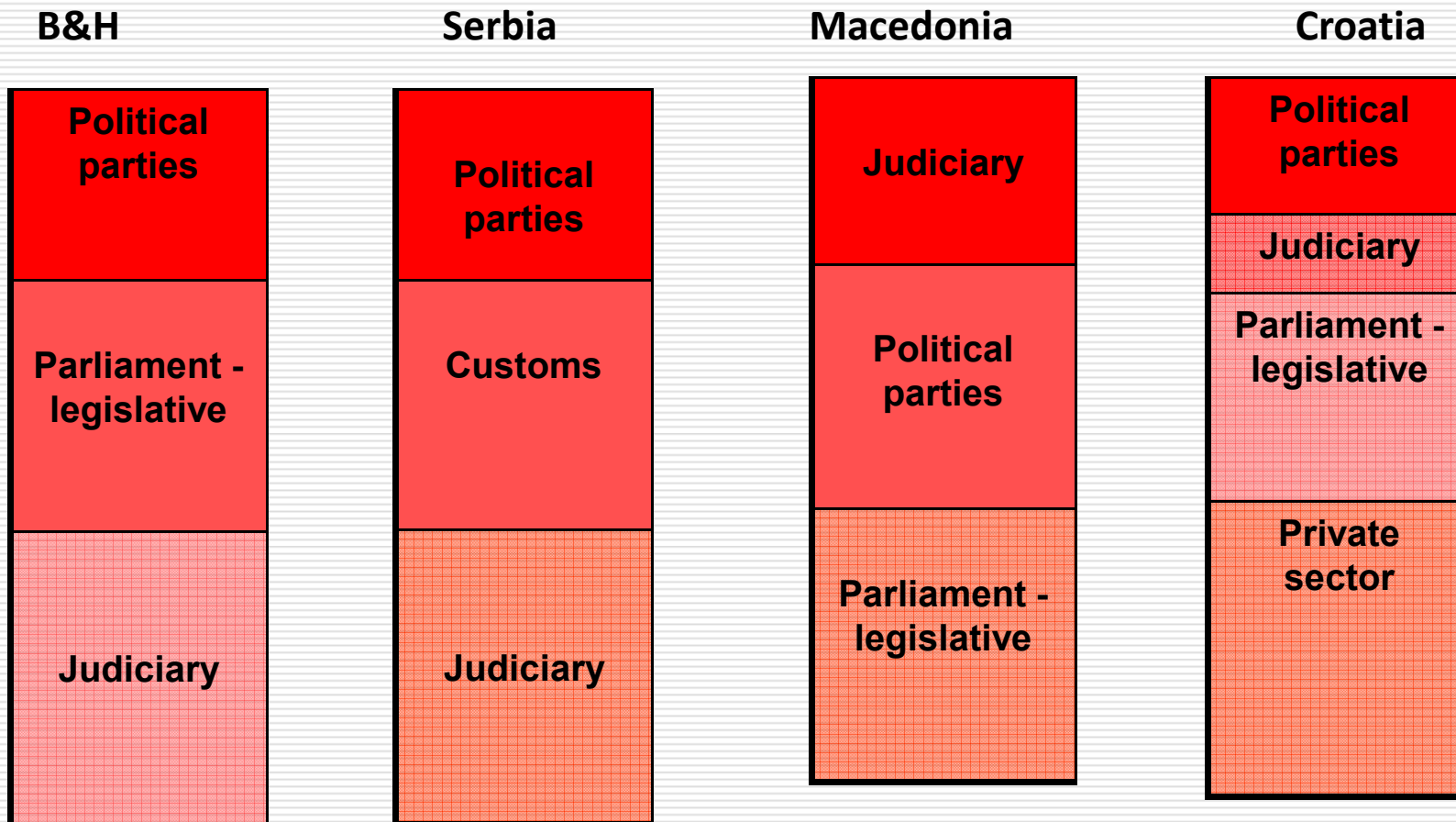
- Economic policy reform
- Competitive restructuring of monopolies
- Regulatory quality/simplification
- Transparency in corporate governance
- Collective business associations

## Role of Parliament in fighting corruption

- **Legislative** - lead, support and monitor implementation of administrative and public finance management reforms, access to information, policy making reforms
- **Oversight and financial control** - ex-ante and ex-post scrutiny of budget, cooperation with supreme audit institutions and media, AC commissions (universal, investigative, parliamentary and multiagency models)
- **Representation** - political party financing, ethics and codes of conduct, asset declaration, coalition with civil society on public policies, int'l parliamentary links



# Parliament and perceived corruption pattern in SEE



# Vast anti-corruption forward agenda...1

- **Albania** - Further progress is needed to establish an independent, merit-based, professional civil service. Judicial procedures have remained slow and lack transparency. Justice system continues to function poorly due to shortcomings in independence, accountability and transparency. Efforts have been made to reduce opportunities for corruption in areas such as tax administration, business services, property restitution and public procurement, by introducing electronic systems. *Perception of corruption has improved; nonetheless corruption remains a particularly serious problem.*
- **B&H** - Consolidation of the judicial system continued; lack of a Supreme Court that could harmonize application of legislation across the four internal jurisdictions; the absence of a single budget for the judiciary (14 Ministries of Justice). Political interference in the judicial system remains a cause for concern. Very little progress on improving its tools to fight corruption. Proper implementation of the National Anti-Corruption Strategy needs to be ensured. More vigorous investigation and prosecution are necessary. *Corruption is widespread and remains a serious problem, especially within government.*
- **Croatia** - Administrative capacity of state bodies for fighting corruption continues to be insufficient (police, lack strong co-ordination and efficient non-partisan monitoring, prosecution remains low). Weaknesses in the work of the National Anti-Corruption Council both in legislative and practical terms. Little progress in preventing conflicts of interest. *Further efforts are required in tackling high level corruption.*

## Vast anti-corruption forward agenda...2

□ **Macedonia** - Asset declarations; gaps in the conflict of interest law. Some shortcomings in the legal framework hampered the fight against corruption, in particular, the use of special investigative measures and the delivery and enforcement of court decisions. Further steps are necessary for implementing provisions on financing of political parties and election campaigns. ***Corruption remains a particularly serious problem.***

□ **Montenegro** - Serious concerns regarding the independence of the judiciary. For the prosecution service in particular, where the future council will be elected by parliament, the risk of political influence remains high. Lacks strong and independent supervisory and auditing authorities. Some progress in strengthening the strategic and administrative framework for combating corruption. However, the declared commitment of the authorities to combat corruption has not been backed up by rigorous implementation with clear results, including higher conviction rates in corruption cases. ***Corruption continues to be widespread and inefficiently prosecuted, particularly in cases of high-level corruption.***

□ **Serbia** - Slow judicial reform and largely confined to administrative improvements. Considerable efforts still need to be made by Serbia to ensure the independence, accountability and efficiency of the judicial system. The anti-corruption agency has not yet been established. Greater public awareness of the issue and newly adopted legislation. Lack of sufficiently independent and efficient oversight bodies in core areas such as party financing, conflict of interest, public procurement and privatization. ***Corruption continues to be widespread and to pose a serious problem.***

# Political will to fight corruption

- ❑ It is demonstrated credible intent of political actors to attack perceived causes or effects of corruption at a systemic level
- ❑ Indicators of political will:
  1. **Domestic origin of the initiative** - whether principal advocates for change really perceive corruption as an issue requiring attention or an external group induced advocates to endorse the issue - challenge of building commitment and ownership
  2. **High degree of analysis** - has the regime applied to understanding the context and causes of corruption
  3. **High level of participation** - has the regime adopted a strategy that is participative, incorporating and mobilizing the interests of many stakeholders
  4. **Inclusion of prevention, education and sanctions in reform strategies**
  5. **Dedication of adequate resources for anti-corruption reforms**
  6. **Objective monitoring and evaluation** - to allow for course correction and to ensure that policy goals and objectives are ultimately met

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Thank you for your attention!

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