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Anti-Corruption



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New PWC Index Quantifies Cost of Corruption

On January 25, 2001, PricewaterhouseCoopers (PWC) unveiled at the annual meeting of the World Economic Forum in Davos, Switzerland, an index that measures the impact of business, economic, legal and ethical transparency on the cost of capital in 35 countries – the Opacity Index or O-Factor. A panel of economists and researchers brought together by PWC's Endowment for the Study of Transparency and Sustainability developed this analytical model from surveys of chief financial officers, equity analysts, brokers and PWC consultants in each country. The index identifies the

specific incremental borrowing costs imposed by the lack of transparency in the areas of:

- Legal protections for business
- Macro-economic policies
- Corporate reporting
- Corruption
- Government regulations

In this study --primarily intended to assist policy makers and investors-- opacity is defined as the lack of "clear, accurate, formal and widely accepted practices." According to PWC, by using the Opacity

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Mexico's Anti-Corruption Efforts

Upon taking office in December 2000, the administration of President Fox unveiled an ambitious agenda to curb corruption in Mexico that stresses the need to involve civil society and the private sector in the fight against corruption.

In his inauguration speech President Vicente Fox vowed to work for "a Mexico without corruption, that is competitive and with a global vision." Fox, the first Mexican president not from the Institutional Revolutionary Party (PRI) since the 1920s, recognized the pervasive effects of corruption and clearly stated the goals of his government to tackle this problem: "Corruption has degraded our public life, seriously affected our economy and given our country a bad name. The struggle against corruption, which has so far been conceived as a goal of secondary importance, will now become

a national priority. The struggle against corruption will cease to be the exclusive responsibility of the Ministry of the Comptrollership and Administrative Modernization (Secodam). I have given instructions to my entire cabinet to fight corruption in their respective departments. The fight against corruption has to begin today. We will fight this evil with all the force of the law, with all the power of the Presidency and, of course, with the simple and powerful force of example."

To show his commitment to a new ethic in government, President Fox began his transparency crusade by exacting a code of ethics from the members of his cabinet. This new set of ethical standards calls for top government officials to observe, among others, the following principles:

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- **Integrity:** I shall act in my private and public life with honesty and credibility, promoting an environment of trust and integrity
- **Honesty:** I shall never use public office for personal gain, nor I shall accept a gift or service from a person or entity that could result in an unethical act in relation with the performance of my duties and obligations
- **Impartiality.** I shall always act in an impartial manner, without granting preferences or undue privileges to any person
- **Transparency:** I shall guarantee access to public information without any limitations, except for those imposed by the public interest and privacy rights of citizens.
- **Accountability:** I shall provide efficiency and distinction to public management, assisting to its continuous improvement and modernization and abiding by the basic principles of optimization of resources and accountability.

President Fox also made his own finances public during his inauguration ceremony. The members of his cabinet, however, did not follow suit alleging security and privacy concerns. Instead they deposited their financial disclosure statements in a private trust that will be instructed to make them public if so required by judicial authorities.

To coordinate the national anti-corruption strategy, the government of Mexico created on December 4, 2000, the Inter-Agency Commission for Transparency and the Fight against Corruption. This Commission, headed by Francisco Barrio, Minister of Secodam, is charged with coordinating policies and actions aimed at preventing and sanctioning corruption, encouraging transparency within federal public agencies and assessing the anti-corruption measures implemented by the government. It is composed of members of the cabinet, Secodam's deputy assistant secretary for citizens affairs and social audits, representatives of civil society and the private sector, and invited members such as the Attorney General and state and municipal government officials. According to President Fox: "This Commission is one important element in the structure that will allow us to implement a range of policies and projects to improve levels of transparency and minimize the extent of corruption in federal government." The Commission is scheduled to meet quarterly to report on the actions that the different government agencies are carrying out.

At the first official meeting of the Anti-Corruption Commission on January 30, 2001, the government presented a draft of its national anti-corruption plan. The government's strategy is composed of 34 specific action goals to prevent, control and sanction corruption, which include the following:

- Identification of the areas more prone to corruption within each Federal ministry.
- Updating of the Public Servants' Accountability Act
- Implementation of on-line services by the government
- Adoption of a professional civil service
- Enactment of a Freedom of Information Act.
- Simplify internal procedures at the federal government
- Conduct citizens' audits (*Contraloría Social*)

- Development of corruption indicators
- Adoption of a National Agreement for Transparency and against Corruption
- Creation of a National Council for Transparency and against Corruption
- Adoption of integrity pacts or sector-oriented pacts
- Launching of an anti-corruption campaign

Many of the above action goals have already been accomplished. For instance, on February 26, 2001 a National Agreement for Transparency and the Fight against Corruption was signed by 83 organizations, including cabinet ministries, political parties, labor unions, NGOs and professional associations. The rationale behind the adoption of such an agreement is that the Government and other actors make a concrete joint commitment in favor of transparency and against graft.

Along these same lines, the Fox administration is currently promoting the creation of a Citizens' Council for Transparency and the Fight against Corruption. President Fox said of this committee "It is to be a permanent bridge between government and society linking forces in the war for clarity, transparency, and honesty." Secodam has already established an internal office (*Unidad de Vinculación para la Transparencia*) which seeks to involve the general public in the agency's anti-corruption programs. To do so, this unit will implement campaigns to inform the public on the tools that the civil society can employ to scrutinize the performance of government officials.

Regarding access to government information, the Ministry of the Interior announced that it is working along with other federal agencies in drafting a Freedom of Information Act, one of the primary goals of the administration. The initiative, which is expected to be presented to Congress in early April, seeks to facilitate the access to the citizenry to practically all public information as means to create a more transparent government. In Fox's own words, his government seeks to "opening up information to the media, to the public opinion.. by publicizing objectives and indicators so that we can be judged by our progress in this realm."

In addition, a public awareness campaign was launched in February to support the government's anti-corruption efforts. Through a media campaign, television and radio spots will stress that corruption hurts all Mexicans, streets will be posted with signs and cars with bumper stickers reading: "I don't pay bribes."

The next meeting of the Anti-Corruption Commission will be held on March 30, 2001. On that day, the final version of the national anti-corruption plan must be approved based on the information provided by each ministry. Federal government agencies will also have to prepare reports assessing the status of their own anti-corruption efforts by the end of June and October of this year.

To obtain more information on the Mexican national anti-corruption strategy, visit Secodam's website at www.secodam.gob.mx.

AROUND THE HEMISPHERE

ARGENTINA *Government Plans New Anti-Corruption Ministry*

President Fernando de la Rúa announced on March 1, 2001 that he is planning to set up a new anti-corruption ministry in response to scandals that have plagued the country's political and financial establishment. "Impunity is finished. There are no more secrets," De la Rúa told both houses of Congress during the inauguration of the new 2001 legislative term. The president said he planned to elevate the Anti-Corruption Bureau to the level of a ministry and promote the head of the organization charged with rooting out corruption and promoting government transparency to a Cabinet post. The announcement came after a Senate bribery scandal that sparked the protest resignation of De la Rúa's vice president in October 2000, further alienating a skeptical public.

"The government's image as a transparency 'gladiator' has been eroded," Carlos March, executive director of *Poder Ciudadano*, the Argentine chapter of Transparency International, told the press. Observers said an anti-corruption ministry could only be effective if it is allowed to carry out completely independent investigations -- and that would require real political will. "In Argentina the only thing that establishes optimism is concrete action and real results. Altering the agency's organizational chart won't be enough to recast the president as a leader in the fight against corruption," added March.

HONDURAS *National Anti-Corruption Council is Sworn In*

On February 16, 2001, President Carlos Flores swore in the members of the National Anti-Corruption Council, which will be headed by Cardinal Oscar Andrés Rodríguez, archbishop of Tegucigalpa. According to the decree that created it, the new Council will be responsible for promoting the implementation of policies that establish the institutional basis to curb corruption at all levels of government and society. To reach this objective, the Council will implement an action plan that intends to adopt measures and

actions to fight corruption effectively. The Council is composed of members of President Flores' cabinet, civil society representatives, the Director of the Internal Revenue Agency, the Comptroller General, the Attorney General, members of Congress and the Judiciary and the head of the Probity Directorate (*Dirección de Probidad*). The Human Rights Commissioner, José Palacios will be invited to attend all of its meetings. At the event, Cardinal Oscar Rodríguez said that he will work hard so that the Council does not become just an "ornament" entity and that Honduras is recognized by the honesty of its people.

MEXICO *Comptrollership and Supreme Auditing Institution to Sign a Cooperation Agreement*

The Ministry of the Comptrollership and Administrative Development (*Secodam*) and the Supreme Auditing Institution of the Federation (*Auditoría Superior de la Federación*) are currently drafting a cooperative agreement to monitor government spending, combat corruption and standardize criteria related to liability findings and sanctions application. Through this agreement both institutions seek to implement an effective oversight system and strengthen internal control mechanisms to ensure transparency in federal agencies. To do so, the Ministry of the Comptrollership and the Supreme Auditing Institution will design and promote the implementation of regulations, procedures and accounting and filing systems that facilitate audit and review execution. The cooperative agreement will also establish mechanisms to determine the type, periodicity and features of the information requested by the Supreme Auditing Institution from the Secodam itself and from internal auditing entities of other federal agencies.

The Minister of the Comptrollership, Francisco Barrio and Auditor General, Gregorio Guerrero announced that a finalized version of the agreement should be ready by the end of April. It is expected that these joint efforts will permit that the recommendations and observations issued by the Supreme Auditing Institution are addressed timely and implemented by the agencies being audited. According to the

declaration of intent signed by Barrio and Guerrero, the cooperative agreement will allow for the design of computerized systems to exchange information. This document also specifies that the Ministry of the Comptrollership and the Supreme Auditing Institution coordinate their actions to prevent and fight corruption as well as to promote transparency in the use of public funds.

MEXICO *Lower Chamber of Congress will Launch a National Anti-Corruption Campaign*

The Lower Chamber of Congress announced in March that it will launch, through its Jurisdictional Committee, a national campaign to inform the general public on their rights and defense mechanisms against corruption, abuse of authority and impunity at all levels of government. Arturo Herviz, Chairman of the Jurisdictional Committee, said that the Chamber will also invite the citizenry to submit proposals to modify the Accountability Law for Public Servants (*Ley de Responsabilidades de los Servidores Públicos*) and the constitutional articles related to impeachment of high level public officials. The campaign will organize workshops and conferences throughout the country to disseminate information on how to fight corrupt activities and arbitrary treatment by government authorities.

PERU *Internet Site Offers Information on Government Spending*

To contribute to the fight against corruption, the Ministry of Economy and Finance launched in February an Internet site that the general public can access for information concerning public accounts and the management of public resources. The site provides detailed information related to the budget of most public entities, their fiscal income and debt service. Very few public agencies will be excluded from this site, even the Ministries of Defense and the Interior will be featured, except for those issues considered as reserved or secret. The website may be found at <http://transparencia-economica.mef.gob.pe/default2.htm>.

Opacity Index

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Index over time, government policy makers will have a clear picture of which system reforms will have the biggest potential impact on economic development. As for investors, the index can serve as determinant of the obstacles to foreign direct investment in a country.

The findings of the study indicate that after China (O-Factor Score of 87), the countries deemed the most “opaque” were Russia (84), Indonesia (75) and Turkey (74). In other words, the O-factor suggests that these countries are the worst places to do business among the 35 countries subject of this study because of their perceived lack of transparency and high relative capital costs. On the other hand, Singapore, the United States and Chile were judged as having the most transparent business environments.

“Economists already understand that poor transparency in a number of key areas imposes a hidden drag on economic development,” said James J. Schiro, Chief Executive Officer of PricewaterhouseCoopers. “The Opacity Index enables us to quantify this drag for the first time and identify which mix of ‘best practices’ in business, economic and regulatory affairs can have the strongest impact on development.”

In this first report, scheduled to be released twice a year, PricewaterhouseCoopers studied the O-Factor in 35 countries. The countries were chosen to be representative geographically but also to provide measurements for a sample of countries taken from the World Bank’s economic tiers - Upper Income, Upper Middle Income, Lower Middle Income and Lower Income. By mid 2002, the Index will be expanded to include most of the world’s significant economies.


The first Opacity Index report looks at the impact of opacity from two perspectives - firstly, its impact as a form of hidden corporate tax and secondly as higher interest rates that countries have to pay when borrowing through sovereign bond issuance. Looked at from the tax perspective, for example, the impact of reducing Colombia’s opacity score to the level of Singapore’s would have the same effect on domestic and international investment as a 25% cut in corporate tax rates. “Many developing countries are eager to cut taxes to stimulate investment,” added Schiro. “Ironically, these data suggest that, by instituting domestic reforms that reduce opacity, developing countries can obtain a significant boost to foreign direct investment without sacrificing tax revenues.”

Expressing opacity as higher interest rates on sovereign borrowing is equally compelling since countries with less transparent practices generally need to

reward investors by paying them a premium over what the United States (the benchmark in this study) pays. According to the report, a one-point increase in the O-Factor score leads to a 25.5 basis points increase in the interest rate that investors demand in order to purchase new-issue bonds originating in that country. For example, a score of 9% would indicate that countries need to pay an extra 9% on their sovereign debt due to opacity.

“These quantitative data measuring the costs imposed by opacity represent a significant addition to the tools available to government and international policy makers as they seek ways to stimulate economic development,” said Schiro. “At the same time, the Opacity Index will help investors make more informed decisions about where they commit their resources and the return they can expect on their investments. While the Index is objective in its methodology, it clearly points to the benefits of increased transparency for nations, governments, businesses and the public at large.”

Below are the O-Factor scores for the Latin American countries evaluated by this index. The O-Factor is the score of a country based on the survey responses. High numbers indicate a high degree of opacity and low numbers indicate a low degree of opacity. Therefore, the higher the O-Factor, the less transparent the country and the higher the cost to investors.

Country	Opacity Factor	More Opacity
Ecuador	68	
Guatemala	65	
Venezuela	63	
Argentina	61	
Brazil	61	
Colombia	60	
Peru	58	
Uruguay	53	
Mexico	48	
Chile	36	

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Country	Increased Taxes due to Corruption	Higher Taxes
Ecuador	31%	
Guatemala	28%	
Venezuela	27%	
Argentina	25%	
Brazil	25%	
Colombia	25%	
Peru	23%	
Uruguay	19%	
Mexico	15%	
Chile	5%	

Country	Increased cost of borrowing due to corruption	Higher Interest on Sovereign Debt
Ecuador	8.26%	
Guatemala	7.49%	
Venezuela	7.12%	
Brazil	6.45%	
Argentina	6.39%	
Colombia	6.32%	
Peru	5.63%	
Uruguay	4.52%	
Mexico	3.08%	
Chile	3%	

The table above shows the effect of opacity when viewed as if it imposes a hidden tax. For example, the number 31 indicates that opacity in that country is equivalent to levying an additional 31-percent income tax.

The following table indicates the increased cost of borrowing faced by countries due to opacity. On average, countries with more opacity tend to have to pay a higher interest rate on the debt they issue. For example, a score

of 8.26% would indicate that countries need to pay international investors an additional 8.26 percent on their sovereign debt due to opacity.

A summary of the report, as well as a complete version including methodology, supplemental findings and bibliography can be found at www.opacityindex.com.



World Bank Approves Loan to Increase Accountability in Management of Public Funds in Colombia

The World Bank approved on March 22, 2001 a loan worth \$35.47 million to strengthen revenue collection and expenditure management in Colombia's national government. The project supported by the loan will increase transparency and accountability in management of the country's public resources.

"More effective financial management is good news for everyone," said Olivier Lafourcade, World Bank Director for Colombia, Mexico and Venezuela. "Taxpayers, traders and travelers will enjoy simpler tax and customs procedures, while the poor will benefit from the government's ability to raise adequate revenues and ensure that these are well spent." The

\$35.47 million loan will build on the improvements already made by the ongoing Public Financial Management Project. This project, also supported by the Bank with a \$30 million loan, helped the government modernize its tax administration information systems, introduce an integrated financial management system and implement a national system for evaluation of public sector performance.

The new Public Financial Management Project II is aimed at strengthening the organization and management of the Directorate of National Taxes and Customs (*Dirección de Impuestos y Aduanas Nacionales*), and implementing second generation reforms in tax and customs administration.

In addition, the project will improve the government's ability to program and budget public expenditures, ensure that these are spent in a cost-effective and transparent manner, increase the emphasis on achievement of planned targets and improve the system of procurement of goods and services. It will also enhance civil society oversight of the government by enabling the public dissemination of information about performance targets and actual results of different programs, projects and public entities, budgetary expenditures, procurement opportunities and award of contracts for goods and services. For more information on the World Bank's work in the Latin America and Caribbean region, please visit: www.worldbank.org/lac.

IDB Adopts Strategy to Strengthen Efforts to Combat Corruption in the Americas

The Inter-American Development Bank's (IDB) Board of Executive Directors adopted in March 2001 a strategy to strengthen its anti-corruption efforts in all areas of operations. The anti-corruption guidelines contained in this document reflect the "bank's need to address its member countries' rising concern with the limitations to development caused by corruption. They also respond to the Bank's need to periodically adjust its safeguards to prevent the risk of corruption in view of the growth and expansion of the institution." To address these concerns, the anti-corruption strategy outlines a systemic framework to guide the institution's action in combating corruption in a comprehensive fashion, dealing with three separate but closely linked areas:

- a) Ensuring that Bank staff act in accordance with the highest levels of integrity and that the institution's internal policies and procedures are committed to this goal;
- b) Ensuring that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment; and
- c) Supporting programs that will help the borrowing member countries of the Bank strengthen good governance, enforce the rule of law and combat corruption.

For its lending programs to Latin America and the Caribbean, the Bank will expand projects in areas such as civil service reform, support of corporate governance structures, and upgrading of accounting and auditing standards. Increased support will also be emphasized for anti-money laundering programs of the borrowing country members. At the same time, the Bank will continue its ongoing programs in support of modernization of the state, including

justice systems, good governance, strengthening of civil society, and increased competitiveness.

Regarding the institution's internal control environment, the strategy emphasizes the need to upstream preventive controls in Bank projects and to have proper risk assessments so as to strengthen risk controls during the project cycle. "Allegations of corruption should not paralyze the Bank's assistance --the document states-- for then the Bank would be



contributing to worsening the conditions for economic and social development. Instead, any potential concerns will result in a rigorous risk analysis and the establishment of preventive controls in Bank-financed projects. Preventive controls in Bank projects must be up-streamed to the beginning of the project cycle. At the stage of considering potential projects, evidence of corruption may result in a decision not to proceed with an operation or to structure it in such a manner that concerns will be credibly addressed during the project cycle. The basis for project identification will also be made more transparent. A sound judgment on the risks of corruption in connection with the success and the benefits of an operation is to be expected at the initiation of every new program and should follow through to its completion."

With regard to internal administration, the Bank will update its Code of Ethics and take steps to make staff and consultants more familiar with the code. The IDB's anti-corruption strategy specifies that the "Bank's Code of Ethics and Personnel Policies remain the major instruments to delineate the proper conduct of all Bank staff. They are clear and unequivocal in laying out the parameters of behavior in dealing with official responsibilities and in dealing with other staff members in personal conduct. Nevertheless, they should be revised so that they clearly spell out the processes for dealing with any allegations of violating the conduct that is expected of staff and ensuring that due process is protected. It is also essential that a greater effort should be undertaken to ensure that all staff members, including consultants, be aware of the provisions of the Code and of the Policies. In addition, the possible applicability of ethics standards to members of the Board of the Executive Directors shall be analyzed within this context."

In addition to reviewing the Code of Ethics and Personnel Policies, the strategy calls for "management to promptly undertake the task of reviewing the Bank's internal policies and procedures... including the financial interests and conflicts of interest disclosure guidelines, to ensure that they are effective and relevant in delineating norms of proper conduct and in dealing with the risks of fraud and corruption. These policies and procedures should be reissued and made available to all existing Bank staff members. Existing staff (including consultants) in headquarters and in the Country Offices shall be made aware of the contents of these policies and procedures through meetings with each Department or Office to be

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coordinated by the Office of the Vice President for Planning and Administration and including representatives of the Human Resources Department, the Office of the Auditor General, and the Legal Department. With respect to new staff, the Human Resources Department shall coordinate similar information meetings promptly upon staff reporting for work.”

The anti-corruption action plan intends to ensure that procurement related to the Bank’s financing activities is transparent and that the Bank’s rights in the event of fraud or corruption in the procurement process are clearly specified. Current policies and procedures for internal procurement are also addressed by this document which proposes the following: “Management shall review and update the existing policies and procedures, including the current Procurement Manual, so that they serve as effective tools to maintain transparency and accountability in the procurement process. The procedures for preparing technical specifications for internal procurement need to be strengthened. A clear mechanism for companies submitting bids to protest and appeal the procurement procedure or the awarding of a contract should be implemented; the procurement process and the appeals mechanisms will receive broader publicity.”

In relation with private sector participation in the fight against corruption, the Bank’s guidelines acknowledge that “the private sector and civil society also contribute to shape government action and public servants’ behavior. The private sector and civil society can direct their relationship with the public sector in ways that enhance the integrity, efficiency and quality of public action. It is in the interest of the countries that responsible relationships based on integrity exist among all three parties so as to ensure democratic and transparent governance structures. In the activities of the private sector in particular, the Bank will encourage proper corporate governance in the entities that it deals with, including the implementation of codes of conduct. The Bank should continue to support a more proactive intervention on the part of civil society and of the private sector in public affairs and a more efficient alliance in dealing with public issues.”

To monitor the continued anti-corruption activities at the Bank, a committee will be set up consisting of the Executive Vice President, the Vice President for Planning and Administration, the General Counsel and the Auditor General. “At the project implementation level, “the monitoring processes and oversight mechanisms shall continue to be reviewed and adjusted, as necessary, so as to maximize efficiency, integrity and transparency. The Bank’s Country Offices remain a valuable mechanism to ensure proper execution of the Bank’s operations; it is essential that proper policies and guidelines for their monitoring activities exist and that their staffs are trained to assess the potential for fraud and corruption at the design stage and then to detect either during project execution. Guidelines for improved monitor-

ing will be provided and reporting on the efficiency of current control mechanisms will be encouraged. The methodology for carrying out ex-post checks on projects needs to be evaluated and implemented in a consistent manner in all of the Country Offices.”

To obtain the full text of the IDB’s anti-corruption strategy, visit its website at www.iadb.org.



The **Americas' Accountability/ Anti-Corruption Project** has recently initiated Phase III (AAA3). Administered by Casals & Associates and funded by the United States International Development Agency (USAID), it is the first and only regional project of its kind.

Serving USAID Mission Needs

AAA3 is specifically designed to respond to the needs of USAID Missions in strategy and pilot—project design, short-term training and technical assistance and assistance in policy dialogue with host country governments relative to anti-corruption initiatives.

Control Self-Assessment Workshops

AAA3 offers Control-Self Assessment workshops for government units, in which management and employees together analyze organizational strengths and weaknesses. Then, they design strategies for improving performance and enhancing internal managerial controls in order to reduce opportunities for corrupt activities.

ResponDanet

The AAA3 website at www.respondanet.com, provides the most comprehensive library and on-time information related to anti-corruption in the LAC region on the Internet. Breaking anti-corruption news from the region and around the world is available on the site daily. Quarterly *Accountability/ResponDabilidad* electronic newsletters in English and Spanish, keep subscribers current on issues related to accountability, NGO and Civil Society anti-corruption activities, international donor activities and more.

Regional Coordination

AAA3 continues to serve as Secretariat to the Donor Consultative Group on Accountability/Anti-Corruption in Latin America and the Caribbean (DCG), which regularly brings together representatives of 6 bilateral and 14 multilateral donor agencies to coordinate anti-corruption programs.

Engaging Civil Society

Anti-Corruption Without Borders provides a regional webpage for and about NGOs. Through the webpages, NGOs can publish announcements and summaries of their events, periodic reports of their activities and other documents about their anti-corruption efforts. NGOs that have e-mail are members of the ACSF listserv.

For more information contact: Jim Wesberry , Project Director by E-Mail: jimwes@casals.com or by phone: (703) 920-1234

Treasury Guidelines Seek to Deter Foreign Officials from Hiding Illicit Funds in the US

The US Treasury Department announced on January 16, 2001 the issuance of voluntary guidelines for US financial institutions aimed at preventing corrupt foreign political leaders from sheltering their money in US accounts. The new guidelines are a result of an interagency working group headed by Stuart E. Eizenstat, then Deputy Treasury secretary. In addition to the Treasury Department, the working group included the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Department of State.

The guidance, issued in furtherance of the U.S. National Money Laundering Strategy, encourages domestic financial institutions to apply enhanced scrutiny to their private banking and similar high dollar-value accounts and transactions where such accounts or transactions may involve the proceeds of corruption by senior foreign political figures, their immediate family or close associates. For purposes of this Guidance, the persons subject to its regulations, known as the “covered persons,” are those “identified in the course of normal account opening, maintenance or compliance procedures to be a ‘senior foreign political figure,’ any member of a senior foreign political figure’s ‘immediate family’ and any ‘close associate’ of a senior foreign political figure. It is then specified in this document that “a ‘senior foreign political figure’ is a senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned corporation. In addition, a ‘senior foreign political figure’ includes any corporation, business or other entity that has been formed by, or for the benefit of, a senior foreign political figure.”

The guidance provides a set of suggested account establishment and maintenance procedures designed to help institutions obtain appropriate information on accounts held by such persons, as well as a list of potentially suspicious transactions that will often warrant enhanced scrutiny, like large, irregular wire transfers and dealings with secretive financial havens. Financial institutions are told to notify the authorities when suspicious activities occur. US officials say the guidelines follow the model of those developed in Switzerland. Swiss and British authorities, for example, acted swiftly in 2000 to determine that the Nigerian dictator Sani Abacha, who died in 1998, had harbored billions of dollars in their banks. Short of a full criminal investigation, however, United States authorities had no way to track whether money connected to him had made its way into the American financial system.



The initiative follows nearly a year of negotiations with US bankers and federal regulators. The guidelines are part of an aggressive Treasury campaign to crack down on money laundering in the US and abroad. The effort was spurred by revelations in 1999 that Russian criminals with links to the government has used accounts in the Bank of New York to launder about seven billion dollars. The voluntary guidelines could become mandatory for a financial institution if investigators found that it had helped launder corrupt wealth while ignoring the guidelines.

According to the Treasury’s Guidance, financial institutions are encouraged to employ the following practices when establishing and maintaining a business relationship with a Covered Person:

Ascertain the Identity of the Account Holder and the Account’s Beneficial Owner

- If, in the course of normal account opening, maintenance or compliance procedures with regard to private banking or other applicable accounts, a financial institution learns of information indicating that the beneficial owner of the account may be a Covered Person, the institution should undertake reasonable efforts to determine whether, in fact, a Covered Person holds or will hold a beneficial interest in the account. If, after making a reasonable effort to make this determination, substantial doubt persists as to whether a Covered Person holds a beneficial interest in the account, the financial institution may wish not to open the account if the institution is unable to determine the capacity in which, and on whose behalf, the proposed account-holder is acting.
- If a financial institution is requested to open an account for a Covered Person who comes from a “secrecy jurisdiction,” the financial institution should require the Covered Person to provide the information that the institution typically collects to identify the client and his/her source of funds or wealth at the outset of the relationship and to waive any secrecy protections provided by local law so that the institution is able to obtain the information that the institution typically collects when opening an account for a United States resident. For the purposes of this Guidance, a secrecy jurisdiction is a country or territory that, among other things, does not participate in international counter-money laundering information sharing arrangements or, either by law or practice, permits account holders to forbid financial institutions from cooperating with international efforts to obtain account information as part of an official investigation.

- Each financial institution should undertake reasonable efforts to determine whether a legitimate reason exists for any request by a Covered Person to associate any form of secrecy with an account, such as titling the account in the name of another person (which could include a family member), personal investment company, trust, shell corporation or other such entity.

Obtain Adequate Documentation Regarding the Covered Person

- Concurrent with establishing a business relationship with a Covered Person, the financial institution should obtain from the Person (or others working on his or her behalf) documentation adequate to identify the Covered Person. Concurrent with establishing a business relationship with a Covered Person, the financial institution should take reasonable steps to assess the Covered Person's business reputation.

Understand the Covered Person's Anticipated Account Activity

- Concurrent with establishing an account for a Covered Person, the financial institution should document the purpose for opening the account and the anticipated account activity. The institution should take reasonable steps to determine whether the Covered Person has any legitimate business or investment activity in the United States that would make having an account in the United States a natural occurrence.

Determine the Covered Person's Source of Wealth and Funds

- Each financial institution asked to establish an account for a Covered Person should undertake reasonable efforts to determine the source of the Covered Person's wealth, including the economic activities that generated the Covered Person's wealth and the source of the particular funds involved in establishing the relationship. Among other things, the institution should take reasonable steps to determine the official salary and compensation of the Covered Persons as well as the individual's known legitimate sources of wealth apart from his or her official position.

Apply Additional Oversight to the Covered Person's Account

- The decision to accept or reject establishing an account for a Covered Person should directly involve a more senior level of management than is typically involved in decisions regarding account opening.
- All material decisions taken in the course of establishing an account for a Covered Person should be recorded.
- An institution that has determined, in the course of its normal account opening, maintenance or compliance procedures, that it has established a business relationship with a Covered Person should undertake an annual review (or more frequently as events dictate) of

each such Covered Person's account to determine whether to continue doing that business, including consideration of pertinent account activity and documentation.

In addition, financial institutions are asked to pay particular attention to:

- A request by a Covered Person to establish a relationship with, or route a transaction through, a financial institution that is unaccustomed to doing business with foreign persons and that has not sought out business of that type;
- A request by a Covered Person to associate any form of secrecy with a transaction, such as booking the transaction in the name of another person or a business entity whose beneficial owner is not disclosed or readily apparent;
- The routing of transactions involving a Covered Person into or through a secrecy jurisdiction or through jurisdictions or financial institutions that have inadequate customer identification practices and/or allow third parties to carry out transactions on behalf of others without identifying themselves to the institution;
- The routing of transactions involving a Covered Person through several jurisdictions and/or financial institutions prior to or following entry into an institution in the United States without any apparent purpose other than to disguise the nature, source, ownership or control of the funds;
- The deposit or withdrawal from a Covered Person's account of multiple monetary instruments just below the reporting threshold on or around the same day, particularly if the instruments are sequentially numbered;
- High-value deposits or withdrawals, particularly irregular ones, not commensurate with the type of account or what is known and documented regarding the legitimate wealth or business of the Covered Person;
- A pattern that after a deposit or wire transfer is received by a Covered Person's account, the funds are shortly thereafter wired in the same amount to another financial institution, especially if the transfer is to an account at an offshore financial institution or one in a "secrecy jurisdiction;"
- The frequent minimal balance or zeroing out of an account of a Covered Person for purposes other than maximizing the value of the funds held in the account (e.g., by placing the funds in an overnight investment and having the funds then return to the account).

Treasury Secretary Lawrence H. Summers said, "Foreign official corruption undermines U.S. efforts to promote democratic institutions and economic development around the world. This guidance will help keep U.S. financial institutions from providing unintended assistance to corrupt foreign officials seeking to hide their ill-gotten gains."

To obtain a full text version of the "U.S. Guidance on Enhanced Scrutiny for Transactions that may Involve the Proceeds of Foreign Official Corruption," visit the U.S. Treasury Department's website at www.treas.gov/press/releases/guidance.htm.

PUBLICATIONS



A Culture of Corruption? Coping with Government in Post-Communist Europe **Edited by W. Miller, A. Grødeland and T. Koshechkina**

There is wide agreement that democracy should provide citizens with more than a small share of influence over central government. Based upon a plethora of surveys and in-depth interviews with government officials and citizens, this book focuses on issues such as bribery, corruption, inefficiency and freedom of information, in Ukraine, Bulgaria, Slovakia and the Czech Republic. A major strength of *A Culture of Corruption* is that the authors go beyond analyzing public perceptions and behavior and look at public attitudes towards proposals for reform. The authors reveal how the problem of citizens' interactions with officials varies in kind as well as in degree across the countries of Central and Eastern Europe. *A Culture of Corruption* provides the a comprehensive account of how citizens cope with state officials in post-communist Europe, how they feel about their dealings with them and what support they give to proposals for reform.

For more information contact the Central European University Press at www.ceupress.com. 400 West 59th Street, New York, NY 10019 USA. Tel: (212) 547 6932, Fax: (212) 548 4607. E-mail: mgreenwald@sorosny.org.

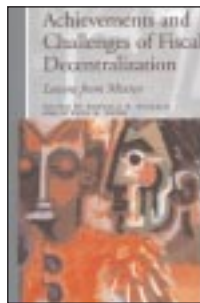


Combating Corruption in Latin America **Joseph S. Tulchin, Editor**

Corruption persists as a challenge to consolidation of Latin American democracies and to their economic development. Contrary to many expectations, policies to reduce the size of government, such as the privatization of state firms, have not proved a cure against corruption.

This book examines the relationship between democratic and market reforms and corruption, including national strategies for its reduction. Authors from across the region, the United States and Europe, discuss the nature, methods, an historical antecedents of today's corrupt practices, including issues of institutional design, the role of international actors, and culture. *Combating Corruption in Latin America* raises many questions. Does the transition to democracy and free markets increase or reduce opportunities and incentives for corruption? What policy responses are in effect at the local, national, and international levels? How is a growing business culture across Latin America likely to influence efforts for improved government transparency and efficiency?

For more information contact the Latin American Program at the Woodrow Wilson International Center for Scholars at <http://wwics.si.edu>. One Woodrow Wilson Plaza, 1300 Pennsylvania Avenue, Washington, D.C. 20004. Tel: (202) 691-4030, Fax: (202) 691-4001. E-mail: lap@wwic.si.edu.



Achievements and Challenges of Fiscal Decentralization: Lessons from Mexico **S. Webb and M. Giugale, Editors**

The three forces of democratization, decentralization, and development have swept the world over the last decade and redrawn the maps of politics, power, and prosperity. Modern Mexico has been fully engaged in the trio, making it a rich case study. In recent years, enhanced political competition has redistributed decision-making across all levels of government, making the government more accountable to the average citizen. This book is the product of the analytical work of a large number of experts, Mexican and foreign. In the book, the experts document Mexico's decentralization experience; conceptualize its main trends, policies, and options; and bring it into the light of international comparison. They distill critical lessons and challenges that are of relevance for Mexico, for Latin America and, generally, for countries that are embarking on far reaching decentralization efforts. This renders the volume a major contribution to our knowledge and thinking in this area; and a timely one, since decentralization is an irreversible process that is likely to continue occupying policymakers for years to come.

For more information contact the World Bank's Bookstores at www.worldbank.org/html/extpb/index.htm, The World Bank, P.O. Box 960, Herndon, VA 20172-0960, USA. Tel: 1-800-645-7247 or 703-661-1580; Fax 703-661-1501. E-mail: books@worldbank.org.



Going Public-Leadership For Transparent Government **Canadian Comprehensive Auditing Foundation (CCAF)**

This publication puts a spotlight on an aspect of public performance reporting that, while frequently acknowledged, has been little addressed — its human dimensions. It is based on the insights gained in interviews with over thirty leaders from across Canada. *Going Public-Leadership for Transparent Government* is a first step in the exploration of three issues: —What human factors most influence public performance reporting requirements and behaviors? What is reasonable to expect in relation to these factors? How can these factors be best managed to further better public performance reporting? To help foster discussion and advancement on the issues raised in the report it also includes a self-assessment check-list to help start and provide direction for constructive discussion on these issues.

To obtain the full text of this report, visit the CCAF website at www.ccaf-fcvi.com/english/going_public_entry.html. CCAF-FCVI Inc. The Carriageway, 55 Murray, Suite 210, Ottawa, ON, Canada K1N 5M3. Tel: (613) 241-6713, Fax: (613) 241-6900, E-mail: info@ccaf-fcvi.com.

UPCOMING EVENTS

April 22 - May 19, 2001

International Financial Fraud Training (IFFT) Seminar

Glynco, GA, USA
Contact: Office of the Overseas Operations and Tax
Administration Advisory Services - IRS
Tel: (202) 874-1350
Fax: (202) 874) 1838
E-mail: TAAS@irs.gov
www.irs.gov/tax_edu/taas/index.html

May 6 - 9, 2001

2001 Economic Crime Summit

Los Angeles, CA, USA
Contact: National White Collar Crime Center and the National
Coalition for the Prevention of Economic Crime
Tel. (877) 693-2874, ext. 245.
Fax: (304) 291-2282
E-mail: tchapman@nw3c.org
www.summit.nw3c.org/default.htm

May 27 - 30, 2001

Corruption: A Threat to the World Order

Szczytno, Poland
Contact: International Police Executive Symposium - Dilip K.
Pas, President
Tel: (518) 564-3045 (USA)
Fax: (518) 564-3333 (USA)
E-mail: dilip.das@plattsburgh.edu

May 28 - 31, 2001

Global Forum on Fighting Corruption II (by invitation only)

The Hague, Netherlands
Contact: Dutch Department of Justice
www.gfcorruption.org/index1.htm

June 3 - 6, 2001

Government Finance Officers Association 95th Annual Conference

“Ringing in the Digital Revolution”
Philadelphia, PA, USA
Contact: Government Finance Officers Association
Tel: (312) 977-9700
Fax: (312) 977-4806
E-mail: Conference@gfoa.org
www.gfoa.org

June 24 - 27, 2001

International Conference 2001 of the Institute of Internal Auditors

“An Auditor’s Odyssey--Globalization and Diversity”
Buenos Aires, Argentina
Contact: Institute of Internal Auditors
E-mail: ba2001@iaia.org.ar
www.iaia.org.ar/ba2001.htm

June 28 - 29, 2001

Seventh Annual International Symposium on Audit Research Singapore

Contact Information: Centre for Accounting and Auditing
Research (CAAR) of the Nanyang Technological University
Tel: (65) 7904819
Fax: (65) 7937956
E-mail: amytang@ntu.edu.sg
<http://isar2001.bizcal.com/>

July 22 - 24, 2001

International Forum on State and Local Government Accounting and Reporting (IFSALGAR)

Langkawi Island, Malaysia

Contact: Institute for State and Local Governments Accounting
Research / School of Accountancy, University Utara Malaysia
Tel: +604 928 5247/ 5737
Fax: +604 928 5762
E-mail: ifsalgar@webmail.uum.edu.my
www.spk.uum.edu.my/ifsalgar/

August 5 - 10, 2001

12th Annual Fraud Conference and Trade Show of the Association of Certified Fraud Examiners

Orlando, FL, USA
Contact information: Association of Certified Fraud Examiners
Tel: (800) 245-3321, (512) 478-9070
E-mail: info@cfenet.com
www.cfenet.com

October 7 - 11, 2001

10th International Anti-Corruption Conference

“Together against Corruption: Designing Strategies, Assessing
Impact, Reforming Corrupt Institutions”
Prague, Czech Republic
Contact: Transparency International - Czech Republic
Tel: + 42-2-21617137-9
Fax: + 42-2-2314284
E-mail: info@10iacc.org
www.10iacc.org

Oct. 29 - 30, 2001

State & Local Government Leadership Conference

Phoenix, AZ, USA
Contact Information: Association of Government Accountants
Tel: (800) AGA-7211
Fax: (703) 548-9367
www.agacfm.org/conferences/index.htm

November 5 - 9, 2001

VI International Congress of CLAD on State and Public Administration Reform

Buenos Aires, Argentina
Contact: Latin American Centre for Development Administration
Tel: (582) 9924064 / 9925953/ 9922395 / 9937277
Fax: (582) 9918427
E-mail: clad@clad.org.ve; clad@reacciun.ve
www.clad.org.ve/congres6.html

November 18 - 22, 2001

XXIV Inter-American Accounting Conference

“New Horizons for the Accounting Profession”
Punta del Este, Uruguay
Contact: Adriana Lema
Tel: (598-2) 903-1000
Fax: (598-2) 902-6639
E-mail: uruguay2001@ccea.com.uy
www.ccea.com.uy/conferencia2/index.html

June 23 - 26, 2002

61st International Conference of the Institute of Internal Auditors

Washington, DC, USA
Contact: Institute of Internal Auditors
www.theiia.org

Information on upcoming events that relate to accountability,
financial management or anti-corruption should be sent to
eflores@casals.com or by fax to (703) 920-5750, attention:
Eduardo Flores.



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