

Positive Impacts of Anticorruption Programs on Trade and Investment

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Public sector corruption targeting business impedes economic growth and promotes an informal economy. Longstanding cultures of corruption dissuade domestic and international investors from starting or expanding businesses and conducting trade deals. On the other hand, reforms that standardize and streamline government-business transactions, reduce face-to-face contacts, embed checks and balances, increase transparency, and deploy e-governance tools can open many new opportunities for lucrative trading relationships.

Recently, Management Systems International conducted an analysis of over 300 USAID-sponsored projects worldwide between 2007 and 2013 that included significant anticorruption components.¹ Of those, 43 projects were in the Economic Growth sector and, of those, 21 projects dealt with trade and investment facilitation. These trade and investment projects typically conducted anticorruption interventions that simplified regulatory burdens, streamlined procedures, reduced face-to-face contact with bureaucrats, and automated permitting and approvals.

Effective Results Across Many Projects

While reducing corruption and the opportunities for corruption, these interventions also enhanced the enabling environment for domestic and foreign trade and investment. As demonstrated in the



table below, of the 11 projects that were completed by the time of this research, 10 of the 11 showed positive gains in the Trade Freedom Index between the start and finish of the project. This suggests an improved context for trade and investment that can, in part, be attributable to the anticorruption project.

¹ Management Systems International (2014) Analysis of USAID Anticorruption Programming Worldwide (2007-2013). Washington, DC: USAID, online at: http://pdf.usaid.gov/pdf_docs/pa00k4k6.pdf

| USAID Project | | Change in Trade Freedom |
|--------------------|---|-------------------------|
| Jordan | Customs Administration Modernization Program | +4.6 |
| Georgia | Business Climate Reform | +23.9 |
| Mongolia | Economic Policy Reform and Competitiveness | +4.8 |
| Egypt | Technical Assistance for Policy Reform II | +15.8 |
| Guyana | Threshold Country Plan/Implementation Program | +5.5 |
| Philippines | Economic Modernization through Efficient Reforms and Governance Enhancement | +1.6 |
| Ukraine | Trade, Investment and Business Acceleration | +5.4 |
| Moldova | Rapid Governance Support Program | -0.9 |
| Zambia | Threshold Program | +13.7 |
| Vietnam | Support for Trade Acceleration II | +11.3 |
| Paraguay | Threshold Program Focus Area II: Formalization of Economic Activities | +9.0 |

A variety of approaches and techniques were employed across these programs to reduce the opportunities for corruption. Three categories of tools were very popular and applied by several projects. Some approaches, such as simplified and streamlined business-government operations through one-stop shops (OSS) and e-technologies, are typically attractive to both governments and businesses as they improve efficiency and reduce costs. Another frequently used tool – simplifying and reducing regulatory burdens on the private sector - involves regulatory impact assessments (to evaluate draft and current laws

and regulations against agreed-upon criteria) and using a regulatory guillotine (to eliminate unnecessary and overlapping regulations). For example,

- In **Egypt**,² OSSs for customs procedures were established -- Modern Customs Centers and integrated Logistics Centers – that streamlined customs procedures and resulted in reduced time for export operations from 27 to 12 days and import from 30 to 13 days.
- In **Jordan**,³ a web-based single-window facility was established for customs processing. It

2 Egypt Technical Assistance for Policy Reform II (2005-2010), Final Report, 2010: http://pdf.usaid.gov/pdf_docs/PDACQ924.pdf

3 Jordan Customs Administration Modernization Program (2007-2009), Final Report, 2009: http://pdf.usaid.gov/pdf_docs/PNADT538.pdf

facilitates the exchange of data among government agencies to reduce processing times for all import, export and transit procedures and makes customs operations more cost-effective, while reducing delays and costs to importers. Expanded in 2011, the single-window facility covers 95% of all imports into the country and was enhanced by the Automated System for Customs Data that allows exchange of data among government agencies and reduces the customs clearance time by 90%.

More Positive Results: Mini-Cases in Georgia, Vietnam and Zambia

1. Georgia: The **Georgia Business Climate Reform (GBCR)** project began in the midst of unprecedented sweeping government reforms and economic liberalization.⁴ The project was an important element in a massive chain of assistance programs provided to Georgia by the USG and other donors to support ambitious reforms. By 2006, the country had already achieved notable results in improving the business environment and reducing corruption. For example, the cost of business start-up procedures had already dropped from 22.9% of income per capita in 2002 to 10.9% in 2005, the number of registered businesses almost doubled, and property registration was radically simplified and the cost reduced. The Heritage Foundation's economic freedom score also improved from 58.9 in 2003 to 73.9 in 2005 and business freedom score went up from

55.0 to 73.9. Just within two years since reforms started, the country improved its Transparency International Corruption Perception Index (TI CPI) score from 20 in 2004 to 28 in 2006 and the World Bank Corruption Control index improved from -0.6 to 0 during the same two years.

For the customs department, the project provided assistance in developing simplified regulations, standards and procedures for obtaining customs permits, establishing a one-stop shop for customs permitting, implementing risk management systems and procedures, and improving the appeals process. In part, as a result of these activities, Georgia realized an increase in foreign trade by 92% and in foreign direct investment from 7% of gross domestic product in 2005 to 12% in 2008.

2. Vietnam: Motivated by the prospects of joining the WTO and incentivized by the US-Vietnam bilateral trade agreement (BTA) signed in 2000, the Government of **Vietnam** closely cooperated with the **Support for Trade Acceleration (STAR) Project**,⁵ conducted in two phases between 2001 and 2010. Other donors were also active in supporting the country's agenda towards advancing international trade, including the EU. Vietnam's commitment to reform and responsiveness to foreign assistance programs led to its accession to the WTO in 2007, an increase in exports to the US from US\$1.1 billion in 2001 to US\$8.6 billion in 2006, and an increase in US exports to Vietnam from US\$460 million to US\$1.1 billion over this

⁴ Georgia Business Climate Reform Project, Final Report, 2009: http://pdf.usaid.gov/pdf_docs/PDACN591.pdf

⁵ Vietnam Support for Trade Acceleration II (STAR II) program (2006-2010), Final Report, 2010: <https://sites.google.com/a/usaid.gov/drg/home/about-1/drg-center-teams/governance-and-rule-of-law/anticorruptionmapping>

same period. Between 2006 and 2010, the project contributed to Vietnam's growing trade and investment, with exports to the US growing by 74% and US exports to Vietnam growing by 237%. The US is now one of the largest sources of imports to Vietnam.

The project pursued the goal of promoting Vietnam's international trade by improving its legal and regulatory regime, harmonizing tariff systems and streamlining customs procedures to meet BTA/WTO commitments, reducing barriers to trade and moving the Vietnamese regulatory system to international standards, and introducing rules and building capacity related to legislative transparency and dispute resolution.

Reforms implemented in Vietnam are reflected in some very positive global ratings and indicators. The country improved its Economic Freedom rating from 50.5 in 2006 to 51.6 in 2011. Also, the World Bank Control of Corruption score improved notably from -0.74 to -0.59, and the TI CPI score improved slightly from 2.6 to 2.9.

3. Zambia: The Government of Zambia implemented significant economic reforms in the early 2000s to improve its investment climate and attract foreign investors. The country's economy was steadily growing annually at an impressive 6% of GDP. The impact of these progressive policies and economic growth, however, was undermined by widespread corruption, despite a proclaimed anticorruption agenda by the highest levels in Zambia's leadership. The two-year US\$22.7M

Zambia Threshold Program (ZTP) (2006-2008)⁶ pursued several objectives to increase investment and boost trade.

In particular, the project facilitated the creation of a Border Management Task Force of key governmental agencies involved in border transactions, built the capacity of these institutions, helped to improve operations to reduce processing time and operating costs, and eliminated integrity breaches. ZTP assisted in creating a Comprehensive Integrated Tariff System that provides all tax and customs rates and information on regulations and procedures of other border agencies in a single database, accessible through the web. It also introduced a risk management approach for shipment inspection practices and created an automated system - Automated System for Customs Data (ASYCUDA) - for border agencies to share information systematically and efficiently. The program worked with other agencies involved in border crossing, among them the Zambia Bureau of Standards and the Plant Quarantine and Phytosanitary Service, streamlining their operations to be more efficient.

The program succeeded in significantly reduced processing time for business registration and VAT registration, improved access to business registration services for companies outside of Lusaka, increased efficiency of bond repayment for trans-shipment of goods through the centralization of ASYCUDA, piloted a risk-based Accredited Customs Client Program per World

6 Zambia Threshold Program (ZTP) (2006-2008), Final Report, 2008: http://pdf.usaid.gov/pdf_docs/PDACL989.pdf

Customs Organization guidelines that reduced processing time at the border for enrolled clients, and improved perceptions of corruption at Immigration.

The project reported reaching and exceeding its major targets: the number of days to start a business dropped from 35 to 8 days, to register property - from 70 to 34 days, to export - from 53 to 13, and to import – from 64 to 30. The project also indicated reductions in bribery at customs from 15% to 7% and increases in satisfaction with business registration of service delivery from 41% to 60%.

Lessons Learned

- Anticorruption projects that are targeted at reducing opportunities for fraud and abuse can also have very positive impacts on trade facilitation. USAID projects that have taken into account the political-economic context, the political will of local stakeholders, and the particular trade procedures that are most risky, have had very positive results.
- Donor-supported anticorruption programs typically generate a business-friendlier environment – certainly for domestic business – but also for foreign investors who will quickly take advantage of the improved situation and establish lucrative trade relationships.

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