

## **Annex 1: Agenda for Workshop in Rumbek**

Sponsored by the U.S. Agency for International Development

### **Efficiency and Integrity in Government**

Southern Sudan, May 3-4, 2004

The achievement of economic, political, and social objectives is enhanced by improving the rule of law, efficiently providing basic public services, and preventing corruption. But how does one build a good government from the ground up? What are the priorities for New Sudan?

This workshop invites leaders from Southern Sudan to consider these questions together. Participants will work through case studies of reforms in difficult settings such as Bolivia and the Philippines. The point is not to copy other countries but for participants to draw lessons relevant to the Southern Sudan's unique situation.

The workshop enables participants to think broadly and creatively about promoting good government in the New Sudan. The workshop is intended to foster sharing and creativity. As the conclusion to this collaborative process, participants will design a tentative action plan to promote efficiency and integrity in government.

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The workshop's facilitator is Prof. Robert Klitgaard, Dean of the Pardee RAND Graduate School in Santa Monica, California, and author of such books as *Controlling Corruption* and *Adjusting to Reality: Beyond "State vs. Market" in Economic Development*.

A resource person is Thomas Epley, a well-known American business leader who has successfully "turned around" a dozen corporations. Along with Mr. Epley, Cheryl Anderson of USAID will help to facilitate small group discussions.

## ***Outline of the Workshop***

### **Monday, May 3**

The workshop will be held at African Expedition (Afex) in Rumbek, Southern Sudan. Because some participants will be arriving this morning, the workshop will start at 10:00.

10:00 Introduction of participants and overview of the workshop.

10:30 Case Study I. "Rebuilding Public Institutions: A Case from Bolivia"

10:30-10:45 Participants are presented with the challenges faced by La Paz, Bolivia, which had to rebuild a government after a time of economic collapse and political upheaval.

10:45-11:30 In breakout groups of about eight people, participants discuss the problems, identify key issues, and propose strategic initiatives. At each table one of the participants will be asked to facilitate the discussion, meaning primarily that he or she keeps the discussion moving forward and ensures that everyone has a chance to speak. A second person will be the reporter. He or she will be asked to give a 5-minute summary of the group's findings.

11:30-12:00 After 45 minutes, each group reports back on their deliberations (5 minutes each group).

12:00-12:30 Then the actual strategy chosen by the mayor is presented—a success story—including various devices to improve incentives, involve citizens, and prevent corruption. Then participants discuss the possible lessons for Southern Sudan.

12:30 Lunch

1:30 "Getting Started," a presentation by Prof. Klitgaard

For the New Sudan to succeed, it must prevent corruption. The fact is that corruption cripples pro-poor development. Virtually every country that has persisted in poverty is a country that has suffered from deep corruption. The good news is that corruption can be prevented and controlled, if never eliminated completely. Examples are presented, along with the outlines of a framework for preventing corruption.

2:30 Break for cold drinks.

3:00 Case Study II. "Building Good Governance: A Case from the

Philippines.”

3:00-3:15. Participants are presented with another difficult problem where governance had to be rebuilt from the bottom.

3:15-4:00. Breakout groups of about 8 participants again meet to diagnose the situation and analyze alternatives. Two different people will serve as discussion facilitator and reporter.

4:00-4:15 Quick break for cold drinks

4:15-4:45 Then the groups report their results in a plenary session.

4:45-5:30 Next, participants consider the second and third parts of the case, which describe the actual strategy followed and its results. Discussion then focuses on the lessons that can be applied to the Southern Sudan.

5:30 Adjourn

6:30 Dinner.

#### **Tuesday, May 4**

9:00 “Addressing Major Risks of Corruption,” a presentation by Prof. Klitgaard

In other countries, corruption has found ways to infect such areas as petroleum receipts, infrastructure programs such as road building, credit systems, and revenue raising. Fortunately, in each of these areas there are examples of successful prevention and reform. This talk presents examples with some linking principles.

10:00 “Southern Sudan’s Great Success”

10:00-10:15 Participants consider the first page of an imaginary news story written in 2007. The story describes Southern Sudan as one of the world’s great development turnarounds.

10:15-11:00 Participants will again divide into groups of about eight. Two people who have not already been a discussion facilitator or a reporter will serve those roles for this exercise. The work will then take place in three parts. First, each individual will spend ten minutes outlining a scenario of how Southern Sudan might get from now to that success story in 2007. Second, each person will share his or her scenario with others at his or her table. Third, each table will then come up with a scenario and share it with the entire group.

11:00 Break for cold drinks

11:15 Scenarios for Southern Sudan's Great Success

Each table will report on its scenario for how the New Sudan will get from "now" to "then." This will be followed by a discussion of where the scenarios seem to agree.

12:00 Lunch

1:00 What Should the New Government Do in the First Year?

In the first year, what should the government of Southern Sudan do to make the scenario of success more likely? Each table of eight participants will have 45 minutes to come up with recommendations. Then, each table will share its recommendations, and the group as a whole will discuss them.

1:15 Break for cold drinks

1:30 "Action Plan for Efficiency and Integrity in Government," part 1

What specifically should the participants do now to improve the chances for success? Again participants will work in groups of about eight. Each group's exact tasks for this exercise will depend on the results of the previous exercises. After about an hour of work, each group shares with all participants its ideas for an action plan. Then there is a coffee break.

3:00 Break for cold drinks

3:15 "Action Plan for Efficiency and Integrity in Government," part 2

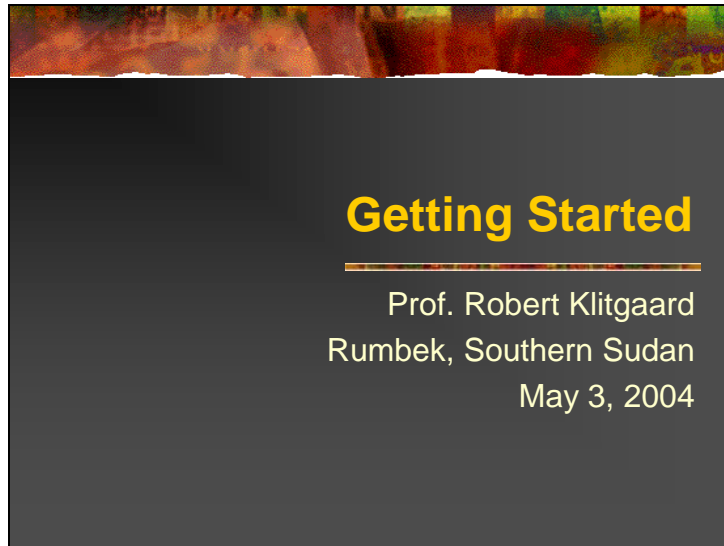
Based on the ideas of each group, now the participants as a whole define specific actions that they propose for the near future.

5:00 Adjourn

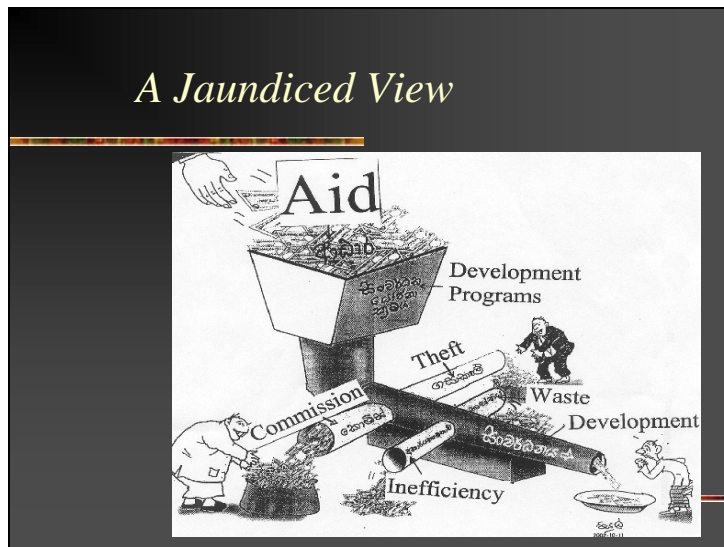
5:30 Reception

## Annex 2: “Getting Started”

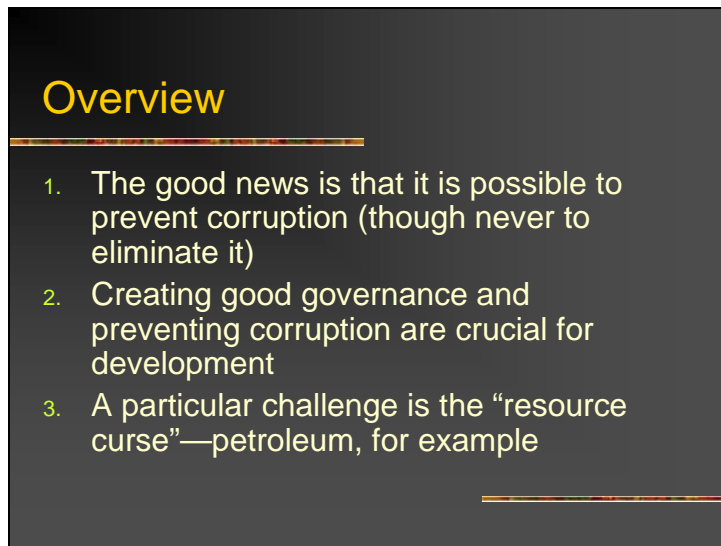
Slide 1



Slide 2



## Slide 3

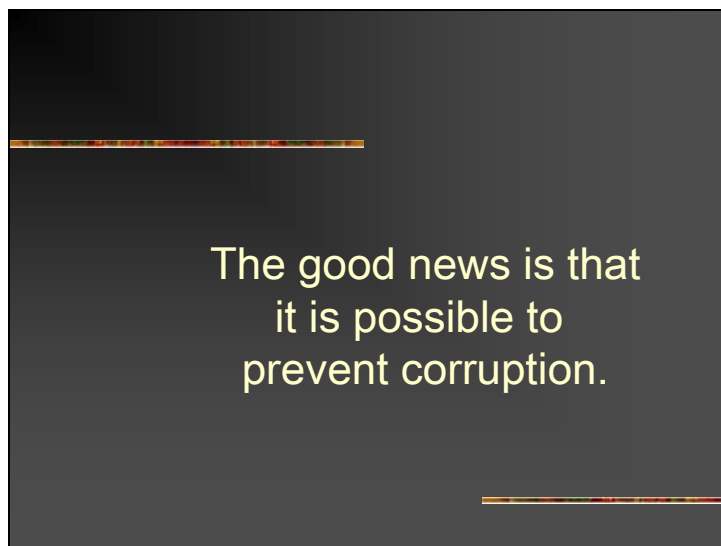


Overview

1. The good news is that it is possible to prevent corruption (though never to eliminate it)
2. Creating good governance and preventing corruption are crucial for development
3. A particular challenge is the “resource curse”—petroleum, for example

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## Slide 4



The good news is that  
it is possible to  
prevent corruption.

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## Slide 5

### Definitions of Corruption

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- The word is related to “spoiling”
  - Historically, a judge’s selling a decision
  - More generally, the misuse of office for private gain
  - The danger of spending too much time on definitions
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## Slide 6

### Types of Corruption

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- External
    - For a service that is legal (extortion, speed money)
    - For an illegal service (bribery, kickbacks)
  - Internal
    - Theft, embezzlement, nepotism
-

## Slide 7

### Types of Corrupt Regimes

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- Types of corrupt regimes
    - Zaire
    - Philippines
    - Republic of Korea
  - How extensive, how much does it distort, and where does the money go
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## Slide 8

### What Are the Costs?

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- Why we are so aware of corruption now
  - Economic costs (distorted incentives)
  - Social costs (inequity and injustice)
  - Political costs (undermines popular rule)
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Slide 9

## Four Excuses for Not Preventing Corruption

- “Who is to say what is corruption? It depends on the culture.”
- “There is corruption in every country, and throughout history. So, don't bother.”
- “What can you do if the people on top are corrupt?”
- “You cannot reduce corruption, especially in Africa.”

Slide 10

## Can Corruption Be Reduced?

- It can be done, but not once and for all
- The beginning is to understand the systems that breed corruption
- Corruption = Monopoly + Discretion - Transparency

$$C = M + D - T$$

Slide 11

## Using $C = M + D - T$

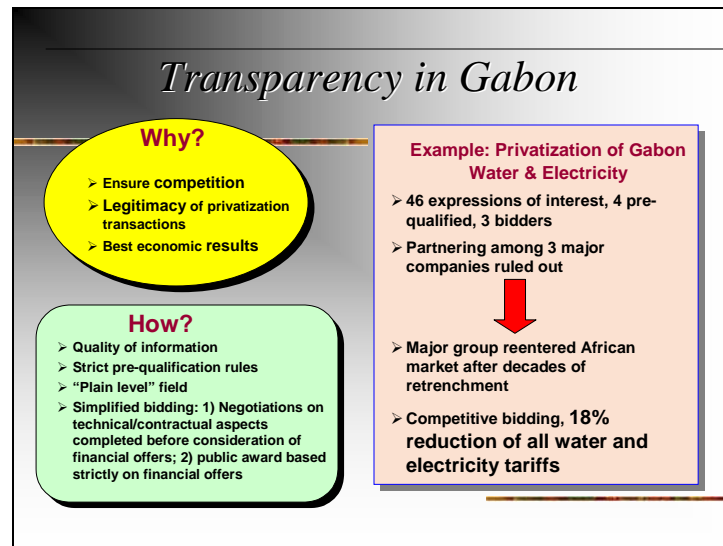
- “A tighter set of controls and regulations”?
- “A code of conduct”?
- “Raise civil service pay”?
- “Privatize”?
- “Reform the economy and have more democracy”?
- “Bring in foreign businesses”?

Slide 12

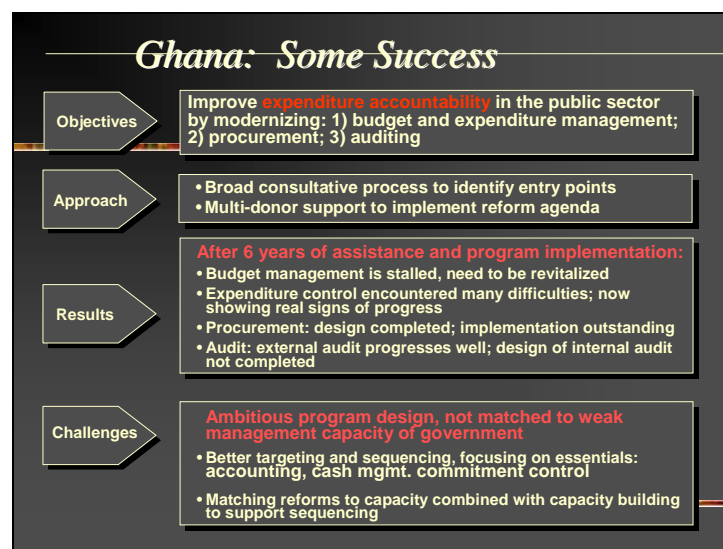
## Mozambique 1996

- Corruption emerges and constrains reforms
- National workshop
- Focus on three areas:
  - Revenue raising (especially customs bureau)
  - Corruption in health and medicine
  - Corruption in education
- $C = M + D - T$

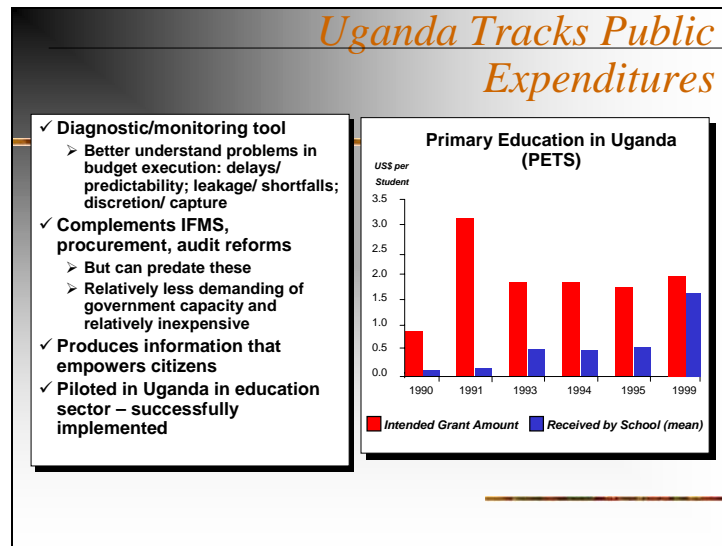
## Slide 13



## Slide 14



Slide 15



Slide 16

Creating good governance  
and  
preventing corruption  
are  
crucial for development.

## Slide 17

### Good Governance and Corruption

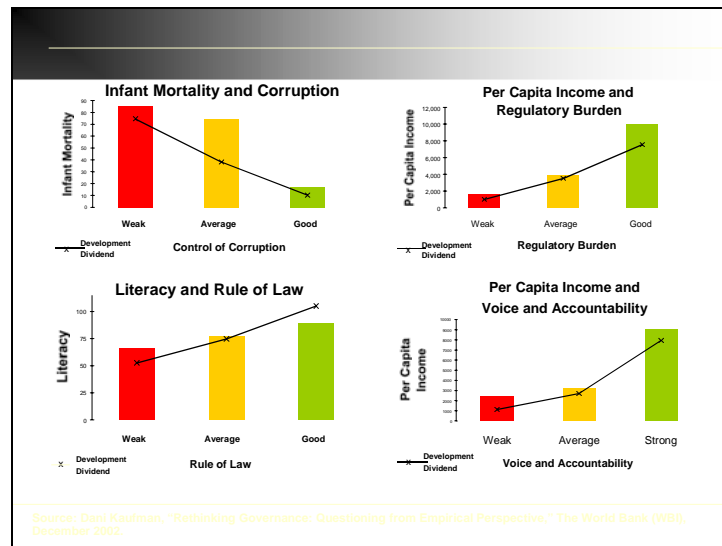
- National measures of governance are “highly correlated” across all countries
  - Except political stability
- Nonetheless, it is worthwhile separating two dimensions of governance:
  - Democracy, rights
  - Absence of corruption, efficient government

## Slide 18

### Investment and Growth

- Countries differ
- Countries with poor governance have
  - Less investment, other things equal
  - Less benefit from each dollar of investment.
- Who loses the most? The poor.

## Slide 19



## Slide 20

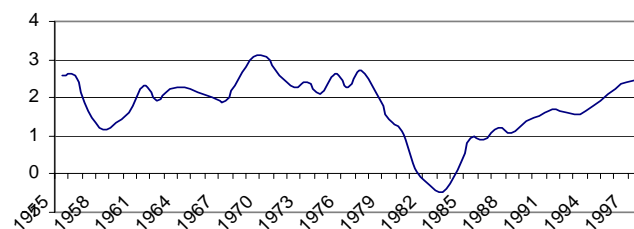
A particular challenge is the “resource curse” —petroleum, for example.

## What Is the “Resource Curse”?

- “Large amounts of natural resources inhibit development”
- Evidence:
  - Econometric studies
  - Export structure explains “the great slowdown”
  - Boom and bust tend to be resource based

## The Great Slowdown

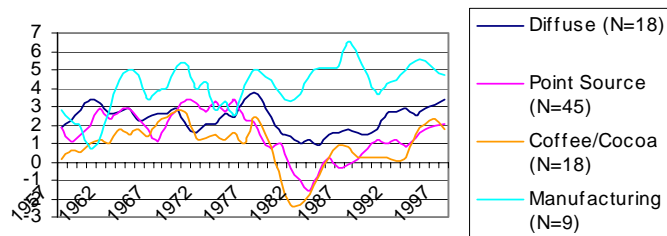
**Figure 1: Smoothed Median Per Capita Growth Rates in 90 Developing Economies, 1955-1997**



Slide 23

## The Great Slowdown by Export

**Figure 2: Smoothed Median Growth Rates for 90 Developing Economies, 1957-1997**



Slide 24

## Resource Curse Hurts Institutions

- Natural resources tend to go along with
  - Civil Wars
  - Lower quality public institutions
  - Corruption
  - Lower “social capital” and cooperation



Slide 25

## Resource Curse In Sum

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- Dutch disease inhibits development of other exports
  - Concentration makes economies vulnerable to shocks (price and volume)
  - Quality of institutions is negatively related to natural resources
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Slide 26

## Example of Botswana

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- Botswana has been successful economically (until recently), *despite* diamond resources
  - Success is almost certainly due to better policies and institutions
  - What explains the better institutions in Botswana?
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Slide 27

### Four Hypotheses on Botswana

- 1) Survival of “pre-colonial” social institutions, coupled with ready use of imported talent
- 2) Rural interests wanted and got property rights
- 3) Diamonds generated “enough” rents, but not “too much”
- 4) Wise choices by early leaders

Slide 28

### Botswana: Contrasts

- Somalia: No impact of colonialism—but no “encompassing” interests.
- Lesotho: Centralization of power led to high stakes politics
- Ghana and Cote d’Ivoire: Political elites used policy to undermine threats to power

## What Institutions Matter Most?

- Good institutions (private property):
  - encourage investment and protect the property rights of the broad cross-section of society
- Bad institutions (extractive institutions):
  - unconstrained political power in hands of an elite
    - Caribbean planters
    - Spanish monarchy in 1500s
    - Colonial officials and local elite representing colonial authorities
  - no rights or protection for the vast majority of the population

## Solutions for Resource Curse?

- Don't spend as if the boom will last forever
- Create "institutions of restraint" from the ground up (e.g. decentralization)
- Binding international agreements (e.g. Chad pipeline)
- Put money in a trust for all citizens

***All mean: control corruption!***

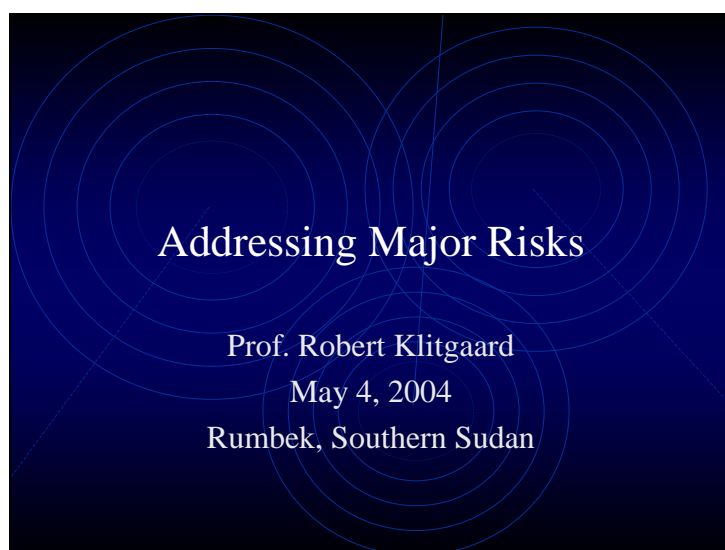
## Conclusions

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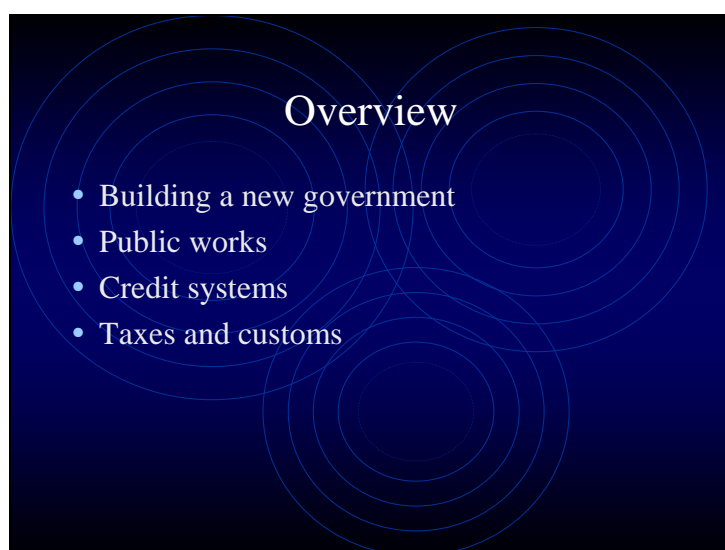
- Corruption is a threat to the New Sudan
    - Because of  $C = M + D - T$
    - Oil revenues
    - Infrastructure projects, such as roads
    - Revenue raising
  - But corruption can be prevented
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## Annex 3: “Addressing Major Risks”

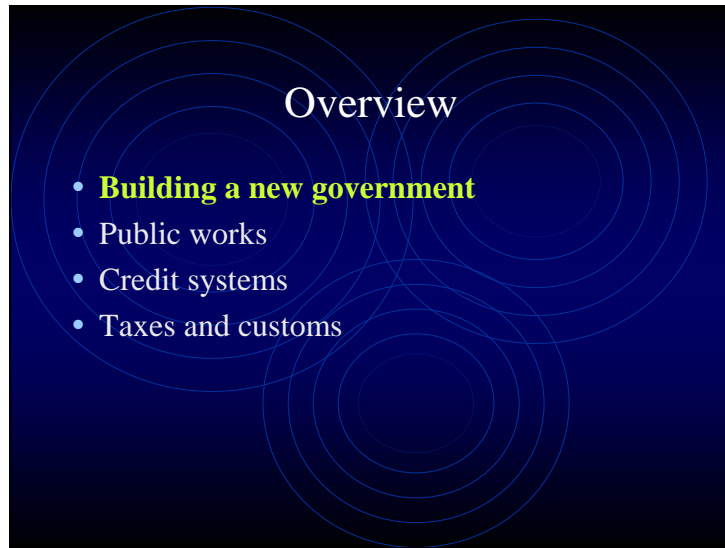
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### Slide 3



## Overview

- **Building a new government**
- Public works
- Credit systems
- Taxes and customs

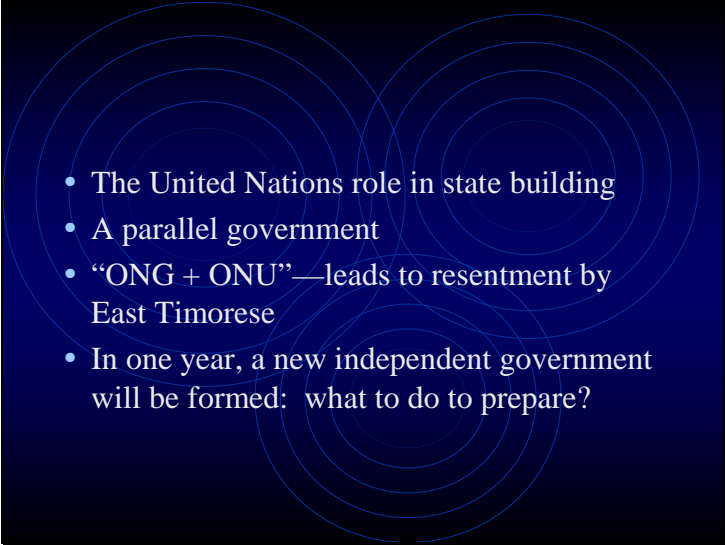
### Slide 4



## East Timor 2001


- Domination by Indonesia
- Muslim-Christian hostility
- A civil war plus international pressure lead to independence
- But as Indonesia leaves, it destroys: roads, schools, public buildings, the Bishop's house

## Slide 5

- 
- The United Nations role in state building
  - A parallel government
  - “ONG + ONU”—leads to resentment by East Timorese
  - In one year, a new independent government will be formed: what to do to prepare?

## Slide 6

### East Timor's Economy

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- Coffee rehabilitation
  - Fishing
  - Subsistence agriculture with potential for modernization
  - Lots of foreign aid
  - Oil revenues: the Timor Gap.
    - Negotiations with Australia lead to revenue sharing agreement

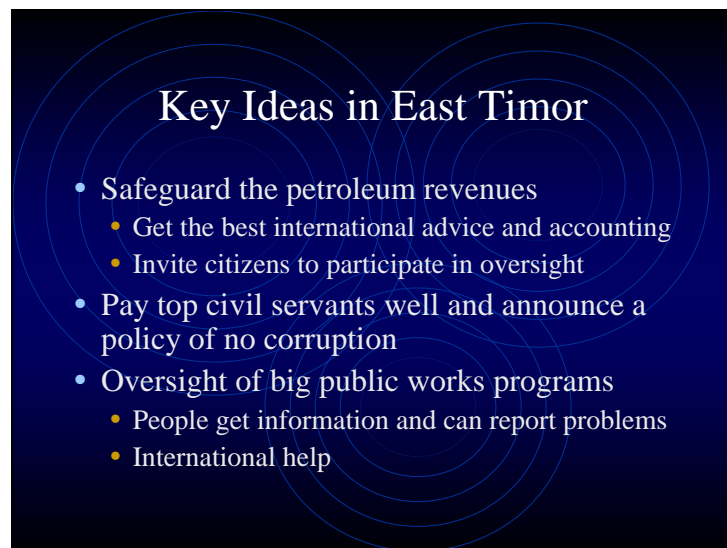
## Slide 7



### Governance Challenges

- How to create a civil service
  - Law and order
  - Basic services (education, health)
  - Basic infrastructure (especially roads)
  - Diaspora + local people
- Six political parties
- “Resource curse” and corruption

## Slide 8

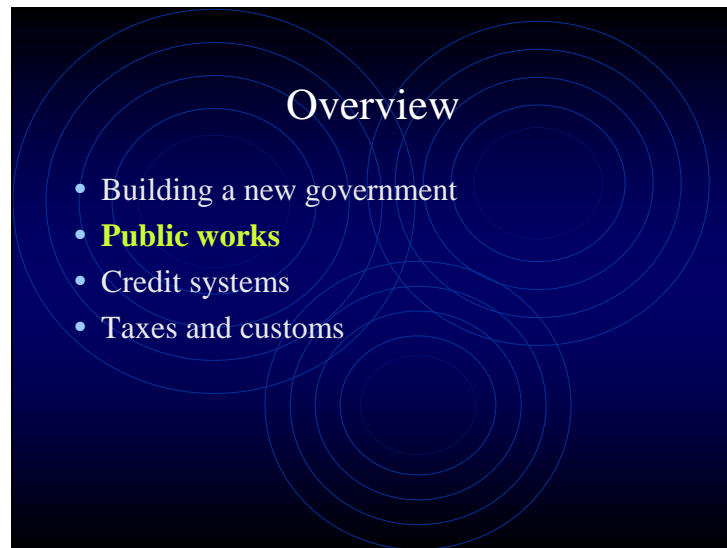


### Key Ideas in East Timor

- Safeguard the petroleum revenues
  - Get the best international advice and accounting
  - Invite citizens to participate in oversight
- Pay top civil servants well and announce a policy of no corruption
- Oversight of big public works programs
  - People get information and can report problems
  - International help



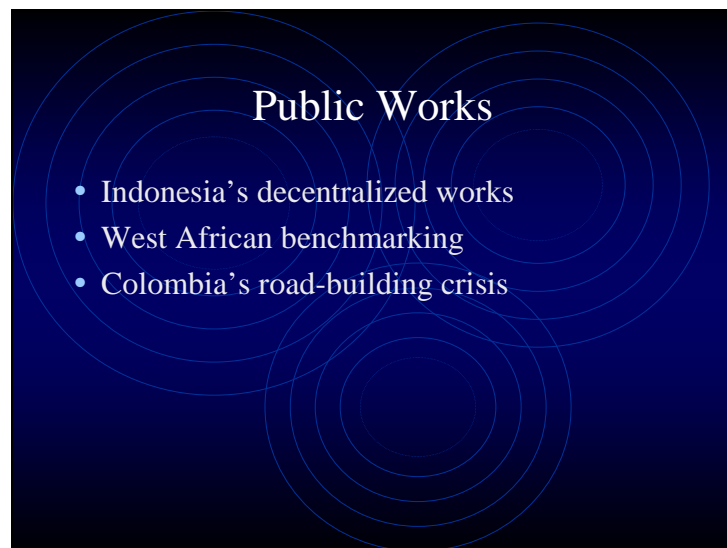
## Slide 9



### Overview

- Building a new government
- **Public works**
- Credit systems
- Taxes and customs

## Slide 10




### Public Works

- Indonesia's decentralized works
- West African benchmarking
- Colombia's road-building crisis

## Slide 11


### Indonesia



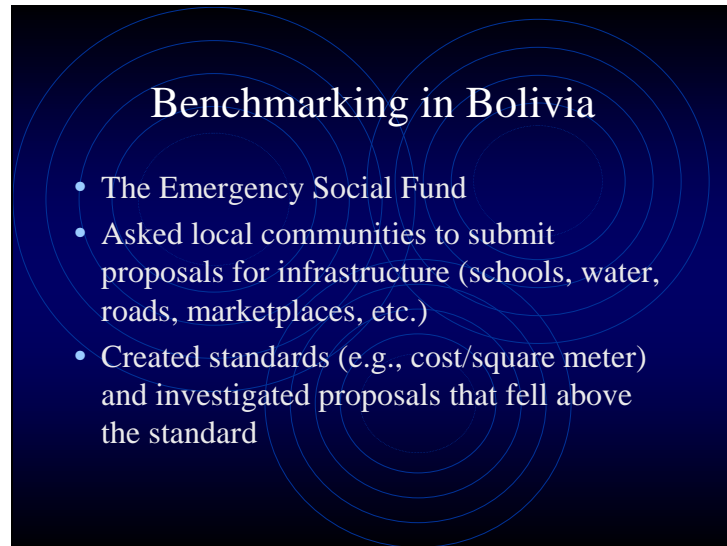
- Information to the people about public works (cost, workers, wages, timing)
- Billboards in each village
- A place to report discrepancies
- Journalists

## Slide 12

### West African Benchmarking

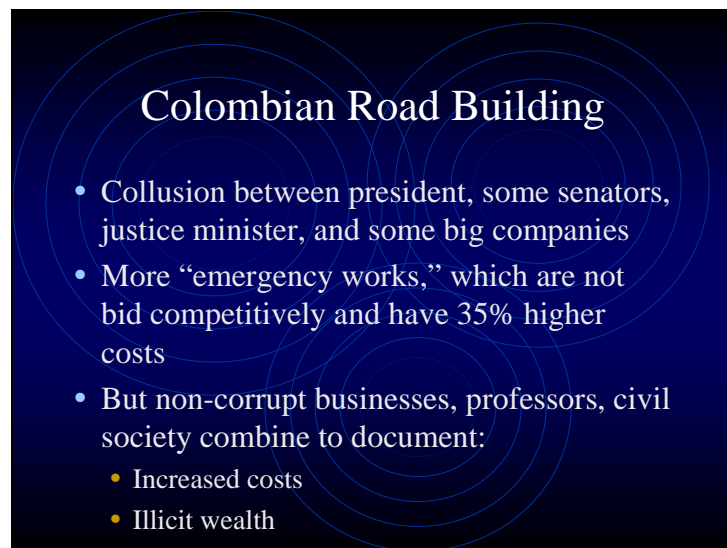


- Costs of public works in various West African countries
- Per km of road, for various types of roads
- Compare—and when a cost is out of line, act



## Benchmarking in Bolivia

- The Emergency Social Fund
- Asked local communities to submit proposals for infrastructure (schools, water, roads, marketplaces, etc.)
- Created standards (e.g., cost/square meter) and investigated proposals that fell above the standard



## Colombian Road Building

- Collusion between president, some senators, justice minister, and some big companies
- More “emergency works,” which are not bid competitively and have 35% higher costs
- But non-corrupt businesses, professors, civil society combine to document:
  - Increased costs
  - Illicit wealth

## Slide 15

A cartoon illustration of a ship sinking. The ship is tilted, with water splashing around its base. A figure is visible on the deck, and a red flag is flying from the mast. The background is dark blue with concentric circles emanating from the ship, suggesting ripples or a sinking motion.

**Results:**

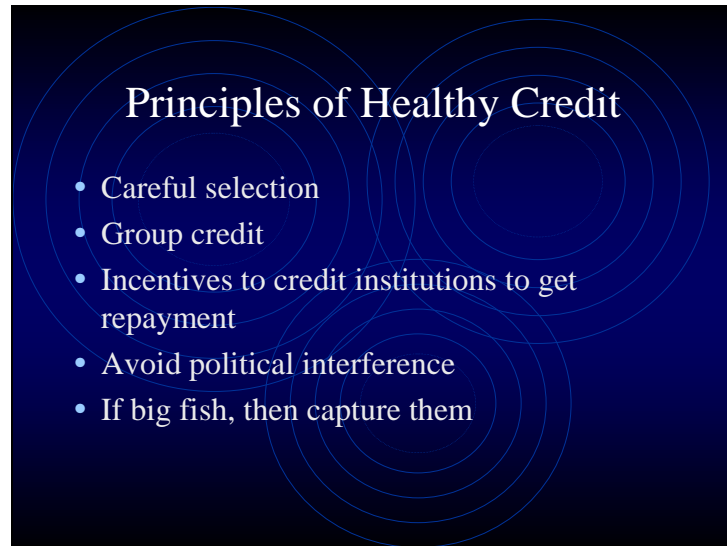
- The corruption is exposed in the press, the prosecutors, and international agencies
- Civil society presses for change
- The corrupt system sinks

## Slide 16

**Overview**

- Building a new government
- Public works
- **Credit systems**
- Taxes and customs

Slide 17



### Principles of Healthy Credit

- Careful selection
- Group credit
- Incentives to credit institutions to get repayment
- Avoid political interference
- If big fish, then capture them

Slide 18



### Indonesian Rural Credit System

- Was almost bankrupted by non-repayment
- Reforms: (1) Change incentives
  - Branch offices get new incentives
  - Group lending leads to lower costs and better incentives by borrowers
- Reforms: (2) Change information
  - Rely on local leaders to help select groups to receive credit

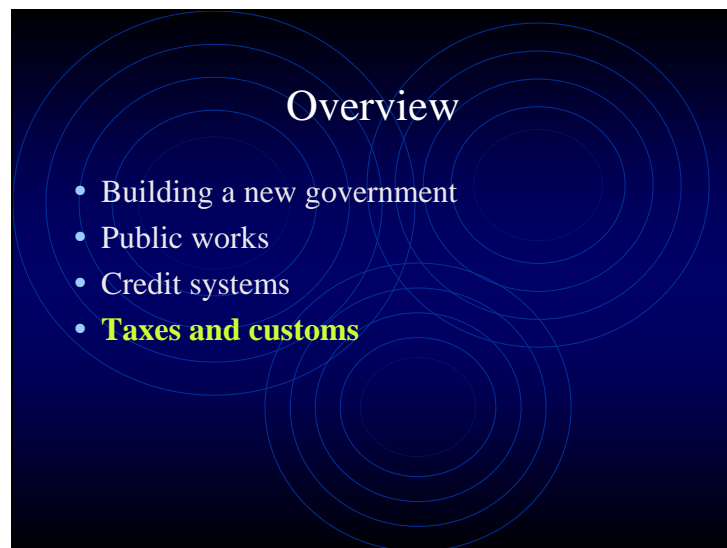
Slide 19



**Results in Indonesia:**

- Within 2 years, most local branches are financially solvent.
- Within 4 years, it is the second largest rural credit program in the world.

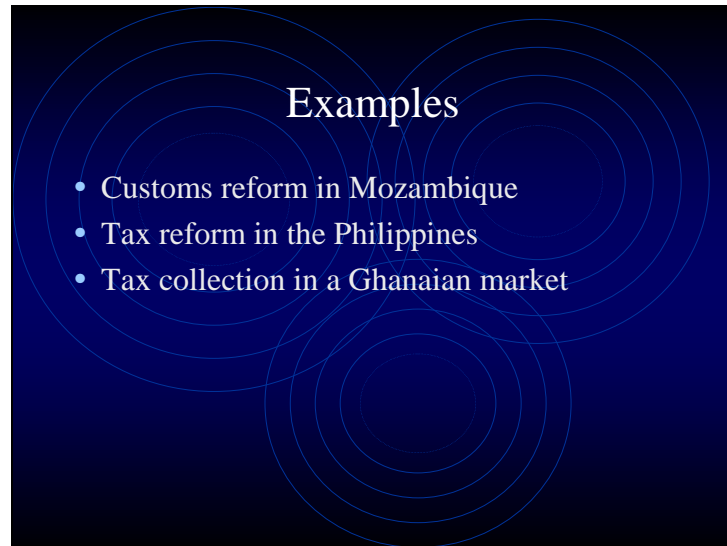
Slide 20



**Overview**

- Building a new government
- Public works
- Credit systems
- **Taxes and customs**


Slide 21

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## Examples

- Customs reform in Mozambique
- Tax reform in the Philippines
- Tax collection in a Ghanaian market

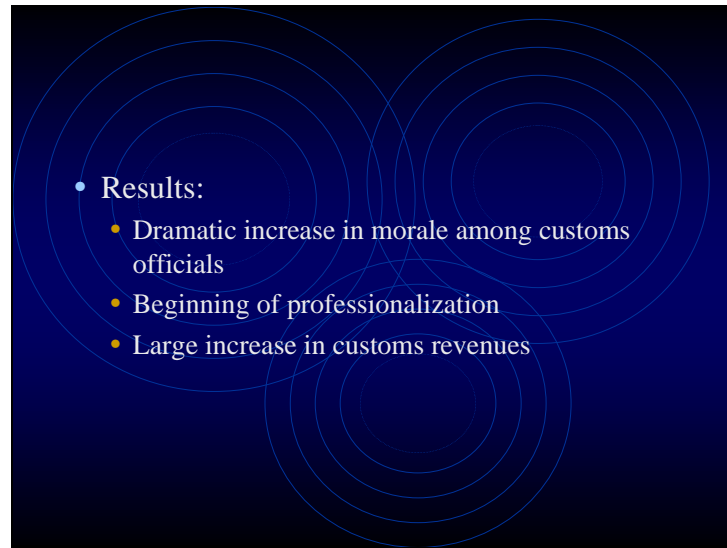
Slide 22

The slide has a dark blue background with a pattern of concentric circles. The title "Mozambique" is centered at the top in a white serif font. Below the title is a bulleted list of three items, each preceded by a white circular bullet point. The second and third items have sub-bullets, each preceded by a small yellow circular bullet point.

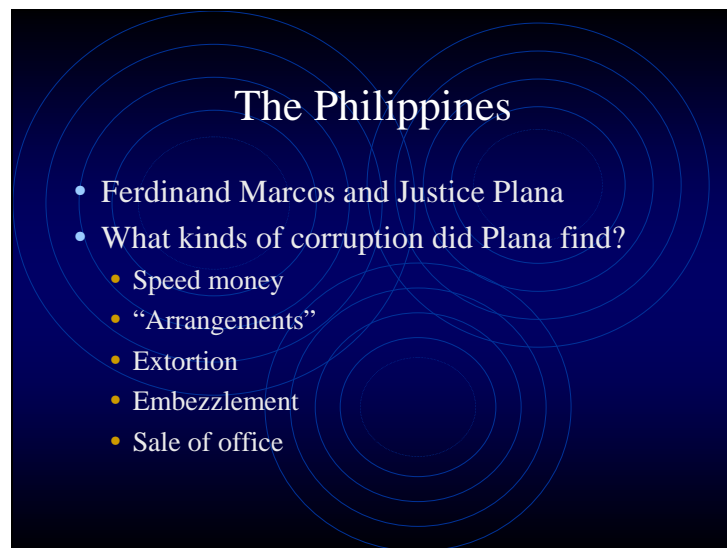
## Mozambique

- Customs and bribery: imports from South Africa
- Change incentives:
  - Experiment with pay for performance
- Change information:
  - Track amounts obtained by each customs post
  - Use undercover agents
  - Simplify customs system, so it has less discretion

## Slide 23

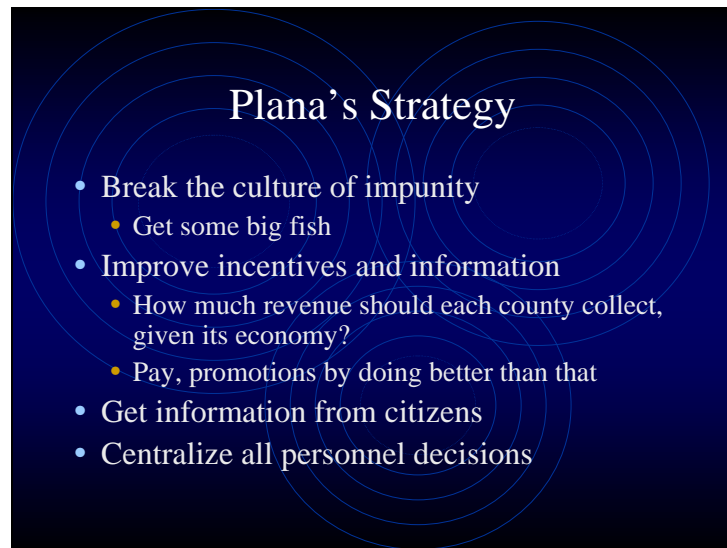


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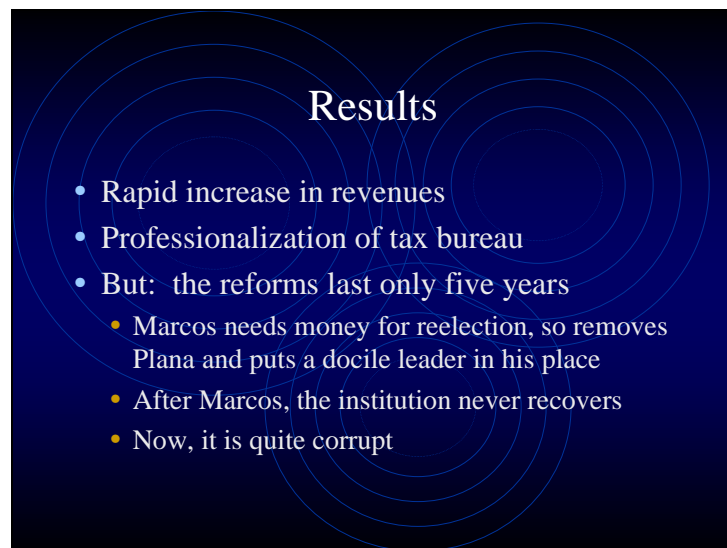
Slide 25



## Plana's Strategy

- Break the culture of impunity
  - Get some big fish
- Improve incentives and information
  - How much revenue should each county collect, given its economy?
  - Pay, promotions by doing better than that
- Get information from citizens
- Centralize all personnel decisions

Slide 26



## Results

- Rapid increase in revenues
- Professionalization of tax bureau
- But: the reforms last only five years
  - Marcos needs money for reelection, so removes Plana and puts a docile leader in his place
  - After Marcos, the institution never recovers
  - Now, it is quite corrupt

Slide 27

## Tax Collection in a Ghanaian Market

- Women paying a little, getting almost no improvements in market conditions
- Regional tax authorities bypass local tax office and work directly with these women
- The women's market association collects taxes in return for better market conditions
- A win-win situation

Slide 28

## Conclusions

- Corruption is an economic crime
- It can be reduced or prevented by changing the economic calculations—especially information and incentives
- Reduce monopoly, clarify discretion, and increase transparency

## **Annex 4: Groups' Conclusions from Naivasha Workshop]**

May 6, 2004

Notes taken by Robert Klitgaard

*Exercise: What steps would get us from now to the imaginary success story in 2007?*

### **Group 1**

Peace has been signed, and Southern Sudan is implementing a new government worthy of the aspirations of the people who have fought for more than 20 years.

The government must have a constitutional base, so that it is legitimate. It should have a clear separation of powers, with democratic elections. Should be a simple and strong government, with clear objectives and simple administrative and financial systems.

Rule of law and effective judiciary, plus well-trained law enforcement agencies (not necessarily strong but efficient—a strong thing may be a wrong thing). No one is above the law. Accountability.

Define employment criteria to keep out nepotism.

Clear political legislation—how parties come to exist.

Good economic legal foundation. Property rights, taxation system, business law, etc. should protect the consumers as well as the investors.

Private-sector based on free markets.

We must develop human resources internally. We can have the aid of a few experts, without the burden of expert-opinion overload.

Information sharing. This system is vital. A government in S.S. would need to sponsor vast issues, to teach people to forgive and not to have violence. We need this for peace. Other examples are HIV/AIDS.

Need an empowered civil society, so that they can contribute to good government and can empower themselves.

All of these things require political will.

## **Group 2**

What are the critical challenges and opportunities to be faced by the S.S. government?

IDPs [internally displaced persons]

Sustainable peace

Civil service

How to encourage investment when we now have none

Foreign aid (also corruption here)

Corruption

Opportunities

What are the real objectives of this new government? Development that is people-centered, agriculturally based, and fueled by the oil revenues. Government that is lean, democratic, efficient, and accountable to the people.

Here are some sectors where are important challenges. Look at justice, credit, and property rights, especially in agriculture. Property rights presents dilemmas. Communal ownership, public ownership (statutory ownership), and private ownership.

Creating a competitive environment for investment. What legal system will enable investment to flourish. Especially so as to motivate the farmers.

Access to credit should be transparent, simple, and readily available to farmers.

Oil development. The government is aware about the danger of oil. We need effective, efficient, and transparent management of the oil—revenues, contracts, environment. The management of reserves might include an investment fund that helps the future generations. And the sustainability of the reserves. The volatility of the oil proceeds can cause trouble, and corruption may arise also.

Foreign aid. We know this is a potential but like oil it could down or weaken our institutions if we are not careful. These windfalls are dangerous. We need a clear strategic plan. Foreign aid should be linked to capacity building. Sudanese should own the process. These steps will avoid dependency. We should conceptualize the foreign experts as an asset—as capacity builders and teachers rather than advisers.

People's expectations. The government must pass along information about the peace process in understandable ways to the people. Let the government be very clear and transparent in sending simple messages to the people – this will need a lot of work in communication. The media are important. It can be used to include the opinions and ideas of ordinary people.

Property rights are crucial at this stage.

Accurate data, so that we can plan any policy based on knowledge. We have few statistics, and we need to sort that out.

Rigorous evaluation, so that objectives are met by outcomes.

Foreign aid – evaluation of the political and economic and social impact, including costs. We have to manage foreign aid.

### **Group 3**

Durable peace and its implementation, with international community.

Constitution must be established, with human rights guaranteed, democratic pluralism. We want a transparent, accountable government and good elections.

Create an enabling environment for development and growth of civil society, especially the empowerment of women because of our patriarchal dominance.

Lean civil service that is highly competent and well motivated.

Lean and representative government that takes into account S.S. diversity.

Adopt and implement the Millennium Development Goals.

Empower private sector through conducive policies that include gender mainstreaming.

Diversify economy through industry and services.

Fiscal infrastructure to support the economy, including a bigger budget for agriculture and livestock.

Budget should be monitored and evaluated.

Farmers will be motivated through extension, research, credit, and market infrastructure.

Information and communication technologies are important, including two-way flows of information.

Develop energy and power.

Protect environment.

Water for irrigation – better water management and control.

Social services. Free primary education, and secondary and tertiary education aimed at socioeconomic development. Science for development. Sound health policy sets up an infrastructure focusing on HIV/AIDS and other endemic illnesses.

Oil. Policies to encourage investment. Manage revenues wisely. Environmentally friendly.

Property rights. Clear legislation that protects both statutory and customary rights.

Credit and financial institutions should be accountable and non-discriminatory.

Independent judiciary – well-trained, well-equipped, highly motivated, including law enforcement.

Efficient local government.

Foreign aid should be specific, targeted, and used efficiently.

Regional and international economic integration so S.S. doesn't remain an island unto itself.

Vigorous anti-corruption measures for government and civil society.





