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Item Type	Book chapter
Authors	Lanwehr, Ralf
Publisher	Transparency International
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Download date	2026-11-13 21:32:17
Link to Item	http://hdl.handle.net/20.500.12424/177812

19 Tax evasion, fines and corruption in Mozambique

Ralf Lanwehr[1]

A survey on the investment climate in the Mozambican province of Inhambane was conducted in March 2004.[2] Its aim was to describe and explain cooperation problems between the public and private sectors, and it unveiled a systemic network of major tax evasion, compensatory fining and fine-related bribery.

Although Inhambane has great economic potential, investors are currently hesitant regarding further investment and are dissatisfied with the status quo, because of serious disruptions in cooperation between the private and public sector. These disruptions hamper the climate for new investment and thereby threaten the province's economic development.

To describe, explain and quantify problem areas of investor–government relations, a survey on the provincial investment climate was conducted. In order to establish an initial understanding of the situation and to construct a survey, 25 key investors and their public counterparts were interviewed utilising the critical incident technique.[3] The sample of the main survey was drawn on the basis of a nationwide business census of the National Institute of Statistics Mozambique.[4] The sample size was set to 100 firms in the formal sector.[5]

Public officials suspect massive tax evasion

The preliminary interviews revealed that the primary source for disruptions in cooperation between the public and private sector are systemic. Public officials claim that the vast majority of provincial firms illegally evade tax payments by not declaring their full revenues. The applied government strategy to counter perceived tax evasion is heightened vigilance in the auditing of more easily identifiable and/or minor transgressions. When such transgressions are exposed, the maximum force of the law is imposed on the individual firm, with the aim of balancing out suspected tax evasion. The result is often disproportionately harsh fines for nearly all provincial firms.

The business community feels misjudged

What might be called 'heightened vigilance' from public officials is not well received by the provincial business community. The latter claims that many fines are exorbitant, arbitrary and counterproductive to economic development. Also, investors strongly

GC2006 03 part3 329 9/11/05 10:41:45

defend themselves against being prejudged for tax fraud. They state that many provincial firms are not underreporting their gross revenues, but that they are nonetheless heavily targeted by government.

Many business operators strongly emphasise that they are willing to contribute their tax share in accordance with Mozambican law, but feel that the current practice of exaggerated, non-selective fining actually rewards 'cheaters' among the business community. From a rational point of view, they argue, it would be wiser to underreport gross revenues because, regardless of the correctness and honesty of their accounting, their firm will be heavily fined in any case.

It is interesting to note that the preliminary interviews showed surprising accuracy and unanimity in the perception of the situation between the public and the private sector. The decisive difference is quantitative rather than qualitative, with respect to the proportion of the overall value of fines issued in relation to the amount of tax debts evaded.

Sixty-four per cent of taxes evaded on average in the tourism sector

One of the main 'disruptions' in Inhambane, as seen by both business and government, is in the area of taxation. Unfortunately, it is quite difficult to confirm, let alone quantify, the amount of tax evasion by firms there. In the tourism sector, though, reliable figures on the maximum capacity of accommodation do exist from the provincial delegation of the National Institute of Statistics. At the same time, it is well known that the occupation rate during the last two weeks of December is nearly 100 per cent. Based on this information, estimation of the amount of tax evasion can be attempted by comparing the 'reported reality' of room nights spent with the 'real reality' of available hotel beds during the last two weeks of December.

The 'reported reality' was an occupation rate of 18 per cent for December.[6] If we assume that the low number of tourists in the first half of December is made up for by almost full occupancy in the second half of the month, and if we factor in the suboptimal use of space, we might expect an occupation rate of approximately 50 per cent for December. The difference between the reported and the probable reality is therefore 32 per cent unreported occupation.

Only figures for room nights have been included in this calculation. Additional potential income from restaurants or diving schools, as well as systematic underreporting of accommodation costs is not addressed. Thus the estimate for tax evasion based on underreporting of occupation should be considered to be at the lower boundary of real tax evasion. In summary, the overall amount of underreported gross revenue of the province's firms is 64 per cent,[7] thereby lending credence to the claim by public officials of massive tax evasion.

Besides negatively influencing the quality of interprovincial cooperation and seriously hampering provincial tax income, the current practice of fining to balance out tax evasion facilitates corruption on a massive scale. This is demonstrated by the fact that a public official encouraged to issue heavy fines might be tempted to cancel these fines, or turn a blind eye to exposed transgressions, in exchange for a bribe.

GC2006 03 part3 330 9/11/05 10:41:45

Corruption is the biggest obstacle to business development

The results of the survey show that firms spend a total of about 10 per cent of their gross revenue on corruption, and 64 per cent reported being subjected to corrupt actions by public officials (82 per cent in the tourism centre of Vilanculo). Corruption is perceived as the biggest obstacle for business development, followed by government bureaucracy and insufficient infrastructure.

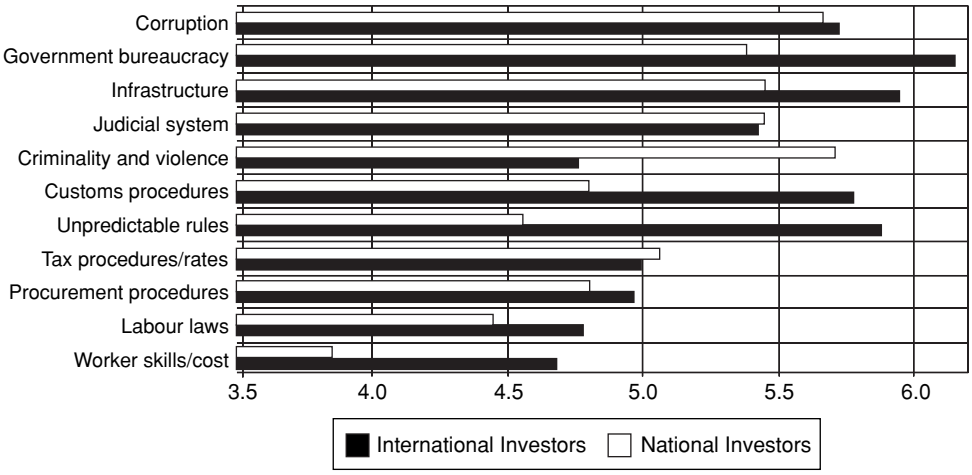


Figure 19.1: Perceived obstacles to business development for national and international investors on a scale ranging from 1 ('No obstacle') to 7 ('Extreme obstacle')

Differences between national and international investors

On a closer look, a principal component analysis[8] revealed a latent pattern in the data. Four factors underlying obstacles to business development were identified as:

1. corruption, bureaucracy and an unreliable judicial system
2. business environment (containing worker skills, labour laws, unpredictable rules and inadequate infrastructure)
3. government procedures (procurement procedures, tax collection procedures and customs procedures)
4. criminality and violence.

There are remarkable differences between national and international investors. 'Business environment' is a far greater obstacle for international than for national investors.[9] One interpretation of this finding might be that foreign investors often originate from developed countries and thus have more difficulty adapting to developing country conditions. Criminality and violence, however, are greater obstacles for national investors.[10]

GC2006 03 part3 331 9/11/05 10:41:46

Outlook

It is difficult to assess and quantify the origins and causal relationships in the vicious circle of tax evasion, fining and bribery in Inhambane. The system is, however, clearly self-supporting. As long as firms keep underreporting their revenues and the government continues its harsh fining strategy, no changes in current practice can be expected, resulting in a loss of the majority of the province's tax income and severely reduced future investments.

Notes

1. Ralf Lanwehr is a research associate at the Berlin University of Technology (contact: lanwehr@epix.de). He would like to thank Mike MacDonald and Ulrike Beuing for their advice and support in the course of the project as well as Marie Wolkers and Robin Hodess from TI for their valuable suggestions.
2. The survey was financed by the German Technical Cooperation Agency (GTZ).
3. J. C. Flanagan, 'The Critical Incident Technique', *Psychological Bulletin* 51(28), 1954.
4. Instituto Nacional de Estatística, *Censo de Empresas* (Survey of Businesses) (Maputo, 2003).
5. To analyse the fact that future business development in the province will depend heavily on investment in the tourism sector, 50 firms from that area were randomly drawn, alongside 50 firms from the commercial and industrial sectors. Two versions of the questionnaire were used, with the order of the questions altered.
6. The 15 tourism companies offer a combined total of 1,252 beds.
7. 100 per cent – reported reality of 18 per cent/expected reality of 50 per cent = 64 per cent underreported gross revenue.
8. Principal component analysis (PCA) is a standard procedure of data reduction. Its aim is to reduce the dimensionality of a given set of data and to clarify the correct classification of the items to their underlying factors.
9. $F = 11.1$; $df = 1/48$; $p = 0.002$.
10. $F = 7.7$; $df = 1/49$; $p = 0.008$.

GC2006 03 part3 332 9/11/05 10:41:46

20 The V4 index: corruption propensity in four Visegrád capitals

Michal Štička[1]

The V4 Index is a Transparency International Czech Republic research project that was completed in the first half of 2004. The goals of the project were to design a survey methodology that would establish the existence and evaluate the functionality of anti-corruption institutions ('corruption propensity') in the public administration at local/regional levels. That is, in the public administrations of the four Visegrád (V4) capitals: Bratislava, Budapest, Prague and Warsaw. A major outcome of the project was to rank the capitals' administrations according to the quality of their anti-corruption institutions. By doing this, the index raised public awareness with respect to the problem of corruption in the public administrations of V4 capitals.

The research project focused on anti-corruption tools and mechanisms in five areas: public procurement tenders, internal audit and control mechanisms, codes of ethical behaviour, conflicts of interest, and public administration information policies/public accessibility of information.

The survey was conducted in two stages. The first stage involved gathering objective, hard data on the existing anti-corruption tools and mechanisms in the public administration of each of the V4 capitals. The data were gathered through interviews with the representatives of the municipal councils of each capital and through content analysis of relevant documents. For the interviews, the head of the office and head of the legal department (or head of the internal audit department) were asked yes/no questions concerning the existence of anti-corruption mechanisms. For the content analysis, the relevant laws, ordinances and instructions (internal norms effective in the offices) were examined, if interviewees were unable to provide the requested data. The objective data were aggregated to form the V4 Objective Index.

In the second, subjective stage of the survey, perceptions of the efficiency of anti-corruption tools and mechanisms in each of the five above-mentioned areas of the public administration were studied, from the perspective of selected and well informed members of the public. Interviews were conducted among employees and elected members of the municipal councils of the V4 capitals, journalists, businessmen and NGO representatives. In each of the cities, a minimum of 100 respondents were interviewed. The subjective data were aggregated to form the V4 Subjective Index.

The scale of the Objective V4 Index ranges from 0 to 1, where '0' indicates the absence of anti-corruption tools and measures in the public administration and '1' indicates

GC2006 03 part3 333 9/11/05 10:41:46

that all the elements measured exist. The results of the objective part of the V4 Index show that most anti-corruption tools in the examined fields are present in Budapest, with a score of 0.87. (See Table 20.1.)

Table 20.1: Objective V4 Index

	Bratislava	Prague	Warsaw	Budapest
Overall index	**0.55**	**0.60**	**0.64**	**0.87**
Public procurement tenders	0.36	0.61	0.90	0.96
Internal audit and control mechanisms	0.93	0.73	0.62	0.76
Codes of ethical conduct	0.22	0.80	0.00	0.93
Conflicts of interest	0.64	0.37	0.86	0.79
Open information policies	0.61	0.50	0.83	0.90

(Range from 0 to 1)

Note: Zero in the intersection of 'Warsaw' and 'Codes of ethical conduct' is due to the fact that none of the examined anti-corruption tools in the field of codes of conduct were in place in Warsaw.

The results of the second stage of the research project, based on the subjective perceptions of the respondents, showed that the operation and functionality of anti-corruption tools used in the public administration of individual capitals were less positive than in the objective part of the survey. This difference, however, met expectations: similar research results comparing reality with perception have shown that public opinion is more critical than the objective situation.

On a scale of 0 to 1 (where 0 indicates 'very bad'; 0.33 indicates 'somewhat bad'; 0.66 indicates 'somewhat good'; and 1 indicates 'very good'), Budapest retained its position from the objective part of the survey, and finished in first position, with a score of 0.49 (See Table 20.2). In Budapest, respondents rated public procurement tenders and information accessibility, such as the open information policies of municipal authorities, highest. These results correlated fully with the data generated by the objective part of the survey, which indicated that Budapest had most anti-corruption tools in these areas.

Table 20.2: Subjective V4 Index

	Prague	Bratislava	Warsaw	Budapest
Overall index	**0.40**	**0.44**	**0.44**	**0.49**
Public procurement tenders	0.40	0.46	0.47	0.55
Internal audit and control mechanisms	0.38	0.40	0.39	0.46
Codes of ethical conduct	0.47	0.51	0.51	0.50
Conflicts of interest	0.29	0.32	0.40	0.42
Open information policies	0.46	0.51	0.43	0.52

(Range from 0 to 1)

GC2006 03 part3 334 9/11/05 10:41:46

Despite scoring lowest in terms of objective anti-corruption tools and mechanisms, Bratislava came second according to respondents' opinions, with a score of 0.44. It is striking that Bratislava achieved above average results in terms of its codes of ethical conduct. In fact, most of the individuals interviewed consider the environment in Bratislava's public administration to be ethical, despite the fact that the city's executive authority had not implemented any code of ethical conduct. The greatest need for improvement in Bratislava, in the view of respondents, was in the area of preventing conflicts of interest.

In Warsaw, which came third of the V4 capitals (also at 0.44, but just behind Bratislava), respondents rated the area of codes of ethical conduct highest, although, in objective terms, there are no such codes in the Warsaw public administration. Compared to the other cities, Warsaw respondents perceived public procurement tenders quite positively. Internal audits and the operation of control mechanisms, however, were considered to be rather dysfunctional.

Prague was placed fourth out of the cities studied, with a score of 0.40. If the partial indices between the different capitals were compared, Prague did not exceed the average in any of the areas under consideration. The respondents who had dealings with the public administration did not believe that anti-corruption tools were implemented with much efficiency. The best results in Prague were achieved in the area of codes of ethical conduct, where more than half of the respondents considered the environment in the Czech capital's public administration to be ethical. As in the case of Bratislava, Prague residents were most critical of the way in which conflict of interest provisions were implemented.

Note

1. Michal Štička is project manager, Transparency International Czech Republic.

GC2006 03 part3 335 9/11/05 10:41:46

21 Efficiency of federal transfers to municipalities in Brazil

Marcos Jose Mendes[1]

This study aims to analyse irregularities uncovered by the Office of the Inspector General (Controladoria Geral da União, CGU) in the administration of the Fund for Development and Maintenance of Elementary Teaching and for Professional Improvement of Teachers (FUNDEF). In order to inspect FUNDEF and other federal transfers, the CGU has maintained, since 2003, a systematic programme for conducting random audits in municipalities across the country. For the purposes of this work, only federal transfers are analysed, since CGU does not audit the use of state and municipal funds.

Federal funds are an important part of municipal budgets representing 62 per cent of municipal revenue. Municipal accounts are regularly audited by state audit courts, but these are reputed to provide only weak supervision – by municipal citizen councils, which also have a poor reputation since they are often controlled by the local authorities they are supposed to audit; and by federal agencies that supervise the use of federal funds transferred to municipalities, which tend to conduct more efficient audits. One of those federal agencies is the CGU, which randomly chooses municipalities to audit. These audits cover all of the federal programmes financed by the federal government in the chosen municipality.

By looking in depth at one instrument of public education funding, the FUNDEF, we aim to identify weaknesses in the management of municipal funds. The analysis covers 67 municipalities of the states of Bahia (22), Maranhão (14), Pará (15) and Piauí (16) that received federal subsidies to finance their local educational system. These municipalities are among the poorest in the country and were randomly chosen by CGU, the agency which sent the auditors to the cities. The auditors analysed financial records, but also visited schools, interviewing teachers, public workers and students, and compared prices paid by the government for goods and services with those in effect in local markets. The auditors' reports were used to classify the most common irregularities found in the municipalities. Table 21.1 shows the most common irregularities and the percentage of municipalities in which those irregularities were observed.

The many irregularities identified appear to seriously harm the quality and efficiency of the programme. Furthermore, irregularities are spread across almost all of the municipalities in the sample. Only 1 per cent of this sample does not present any irregularity. This diagnosis is confirmed when we analyse the amount of money involved in the irregularities, as shown in Table 21.2. The total amount of FUNDEF allocations

GC2006 03 part3 336 9/11/05 10:41:46

audited was 161.4 million reais (US $54 million). The various irregularities listed in the table were responsible for total losses equivalent to 13 per cent of the budget. Fraud in public procurement was the most costly type of irregularity.

Table 21.1: Main irregularities in terms of the number of municipalities where they were observed

Irregularities	Municipalities % where irregularity observed
The community council created to supervise funds does not work properly or is in practice controlled by the mayor (the authority that should be inspected by the council)	73
Embezzlement (or evidence of embezzlement) of resources by means of fraud (false fiscal documents, goods bought but not received by schools, purchases at prices above the market, etc.)	63
Use of funds in expenditures not characterised as fundamental to education	60
Low quality and organisation of the financial resources management (poor accounting; emission of cheques with no funds; cash withdrawals from bank accounts, which makes it difficult for auditors to check how the money was used, etc.)	52
Evidence of fraud in public procurement (mainly through the creation of 'ghost' competitor companies to create the illusion of a competitive bidding process; or through the division of a single contract into a number of smaller contracts that are below the threshold to hold a competitive contracting process)	43

Table 21.2: Percentage of the total amount of funds received by the municipality from FUNDEF that was embezzled, according to type of irregularity

Irregularity	Mean %	Max. %
Evidence of fraud in procurement	13	55
Embezzlement (or evidence of embezzlement) of resources by means of fraud (false fiscal documents; goods bought but not received by schools; purchases at above-market prices, etc.)	12	45
Embezzlement of funds earmarked to pay teachers (money received by persons other than teachers; fraud and illegal practices in the hiring of teachers, etc.)	11	42
Illegal payment of teachers and other workers ('ghost teachers'; illegal bonuses, etc.)	3	6
Use of funds on expenditures not characterised as fundamental to education	3	12

GC2006 03 part3 337 9/11/05 10:41:47

The high level of irregularities in the management of FUNDEF funds indicates that community councils lack the power and resources necessary to ensure that local authorities manage FUNDEF funds honestly and effectively. It is necessary to create another body of supervision or to create sanctions for those members of community councils who fail to carry out their duty. In order to remedy the lack of staff capable of managing procurement, distribution and bookkeeping tasks in poorer municipalities, state governments should be required to provide municipal governments with an electronic procurement system for services and goods.

Note

1. Marcos Jose Mendes is a consultant at the Brazilian senate.

GC2006 03 part3 338 9/11/05 10:41:47

22 Integrity Index for Public Institutions: evaluating Colombia's health sector

Transparencia por Colombia[1]

Since 2002, Transparencia por Colombia, the Colombian chapter of Transparency International, has produced an annual Integrity Index for Public Institutions, comparing levels of corruption risks in the country's public institutions. The aim of the index is to provide a tool for civil society to monitor transparency, integrity and efficiency of public institutions. Since institutions are individually evaluated, it is possible to use the index to assess vulnerabilities to corruption of a particular sector. Here we provide an overview of the index and examples of how it can be used to assess corruption risks in the health sector.

The index ranks public institutions according to 20 indicators, all of which are objective measures.[2] The indicators fall into three groups:

- *Transparency*. This measures visibility of the organisation to the general public, assessed using the following indicators: information found on the institution's web page; mechanisms for filing complaints; transparency of contracting processes; compliance with the national contracting information system (SICE); accountability mechanisms; transparency, accessibility and clarity of bureaucratic processes; anti-corruption efforts and access to information.
- *Control and punishment*. This measures the level of sanctions or decisions taken by control bodies against officials of public bodies by looking at sanctions for fiscal irregularities; disciplinary sanctions; and value of decisions signalling fiscal irregularities as a proportion of the organisation's budget. The underlying premise is that a higher number of dishonest practices is associated with institutional scenarios where preventative mechanisms are deficient or non-existent.
- *Efficiency and institutionality*. This measures efficient compliance with the objectives and missions of the body. The indicators look closely at simplicity of organisational processes, and clarity and knowledge of rules and controls, as these factors limit the margin for discretion by personnel and therefore risk of corruption. The indicators include: number of complaints presented and investigations opened by public auditor and public prosecutor as a proportion of the number of officials employed; procedures for hiring staff; incentives for employees; performance of the internal control function; and evaluation of management.

GC2006 03 part3 339 9/11/05 10:41:47

Each of the three components is made up of a simple average of the indicators in the category, and the index is an average of the three, weighted against the number of indicators that make up each component.

The 2004 index evaluates 80 per cent of public entities at central government level (182 central government bodies are assessed). For the first time state government bodies are also evaluated.[3]

Risks of corruption in the health sector

Some 12 per cent of the public institutions assessed in the National Index correspond to the health sector. The risk of corruption is considered high in 59 per cent of these. Of particular concern are the results of health delivery bodies such as the Social State Enterprises (ESE), which were recently created in an attempt to overcome the inefficiencies and poor quality services offered by the centralised Social Security Institute (ISS). While the results for the health sector are slightly better than recorded by the 2003 index, they are poor in two of the three categories: transparency (45 on a scale of 1 to 100, where 100 indicates a low risk of corruption) and efficiency and institutionality (55 out of 100). (See Figure 22.1.)

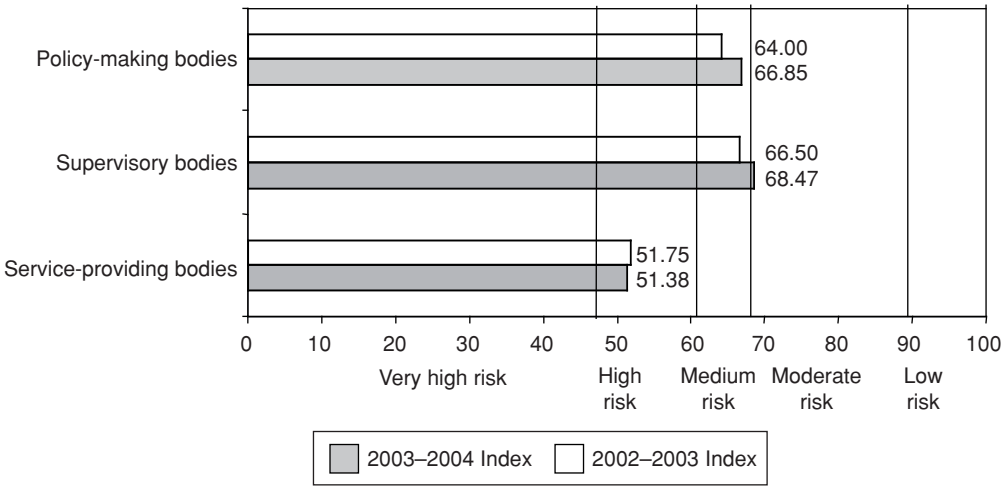


Figure 22.1: National public health institutions

At the state level a number of problems were also identified: the average score of health agencies responsible for directing, coordinating and monitoring the health and social security services in each jurisdiction is 49.2 out of 100, which is lower than the average score per sector. More than 35 per cent of these health agencies are considered to face a high or very high risk of corruption, while only 12.5 per cent show a moderate risk.

A comparison of data on risks of corruption in state health authorities and infant mortality rates[4] suggests a correlation between corruption and health outcomes,[5] as

GC2006 03 part3 340 9/11/05 10:41:47

Figure 22.2 suggests. The data is by no means conclusive: we cannot omit the possibility of reverse causality (that is, that poor health leads to higher levels of corruption), or that a third variable, such as low income per head, might be driving both infant mortality and corruption.

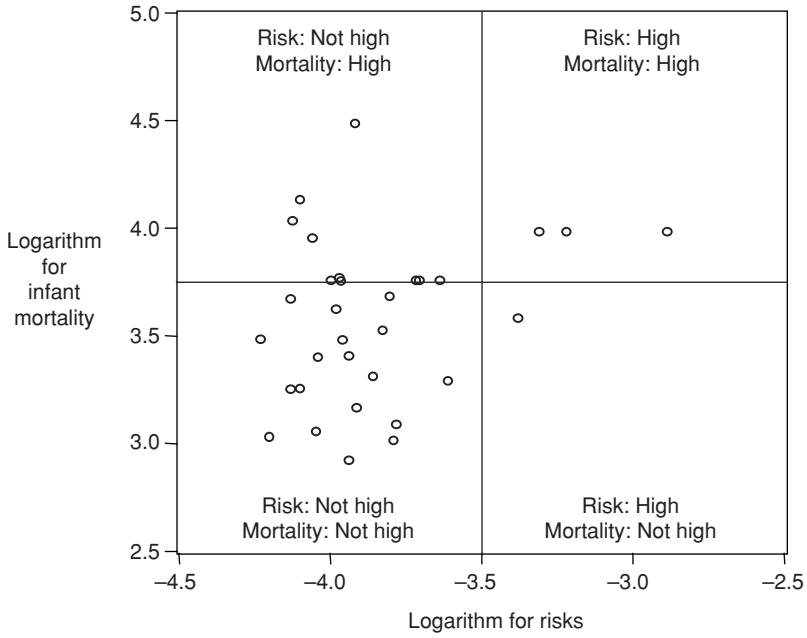


Figure 22.2: Comparison of data on corruption risks and infant mortality rates at state level

Conclusions

The simple exercise above shows how the index can be used to explore costs of corruption in specific sectors and to identify vulnerabilities to corruption that should be taken into account when formulating public policies. The results on health authorities alerted Transparencia por Colombia to the need to develop new indicators to measure the performance of the authorities responsible for coordinating, regulating and operating health systems.

After three editions of the index, it is possible to draw preliminary conclusions about its impact. The 2004 index reflects an improvement in the response by public officials to requests for information. Public institutions are interested in the index as a benchmarking tool that can help identify institutional weaknesses: more than 600 public employees representing more than 40 per cent of the national institutions evaluated have used the index to identify and rectify weaknesses. The demand for detailed and accurate information on corruption risks has grown at state level, too: half of the 32 states have organised forums to debate the results.

GC2006 03 part3 341 9/11/05 10:41:47

Notes

1. The principal researcher at Transparencia por Colombia is Martha Badel. Contact: indiceintegridad@transparenciacolombia.org.co
2. For details of the first edition, released in 2002, see *Global Corruption Report 2004*. The first index used 16 indicators, most of which were objective, with the others reflecting the opinions of a sample of public officials from each institution. The opinion survey data was published separately in 2004.
3. Colombia has three levels of government: central, state (known as 'departments' in Colombia) and municipal.
4. National Department of Statistics, 'Departmental Estimates of Infant Mortality 1985–1993: Mid-term Perspectives 1995–2005', in *Estudios Censales No. 5* (Bogota: DANE, 1998). The estimates are per 1,000 live births.
5. Infant mortality is one of the best measures of influence of social factors on health, according to Michael Grossman in 'The Human Capital Model of the Demand for Health', National Bureau of Economic Research Working Papers No. 7078, 1999.

GC2006 03 part3 342 9/11/05 10:41:48

23 Corruption in the public health service in Bangladesh

Iftekhar Zaman and Alim Abdul[1]

Health is a priority sector in the allocation of public funds in Bangladesh. In line with the 'Health for All' policy, first adopted in 2000, the government allocated 9 per cent of its development budget for the 2004–05 fiscal year to health, which was the fifth largest category of its public expenditure. The government formed a Health Watch Committee in 1998 under the ministry of health, which was aimed at making doctors and other health officials more accountable for public funds and to their patients. The new government disbanded the programme when it came to power in 2001, however. The Corruption Database created by Transparency International Bangladesh (TIB) on the basis of corruption reports in the print media, highlights a need for renewed anti-corruption efforts in the sector: the database has consistently identified health as the fourth most corrupt sector in Bangladesh since 2000.[2] TIB's 2002 and 2005 Household Corruption Surveys also found that health is considered to be the fourth most corrupt sector in the country.[3] Corruption in the health sector results in ordinary people, and especially the disadvantaged, being deprived of the benefits of basic health facilities and services.

According to the Household Corruption Survey of 2002,[4] which is based on interviews with 3,030 households, 61 per cent sought services from government hospitals, of which 47 per cent failed to gain admittance into hospitals through the prescribed procedure and instead were forced to seek 'alternative' ways of obtaining health services. In 56 per cent of these cases, a bribe was paid for health care, while in the remaining cases patients obtained the health service thanks to the assistance of influential relatives or of doctors involved in private practice. The 2005 Household Corruption Survey revealed that 60 per cent of households interviewed received services as out-patients of government hospitals, of which 29 per cent had to pay bribes to doctors worth 60 takas (US $1) on average. Some 21 per cent of households interviewed had a member who was admitted to hospital, of whom 20 per cent had paid a bribe to a public hospital doctor for medical advice. In these cases, the bribes were worth on average 478 takas (US $8). The survey also revealed that 94 per cent of patients had paid for medicines that should have been provided for free.[5]

The 2005 Household Corruption Survey also revealed that 3 per cent of households interviewed had a family member who had undergone surgery, of whom 37 per cent were asked for bribes worth on average 1,420 takas (US $24). Of the 4.5 per cent of households interviewed with a family member who needed an X-ray, 56 per cent

GC2006 03 part3 343 9/11/05 10:41:48

had to pay 516 takas (US $9) on average as a bribe. Furthermore, of the 9 per cent of interviewed households that had required pathology tests, 60 per cent had paid a bribe worth on average 410 takas (US $7). In an earlier study, the bribe amount paid for delivery of newborn babies was generally reported to be between 1,000 and 5,000 takas (US $15–76).[6] (See Figures 23.1 and 23.2.)

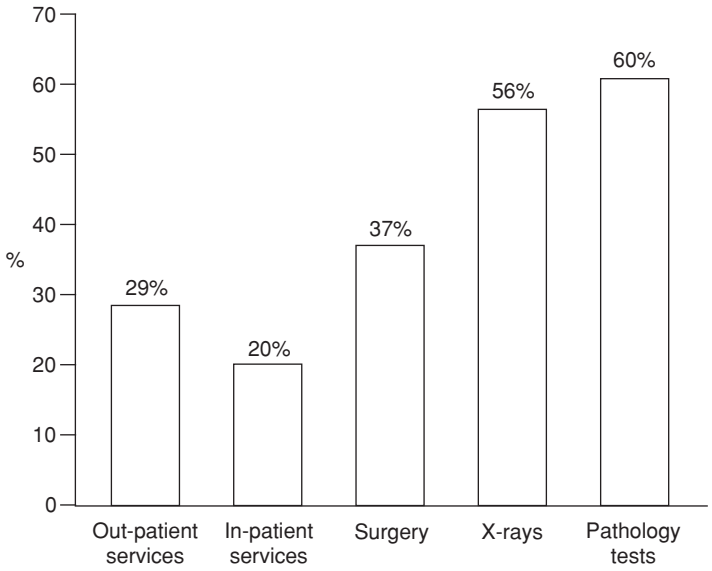


Figure 23.1: Percentage of patients forced to pay a bribe to obtain selected health services

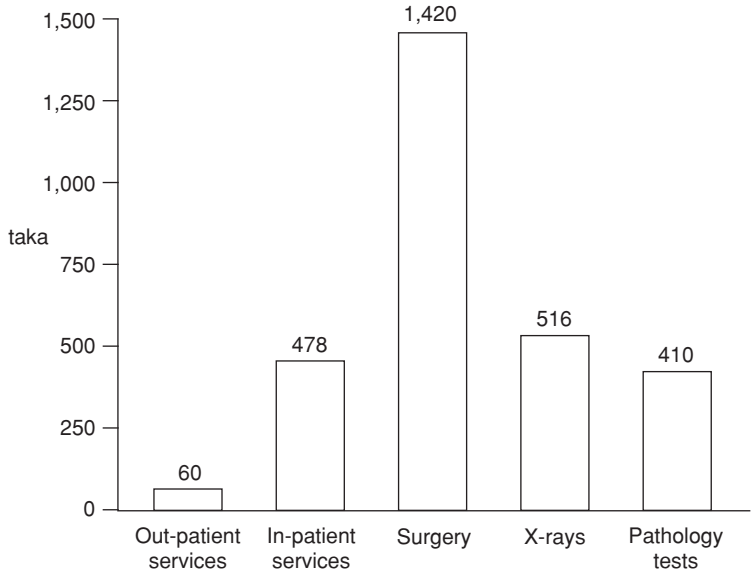


Figure 23.2: Average size of bribe paid for health services (in taka)

GC2006 03 part3 344 9/11/05 10:41:48

The 2002 TIB Report Card Survey revealed that half of the patients polled felt that doctors did not pay due attention to patients, while only 34 per cent of patients were satisfied with the service they received from doctors. Only 1 per cent of patients were satisfied with the degree of cleanliness of government hospitals.[7]

Among respondents who had paid bribes in hospitals or experienced poor service due to mismanagement, unavailability of staff, negligence or an unhelpful attitude towards patients, 56 per cent blamed doctors, 36 per cent blamed hospital staff and 5 per cent blamed nurses. Some 61 per cent of respondents who received hospital services complained that corruption in hospitals was carried out directly by service providers, while 17 per cent said corruption was practised indirectly through a third party. Some 3 per cent of respondents had offered money directly to service providers.[8]

All patients complained that they had to wait for long periods in hospitals. One reason for this was that doctors failed to arrive on time. According to a study by TIB of health services in the Nalitabari Upazilla Health Complex, the main reason for irregular attendance by hospital doctors is that they are busy with their private sector work.[9]

In TIB's 2002 survey, 67 per cent of respondents cited a lack of accountability as the major cause of corruption in hospitals that are fully or partially government owned. Discretionary power without accountability was identified as the second major cause (50 per cent), followed by lack of transparency (45 per cent), prevalence of monopoly power (28 per cent), influence of powerful people (13 per cent), and red tape (7 per cent). Corruption was considered to have the worst effects for the poor.[10]

The 2002 survey also revealed that households with members who received a service in a government hospital and became victims of corruption spent about 1,847 takas (US $28) annually on corruption. The sum was greater in urban areas (an average of 2,256 takas, over US $36) than in rural areas (an average of 1,711 takas, US $26). Extrapolating from the survey data, the amount of bribes annually paid by patients for services in public hospitals is estimated at 12,500 million takas a year (US $190 million).

Notes

1. Iftekhar Zaman is the executive director and Alim Abdul is a researcher at Transparency International Bangladesh.
2. Corruption Database, (Transparency International Bangladesh (TIB), 2000, 2001, 2002, 2003), see: www.ti-bangladesh.org
3. *Corruption in Bangladesh: A Household Survey* (TIB, 2002), *Corruption in Bangladesh: A Household Survey* (TIB, 2005).
4. In 2004, the sectors covered in the survey were: education, health, land administration, power, taxation, police, judiciary, local government, banking and pensions. The respondents were selected randomly from across Bangladesh. Additional conclusions about this data are drawn from TIB's Corruption Database; a household survey conducted in 2002, a Report Card Survey on Health conducted in 2002 by TIB's Committees of Concerned Citizens; and focus group discussions with patients who sought or received services in Nalitabari Health Complex.
5. *Corruption in Bangladesh: A Household Survey*, 2005.
6. *The Quality of Health Services in Nalitabari Upazilla Health Complex* (TIB, 2003).
7. *Report Card Survey on Health* (TIB, 2002).
8. *Corruption in Bangladesh: A Household Survey*, 2002.
9. *The Quality of Health Services in Nalitabari Upazilla Health Complex*, 2003.
10. Ibid.

GC2006 03 part3 345 9/11/05 10:41:48

24 Governance in Bulgaria's pharmaceutical selection and procurement systems

Patrick Meagher[1]

The selection and procurement of pharmaceuticals in health care systems presents a host of governance challenges. Technically sound decisions about the cost-effectiveness of drugs, and objective evaluations of bids, must be made in a political environment fraught with contending pressures from domestic and foreign companies, patients' and physicians' lobbies, and policy-makers with strong views. In this field, both politics and profits create strong pressures towards rent-seeking and corrupt behaviour.

This research has two components, the first concerning the central processes of drug selection for the health system, and the second focusing on procurement of pharmaceuticals by hospitals throughout Bulgaria. The *drug selection* component focuses primarily on the two major selection processes: the Positive Drug List (PDL) and the National Health Insurance Fund (NHIF) Reimbursement List. The *procurement* component deals with medicines that are chosen from the PDL for hospital formularies and purchased from suppliers.

Findings

The government pays for the bulk of health care through direct Ministry of Health spending and, increasingly, the National Health Insurance Fund (NHIF). The government was estimated to have covered about three-quarters of (formal) medicinal drug expenditures in 2002, about US $375 million. Gaining access to this market for their products requires drug producers to pass through a series of regulatory hurdles – from market authorisation to price regulation and selection for the central drug lists – before they can bid for sales to government, hospitals or pharmacies. The system of drug selection, reimbursement and procurement has undergone major change since 2000, with a raft of reforms implemented for the first time in 2004.

Our research indicates a struggle by international and local drug producers to exert influence at several levels of the system, from policy-makers at the Ministry of Health and NHIF to parliamentarians, associations and parties, hospitals and physicians.

Regarding the selection processes, we found ample – if indirect – evidence of procedural irregularity, including corruption. This evidence comes from interviews, official filings and hearings, and a comprehensive review of media reports (some 5,000 items) for the period from mid-2003 to the end of 2004. Several scandals involving

GC2006 03 part3 346 9/11/05 10:41:48

shell companies and conflicts of interest were reported, in addition to more mundane allegations of bribery.

Furthermore, we asked pharmacy experts to evaluate the Positive List and NHIF Reimbursement List against international benchmarks. A comparison of drug choices against World Health Organization Essential Drugs criteria showed a number of cases of under-inclusion, where older drugs with proven benefits were excluded in favour of newer, more expensive ones. Several cases were also found of over-inclusion, where a high number of alternative name brands were selected, some of them redundant, others of questionable efficacy. Price comparisons with neighbouring countries also suggest that Bulgaria may not be getting the best value for its drug expenditure. These outcomes show weak implementation of essential drugs policy, consistent with (but not proof of) perceptions that corruption plays a role.

Regarding drug procurements by hospitals, we carried out a survey of supplier firms and persons knowledgeable about drug tenders in 148 hospitals, and looked at hospital records. Some evidence was found of incorrect procedure in such areas as bid-ranking, discretionary exemptions of bidders from documentation requirements (which were in any case excessive), and the frequent granting of price adjustments in post-procurement contract amendments. Ethical lapses were also reported, including the use of drug donations by supplier firms to influence subsequent procurements (see Table 24.1, showing perceptions of knowledgeable hospital personnel).

Table 24.1: Influence of drug donations on procurement

Amount of influence (%)	None	A little	Some	A lot	Enormous
Doctors	21.2	36.8	29.2	9.5	3.3
Nurses	26.8	30.3	28.9	10.7	3.3
Pharmacists	59.4	26.1	11.6	0.0	2.9

Institutional integrity

Here, we investigated the following attributes: transparency, accountability, prevention, enforcement and education (that is, on ethics and integrity standards). In the research on selection processes, we gave rankings to these processes with respect to each factor. The information came from responses given in structured interviews, our examination of official documents and records, and direct testing by means of some 15 information requests that our researchers filed under the Bulgarian Access to Public Information Act (APIA). Using international (not regional) best practice benchmarks, we assessed each factor and gave a ranking – most of these rankings for Bulgaria were poor.

The integrity findings broadly matched up with our information on corruption and procedural regularity in the different selection processes. In particular, selection criteria were found to be broad and sometimes quite vague, and there were needless constraints on the openness of selection processes and information access. There appeared to be little rigour or accountability in selection, since multiple name-brands could be listed and it was acknowledged that independent clinical trials and pharmaco-economic studies were rarely done in Bulgaria. Also, there was little effective oversight of selection

GC2006 03 part3 347 9/11/05 10:41:49

and very limited public input. Rules and implementation mechanisms concerning appointments, ethics standards and conflicts of interest appear insufficiently robust to constrain abuses. The extent of integrity (and conversely, vulnerability) varied across selection processes. Bulgaria has taken several important steps to strengthen selection processes, such as defining the Positive List procedure and imposing some level of transparency. Unfortunately, the pressures on the selection system as a whole are considerable, and reforms in particular areas cannot constrain potential abuses in others.

In the procurement component, we found significant variation across hospitals on most factors – but there were no detectable patterns of co-variance (for example, high transparency correlating with high accountability). While respondents tended to give the 'correct' (high integrity) response, we did find patterns such as a paucity of ethics training, along with generally low expectations about whistleblowing or punishment in cases of corruption (see Table 24.2, showing what respondents expected that actual sanctions would be for taking an informal payment).

Table 24.2: Likely punishment for taking an informal payment (% of respondents)

Possible punishments in decreasing order of punishment	Evaluation committee	Pharmacist	Hospital director
Arrest	2.8	0.0	2.4
Dismissal	24.8	27.3	40.0
Suspension	4.3	9.1	7.1
Demotion	2.8	3.6	7.1
Fined	7.5	7.3	5.9
Warning	18.5	32.7	7.1
Dropped from next year's committee	23.2	9.1	24.7
No punishment	5.1	5.5	1.2

Conclusion

This study, using combined methods to examine governance at two levels in Bulgaria's pharmaceutical system, offers a potential model for corruption assessment. In particular, the study shows that a focus on institutional integrity is helpful but requires complementary analysis of social and political-economic factors. The recommendations that flow from these findings point to a range of needed steps in such areas as transparency and oversight, process streamlining, moving parts of the process to independent commissions (or outsourcing), making international standards mandatory in selection processes, and improving corporate governance of hospitals.

Note

1. Patrick Meagher is associate director of the IRIS Center, University of Maryland, United States. The research was sponsored by the US Agency for International Development. The author's views expressed in this publication do not necessarily reflect the views of USAID or

GC2006 03 part3 348 9/11/05 10:41:49

the US government. This summary draws on the author's collaboration with, and on analysis done by, Omar Azfar and Diana Rutherford of IRIS. This work also includes expert background analysis by Jillian Clare Cohen and Judith Fisher of the University of Toronto; and research and survey implementation by Denitsa Sacheva, Roza Evtimova and Mina Popova of the International Healthcare and Health Insurance Institute, Sofia, and its survey affiliate, FACT Marketing.

GC2006 03 part3 349 9/11/05 10:41:49

25 Survey research sheds light on Latin Americans' experience with corruption

Eric Kite and Margaret Sarles[1]

The United States Agency for International Development (USAID) is increasingly using citizen surveys to improve its democracy and governance programmes and measure their impact. In Latin America, USAID completed 11 surveys in 2004, comprising Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama.[2] The surveys probe perceptions of corruption behaviour, and corruption victimisation, all of which can be disaggregated by personal attributes (gender, region, age, ethnicity, income, and so on) and cross-tabulated with political behaviour.

The survey results enable analysis of the depth and effects of corruption, determining the corruption problems most important to particular kinds of citizens, identifying potential constituencies for reform, and suggesting promising approaches for anti-corruption reform. In some countries, these surveys have by now been conducted two or three times, allowing study of corruption and democracy trends. Comparison over time also provides a tool to assist in better matching USAID programmes to the evolving nature of the problem.

The surveys provide compelling quantitative evidence of the corroding effect of corruption on citizens' support for democracy and democratic institutions. Among all of the factors examined, *corruption, along with citizen security concerns, has the most detrimental impact on citizens' confidence in democracy and democratic institutions*. There is a strong negative correlation between the number of times one is victimised by corruption and one's level of support for democratic institutions (see Figure 25.1). Only crime has a similar impact.

In Nicaragua, for example, 'system support' for democracy falls almost by half for a citizen who has frequently (four times or more) been pressed to pay a bribe. In these cases, citizens are willing to consider abandoning democracy as a political system in favour of more authoritarian options. The implication of these findings for governments and those supporting democratic reform is that serious and carefully targeted anti-corruption reforms should play a critical role in the strategy for democratic consolidation.

A second general finding relates to the overall level of bribery in each country, here assessed by corruption 'victimisation'. In general, in Central America and Colombia the figure was around 15 per cent (see Figure 25.2). In contrast, the citizens of Bolivia, Mexico and Ecuador reported experiencing bribery far more frequently.

GC2006 03 part3 350 9/11/05 10:41:49

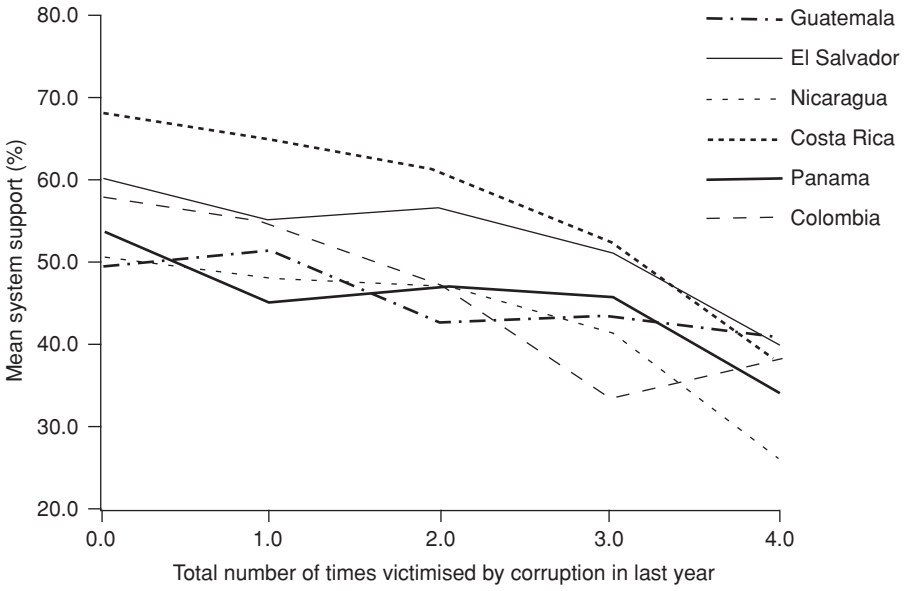


Figure 25.1: Impact of corruption victimisation on system support

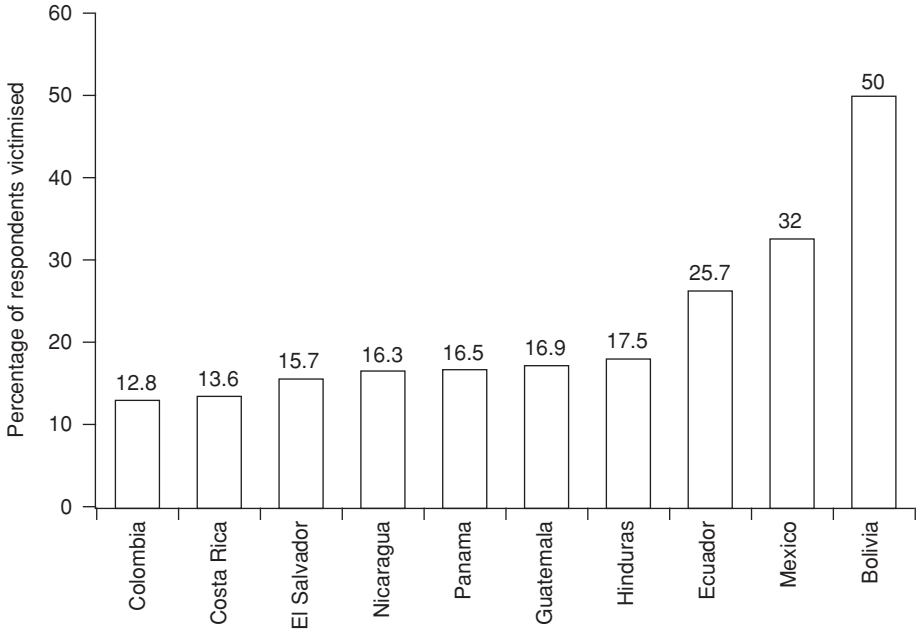


Figure 25.2: Total index of corruption victimisation

GC2006 03 part3 351 9/11/05 10:41:49

The surveys also asked citizens what specific governmental institutions demanded bribes from them. The results varied widely across countries and institutions, and provide rich data for anyone trying to target anti-corruption programmes effectively. Table 25.1 looks at nine countries, summarising citizen responses on whether they faced demands for bribes in different institutional settings: to avoid a false accusation by police; other demands by police, public employees, municipal employees, courts, health services, schools or employers.

Table 25.1: Percentage of respondents who were victimised by bribery, by source of request

	Accused by police	Police demanded bribe	Public employee bribe	Municipal bribe	Bribe at work	Courts	Health service bribe	School bribe
Mexico	9.4	18.0	12.9	20.7	10.3	13.5	9.5	12.7
Guatemala	4.2	6.9	3.3	8.2	6.5	5.0	6.7	8.7
El Salvador	4.7	5.5	4.3	5.3	5.4	4.0	6.6	7.3
Honduras	3.7	5.3	2.7	10.2	9.9	6.6	7.2	11.3
Nicaragua	3.5	3.7	3.4	12.9	12.6	15.5	10.7	9.5
Costa Rica	3.1	3.5	3.2	5.6	4.2	2.7	3.8	8.6
Panama	4.5	6.9	6.0	9.3	6.2	6.5	5.7	6.7
Colombia	4.8	3.8	2.7	5.3	5.6	5.1	7.7	5.5
Ecuador	4.6	9.7	14.8	15.0	11.3	20.5	12.8	23.8

In Ecuador, for example, citizens reported twice the level of demands for bribes from the education sector than in any other country. In Mexico, the police were a greater source of bribery demands than in other countries. Perhaps not too surprising, municipal governments, as the level of government most directly and most frequently in contact with citizens, appeared to be a major locus of demands for bribes.

Some results vary from the results of Transparency International's Corruption Perceptions Index, probably reflecting the purposes and methodology of each of these tools. Indices such as TI's CPI capture perceptions and attitudes related to grand or systematic corruption among high-level public officials, but do not capture the vast majority of citizens' experience in their daily lives. In contrast, the USAID surveys capture some attitudes and perceptions at the national level, but are more squarely focused on the views and experiences of all citizens. Both types of measures have their place, and can be used by policy-makers and researchers to complement each other in examining the phenomenon of corruption in a given country.

Experience with these surveys has been very positive. Citizens have been open to answering very detailed questions about the sources of corruption they experience in their daily lives. USAID plans to provide this survey data to the widest possible community of reformers, policy-makers and researchers for further analysis, by posting it on the Internet in both Spanish and English. Making this publicly funded survey data openly available allows anyone to scrutinise the survey methods and results and,

GC2006 03 part3 352 9/11/05 10:41:50

more importantly, to use the data to improve public policy, better target reform efforts and accurately measure progress.

Notes

1. Eric Kite is a democracy officer for USAID in Kabul, Afghanistan and Margaret Sarles is based at the Office of Democracy and Governance, USAID. Contact details: mekite@usaid.gov and msarles@usaid.gov
2. The 2004 surveys were undertaken by Latin American survey firms and research institutions under the technical supervision of Dr Mitchell Seligson of Vanderbilt University. See his paper 'The University of Pittsburgh Latin American Public Opinion Project's Corruption Victimisation Scale' in the *Global Corruption Report 2004*. Seligson's definition of 'corruption victimisation' refers to citizens' actual experience with public sector corruption.

GC2006 03 part3 353 9/11/05 10:41:50

26 Corruption in Palestinian society

TI Palestine/the Coalition for Accountability and Integrity (AMAN)

In late 2004, TI Palestine/the Coalition for Accountability and Integrity (AMAN) commissioned the Palestinian Centre for Political Studies and Surveys to conduct an opinion poll focusing on levels and forms of corruption in the Palestinian Territories of the West Bank and the Gaza Strip. Questions assessed the extent of *wasta*, the practice of people making inappropriate interventions on behalf of individuals, who do not possess the requisite qualifications or demonstrated work ethics, often resulting in appointments being made on the basis of family connections or party affiliation. *Wasta*, usually translated as 'nepotism', is viewed as a significant source of corruption in the Middle East. The survey was conducted in December 2004, among a random sample of 1,319 adults in 120 residential areas. The statistical margin of error was 3 per cent.

Wasta considered most blatant form of corruption

According to the survey, *wasta* was perceived to be the most common form of corruption in Palestinian society today. Consensus on this point crossed gender, age, education and socio-economic lines. *Wasta* was followed by bribery and personal use of public resources as common forms of corruption. There was a general impression that bribery was more common in the Gaza Strip than in the West Bank.[1] (See Table 26.1.) Nepotism was viewed to be higher in the West Bank than in Gaza.

Nearly a quarter of those surveyed indicated that they, one of their family members, or friends had been asked to intervene by exerting influence over a public official in the Palestinian Authority in order to secure provision of a required public service. From among those surveyed, approximately two-thirds of those working in the public sector indicated that they were asked to intervene, compared with about 46 per cent of those employed in the private sector. Among supporters of Fatah, the ruling party, the figure was 46 per cent, compared with 35 per cent of Hamas supporters who were asked to intervene.

The purpose of nearly one-third of all interventions was to acquire a job. A similar amount of interventions dealt with the police or the security establishment. The rate of interventions related to job-seeking was higher in the districts of Deir Al-Balah, Nablus and the refugee camps, and lower in Tulkarem and Jerusalem. The rate of intervention was higher in the Gaza Strip than in the West Bank for job-seeking (37 per cent compared with 28 per cent) and in relation to the police or one of the

GC2006 03 part3 354 9/11/05 10:41:50

security establishments (37 per cent compared with 19 per cent). In the education sector, however, the rate of intervention was much higher in the West Bank (18 per cent) than in Gaza (5 per cent).

Table 26.1: Locating corruption

'If you, a family member or a friend intervened with a public official or a person responsible in the Palestinian Authority to have a public service delivered, in what organisation/sector or field did this intervention take place? (Choose the most suitable answer).'

	Total %	West Bank %	Gaza Strip %
1. Regulatory offices for business and workplaces	3.7	5.5	1.6
2. Law courts	2.0	1.8	2.3
3. Customs	1.0	1.2	0.8
4. Education (government and private schools, universities, colleges)	12.6	18.2	5.4
5. Public utilities	1.0	0.6	1.6
6. Medical services	4.8	3.6	6.2
7. Passports, IDs and immigration	5.8	7.3	3.9
8. Police or security forces	26.9	18.8	37.2
9. Political party, elected representatives	1.0	1.8	0.0
10. Private sector	1.0	1.2	0.8
11. Social services	6.1	9.1	2.3
12. Tax revenue	0.3	0.6	0.0
13. Employment-seeking	32.0	27.9	37.2
14. No opinion/do not know	1.7	2.4	0.8

Of those who intervened, 52 per cent of men requested a personal favour from a government employee (a public official), compared with only 19 per cent of women. Women more frequently relied on family members to request a personal favour from a public official rather than asking directly: 55 per cent of women surveyed asked family members to seek the personal favour, compared with 28 per cent of men.

A majority of people surveyed – 63 per cent of men and 46 per cent of women – believes *wasta* will become less prevalent in the next few years. Of those who believe that corruption will increase, more live in the West Bank (47 per cent) than in the Gaza Strip (33 per cent).

Locating corruption – employment and the police are most corrupt

Most people surveyed (82 per cent) believe that corruption is most prevalent in the public sector. Only 6 per cent believe corruption is most prevalent in the private sector, while 5 per cent singled out civil society as the most corrupt sector. Gender differences were significant, however, with 75 per cent of women compared with 87 per cent of men indicating that they believe there is corruption in public sector institutions.

When asked from which public institution or sector they would most like intervention to be removed, the top choices of those surveyed were job-seeking and the police/

GC2006 03 part3 355 9/11/05 10:41:50

security sectors, followed by education – the same areas identified as most riddled by *wasta*. More men would like to see *wasta* eliminated from the police and security services than from any other field, while more women would like to see it eliminated from the employment field.

The response to the survey data from public officials was initially negative, on the grounds that the results were not convincing. A number of ministries responded more positively. The Ministry of Health and Higher Education has formed special committees to propose ways of combating *wasta* and has encouraged AMAN to carry out similar surveys on an annual basis.

Note

1. Previous surveys conducted for AMAN revealed that bribery is believed to be concentrated in the higher levels of the Palestinian National Authority. See the findings of the national chapter's report on the Coalition for Accountability and Integrity (AMAN), 'Opinion Poll on Corruption in the Palestinian Society'; http://www.transparency.org/surveys/#palestine

GC2006 03 part3 356 9/11/05 10:41:50