



Development Institute

LESSON PLAN

Private Sector Approaches to Fighting Corruption

Prerequisite: CIPE Development Institute video presentation by Ruslan Stefanov

I. Message

Corruption in the private sector and corruption in the public sector reinforce each other. Therefore, even though traditionally governments are tasked with fighting corruption, it is equally important that the private sector also takes the initiative. Several international conventions have been put in place to combat corruption in the private sector, such as the OECD Anti-Bribery Convention. Many other approaches can be adopted by businesses as well: good corporate governance and corporate citizenship frameworks, codes of conduct, rules of disclosure, or guidelines preventing conflicts of interest. At the same time, governments should ensure open and corruption-free business environment where the rules of the game are the same for all and business interests are legitimately represented.

II. Objectives

1. Discuss the relationship between corruption in the private sector and corruption in the public sector.
2. Explore the impact of corruption on the economy.
3. Understand the role that private sector has in combating corruption.
4. Identify international conventions to fight corruption and their scope.
5. Focus on concrete examples of how business can counteract corruption in Eastern Europe or other regions.

III. Discussion questions

1. What are the supply and demand sides of corruption? How do they relate to the private and public sectors?
2. How does corruption in private sector reinforce corruption in the public sector and vice versa?
3. Why is the private sector important in fighting corruption?
4. What are the formal instruments the international community has in place to fight corruption?
5. What can the private sector do to fight corruption? What has worked and what hasn't worked?

IV. Reading list

Required readings:

- “Combating Corruption: A Private Sector Approach.” Center for International Private Enterprise, March 2008.
<http://www.cipe.org/publications/papers/pdf/Anti-CorruptionToolkit0308.pdf>.
- Shkolnikov, Aleksandr, ed. “Chambers of Commerce: Combating Corruption and Improving Corporate Governance.” Center for International Private Enterprise, June 2005, <http://www.cipe.org/publications/papers/pdf/IP0503.pdf>.
- Sullivan, John D., “Combating Corruption: Private Sector Perspectives and Solutions.” Center for International Private Enterprise, September 2004, <http://www.cipe.org/programs/corruption/pdf/IP0409.pdf>.
- Vincke, Francois and Guy Sebban, “Combating Extortion and Bribery: ICC Rules of Conduct and Recommendations.” International Chamber of Commerce, 2005 edition, http://www.iccwbo.org/uploadedFiles/ICC/policy/anticorruption/Statements/ICC_Rules_of_Conduct_and_Recommendations%202005%20Revision.pdf.

Optional readings:

- Errath, Birgit, ed. “Business Against Corruption: Case stories and examples.” United Nations Global Compact Office. April 2006.
http://www.unglobalcompact.org/docs/issues_doc/7.7/BACbookFINAL.pdf.
- Golovshinskii, K.I. Parkhomenko, S.A. Rimski, V.L. Satarov, G.A. “Business and Corruption: How to Combat Business Participation in Corruption.” INDEM Foundation, 2004, http://www.cipe.org/programs/corruption/pdf/INDEM_English.pdf.
- Satarov, Georgiy. Parkhomenko, Serrgery. Krylova, Dina. And Rostovikova, Yuliya. “Business Without Corruption: An Action Guide.” Center for International Private Enterprise, 2007.
<http://www.cipe.org/regional/eurasia/pdf/INDEM%20OPORA%20brochure%20ENG%200407.pdf>.
- Sullivan, John D. and Aleksandr Shkolnikov, “Changing Perspectives: How Donors can Work with the Private Sector to Reduce Corruption.” Chr. Michelsen Institute 2008, <http://www.cmi.no/publications/file/?3045=changing-perspectives>.
- USAID. “USAID Anticorruption Strategy.” Washington, D.C., January 2005, http://www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/ac_strategy_final.pdf.
- Vincke, Francois and Fritz Heimann, ed. *Fighting Corruption: International Corporate Integrity Handbook*. ICC Books USA, 2008.

V. Lesson plan

The chicken-and-egg problem of corruption

- Corruption is a result of governance failures in both a public and a private sectors
 - Corruption in the private and public sector mutually reinforce
- Functioning democratic and market institutions help limit corruption

Role of the private sector in anti-corruption

- Private sector is an increasingly important part of economies around the world
 - If corruption exists in the private sector, it will transfer to the public sector
 - In turn, public sector policies affect governance in the private sector
- Corruption has two sides: always takes two sides to occur
- Corporate governance at a firm level reinforces the effects of good governance at the government level

Consequences of corruption

- Lower economic growth
 - Squanders economic, environmental, human, and financial resources
- Wasteful indirect tax
 - Generates deadweight loss
- Lower competitiveness
 - Denies a level playing field
 - Produces skewed investment choices and high inefficiencies
- Mistaken perceptions of democracy and free market
 - Lowers public confidence in the government and economy
- Economic fallout
 - Deepens economic crises

International conventions – enforcement remains an issue

- U.S. Foreign Corrupt Practices Act of 1977
- OECD Anti-Bribery Convention
- United Nations Convention against Corruption

How private sector can fight corruption

- Fulfill higher social expectations in the areas of:
 - Corporate governance
 - Corporate social responsibility
 - Sustainable production
- Utilize anti-corruption instruments such as:
 - Strong business associations
 - Voluntary codes of conduct and disclosure rules
 - Whistle-blower protection
 - Mitigating conflict of interest
 - Spreading the corporate culture of transparency, accountability, fairness, and responsibility

Government's role

- Ensure open business environment
- Provide the right legal environment, rule of law, fair competition
- Promote and follow good governance practices
- Create a platform for a policy dialogue with the broader business community

VI. Sample test questions

- 1. True or False: Corruption in the public sector does not transfer to corruption in the private sector and vice versa.**
 - a. True
 - b. False

- 2. Is fighting corruption in the private sector important for improving public governance?**
 - a. No, because private sector corruption has no impact on the public sector.
 - b. No, because corruption matters only in government and in most countries corruption is only negligible in the private sector.
 - c. Yes, because corruption in the private sector reinforces public sector corruption.

- 3. All of these are negative effects of corruption except...**
 - a. Higher FDI
 - b. Squandering of resources
 - c. Lower competitiveness
 - d. Weaker democracy

- 4. Which of the following is not an instrument in fighting corruption?**
 - a. Loose standards for public procurement
 - b. Strong business associations
 - c. Codes of conduct and disclosure rules
 - d. Open and transparent business environment

- 5. What was the first law passed to try to limit bribery internationally?**
 - a. OECD Anti-Bribery Convention
 - b. United Nations Convention against Corruption
 - c. International Anti-Bribery Act
 - d. U.S. Foreign Corrupt Practices Act

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