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Public Transparency and Combating Corruption

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To God, beginning, middle and the end.

To my lovely daughter to be the light of my life.

To my husband for the exempt and constant support.

To my parents for the family structure, education and love.

To my sister for the friendship and admiration for her intelligence.

To the team of CGU who believed in my potential and invested in this work.

To the members of The Institute for Brazilian Issues for the opportunity of the Minerva.

“Ask not what your country can do for you – ask what you can do for your country.”

President Kennedy

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Public Transparency and Combating Corruption

Introduction

The objective of this paper is to develop a cognitive study of the relationship between public transparency, the anti-corruption policies and the economic development of a country. In addition also check the position of Brazil in this area, and show a good example of a Brazilian public police. In this study it is also introduced lines of conduct that could contribute to the acceleration of economic growth.

The aim is to present a conceptual basis of the most used definitions of the issues involved in the discussion of these three major topics, as well as the major existing index for measuring the degree of transparency and the perception of corruption, moreover, this research present forms of control of the public spending, and the economic indicators of development.

Through this presentation, the objective is to make a comparative analysis of the likely costs resulting from lack of public transparency and the existence of corruption, and its causes and effects. The impact on: the decision to allocate private investment, on the global competitiveness of a country; the result of efficiency or inefficiency of government actions for the implementation of public policies; and the political stability and economic growth.

In another approach, it presents a study of the repercussion of data dissemination which until now has not been accessible for citizens by showing a case of success as the Transparency Portal, a site in which the federal government provides information on government spending, in the case of transfers of funds from the federal government to other spheres of government, as well as spending in programs, the cost of purchases and contracting of services, and also the transfer of resources directly to citizens. In addition, it is indicated others programs designed to enhance public transparency.

One of the goals of this paper is to suggest how to increase the awareness of corruption and support governments in preventing and punishing misconduct, especially avoiding

and handling corruption related issues. It also offers recommendation to build a strong and stable public transparency.

The paper is divided in into five sections, the section one presents an overview of concepts about corruption, transparency, accountability and some important index of corruption and transparency. The second section gives an idea about the results that can arise from public policies to enforce government transparency, tools to combating corruption, and the impact of these policies in the private investment decisions . Through the section three, it is explained around experience of public transparency of the Brazilian federal government, in especially about the Transparency Portal. In the section four it is presented final consideration developed by the work. Finally, in section five it is given the literature used as the basis for study.

1. - A conceptual approach

There are several theoretical models defining what would be corruption, but despite the variations of possible interpretations, a good-looking and simple definition is adopted by the World Bank, which characterized the corruption as the use of public office to obtain private gains. These occurrence may result from a variety of ways as: personal favoritism, misuse of resources, tax fraud, influence peddling, and direction of public biddings among others.

From this definition, O'Higgins (2006) argues that the responsibility for the corruption is related mainly with staff members of the public sector, even when it involves transactions between agents of the private and public sector. This inference arouses more attention on the role of officials and representatives of the business and the private sector offering and paying tuition. Despite the crucial involvement of the public official, there is the interference of private agents, so in a more appropriate setting both must be included. The position between these two actors depends on the supply and demand.

Another view on corruption is provided by Canache and Allison (2005), they make a description of political corruption, which covers the abuse of the public for private benefits. Thus their existence can distort the results of the government because of the actors' involvement in acts of corruption that are disproportionate to the benefits of the government. This approach contains the electoral manipulations, financial scandals, misuse of public money, not enforcement of contracts and so on. In addition to all the harmful impacts arising from such behavior, it may also distort the procedures or even prevent the consolidation of democracy.

Despite the different definitions of corruption, it is not worthy of endorsement to have a very specific definition by listing the acts or omissions of a misconduct that characterizes corruption. Such detail in the definition can be a safeguard for the ones who commit acts of corruption that are not mentioned in the definition, with the excuse that his/her behavior is not recognized as corruption. On the other hand, it is important that society has an overview about the definition of corruption.

Corruption may occur in most of the areas, in public or private life, with or without financial benefits, as sexual favors, social inclusion, improvement in political capital,

professional growth by patronage, among others and that is a big problem to deal with, since its recognition is more difficult.

Mathisen, Harald (2007) presented in his paper that “recent experience, shows that neglecting the corruption problem from the outset is a dangerous strategy, as corrupt elites use the interlude to entrench themselves in politics and set up predatory schemes, which makes reform difficult to achieve at a later stage. The need to engage has also been underscored by the international security and anti-terrorism agenda, the need to prevent further conflict, the aim to meet the MDG’s¹, and the recognition that corruption looms in the background as a serious obstacle to positive development outcomes.”

Defining corruption is not enough, the magnitude must be examined whether it’s within a society, and to do so, public opinion surveys based on the perception of corruption are typically used. However, these surveys are usually bias because the research is based on the arguments of individuals who have their personal influences.

To measure the degree of perception of corruption, the indicator most often used is the Corruption Perceptions Index (CPI) of Transparency International. Although these studies provide valuable data, we cannot fail to take into consideration that there is a basic premise that can distort the index. This premise is the very definition of what is corruption, because it’s subjectivity varies from one nation to another, according to cultural aspects. Therefore, a global comparison cannot be an accurate representation of the world context.

Another important aspect to take into account is the relation to the time period. When researchers are done for the CPI, if it is performed in a period of one corruption scandals, it may reflect a greater perception of corruption. In addition, when government's effectiveness in fighting is reported, the case of corruption can generate a distortion of perception, which can contaminate the measurement of this index.

In this way, it is not an indicator objective, because it represents only the perception of corruption, as a consequence this indicator represents an estimation, nevertheless it is

¹ MGDs – Millennium Development Goals represent a global partnership that has grown from the commitments and targets established at the world summits of the 1990s. It is part of the United Nations Development Programme.

fairly useful for the appreciation of the corruption. Below, it is shown the illustration of the map of corruption perceptions index in the world (figure 1.1), followed by the table of the index in the America Countries (table 1.1), both drawn up by Transparency International, as presented.

A country or territory's CPI score indicates the degree of public sector corruption as perceived by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

Figure 1.1

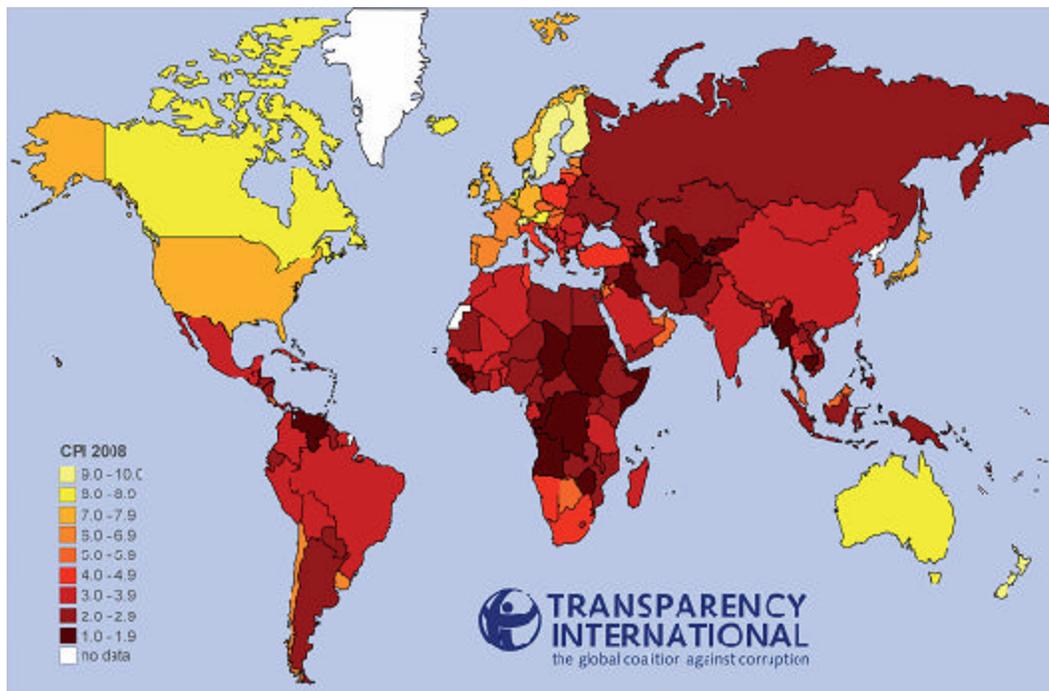


Table 1.1

2008 Corruption Perceptions Index
Regional Highlights: Americas
 Countries/Territories included: 32

Country	Regional Country Rank	Country /Territory	CPI Score 2007	Confidence Intervals	Surveys Used
9	1	Canada	8.7	8.4 - 9.1	6
18	2	USA	7.3	6.7 - 7.7	8
21	3	Saint Lucia	7.1	6.6 - 7.3	3
22	4	Barbados	7.0	6.5 - 7.3	4
23	5	Chile	6.9	6.5 - 7.2	7
23	5	Uruguay	6.9	6.5 - 7.2	5
28	7	Saint Vincent and the Grenadines	6.5	4.7 - 7.3	3
33	8	Dominica	6.0	4.7 - 6.8	3
36	9	Puerto Rico	5.8	5.0 - 6.6	4
47	10	Costa Rica	5.1	4.8 - 5.3	5
65	11	Cuba	4.3	3.6 - 4.8	4
67	12	El Salvador	3.9	3.2 - 4.5	5
70	13	Colombia	3.8	3.3 - 4.5	7
72	14	Trinidad and Tobago	3.6	3.1 - 4.0	4
72	14	Mexico	3.6	3.4 - 3.9	7
72	14	Peru	3.6	3.4 - 4.1	6
72	14	Suriname	3.6	3.3 - 4.0	4
80	18	Brazil	3.5	3.2 - 4.0	7
85	19	Panama	3.4	2.8 - 3.7	5
96	20	Guatemala	3.1	2.3 - 4.0	5
96	20	Jamaica	3.1	2.8 - 3.3	5
102	22	Dominican Republic	3.0	2.7 - 3.2	5
102	22	Bolivia	3.0	2.8 - 3.2	6
109	24	Argentina	2.9	2.5 - 3.3	7
109	24	Belize	2.9	1.8 - 3.7	3
126	26	Honduras	2.6	2.3 - 2.9	6
126	26	Guyana	2.6	2.4 - 2.7	4
134	28	Nicaragua	2.5	2.2 - 2.7	6
138	29	Paraguay	2.4	2.0 - 2.7	5
151	30	Ecuador	2.0	1.8 - 2.2	5
158	31	Venezuela	1.9	1.8 - 2.0	7
177	32	Haiti	1.4	1.1 - 1.7	4

Source: Transparency Internationals

In the launched of the 2008 Corruption Perceptions Index, by Transparency Internationals, the open address was: “In the poorest countries, corruption levels can mean the difference between life and death, when money for hospitals or clean water is

in play.” “The continuing high levels of corruption and poverty plaguing many of the world’s societies amount to an ongoing humanitarian disaster and cannot be tolerated. But even in more privileged countries, with enforcement disturbingly uneven, a tougher approach to tackling corruption is needed.” said Huguette Labelle, Chair of Transparency International.

Another term very important is accountability, but it is a concept not very known by the general public, but very relevant for public transparency, it means that the people with same administrative responsibility have to be accountable to their controllers and represented.

The effectiveness of the accountability depends very much on the punishments of people with misconduct and the capacity of monitoring actions by the accountability organization, as well as the impact of public officials’ decision on private interests.

As political accountability increases, the cost of public officials making decisions that benefit their private interests at the expense of the broader public interest also increases, thus it works as a disincentive for corrupt practices, as the result of a cost/benefit analysis.

Usually it was concluded that transparency is directly related to accountability. Thus, when requiring transparency it is attempt to achieve the result that the citizens, markets and even the government can maintain institutions accountable for their policies and performance.

The Organisation for Economic Co-operation and Development (OECD) describes a transparent business environment as one in which economic agents possess essential information about the environment in which they operate and that search cost and information asymmetries do not place an undue burden on them.

From these assumptions, it is commonly discussed that transparency reduces the uncertainties of the market and policy decisions that result in greater predictable public policies, which impact on more efficient markets.

2. - Public Transparency and Combating Corruption

Transparency is one of the most powerful tools that can be used to control public expenditure and combat corruption, as well as society inclusion. Transparency can be fostered by many different ways, as report of the government, opening sessions of the congress and disclosure votes of their members, exhibition of the judge's decisions, and much more.

Apart of all this aspects, it is decisive the participation of the media, that can make transparency a reality to the citizens. Although, because of this power, the media have to be monitories too, in the aspect of not use or manipulate the public opinion.

There are a lot of instruments, laws as well as agency against corruption. Regulatory markets, prohibitions on and disclosure of conflict of interest, ethics codes, disciplinary committees, asset declaration laws, procurement laws, party financing laws and regulations on lobbying are some of best practices around the world in deterring corrupt behavior. To be fully effective, however, such laws need oversight and implementation bodies.

From freedom of information laws, whereby citizens can demand the disclosure of information regarding government activities in order to stimulate the reporting of corruption cases, it can further reinforce the impact of increased transparency on accountability.

The World Bank presents the theses that powerful elites influence decisions and policy-making of the state (state capture) and also hampers the construction of a fair, competitive, honest and transparent private sector and thus hinders broad-based economic development.

However, there are ways to constrain the state capture, and list below as defined by the World Bank is a very good orientation of how to do it:

- ? *Economic policy liberalization;*
- ? *Enhancing greater competition;*
- ? *Regulatory reform;*
- ? *Good corporate governance;*
- ? *Promoting business associations, trade unions, and concerned parties; and*
- ? *Transnational cooperation.*

Economic policy liberalization

Deregulation of prices or other aspects of production or trade are important steps toward reducing opportunities for corruption. Implicit price subsidies, in the form of tax and utility arrears, provide politicians and bureaucrats with discretionary power that is highly subject to abuse. Liberalization can help to reduce this discretionary power, but only if reform is undertaken in a transparent and nondiscriminatory way; otherwise, there is a risk that the reform process itself will be corrupted.

Enhancing greater competition

Enhancing competition, especially in concentrated sectors, by lowering barriers to entry, requiring competitive restructuring, and clarifying ownership structures are important elements toward creating a vibrant and corruption free private sector.

Transparency in formulating and implementing economic policy is crucial to combating corruption, especially in the areas of privatization and regulation. Privatization bears considerable risks of corruption if not administered properly. Competitive restructuring of firms prior to privatization on a case-by-case basis can reduce possibilities for corruption, although political obstacles can impede this process. Competent agencies to administer law on competition policy, antimonopoly laws, and unfair trade practices can also help. Competition can also be strengthened by introducing greater transparency in the ownership structure and operations of firms and banks, through requirements on financial disclosure and arm's-length relationships, efficient registries, and better supervision of their operations by independent regulatory bodies

Regulatory reform

Proper regulation of utility companies and other industries in which competition remains imperfect is important to reducing corruption. The establishment of independent regulatory agencies, both at the central and at the local level where regulatory capture is most pronounced, can be effective in promoting efficiency and limiting opportunities for corruption, as long as such institutions operate with transparency (public hearings), simplicity (well defined, rules-based principles), and

accountability (election of regulators or term limitations). Similar practices for regulating more routine aspects of business operations, such as registration (one-stop registration) and workplace safety (simple and clear rules for site inspections), are crucial to limiting harassment of businesses by bureaucrats and promoting new entry and growth. For all types of regulation, firms should be provided with low-cost methods of disputing administrative decisions

Regulatory Reform in Hungary, Poland, and the Czech Republic

The experience of Hungary, Poland, and the Czech Republic in reforming their economic regulations demonstrates that improved regulatory performance is not exclusively a function of reducing the number of regulations in force. Clear rules defining when government intervention is appropriate as well as improvements in the quality of regulatory instruments are critical in establishing effective regulations that are enforced in accordance with the rule of law.

Hungary has focused on improving the quality of its regulations and on eliminating unnecessary regulations. Although nearly two-thirds of its firms are still required to obtain licenses in order to operate, the government ranks high in the quality of its operations, placing first out of 20 transition countries in the EBRD Governance Index. While Hungarian entrepreneurs display confidence about their relationship with government officials (only one-quarter of firms doubt the security of their property rights), ensuring the transparent and consistent application of official requirements will remain a critical challenge in the coming years, especially as functions shift to local governments.

Poland's efforts to improve its regulatory environment have focused on establishing explicit rules to define when economic regulation is appropriate. The first step to reduce the role of government was taken in 1988 with passage of a liberal Law on Economic Activity. Over the next ten years, the absence of clear principles or criteria to guide government intervention led to the gradual but steady growth of licensing and permits requirements. By 1997, permit and licensing procedures were identified by entrepreneurs as the greatest obstacles to business operations. Poland's leadership in the region in terms of private sector expansion and public sector contraction was being subtly undermined. With the second Law of Economic Activity, passed in 1999, the

parliament has now sharply reduced the number of activities subject to licensing and created a comprehensive approach to licensing and permit requirements. Poland now faces the challenge of adapting its rules for creating and implementing regulations to bring them into accordance with its enacted regulatory principles. Distortions at the subnational government level in the implementation of licensing and permit rules, especially relating to land and construction, will also need to be tackled.

The Czech Republic began the transition period with a deep ideological commitment to giving free rein to market forces. The government sought to remove or limit regulations even in those areas where government involvement is usually seen as essential, such as in the securities market. In response to repeated crises, the present government is defining a more activist role for government, but little attention has been given to improving regulatory quality or to creating clear principles concerning government intervention in the economy. Regulatory expansion is occurring without sufficient attention to enhancing transparency and accountability. The problems caused by the successive approaches to regulation are evident: fully 50 percent of respondents doubt the security of their property rights and entrepreneurs believe that crime and corruption are their most serious obstacles. The Czech Republic's current predicament demonstrates that regulatory reform requires the creation of effective regulatory institutions and a framework of market rules as much as it requires the elimination of unnecessary rules.

Good corporate governance

Weak institutions for corporate governance not only result in inefficiency, they encourage corruption. Poorly governed managers often use their positions to extract favors from the state which they can later expropriate, rather than reinvest into restructuring their own firms, to avoid sharing their gains with other stakeholders. Corrupt behavior is often difficult to detect, especially in countries where transactions are obscured through the use of barter and other money surrogates as the means of payment. A wide array of corporate governance reforms have proven effective in curbing both incentives and opportunities for corruption, including: public disclosure of share ownership and cross-holdings; strong penalties for insider trading and pyramid schemes; the appointment of outsiders to boards of directors; the introduction of

regular, published independent audits of financial accounts based on standardized rules; the establishment of an effective legal framework for the exercise of creditors' rights; and the strong enforcement of ethical standards

Promoting business associations, trade unions, and concerned parties

Business Associations are a means of engaging in collective action, providing a more powerful since unified voice and protecting the single firm from potential backlashes or competitive disadvantages while pursuing ethical business practices. Business associations can serve as a legitimate instruments to represent collective interests in the formulation of law and policy

Countries in which firms can find expression in legitimate collective associations are less likely to suffer problems of capture and administrative corruption.

Transnational cooperation

Foreign direct investment does not always import higher standards of corporate behavior into developing countries, especially those in which state capture and administrative corruption have already reached high levels. Indeed, corruption in international trade, especially bribery of licensing and customs officials, is one of the most common and costly forms of corruption, resulting in the loss of billions of dollars each year in fiscal revenues in countries in transition. Proceeds from corruption often end up in foreign bank accounts or are laundered through foreign banks. The international community has mobilized to develop instruments against transnational corruption. A number of international conventions that have the aim of intensifying and harmonizing the detection and punishment of transnational corruption, and which have potential importance for countries in transition, are available for signature

Mendel, Toby (2008) organized nine international and comparative standards that about freedom of information legislation:

- Principle 1. Maximum disclosure. Freedom of information legislation should be guided by the principle of maximum disclosure.
- Principle 2. Obligation to publish. Public bodies should be under an obligation to publish key information.

- Principle 3. Promotion of Open Government. Public bodies must actively promote open government.
- Principle 4. Limited Scope of Exceptions. Exceptions should be clearly and narrowly drawn and subject to strict “harm” and “public interest” test.
- Principle 5. Process to Facilitate Access. Requests for information should be processed rapidly and fairly and an independent review of any refusal should be available.
- Principle 6. Costs. Individuals should not be deterred from making requests for information by excessive costs.
- Principle 7. Open Meetings. Meetings of public bodies should be open to the public.
- Principle 8. Disclosure takes Precedence. Laws which are inconsistent with the principle of maximum disclosure should be amended or repealed.
- Principle 9. Protection for Whistleblowers. Individuals who release information on wrongdoing must be protected.

2.1 - Fostering Social Control

Social control is a form of control that still can and should be further explored in Brazil, mainly because of the continental size of the country and its large population. Furthermore, this form of control has sufficient range to reach the farthest corners of the country, with a relatively low operational cost, in comparison to formal government control.

Taking into account these premises, and also the fact that social engagement is treated in different parts of the Federal Constitution of Brazil as in the article 1º and article 37, thus becomes the subject of great importance for its constitutional status, and transparency becomes an important item in the agenda issues for the new millennium.

Apart from the Federal Constitution, the Brazilian legislature meets the social demands, to establish the Law of Fiscal Responsibility, and impose some instruments of transparency to be adopted by the public administrator. Besides, the growth of popular

participation reflects the increasing awareness of active citizenship, which in itself should be promoted by the State.

At this law were established instruments of transparency, control, supervision, and others who guide and supervise public managers to improve conditions for inspection, by the implement of regulation to the public finances towards a responsibility in fiscal management and other measures.

There are several ways to promote the social control, however a special mention must be given to public transparency, without which, it is very difficult to implement this control. Thus without adequate and timely information, the citizen is injured in his/her right to direct exercise of power (Federal Constitution of Brazil - article 1: "All power emanates from the people, which carry through elected representatives or directly under the Constitution").

It is important to highlight that the modernization of supervisory boards and the stimulation of social control are the main instruments to curb the diversion of public resources. Although it appears, the available studies on the subject, that the actions to promote social control take more time, and, moreover, these actions tend to be more effective, since that such actions are supported by transparency and publicity.

The information made available to the citizen should be placed in simple language, even if it relates to technical content, so that ordinary people can understand it without any problems, and also allow easy access with low cost. This way, the expansion of government channels of communication with citizens about their activities and expenses is extremely important and certainly, the Transparency Portal is a fine example of public policy toward this goal.

Despite the existence of information available, it should be emphasized that even if such information is in common language, in other words, without technical vocabulary, sometimes it is presented with aggregate data or without comparative basis which just makes the reading by the public unproductive.

Obviously that solely with public transparency of government information, it will not occur a great increase of the civil society participation, however without this, the direct participation of ordinary citizens it is almost prohibited.

The social control through transparency and citizenship, is feasible only through the combined efforts of social institutions with government and other configuration tools such as: public consultation, referendum, plebiscite, participatory budgeting, finally, mechanisms of direct participation, they are conquered by social demands or delegated by representation of its candidates elected.

The society should not only be legitimating the actions of government, but also participant, demonstrating their needs, their desires, their complaints and suggestions. There must have a renewal of the culture of the state and society to have a constructive dialectic.

The participation of the media is of a vital importance to the dissemination of events, especially the investigative reports that have contributed heavily to unknown facts come to light, and therefore will encourage the participation of society in the choice of paths to be taken to achieve "justice." To this end, the prediction of constitutional free speech and free press is crucial to achieve the uniformity of knowledge of matters of public interest.

A mobilized society is an element of pressure in search of the common good, and partnership of the press can be a great ally for the dissemination of facts and events of general interest. With the sum of efforts of citizens, bodies and civil organization it is possible the effectiveness in combating the misconduct in care and the adequacy of social demands.

2.2 - Impact on Private Investment Decisions

Corruption is a serious obstacle to development. Considering the fact that it weakens and it destabilizes democracy, as well as subvert formal procedures and good governance. Moreover, corruption hampers economic and social growth by creating distortions and inefficiencies, and especially to the poorest, because prevent they to a fair access to public services.

Competitiveness is the key of business, economic growth in this sense is directly connected to this key. In aggregate terms a competitive country is one that meets conditions to produce more efficiently, explore opportunities, and resources available.

In this context corruption is an obstacle, since it makes the business environment less stable and increases the cost of productive investment. Thus corruption creates an economic cost to be fought.

Silva, Garcia and Bandeira (2000) present in their work that in countries where corruption is widespread, for each monetary unit invested, much is wasted, which involves an investment, in fact, lower. Corruption can also charge the wealth of a nation and its economic growth also deters new investment to create uncertainty about the ownership of private and social rights. Political and institutional risks are always considered by domestic and international investors. When such risks are high, projects and investment plans are postponed or even canceled. In extreme cases, the chronic corruption countries also lead to a state of permanent political crisis, which can end in civil wars.

The money diverted by overbilling of public works and tax evasion is needed to invest in infrastructure and public health. Such practices not only reduce revenue, but also have devastating effect on the creation of jobs. It is estimated that in economies in which corruption has intermediate standard in international terms, private investment is lower than in nations with highest ethical index. Thus, corruption worsens the inequality for the simple fact that diverts resources from programs of government that worth it to social and economic growth.

Smarzynska and Wei present in their analysis the negative relationship between the extent of corruption in a host country and the probability of foreign investment. They also show that foreign investors with more sophisticated technologies and those operating in corrupt countries are indeed more likely to retain full ownership of their projects than to engage in Joint Ventures.

The reason of this observation is based in the fact above all, that corruption discourages foreign investment. This happens, mainly because corruption makes local bureaucracy less transparent and hence increases the value of local joint venture partner to a foreign investor. In other aspect of the observation, it was concluded that foreign investors with sophisticated technology make concerned about leakage of technological know-how by joint venture partners and are thus less inclined to form a joint venture.

In the specific case of the USA, due to the fact that the American legislation has the Foreign Corrupt Practices Act of 1977, which stipulates penalties for executives of American companies whose employees or local partners engage in paying bribes, the American investors are to a certain extent hesitant to form joint ventures in more corrupt countries.

PricewaterhouseCoopers (2001) present in its study to the organization of Opacity Index, the empirical results of its research indicates that lack of transparency imposes significant costs to private investors (individuals or companies), as well as to countries. As the true costs of opacity are increasingly understood and publicized, measures to achieve greater transparency and provide it with a firm regulatory basis will surely rise in priority on the agendas of governments and international commissions. The Opacity Index is neutral in its research methods and mathematics, but it points unmistakably to the benefits of transparency for nations, governments, businesses, and the public at large.

For the Latin American countries, the first report on the Opacity Index, to be followed by others at regular intervals, provides estimates of the adverse effects of opacity on the cost and availability of capital in 35 countries. It offers a composite "O-Factor" score for each country, based on opacity data in five different areas that affect capital markets: a- corruption, b- legal system, c- government macroeconomic and fiscal policies, d- accounting standards and practices (including corporate governance and information release), and e- regulatory regime.

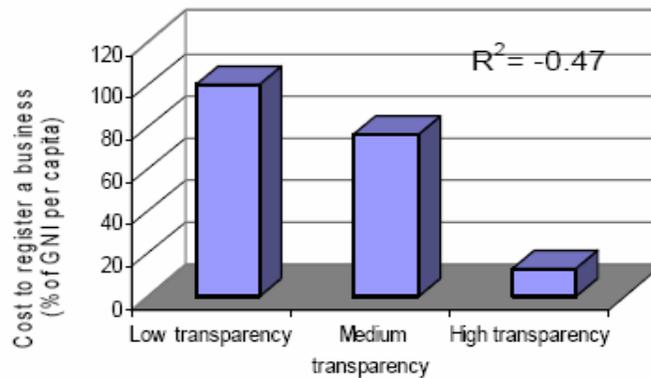
From the studies available, it appears that transparency is directly related to income, and also to a positive correlation between institutional governance and cross-country differences in income per capita. It appears that countries with higher levels of wealth are usually the most transparent.

Through another perspective, it is observed that transparency also has an impact on the competitiveness of local businesses. So that, as more transparent is the environment, more it can contribute to increase the rate of return of investments in many ways. To the extent that public policy is clear and with transparent procedures, the decisions of businesses become more efficient, since the uncertainties tend to be smaller. More transparent countries also seem to be more competitive in the global market.

Bellver, and Kaufmann (2005), set a correlation taking the establishment of a business as an example of administrative procedure, and find that more economic/institutional transparency is associated with lower costs to register a business. They show how on average, in low transparent countries more than eighty per cent of income per capita is needed to register a business, compare to the thirteen per cent in countries with high transparency (figure 3.1).

Figure 3.1

Ec/ Institutional Transparency and Cost to register a business



Source: Cost of business: World Development Indicators, 2002; Ec/ Institucional Transparency index 2005.

These authors consider that the transparency in the public sector can also be a mechanism to promote direct competition. Considering that with clear procedures for public procurement of the government results in a broader competition among suppliers, leading to better quality of the services and products offered.

Blackburn, Boseb and Haque (2006) concluded that in a neoclassical growth model, economic development and bureaucratic corruption are determined jointly dynamic phenomena, depending on economic growth, bribery and tax evasion. Corruption is the incentives of public and private for conspiring in the concealment of information to the government. These incentives depend on aggregate economic activity which, in turn, depends on the incidence of corruption.

From the model studied, for the authors are many development schemes, transition periods, including the corruption may or may not happen. Finally, it arrives at empirical

evidence that the model infers the existence of a negative relationship between corruption and development.

Parryn (2008) present the explanation that public transparency can help more than improve monitoring of fiscal risks, it can also invigorate the business environment and attract investment by simplifying tax and business regulations and limiting administrative discretion.

Thus, transparency does not only benefit the private sector in terms of efficiency in business. When the government purchases goods and services through public and transparent contracts, it also enjoys the results of transparency, because it enhances competition among suppliers, tending to a result of better quality at a price proportionately lower.

Stiglitz (1999), widely known for his liberal ideas, insists that individuals have the basic right to know and be informed on governmental activities and take the necessary justifications. Complement his argument saying that citizens have the right to know about the public agent's behavior. However, beyond human rights and the arguments of market efficiency, transparency, for everything it represents, is crucial to human development, even as it is essential to incentive redistribution, inclusion, competitiveness and reduction of corruption

Based on these theoretical discussions about political economy, concerning the great importance of making the information available to achieve economic and social growth, it is possible to conclude that transparency is important, not only because of the increase in the efficient application of resources, but especially serves as a basis for public policies to ensure the redistribution of benefits from this growth, instead of being captured by elites.

Based on theoretical studies on the subject, it is clear that international investors, especially investment funds do not tend to choose countries with low transparency, given the uncertainties arising from this opacity, that consequently increase the risks involved.

Bellver, and Kaufmann (2005) conclude that the message that emerges from the literature is clear, investors tend to stay away from countries with high corruption levels

and lack of reliable information. However, the existence of issue of causality is difficult to prove. Taking into account that it is not absolute the deduction that those countries that became rich due to their greater transparency or due to the fact of becoming rich resulted in more transparency. This dilemma is the fact that several countries that are transparent also have otherwise public policies. This way, the relations of causality, by the transparency, as by other public policies are difficult to analyze the consequence.

These authors also indicate the study of Glennerster and Shin, that using “a number of techniques to separate out the effect of transparency from these other factors and they found that countries that adopted transparency reforms, introduced and encouraged by the IMF after the 1997–98 Asian crisis, saw substantial reductions in their spreads relative to those that did not adopt the reforms. Greater transparency not only reduced the borrowing costs for those countries who adopted the reforms but also encouraged them to follow better policies (for example, publishing accurate reserves figures is likely to encourage countries to hold higher levels of reserves). The study found no evidence that countries published only when they had good news to share.”

In another aspect, transparency has been related to the issue of governance, particularly when it is negative. Therefore it is consensus that low levels of governance are directly linked to results low economic and social growth.

This approach by the study of Kaufmann and Kraay (2002) presents a causal relationship between governance and growth, despite the strongly positively correlated across countries. In their analysis, they analyze separating this correlation in two theses. First the strong positive causal effect and second the negative causal effect.

They demonstrated that: the first these was confirmed by the existence of evidence on the importance of good governance for economic development; the second these suggest the absence of virtuous circles, in which higher incomes lead to further improvements in governance. Quite the opposite, as countries become richer, influential elites can resist demands for improvement in governance as evidence on state capture in some.

In another view, there is strong evidence that the existing gap of transparency in a country makes investors more cautious, according to some extent, the positioning of

other groups of investors. Therefore, in times of economic crisis the international investors fleeing in band of the less transparent country to invest in more transparent ones, which undoubtedly aggravate the moment of crisis in the country where the capital is cut off.

Transparency and disclosure mitigate the information asymmetry and have been long recognized as an integral part of corporate governance.

3. - Experience in Public Transparency

3.1 – Good experience of Brazilian Federal Government

Brazil has been highlighted in programs aimed to increase public transparency, particularly with the use of the Internet. When it is checked what is available to citizens via the Internet it is found a range of sites with information of all kinds, at different levels of government (federal, state and municipalities).

This effort of transparency can be viewed in the federal executive power in the following sites:

- ? E-gov;
- ? Portal da Transparência (Transparency Portal);
- ? Páginas de Transparência (Pages of Public Transparency);
- ? Portal ComprasNet (Purchasing Portal);
- ? Portal Brasil (Brazil Portal);
- ? Portal de TIC (Information and Communication Technologies Portal);
- ? Portal de Inclusão Digital (Digital Inclusion Portal);
- ? Portal de Convênios (Agreements Portal); and
- ? Rede Governo (Government Net).

The development of “Electronic Government” has in principle the use of modern information and communication technologies (TICs) to democratize access to information, streamline and expand discussions to provide public services with a focus on efficiency and effectiveness of governmental functions.

In Brazil, the policy of Electronic Government follows a set of guidelines that work on three key fronts: with the citizens, in improving its own internal management, and integration with partners and suppliers.

What is intended with the Brazilian Electronic Government Program is the transformation of government relations with citizens, businesses, and also between organs of government itself in order to improve the quality of services, promote interaction with businesses and industries, and strengthen citizen participation through access to information and a more efficient administration.

3.2. - The Transparency Portal, a case of success

Around the world, many positive policies have been implemented in combating corruption, such as the establishment of independent bodies of supervision, reform and regulation of public services and civil servants, law with heavier penalties for misconducts, among others. But, certainly a point of agreement among scholars of the subject combating corruption is the requirement of the implementation of public information, which allows access to population on what and how things are happening in their country. One of the best examples of public policy for the dissemination of information is the Transparency Portal of the Brazilian government.

The Transparency Portal (www.portaldatransparencia.gov.br), created in November 2004 (see figure 3.1), aims to promote transparency of public administration and stimulate society participation and social control. It is a channel through which the citizen can monitor the financial execution of government programs, at the federal level.

In the Portal, information is available on the federal public funds transferred by the federal government to states, municipalities and the federal district. The purposed of this is to the achievement of decentralized government actions. The funds transferred directly to the citizen and finally, the data on expenditures made by the federal government in buying or hiring works and services.

Figure 3.1



With no doubt, the Transparency Portal today is the most comprehensive database on the spending of the federal government open to the whole society, thus representing an unprecedented initiative for public transparency in Brazil, unlike any other in the world.

This is an initiative of the Office of the Controller General (CGU) to ensure proper and correct application of public resources. It does not require access to a password or any kind of pre-registration. In addition, it is presented in a simple language. Its goal is to increase the transparency of public administration and combat corruption in Brazil.

Before the Transparency Portal, there were isolated initiatives of sites and portals to provide information on government meetings. However the vast majority of them were not able to ensure public transparency, because the information available was piecemeal, ad hoc and tight, not allowing a full understanding of the contents exposed.

The data included in the Portal is the responsibility of each ministry, related to the management of government actions in their area of expertise. The CGU, in turn, gathers and provides information about the application of federal resources in the Transparency Portal. The update of information (data on financial performance) is monthly. The

information available on the Portal are from the National Health Fund (when the theme is of the Ministry of Health), from the Caixa Econômica Federal (when it refers to the Ministry of Social Development, Fight against Hunger and the Ministry of Agrarian Development), from the National Treasury Secretary (when the theme is on the Integrated Financial Administration System of the Federal Government - SIAFI) and from the Bank of Brazil (when data relates to payment cards of the Federal Government).

In addition to the Transparency Portal, the federal government, driven by the mission to promote more transparency in public spending, provides citizens with the Public Transparency Pages. This extends the terms of knowledge and control of the use of resources generated by the payment of taxes.

The Public Transparency Pages were introduced by Decree nº. 5482 (June 2005), which impose the obligation of disclosure information by all agencies and entities of the federal government, on the Internet. The page features information on budget execution, bids, contracts, agreements, and passages that occur daily in their respective fields.

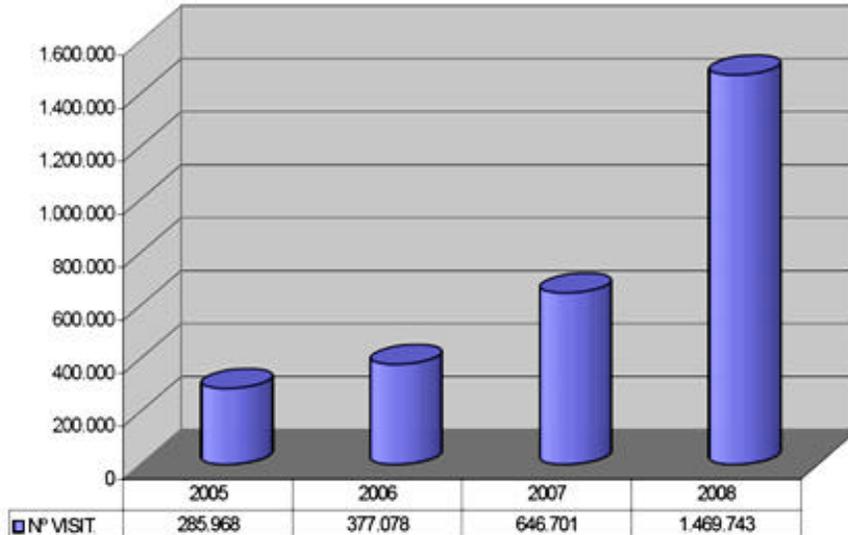
The Public Transparency Pages is responsibility of each organ of government, direct and indirect, of the Federal Executive Power. Access to these sites is through the actual site of the organ of government and also via Transparency Portal. These pages provide continuity to the policy of the government towards an increment in social control and they complement the information available on the Transparency Portal.

With no doubt the Transparency Portal is a case of success of the Brazilian government, insomuch that it resulted in a significant increase in the number of visits to the website, when compared with data from previous years. To have an idea of this growth, based on data collected by CGU, in 2007 the number of visits to the website was a little more than 50,000 monthly, however when considering the year 2008, for the same period, the access exceeded the monthly average and reached 122,000, resulting in an average increase of more than 100%.

Regarding the number of visits per user, or in others words, the number of times a user accessed the Transparency Portal, was a substantial growth verified, which reached the

maximum of 176,041 visits in December, reaching a cumulative 1,469,743 visits. (see figure 3.2)

Figure 3.2



Although the Transparency Portal is an initiative of success, this alone it is not enough to enable social participation, and regard support. In this regard the Brazilian government has reacted positively, especially in the actions implemented by the CGU. This includes the program Keeping an Eye on Public Money (Programa Olho Vivo no Dinheiro Público); distribution of 1,235,000 copies of the Handbook “Olho Vivo no Dinheiro Público”, which is a guide for application and supervision of public resources; and also the training of 3,458 public agents, 3,320 council members, 3,433 municipal leaderships, 428 teachers and 3,931 students.

To demonstrate what is displayed in the Portal, the table 3.1 shows the transfer of funds from the federal government, information extracted from the Transparency Portal. Such information can reach the level of detail on the individual that receive public resource, the subject of the search depends of the criteria selected.

Table 3.1

ORIGIN OF DATA – Transfer of Resources			
Origin	Update by	Volume	Value
Fundo Nacional de Saúde – FNS	September/2008	2.967.557 records	R\$ 141.966.522.750,99
Secretaria do Tesouro Nacional – STN (Origem SIAFI)	September/2008	4.497.222 records	R\$ 497.504.132.461,98
Caixa Econômica Federal – CEF			
- CAIXA - Auxílio Gás	September/2008	79.427.912 records	R\$ 1.191.438.277,50
- CAIXA - Programa Agente Jovem	September/2008	629.163 records	R\$ 40.895.595,00
- CAIXA - Programa Bolsa Alimentação	September/2008	3.427.035 records	R\$ 66.965.265,00
- CAIXA - Programa Bolsa Escola	September/2008	82.463.698 records	R\$ 1.842.527.175,00
- CAIXA - Programa Bolsa Família	September/2008	501.195.839 records	R\$ 34.222.696.506,00
- CAIXA - Programa Cartão Alimentação	September/2008	5.723.637 records	R\$ 286.181.850,00
- CAIXA - Programa de Erradicação do Trabalho Infantil	September/2008	7.219.645 records	R\$ 226.731.670,00
- CAIXA - Programa Garantia Safra	September/2008	3.593.250 records	R\$ 397.253.470,00
TOTAIS		691.144.958 records	R\$ 677.745.345.021,47

ORIGIN OF DATA – Direct Applications			
Origin	Update by	Volume	Value
Secretaria do Tesouro Nacional – STN (Origem SIAFI)	September/2008	28.292.669 records	R\$ 4.111.551.978.745,82
TOTAIS		28.292.669 records	R\$ 4.111.551.978.745,82

ORIGIN OF DATA – Card Payments of Federal Government			
Origin	Update by	Volume	Value
Banco do Brasil	October/2008	591.599 records	R\$ 197.334.886,36
TOTAL		591.599 records	R\$ 197.334.886,36

Volume of data in the Transparency Portal		Volume	Value
TOTAL GENERAL		720.029.226 records	R\$ 4.789.494.658.653,65

With such data of magnitude available in a quick and easy access, the general population have a valuable tool to evaluate public management, this combined with the participation of civil organizations, and in a largely activity of the press, it has a positive result in the monitoring of public spending.

The relevance of the data available on the Transparency Portal can be attested by the daily use of its information by the media in the presentation of data from governmental resources. Such information is also used to check of possible inaccuracies in the application of resources, facts that can be reported to the competent authorities in various ways, including by the Portal to CGU, the body responsible for monitoring the correction in the use of public resources.

According to the International Budget Partnership (IBP) eighty percent of the world's governments fail to provide adequate information for the public to hold them accountable for managing their money, according to an extensive new report Open Budget Survey 2008.

The Open Budget Survey is a comprehensive analysis and survey that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at the national level. The IBP works with civil society partners in 85 countries to collect the data for the Survey. The first Open Budget Survey was released in 2006 and will be conducted biennially.

As shown in figures 3.3 and 3.4, Brazil is in 8th place in the world according to the IBP in the ranking of budget transparency. Brazil's score on the Open Budget Index shows that the government provides the public with substantial information on the central government's budget and financial activities during the course of the budget year. This gives citizens some tools to hold government accountable for its management of the public's money.

Figure 3.3

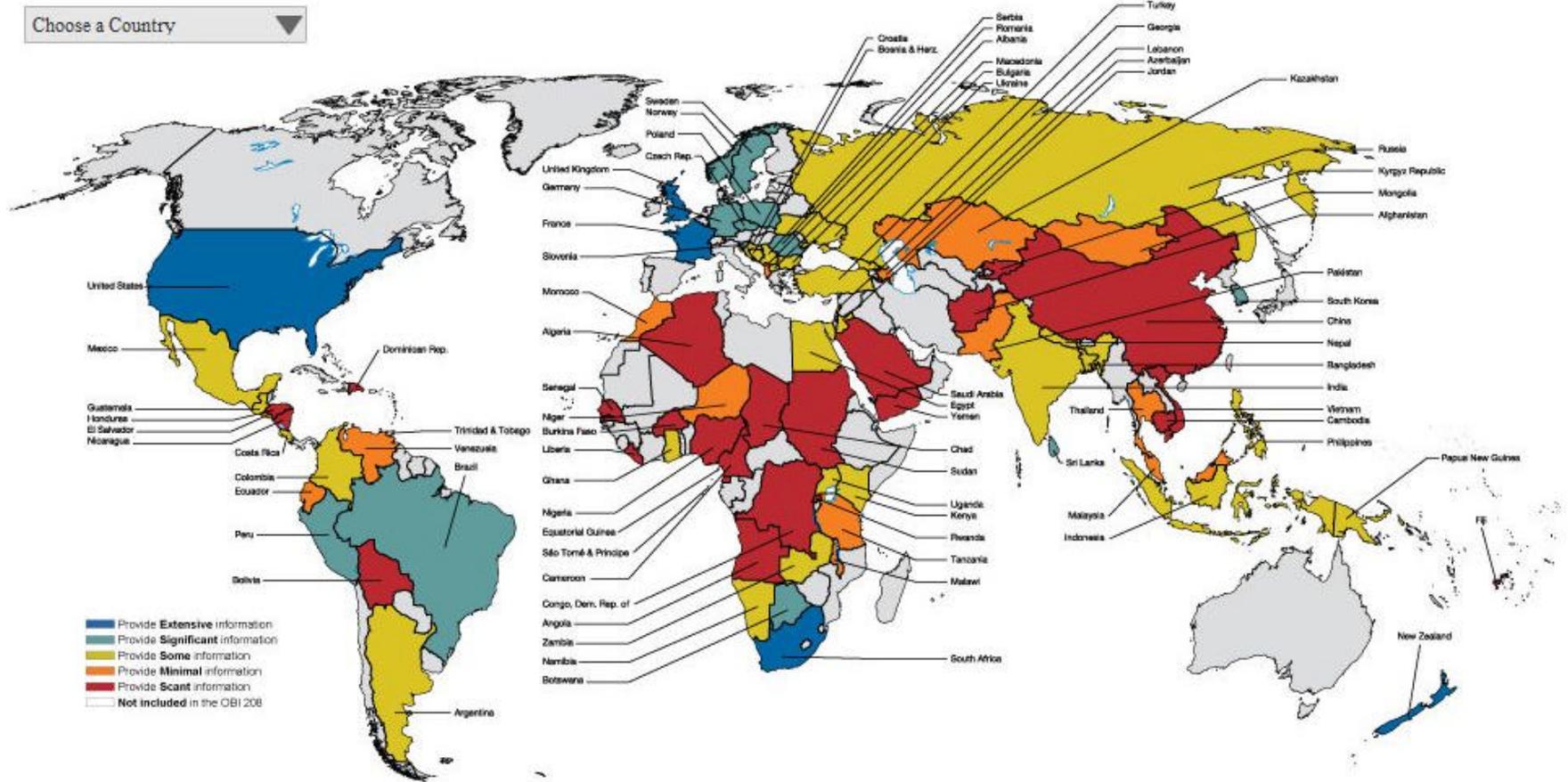
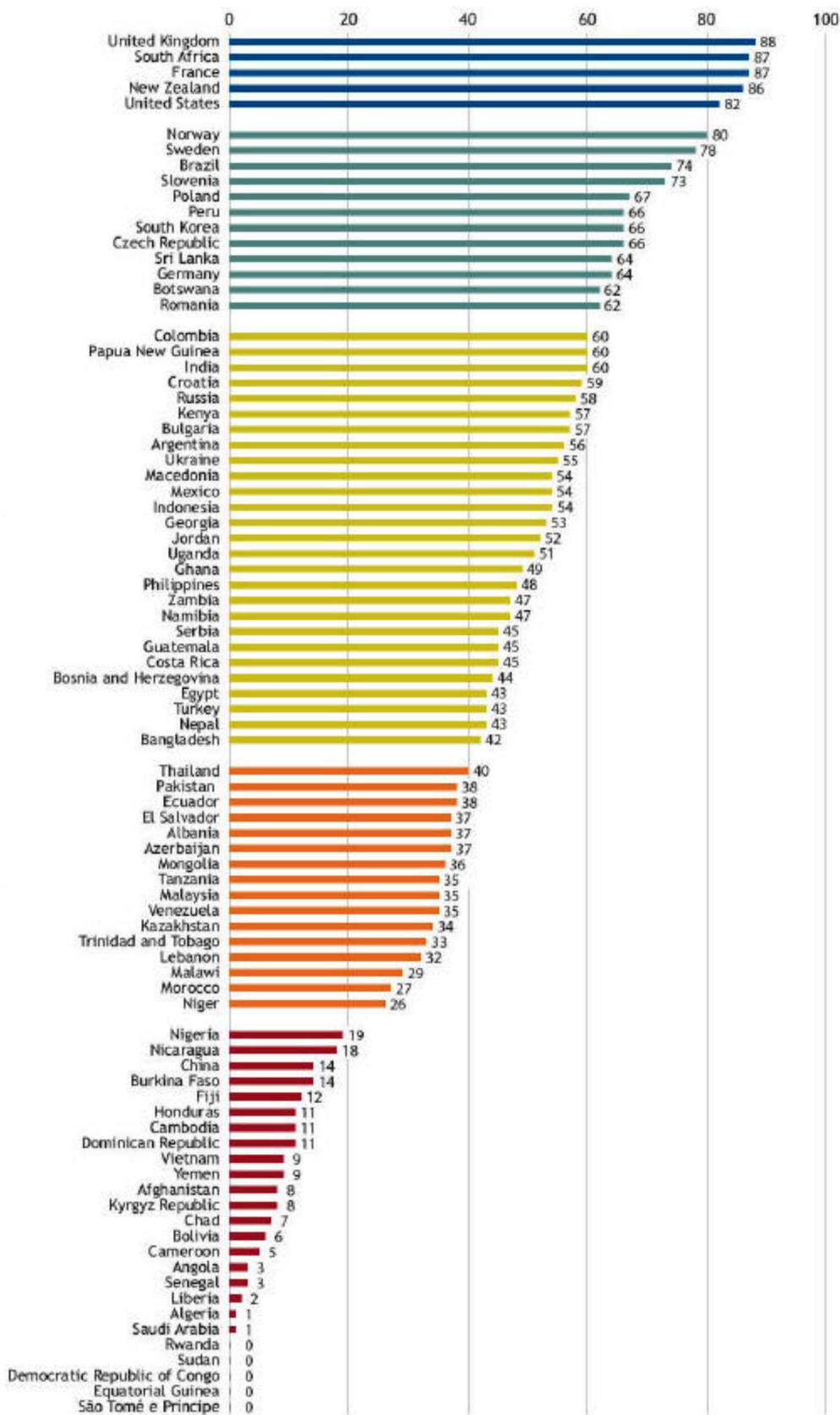


Figure 3.4



4. - Final Considerations

Transparency, clear rules and disseminated information are essential in the fight against corruption and for development of society in search for a continuous social and economic growth. Thus, an environment with transparency, ethics, clear rules, in addition to the few bureaucracy are key to attracting private investment, as a country with these characteristics is stable politically and economically.

From the studies reviewed it is possible to infer that corruption is a symptom resulting from problems related to political, economy and organizational aspects. Therefore, great efforts should be spent on administrative, economic and policies reforms, such as in the implementation of actions to prevent corruption. Efforts to achieve more efficiency in the results must be, as possible, developed and implemented together.

Considering these necessity of reform, and based on the available studies on the topic, among several possibilities, it can present as suggestions of change in order to reduce the opportunities for corruption and improve the transparency, the following lines of action:

- ? Review of existing legislation, even if slowly, to fill gaps and/or improve the understanding of normative, with the consolidation or, at least, the reduction of scattered legislation;
- ? Reduction of bureaucracy in order to reduce the number of regulations, licensing, and reducing the time for the execution of right or business;
- ? Strengthening of supervisory actions, as well as raising the level of importance of the activities of management and control;
- ? Reduction of the number of taxes;
- ? Expansion of international trade;
- ? Reduction of subsidies to enterprises;
- ? Expansion of trade, through activities to combat the imperfections of the market;

- ? Administrative reforms, juridical and legislative; and
- ? Evaluation and reorganization of the government structure.

Thus, structural reforms to reduce the existing barriers are desirable to reduce the occurrence of corrupt acts in the country. Changes that speed up the provision of public goods or services without the need of so much red tape, eliminate opportunities for rent-seeking activities, and directed efforts for productive activities.

Another point that should be taken into consideration is the question of a cost-benefit analysis, because both the private and the public official to engage in an act of corruption make a preliminary assessment of its costs in relation to the gain that can get with the diversion of conduct, not to consider issues of moral nature. In this sense, a rational individual, only participate in a corrupt act if their earnings exceed the cost of being caught and punished for this act.

The result of corruption can be diluted in the initial stages, but with time course: the greater inefficiency in the allocation of public resources is reflected in the increase of injustice and inequality, as the increase in the destruction of institutions and loss of confidence in the political system. On the side of the business, corruption reduces the incentives and viability of marginal investments that could be another source for generating growth. In summary, Corruption introduce inefficiencies in the economy, reduces the productivity of investment, which leads to a fall in potential output of the country and a spread on the interest rate component of the widespread corruption and increased volatility.

For all presented it is observed that the potential benefits of transparency are many. It can improve the investment and the performance of the markets. Following this, it can also strengthen the independence and integrity of institutions, be the foundation for public debate and also facilitate the early identification of strengths and weaknesses of public policies.

Transparency, from its implementation, can serve as a major obstacle against the diversion of conduct, bad management and corruption. The joint participation of society, government, media and civil organizations are able to stop the wastage of public servant of government property, as it has information on government activities.

Increasing transparency can also increase confidence in government policy and commitment, and in sequence, strengthen social cohesion, because they better understand what their government is doing and why, so they can have more confidence in their government, and increase confidence in democratic institutions.

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