



**Cuba Transition  
Project**

**A TRANSPARENCY/ACCOUNTABILITY  
FRAMEWORK FOR COMBATING  
CORRUPTION IN POST-CASTRO CUBA**

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**UNIVERSITY OF MIAMI**





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# Cuba Transition Project – CTP

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## Programs and Activities

- The CTP is publishing original research, with practical alternative recommendations on various specific aspects of the transition process, commissioned and written for the CTP by ICCAS Staff and U.S. and foreign scholars with expertise on Cuba.
- The CTP is developing four key databases:
  1. A full-text database of published and unpublished articles written on topics of transition in Cuba, as well as articles on transition in Central and Eastern Europe, Nicaragua, and Spain. It also includes an extensive bibliography of published and unpublished books, theses, and dissertations on the topic.
  2. A full-text database of Cuba's principal laws, in Spanish, its legal system, including the current Cuban Constitution (in English and Spanish), and other legislation relating to the structure of the existing government. Also included are the full-text of law review articles on a variety of topics
  3. A database on joint ventures and foreign investments in Cuba.
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# **A TRANSPARENCY/ ACCOUNTABILITY FRAMEWORK FOR COMBATING CORRUPTION IN POST-CASTRO CUBA**

Prepared for the Cuba Transition Project (CTP)  
Institute for Cuban and Cuban-American Studies  
University of Miami

**By**

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*This publication was made possible through support provided by the Bureau for Latin America and the Caribbean, U.S. Agency for International Development, under the terms of Award No. EDG-A-00-02-00007-00. The opinions expressed herein are those of the author and do not necessarily reflect the views of the U.S. Agency for International Development.*

*This paper expresses only the personal views of the authors. The authors thank Olga Nazario, Matias Travieso-Diaz, and Jim Wesberry for their comments on an earlier version of this paper.*

## **Executive Summary**

The long-delayed transition in Cuba gives policymakers the opportunity to make the prevention of corruption an integral part of the overall transition strategy. Corruption thrives where opportunities exist for under-the-table-deals and where government officials are not accountable to the public for their actions. Corruption abhors sunshine and openness.

The paper offers an inventory and description of policy initiatives that have been or are believed to be effective in combating corruption and promoting transparency and accountability in other national contexts that may be relevant to a Cuba in transition. What we propose is unique since in no other transition was preventing corruption addressed as a policy priority.

While we recognize that combating corruption cannot be the central policy objective of a transition strategy, we also note the potential for rampant corruption to undermine the transition process itself. Left unchecked, corruption could retard economic growth, negatively impact the flow of foreign investments, lead to the sale of national assets at lower-than-market prices, exert a profound regressive effect on income distribution, and increase the cost of providing social services and improving the country's physical infrastructure. Corruption could erode political support for transitional and subsequent governments and prevent the consolidation of emerging democratic governance institutions, thus potentially contributing to political instability and alienating citizens from the political process. Corruption also could serve as a gateway for international organized crime, including drug trafficking, money laundering, and – due to Cuba's proximity to the United States – transshipment of undocumented migrants. Because of its crosscutting nature, corruption must be addressed as a policy priority in every aspect of a transition strategy.

## Corruption and the Socialist Transition

Corruption has imposed a heavy burden on the economic transition of the former Soviet Union and its Eastern European allies, just as it did in post-Sandinista Nicaragua. Two forms of corruption have been prevalent:

- *Administrative corruption* arises from the use of public office for private gain. This form of corruption was endemic in socialist countries with state ownership of the means of production and centrally planned economies. Examples of administrative corruption include bribes, “grease payments,” and misdirection of public property by state officials to their own benefit or that of their families.
- *State capture* refers to the activities of individuals or groups to influence the formation of laws, decrees, regulations, and other government policies (i.e., the basic rules of the game) to their own advantage by means of illicit and secretive provision of private benefits to public officials. This form of corruption primarily arises early in transitions, when legal frameworks are not yet in place. For example, an oligarch at the head of a powerful financial or industrial group could buy off legislators to erect barriers to entry in a particular sector.

Thus, in administrative corruption, actors obtain individualized exceptions to or favorable application of rules, while in state capture, actors prejudice the rules to their own narrow advantage, which subsequently constrains the actions of others in the economy.

Privatization processes in Eastern Europe and the former Soviet Union have proved vulnerable to corruption, as government officials have attempted to manipulate them to favor certain individuals or groups or even themselves. So outrageous have been the examples of corruption associated with privatization that some have blamed privatization itself for giving rise to corruption. However, others have argued that as with the rise in crime, the rise in corruption is a reflection of the weakening of the state, rather than a consequence of privatization or any other individual reform measure.

## **Corruption in Socialist Cuba**

The corruption problem in a Cuba in transition will be more complex than the state-capture syndrome suggests. Along with its long history of corruption, the country must also contend with a legacy of corruption stretching over more than four decades of socialist rule. Under the existing system, even the most basic anticorruption pillars have been eroded. To the extent they are effective, moral and ethical guidelines in most societies always have acted as deterrents against malfeasance.

Whatever residual effects moral deterrents can have in Cuba following nearly 43 years of socialist rule are not likely to be strong. Disregard for the rule of law regarding property rights began with the confiscation of privately owned assets in 1959 and the early 1960s. Next came four decades of routine expropriation of the personal property of all permanent emigrants. These two developments alone, it could be argued, have given rise to social attitudes that condone – in Cuba’s environment of scarcity – taking advantage of someone else’s misfortune and assets so long as it is for personal benefit. Added to this is the widespread petty (administrative) corruption that pervades Cuban society, mostly because of the nature of the economic system and the scarcity of goods and services it has created. As in former socialist countries, few Cuban citizens hesitate when given the opportunity to steal from the government. Since most productive resources are owned and managed by the state, and the vast majority of Cubans work for state-owned enterprises, these petty crimes are widespread.

With a transition, many of the most common forms of corruption under socialism will diminish, but others will survive and probably flourish under different guises. Still other manifestations of corruption largely absent from Cuba during the last four decades will appear. From an examination of various indicators of governance, we conclude that absent a proactive transparency/accountability strategy, Cuba will experience a swell in corruption as the transition gets underway.

## **Transparency/Accountability Strategy for a Cuban Transition**

The transition from a totalitarian state to a more politically open form of government with a market-oriented economy will entail a vast transformation of Cuba’s institutions. While daunting, this process offers many opportunities. Not only can Cuba learn from the mistakes of other



nations; it can also adapt the institutional structures best suited for curbing corruption while it develops a lean and efficient government capable of delivering quality services and creates an environment in which the private sector can flourish.

A priority for the architects of the Cuban transition should be to build into the process a transparency/accountability strategy that will avert an eruption of corruption like those that occurred during Soviet and Eastern European transitions and following the electoral defeat of the Sandinista government in Nicaragua. This transparency/anticorruption strategy must address administrative corruption and state capture and must be comprehensive enough to encompass short-, medium-, and long-term interventions; that is, enough to minimize the incidence of corruption during and after the transition.

In the *short term*, transition planners will be concerned mostly with macroeconomic stabilization and the start of liberalization. Transparency should be an important element of quota and tariff reductions, elimination of exchange restrictions, government procurement policies, and other government actions. The international donor community can be very helpful by demanding transparency and accountability and remaining vigilant to prevent misappropriation of resources.

In the *medium-to-long term*, it is essential to adopt a transparency/accountability strategy that could be based on the “National Integrity System” proposed by Transparency International. This strategy consists of several interconnected and mutually supporting elements, including the following actions:

- Create a coherent transparency/accountability legal infrastructure that might include sunshine laws, the principle of freedom of access to information, public financial disclosure, whistleblower protection, and corruption ombudsman offices. The domestic legal framework also should devote special attention to issues related to drug trafficking, money laundering, and human trafficking since the dismantling of Cuba’s police state and the opening and increasing integration of Cuba to the global economy significantly increase the odds for these types of illicit activity to increase many-fold, barring adoption of effective preventive and prosecutorial measures.
- Adopt international legal instruments, such as the Convention on Combating Bribery of Foreign Public Officials in International

Business Transactions and the Inter-American Convention against Corruption, to minimize public-sector bribery and other illicit practices.

- Create a professional civil service that operates according to transparent and nonambiguous rules and makes decisions without favoritism, and in which remuneration and advancement depend on merit and not on political favoritism or nepotism.
- Establish a computerized integrated financial management, control, and audit system that brings together all accounting information generated by the state and allows for validation and cross-checking.
- Establish a Code of Ethics for public officials and make peer reviews a part of its implementation.
- Promulgate public procurement procedures that are consistent with international norms related to fairness, impartiality, clarity, transparency, and efficiency.
- Promote citizen oversight initiatives such as social auditing (known as social control in Honduras, *veedurías* in Colombia, and score card in India) to mobilize citizens to provide oversight over particular types of government projects and identify potential corrupt behavior.
- Build coalitions among civil society, professional associations, and employer and worker organizations to identify and combat corruption through collective actions.
- Build public awareness about the right of citizens to know and to monitor how government operates, openly express views, and challenge government actions.
- Consider creating a National Anticorruption Commission as a vehicle for the private and public sectors and civil society to collaborate in the development, implementation, and monitoring of a national transparency/accountability strategy.

## **Role of the International Development Community**

International financial institutions and bilateral development agencies can play an important role in preventing corruption in a post-transition Cuba. First, they can implement policies to prevent corruption within their programs. Second, they can assist in financing government- and civil society-sponsored anticorruption initiatives, including projects to

strengthen the rule of law, financial control and accountability mechanisms, and citizen oversight.

Post-transition Cuba should benefit from the technical transparency/accountability support and financing likely to be provided by the international donor community. In fact, a minimum level of transparency and accountability will result from the internal controls the donor community itself will require to manage the disbursement of funds it will provide to assist the transition. These developments, although positive, by themselves will not suffice to control, over the short-to-medium term, either illicit acts rooted in inadequate institutional and political structures and in an ingrained culture of corruption or illicit acts that may blossom with the erosion of the totalitarian state. Thus, the international development community should prod a future Cuban government to adopt a proactive transparency/accountability strategy.

## **Trust, but Verify**

It would be irresponsible to assume that future Cuban governments would embrace honesty and transparency as an administrative *sine qua non*. Thus, any future transparency/accountability strategy must consist of several lines of defense, resting on two basic principles: First, at the start of the Cuban transition, for all practical purposes, no one in Cuba will own any assets, financial or otherwise, of any significance. Second, all ownership claims will be questionable until their authenticity is verified.

The availability of a claims resolution process will result in disputes over competing claims that are likely to take years to resolve. This, of course, will be detrimental in the short term for property rights and will adversely affect the national investment climate. Incentives could be built into the claims resolution process, however, by expediting property certification claims for bona fide owners who satisfactorily document or settle claims.

While it may never be possible to totally eradicate corruption in Cuba – or anywhere else for that matter – the toolbox available today to combat it is growing exponentially. Transparency, accountability, vigilance, and preparation for the worst may well be the best deterrents to prevent the scourge of corruption from derailing Cuba's long-awaited transition.

## Introduction

The long-delayed transition in Cuba gives policymakers the opportunity to make the prevention of corruption an integral part of the overall transition strategy. Corruption thrives where opportunities exist for under-the-table deals and where government officials are not accountable to the public for their actions. Corruption abhors sunshine and openness.

This paper offers an inventory and description of policy initiatives that have been or are believed to be effective in combating corruption and promoting transparency/accountability in other national contexts that may be relevant to a Cuba in transition. These may be of assistance to the transition government and to the international development community that will play a key role in Cuba's economic recovery. We posit that during early stages of the transition, lessons drawn from the experiences of former socialist countries will be most germane to combating corruption in Cuba, while in the longer term, lessons from the Latin American experience might be most relevant. The strategy consists of a set of measures designed to stem the most harmful types of corruption by relying on the most effective policy levers. The strategy encompasses short-, medium- and long-term interventions to minimize the incidence of corruption during and after the transition.

What we propose here is unique since in no other transition has prevention of corruption been addressed as a policy priority. While combating corruption admittedly cannot be the central policy objective of a transition strategy, a potential exists for rampant corruption to undermine the transition process itself. If unchecked, corruption could retard economic growth, negatively impact the flow of foreign investment, lead to the sale of national assets at lower-than-market prices, exert a profound regressive effect on income distribution, and increase the costs of providing social services and improving the country's physical infrastructure. Corruption could erode political support for transitional and subsequent governments and prevent the consolidation of emerging democratic governance institutions, thus potentially contributing to political instability and alienating citizens from the political process. Corruption also could serve as a gateway for international organized crime, including drug trafficking, money laundering, and – due to Cuba's proximity to the United

States – transshipment of undocumented migrants. Because of its cross-cutting nature, corruption must be addressed as a policy priority in every aspect of a transition strategy.

The most obvious problem when discussing the design of a transparency/ accountability strategy for a Cuba in transition is the existence of several major and numerous secondary unknowns. Most evident is the impossibility of predicting what form the transition will take (e.g., rapid or gradual, peaceful or violent) and who exactly will lead it (almost certainly, leaders will include officials in positions of authority in the country today). Equally problematic is our inability to predict the extent to which the leaders of a transitional Cuba would condone – or even willingly participate in – corrupt behavior, instead of pursuing an honest and transparent political agenda to set the stage for a peaceful and prosperous future. We can confidently predict, however, that Cuba is likely to evolve toward a democracy with a market-oriented economy and a significant role for the state in selected social sectors, such as health and education. It is also important to recognize that a transparency/accountability strategy cannot function in a vacuum, divorced from the country's social, economic, and political realities. Absent appropriate institutional mechanisms, a national transparency/accountability agenda can do little to limit corruption.

The focus in this paper is on public sector corruption. Fraud and corrupt practices can also flourish in the private sector with equally adverse consequences. While the state can address private sector corruption through its regulatory functions, private-sector corruption can be best prevented by effective managerial controls, proper accountability practices, self-policing within the business community, and civil society oversight. The paper deals with private sector corruption only when it intersects with or in some form is tied to corruption in the public sector.

Some or all of the measures discussed could be adopted by a transition administration committed to good governance. It would be naive, however, to rely exclusively on the good intentions of transition leaders, particularly since standard checks and balances and institutional structures designed to prevent the misuse of political power will not be in place. It would be naive as well to assume that it would be easy to prevent corruption in Cuba during and after the transition. Corruption remains a major global concern; the struggle against corruption is universal and never-ending, requiring constant vigilance.

To overcome these shortcomings, at least in part, this paper assigns

pride of place to complementary actions the international development and investment communities, together with the overseas Cuban community, could implement to minimize the incidence of corruption. The international development community should implement its transparency/accountability agenda with vigor in dealings with a Cuban transition government, while foreign firms doing business in Cuba should embrace ethical principles consistent with best business practices and the dictates of existing international anticorruption conventions. Actions by Cubans residing abroad can be seen as a last line of defense against corruption since Cubans abroad could provide a firewall by challenging fraudulent claims for confiscated property, which eventually could be elucidated in the courts. While political and ideological extremists are likely to portray some of these initiatives as interventionist, they are in fact part and parcel of the current international anticorruption arsenal and are consistent with actions private citizens can initiate to safeguard the rule of law and the rights of property owners.

The first section of this paper discusses corruption in socialist countries and its evolution during the transition experiences of the former Soviet Union and the socialist countries of Eastern Europe. The second section does the same conceptually with respect to Cuba. The third considers a series of policy initiatives focused on transparency/accountability, which might control corruption in a post-socialist Cuba. These measures have a temporal dimension; some apply to the early transition, while others are long term. The fourth section discusses the role the international community might play in supporting policy implementation. The paper concludes with some sobering thoughts about the viability of the proposed policy measures, absent leadership commitment to the reform process.

## **Corruption and the Socialist Transition**

Corruption imposed a heavy burden on the economic transition of the former Soviet Union and its Eastern European allies, just as it did in post-Sandinista Nicaragua. Expectations for reconstituting these countries as modern nation states with political and economic structures akin to those of the democratic and market-oriented West were in many cases dashed, in no small part because of corruption. As these former socialist countries started their transitions, the priorities of policymakers were the liberal-

ization of prices and of factor markets, the privatization of state-owned property, and the creation of democratic institutions. As these economic and political transformations were being carried out, the potential for corruption to derail a successful transition was not understood. Only in hindsight have the enormous negative effects of corruption on the transition process been appreciated.

More than a decade into the transitions in the former Soviet Union and in the socialist countries of Eastern Europe, an emerging body of literature has assessed the strategies and outcomes of such transitions (e.g., Aslund 2002; Svejnar 2002; World Bank 2002). The consensus is that the transitions have been painful – more so than was initially envisioned – with deeper reductions in output than anticipated. Initial conditions (e.g., geography and endowment of natural resources, number of years spent under central planning, the nature of socialist development) had a very significant influence on performance, particularly in the early stages of transition. Clearly, politicians and economists underestimated the difficulty of transition, and questionable policy choices were made. Although growth performance across reforming countries has been very variable, the countries that made the most concentrated efforts to reform have done best and are poised to make sustained economic gains and improve the standard of living of their citizens.

Svejnar (2002) concludes that differences across former socialist countries in the ability to carry out economic reforms successfully seem to turn on two factors: (1) the ability to collect taxes with which to finance public programs and (2) the willingness to minimize corruption and rent-seeking behavior. In the parlance of the economist, rents are payments to factors of production in excess of normal returns in competitive markets. Governments that operate monopolistic state-owned enterprises or limit competition through excessive regulation or trade restrictions create economic rents and therefore opportunities for corrupt rent-seeking behavior.<sup>1</sup>

Thus, the creation of a reliable state apparatus that provides a level playing field requires that governments have sufficient resources to enforce market-friendly laws and to avoid being dominated, or “captured,” by special interests (Svejnar 2002, 6). Aslund (2002, 441) goes further, arguing that the main determinant of success in any transition has been the extent to which a state has been able to avoid the harmful effects of rent seeking on economic performance: States that succumbed to rent seeking have gotten stuck in cumbersome under-reform traps, and they lag in terms of economic performance.

A related insight from the experience of more than a decade of reforms is that the lack of a market-oriented legal structure appears to have been the Achilles' heel during the first dozen years of transition. Policymakers seem to have underestimated the importance of a well-functioning legal system or believed too readily that free markets would take care of any major problems (Svejnar 2002, 7). In the no-man's-land between a centrally planned economy and the market economy – with the “old” national institutions of totalitarianism being torn down and decentralization, privatization, and the opening of these economies to international participation taking place, while new institutions promoting good governance had not yet taken hold – uncertainty about property rights before privatization allowed managers to funnel assets from state-owned enterprises into spin-offs they controlled and to benefit from monopoly rents in a partially reformed economy.

In theory, these gains should have been short-term in nature because as the transition progressed, the distortions that gave rise to the rents should have disappeared. The reality has been that the short-term winners of reform – the so-called oligarchs – have converted part of their gains into political influence to preserve the very distortions that generated the rents (World Bank 2002, 92). The architects of reform seem not to have accounted adequately for the behavior of many rich individuals and groups in the transition economies – especially those who contributed to the corruption of public officials – who did not desire a strong legal system (Svejnar 2002, 7).

### *Administrative Corruption and State Capture*

Social scientists generally have defined corruption as “the use of public office for private gain, where an official (the agent) entrusted with carrying out a task by the public (the principal) engages in some sort of malfeasance for private enrichment which is difficult to monitor for the principal” (Bradhan 1997, 1321). Along this same line, Rose-Ackerman (1997, 31) posited that the potential for corruption exists wherever a public official has discretionary power over distribution to the private sector of a benefit or a cost.

All other things being equal, the size and structure of the state determine the demand for corrupt services, that is, the supply of bribes. According to Klitgaard (1988, 75), the level of corruption depends on the



degree of monopoly exercised by the state over the supply of a given good or service, the degree of discretion enjoyed by a government agency in making resource-allocation decisions, and the degree of accountability of the government (or its agents) to others.<sup>2</sup> Centrally planned economies, with a high share of resources under the control of the state, a *nomenklatura*<sup>3</sup> based on membership in the ruling communist parties and exercising wide discretion over the allocation of state resources, and nonexistent (or feeble) transparency and involvement of the public in decisionmaking, traditionally have been fertile ground for corruption.

Aslund (2002, 3) argues that some of the former socialist countries have lost the battle against corruption, becoming rent-seeking states in which the dominant interest is not the economic welfare of the whole nation, but the redistribution of available resources through budgeting and regulations to benefit a privileged few. These oligarchs often benefited from one of the initial and most notorious manifestations of corruption in transition economies, so-called “spontaneous privatization”: the appropriation of state property by members of the *nomenklatura* through the paper reorganization of state-owned enterprises into “private” corporations of which *nomenklatura* members are owners or directors. Spontaneous privatization takes place during the early stages of transition, when state socialism has been weakened, but legal gaps and uncertainties in property regulations remain (Agh 1993, 15). In the uncertainty that surrounds the start of a transition, “Those possessing economic power carve out for themselves and their clients valuable pieces of the state-owned cake” (Sik 1992, 58).

The World Bank (2000) has developed a typology of corruption for the transition countries that is very useful in thinking about an anticorruption strategy. The typology unbundles the phenomenon of corruption, placing primary emphasis on the distinction between administrative corruption and state capture.

- *Administrative corruption*, akin to what traditionally has been deemed as corruption by social scientists, refers to the intentional imposition of distortions in the prescribed implementation of existing laws, rules, and regulations, to provide advantages either to state or non-state actors as a result of the illicit and non-transparent provision of private gains to public officials. Examples of administrative corruption include bribes, “grease payments,” and misdirection of public property by state officials for their own benefit or that of their families.

- *State capture* refers to the activities of individuals, groups, or firms in both public and private sectors to influence the formation of laws, decrees, regulations, and other government policies (i.e., the basic rules of the game) to their own advantage by means of the illicit and non-transparent provision of private benefits to public officials. For example, an oligarch at the head of a powerful financial or industrial group could buy off legislators to erect barriers to entry in a particular sector, or the state could be captured to serve the private interests of a political leader who shapes the framework of reforms to ensure his own private control over key resources (World Bank 2000, 1-2).

While state capture was most evident in several countries during the transition away from socialism, its principal features can be identified in various economic systems. It is also a concern in non-transitional economies, since corrupt practices can be present in any society lacking transparency and accountability. State capture occurs, to recapitulate, as long as firms attempt “to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials” (Hellman and Kaufmann 2001, 1-2). What is meant by “firms,” however, ought to be clarified. In privatization schemes, foreign firms could conspire with former or current corrupt bureaucrats to appropriate state-owned assets for themselves, or former or current bureaucrats could enter into a conspiracy to illicitly assume ownership of state-owned assets. This distinction is not inconsequential since it has important implications for the manner of misappropriation of government resources and the time at which it begins or is consummated.

The main distinction between administrative corruption and state capture is the nature of the political relationship that underlies them. In administrative corruption, actors obtain individualized exceptions to or favorable application of rules, while in state capture, actors prejudice the rules to their own narrow advantage, which subsequently constrains the actions of others in the economy. In other words, the main difference lies in how deeply the corrupt transaction reaches into the operations and functions of the state and the extent to which the advantages of the corrupt transaction are institutionalized in the rules of the game (World Bank 2000, 2).

Privatization processes in Eastern Europe and the former Soviet Union have proved vulnerable to corruption, as government officials have attempted to manipulate them to favor certain individuals or groups or even themselves.<sup>5</sup> Kaufmann and Siegelbaum (1997) have analyzed the corruption potential of the privatization methods applied in Eastern Europe and the former Soviet Union (voucher-based mass privatization, liquidation, capital market-based privatization, tenders and inside sales, management-employee buyouts, and spontaneous privatization) by assessing the extent to which each method increases or reduces the prevalence and exercise of control rights by politicians and bureaucrats, a measurement that is hypothesized to be correlated with more or less corruption. They conclude that voucher-based mass privatization and liquidation<sup>6</sup> are the methods least prone to corruption. Management-employee buyouts and spontaneous privatization, on the other hand, are highly conducive to corruption, principally due to their slow pace, the high level of discretion of administrators making decisions, and the lack of transparency and public information. While spontaneous privatization stands above all others as the most corrupt form of privatization, Russian insider privatizations – particularly of oil and natural resource companies, which mostly benefited managers – provide another example of privatization that led to grand corruption and the strengthening of oligarchs intent on state capture.

So outrageous have been the examples of corruption associated with privatizations that some have blamed privatization itself for giving rise to corruption. However, Aslund (2002, 265) argues quite convincingly that the eruption of corruption in socialist countries, like the rise in crime, reflects the weakening of the state rather than the results of privatization or any other individual reform measure. In this context, he states (Aslund 2002, 266):

Regular privatization started one or two years after the demise of communism. By elementary logic, a cause cannot follow its effect[,] and privatization appears more likely to have contributed to the abatement of corruption, as officials had less to sell. Like many other transitional events, corruption and privatizations occurred roughly in parallel, and involved wealth transfer, but that is true of many other phenomena, and simultaneity must not be confused with causality.

As Kaufmann and Siegelbaum (1997, 428) have put it, “While it is undeniable that, in the transition economies, an increase in corruption

coincided with the process of privatization, it does not necessarily follow that this increase was actually caused by the privatization process.”

During the early transition, then, the focus should be on initiatives to prevent illegal appropriation of the national patrimony by corrupt bureaucrats or phony homegrown “businesses” with or without associated foreign cohorts. Over the long term, incentives for administrative corruption should recede gradually as the role of the state in economic management is reduced. The key to controlling corruption lies with reform of the institutional setting that engenders corruption, rather than with sanctioning of the corrupt (although it is necessary to do that as well). As Klitgaard (1998, 6) has noted, solving the problem goes beyond putting a few corrupt officials in jail, creating one or two new government institutions, and passing a few laws: Combating corruption should focus on the reform of systems.”

## **Corruption in Socialist Cuba**

The dangers associated with state capture are in many ways contingent on the manner in which a transition away from socialism (into whatever) begins, how it evolves, and how it is consolidated. In Cuba’s case, evidence suggests that the bases for eventual corruption on a vast scale through state capture already have been set. State-owned commercial ventures (e.g., the tourism corporation Gaviota) and joint ventures with foreign investors provide a foundation for appropriation of public property (including confiscated property) by influential bureaucrats once a formal transition gets underway. These same bureaucrats also could shape an environment conducive to state capture by creating a transitory legal and regulatory framework that could undermine Cuba’s economic recovery, lay the groundwork for decades of social and political discord, burden Cuba’s court system, and poison the country’s international commercial transactions.

The corruption problem during a transition in Cuba will be more complex than the state capture syndrome suggests. With a long history of corruption during the Republic, the country must also contend with the corruption legacy of more than four decades of socialist rule. Under socialism, even the most basic pillars of anticorruption have been shaken. To the extent they were effective, moral and ethical guidelines in most societies traditionally have acted as deterrents against malfeasance.

Residual effects of moral deterrents in Cuba following nearly 43 years of socialist rule are not likely to be strong. The Cuban government's disregard for the rule of law regarding property rights began with the confiscation of privately owned assets in 1959 and the early 1960s.<sup>7</sup> This was followed by four decades of routine expropriation of the personal property of all permanent emigrants. These two developments alone, it could be argued, have given rise to social attitudes that condone – in Cuba's environment of scarcity – taking advantage of someone else's misfortune and assets, so long as it is for personal benefit.

In addition, petty (administrative) corruption pervades Cuban society, mostly because of the nature of the economic system and the scarcity of goods and services it has created. As in other former socialist countries, few citizens hesitate when given the opportunity to steal from the government. Since the bulk of productive resources are owned and managed by the state, and the vast majority of Cubans work for state-owned enterprises, these petty crimes are widespread.

With the transition, many of the most common forms of corruption under socialism will diminish, while others will survive and probably flourish under different guises. Still other manifestations of corruption largely absent from Cuba during the last four decades will appear. A useful starting point to discuss the likely metamorphosis of corruption in Cuba during and after the transition can be found in the six comparative governance indicators for 2000-2001 developed by the World Bank for 175 countries (Kaufmann, Kraay, and Zoido-Lobaton 2002) and derived from various data sets via an unobserved components econometric model.

The six aggregate indicators<sup>8</sup> measure different facets of governance, that is, “the traditions and institutions by which authority in a country is exercised.”

- The “Voice and Accountability” indicators measure the extent to which citizens of a country are able to participate in the selection of governments, and the independence of the media.
- “Political Stability” measures perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including terrorism.
- “Government Effectiveness” combines perceptions of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.

- “Regulatory Quality” includes measures of the incidence of market-unfriendly policies such as price controls and inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development.
- “Rule of Law” includes several indicators that measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of both violent and nonviolent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.
- “Control of Corruption” measures perceptions of corruption, conventionally defined as the exercise of public power for private gain.

The governance estimates are expressed around a mean of zero, with a standard deviation of one, and range from  $-2.5$  to  $2.5$ ; the higher the values, the better the outcome. Table 1 presents the indicators for Cuba and four other countries for comparative purposes: Sweden and the United States are countries where public sector corruption is relatively low, whereas Honduras is generally ranked among the most corrupt countries in Latin America and Nigeria is among the most corrupt in the world.

**Table 1 – Corruption-related Governance Indicators: Cuba and Selected Low and High Corruption Countries, 2000-2001**

Indicator	<u>Low Corruption</u>			<u>High Corruption</u>	
	<u>Cuba</u>	<u>United States</u>	<u>Sweden</u>	<u>Honduras</u>	<u>Nigeria</u>
Voice and Accountability	-1.49	1.24	1.65	-0.04	-0.44
Political Stability	0.07	1.18	1.38	0.25	-1.36
Government Effectiveness	-0.22	1.58	1.51	-0.58	-1.00
Regulatory Quality	-1.23	1.19	1.08	-0.16	-0.39
Rule of Law	-0.32	1.58	1.70	-1.06	-1.13
Control of Corruption	-0.12	1.45	2.21	-0.63	-1.05

Source: Kaufmann, Kraay, and Zoido-Lobatón (2002, Tables 2 and 3, 19-24).

What is apparent is that in comparison to the other countries in the table – both those with low and those with high levels of corruption – Cuba scores very poorly in “Voice and Accountability” and “Regulatory Quality” (degree of market friendliness) and scores much worse in the remaining indicators than the low-corruption countries. In comparison with the high-corruption countries, Cuba scores considerably better in the “Political Stability,” “Government Effectiveness,” “Rule of Law,” and “Control of Corruption” indicators. The relatively low level of corruption (in business transactions only, as the indicators presumably do not address the widespread petty corruption found in socialist economies) is explained by Cuba’s political stability and the nature of a totalitarian state that can enforce its rules via “Government Effectiveness” and “Rule of Law.” These two indicators are more adverse in more open and high-corruption countries, in which economic management typically is not as centralized and most means of production are privately owned, despite the fact that these countries perform better with regard to “Voice and Accountability” and “Regulatory Quality” indicators.

No matter how the effectiveness and reliability of these indicators are evaluated, in the aggregate they can be interpreted as suggesting that absent a proactive transparency/accountability strategy, Cuba will experience an upsurge in corruption as the transition gets underway. It can be posited that during Cuba’s transition, most of the governance indicators – with the exception of “Voice and Accountability” and perhaps “Regulatory Quality” – will worsen significantly. The transition is likely to be accompanied by a relative (or intense) decline in the “Political Stability” indicator, with “Government Effectiveness” and “Rule of Law” indicators also deteriorating as uncertainty and the introduction of new governance and regulatory procedures lead to administrative disarray. The dismantling of the state-run economy, in particular, should provide fertile ground for corruption even if the more common forms of petty corruption become less frequent as the economy begins to be privatized.

## **Transparency/Accountability Strategy for a Cuba in Transition**

The transition from a totalitarian state to a more politically open form of government with a market-oriented economy will entail a vast transformation of the country’s institutions. While daunting, this process offers many opportunities. Cuba not only can learn from the mistakes of other

nations; it also can adopt the institutional structures best suited for curbing corruption during the development of a lean and efficient government capable of delivering quality services and the creation of an environment where the private sector can flourish.

A priority for the architects of the Cuban transition should be to build into the process a transparency/accountability strategy that avoids the eruption of corruption that occurred during transitions in the former Soviet Union and Eastern Europe and following the electoral defeat of the Sandinista government in Nicaragua. This transparency/anticorruption strategy must address both administrative corruption and state capture<sup>9</sup> and must be comprehensive enough to encompass short-, medium-, and long-term interventions, so as to minimize corruption during and after the transition.

The policy issue of how to address the transparency/accountability issue during and after the transition has a strong temporal dimension. For purposes of this paper, we define *the short term* to coincide with the onset of the transition, the period (1-to-2 years) when first-generation (or Type I) reforms are implemented.<sup>10</sup> Reform measures typically applied during this time include macroeconomic stabilization, price liberalization, encouragement of new firms, and dismantling of the institutions of the socialist system (including the breakup of state-owned enterprises and selected privatization actions). On the transparency/accountability front, the focus should be on minimizing the illegal acquisition of national assets by corrupt public officials and others in positions of authority or with insider knowledge. In addition, the country must begin to set the basic foundations for a transparent and honestly managed public sector, and to minimize opportunities for corruption at the interstices where the private and public sectors meet.

*Mid- and long-term transitions* coincide roughly with the periods of time when second-generation (or Type II) reforms are put in place. These reforms typically involve the development and enforcement of laws, regulations, and institutions that will ensure the development of a successful market-oriented economy, among them completion of the privatization of large and medium-size enterprises; establishment and enforcement of a market-oriented legal system and accompanying institutions; further in-depth development of a viable commercial banking sector and the appropriate regulatory infrastructure; establishment of labor market regulations; and restructuring of institutions related to public unemployment and retirement systems. The transparency/accountabil-



ity strategy should be geared toward creating a modern public sector with transparent, efficient, and customer-oriented dependencies, grounded in a legal system respectful of human rights, equipped with suitable democratic checks and balances and appropriate control institutions, and under the oversight of an independent and free media. The mix would not be complete if efforts were not made to empower an educated citizenry to assure that their overview rights are respected and to demand that the national government adhere to and enforce relevant international obligations to curb corruption.

### *Short-term Measures*

Cuba will benefit from what has been learned in other transition economies and from what the international development community has to offer in terms of technical advice and financial support (see explanations below). The international development community can assist Cuba early in the transition process by establishing technical consultative bodies to assist with the development and monitoring of liberalization policies. A privatization board jointly staffed by Cuban nationals and expatriate consultants experienced in the design and management of such programs, for example, could ensure at least a minimum of transparency during the privatization of state-owned assets.

While combating corruption has not been at the forefront of the priorities of policymakers during this crucial period of the early transition, properly designed, transparent, and well-implemented liberalization, privatization, and competitive procurement policies can help control corruption and check oligarchs' attempts to capture the state. Also very important during this period will be the vigilance of the international community – an expected key source of reconstruction and emergency assistance – to prevent corrupt officials from appropriating foreign assistance funds.

*Liberalization.* Some macroeconomic reforms and deregulation can contribute to the expansion of markets and reductions in rents. Lowering and eliminating tariffs, quotas, and other barriers to international trade, and eliminating exchange rate restrictions, price controls, and unwarranted permit requirements will strip government officials of their discretion and power to extract bribes. At the same time, removal of such controls will reduce transaction costs, eliminate supply bottlenecks, and foster competition. If unchecked, domestic interests will attempt to slow down

or build in exemptions for their industries by wielding infant-industry arguments and painting doomsday unemployment scenarios.

*Privatization.* In addition to its salutary economic efficiency effects, privatization removes the state from economic activities and reduces opportunities for corruption in sales, procurement, employment, and financing. To ensure the integrity of privatization, transparency measures must be an integral part of such processes. Privatization also must include regulatory and commercial frameworks that promote competition and protect consumers and investors. In the absence of such frameworks, privatization merely shifts rent seeking from governments to the private sector.

During the early stages of the transition, large-scale privatization of state-owned enterprises is unlikely since much work is necessary to prepare the ground for such an action. A more likely scenario to promote competition is the stimulation of small and medium-sized enterprises (SMEs). Essential for the creation of SMEs is a macroeconomic environment aimed at stabilization and growth. Based on the experience of the reforming countries in Central and Eastern Europe, among the policies that can promote SMEs early in the transition are an economic stabilization program that imposes hard budget constraints and minimizes state subsidies, efficient markets that foster competition through deregulation and liberalization of markets and prices, and sound and transparent fiscal policies and fair and effective taxation (Gayoso 1999, 62). Also important at this stage of the transition is to establish as streamlined a system of licensing of SMEs as possible in order to accelerate their establishment, encourage their legal status (critical in the longer term for the establishment of a taxation system), and reduce the opportunity for administrative corruption (such as bribes or “grease” payments that officials who issue permits might demand).

The privatization process, including large-scale privatization of state-owned enterprises, should be completed gradually over the medium term. It will be essential to first put in place a basic institutional framework to make the process transparent, facilitate it, and maximize returns to the nation.

### *Medium-to-Long Term: The Integrity Framework*

Hellman and Kaufmann (2001) posit that state capture is not only a symptom, but also a fundamental cause of poor governance. The “capture economy” is trapped in a vicious cycle in which the policy and institu-

tional reforms necessary to improve governance are undermined by collusion between powerful firms and state officials who reap substantial private gains from the continuation of weak governance. Influencing the legal, policy, and regulatory environment in which they operate constitutes a normal, and indeed healthy, process for firms and interest groups in all countries. What is special in the capture economies is *exclusion*: Some firms enjoy exclusive privileges to influence decisions of the state, while others are systematically excluded, enabling state officials to make choices that concentrate benefits on those with access at a high cost to those that do not have such access. The prescription for breaking out of the vicious circle of state capture is “competition, transparency, and accountability.”

Transparency International (TI), a nongovernmental organization that leads the global fight against corruption, has proposed a model “National Integrity System” to encourage the development of a transparency/accountability strategy for modern governments to promote “the public interest rather than the private interests of those in control.” The challenge for countries embracing democracy, including countries in transition, is

to move away from a system which is essentially top down: one in which an autocratic ruling elite gives orders which are followed, to a greater or lesser degree, by those down the line. The approach is to move instead to a system of “horizontal accountability”; one in which power is dispersed, where none has a monopoly, and where each is separately accountable (Pope 2000, 33).

Several interconnected and mutually supporting elements are necessary for an integrity system to come to fruition. These include the standard separation of powers (executive, legislative, and judicial) that checks the authority of rulers in democratic systems, but complemented by active citizen involvement and institutions specifically charged with preventing corruption. Also essential, by definition, are a free press and an informed citizenry willing to provide continuous oversight over how public funds are managed and spent. Equally important are an appropriate legal infrastructure to prevent and punish corrupt acts, a professional civil service capable of effectively and honestly running government operations, and specialized official entities (e.g., a Comptroller General Office, an Ombudsman, investigatory agencies, and anticorruption commissions) with a partial or full focus on corruption.

Although an integrity system's specific components and how they function may vary from country to country – according to the form of government and legal traditions – the goal is to have them form a coherent mechanism whose combined actions interfere with the ability of dishonest individuals to exploit corruption opportunities. The system also should be capable of detecting and punishing corrupt acts. Nevertheless, continued vigilance will always be necessary: Corruption occurs in the dark and takes advantage of emerging opportunities. Thus, to control corruption, it is essential to be constantly on the lookout for creative new ways to beat the system and to be prepared to fine-tune control mechanisms. The goal of an integrity system is not to focus on isolated anticorruption mechanisms, but rather to center attention on mutually supportive relationships. As Pope notes (2000, 37), “What is the benefit of a sound and ‘clean’ Judiciary ready to uphold the Rule of Law, if there is corruption in the police, investigators, prosecutors, or the legal profession? The Judges would simply not receive the cases they should hear; they would then sit in splendid isolation – honest, capable, yet able to achieve little.”

*A Coherent Transparency/Accountability Legal Infrastructure.* It is beyond the scope of this paper to dwell in detail on the legal infrastructure that will be necessary for transparent and honest government. Establishment of the constitutional and legal foundations of a future Cuba is a complex problem whose elucidation will be determined in part by Cuba's legal traditions, the nature of the transition, and the nation's leadership. Domestic legal foundations could be built upon a foundation of transnational legal instruments that could support national anticorruption initiatives (more on this below).

Domestic legal anticorruption measures generally fall into preventive and curative instruments. The former refers to “a set of upstream rules and norms of good behavior (codes of conduct, manifestos, declarations) conducive to a corruption-free society.” The latter consists of anticorruption laws proper (general or specific legislative enactment), whose purpose is to provide appropriate remedies, including criminal sanctions and penalties, procedural rules, and institutional mechanisms, as needed, to combat acts of corruption that have already occurred” (Ofosu-Amaah, Soopramanien, and Uprety 1999,3).

A comprehensive legal framework includes organic laws that structure and regulate the public sector and may encompass explicit or implicit transparency/accountability elements, such as civil service laws and associated ethical standards for public servants and laws regulating how

state resources are managed and controlled. Of particular relevance to prevent or reverse state capture are initiatives that promote transparency, both in the degree of openness of a state's decision-making processes and in the disclosure of interactions that could influence decisions. Among the specific transparency-enhancing initiatives that may be relevant to a Cuba in transition (see, for example, USAID 1999) are the following: Sunshine laws require government officials to hold certain meetings in public, promoting accountability and transparency in government decisionmaking. Particularly important is public access to meetings in which budgetary issues are discussed and decisions are made about the use of public property. Also crucial is the use of public hearings to inform citizens about public policy issues and to obtain citizen input regarding the development of laws, rules, and regulations.

- Freedom of access to information, a cornerstone of democratic government, is based on two elementary principles: Citizens have a right to know how they are governed, and the higher the level of opacity, the greater the opportunity for mischief. For example, citizens should have a right to know the text of draft legislation being considered by the government, views put forth by parties regarding legislation, and the voting record of elected officials.
- Public financial disclosure is a set of rules requiring government officials with a certain degree of decision-making power to disclose periodically the extent and nature of their assets, not only to prevent illicit enrichment while holding power, but also to identify potential conflicts of interest in decisionmaking.
- Whistleblower legislation is a sharp, surgical instrument that affords employees the right "to challenge workplace corruption and mismanagement" since "secrecy and silence through intimidation and fear are the ultimate objectives and methods underlying organizational reprisal techniques"(Keshet and Devine 2002).
- When properly organized and managed, and truly independent of the government organizations they monitor, Ombudsman offices contribute to good governance by allowing citizens to raise concerns about government issues and government offices to respond to those concerns (Pope 2000, 83-94).

The domestic legal framework should also devote special attention to issues related to drug trafficking, money laundering, and human trafficking. As noted earlier, following the dismantling of Cuba's police state and the opening and increasing integration of Cuba to the global economy, these types of illicit activity are likely to increase significantly unless effective preventive and prosecutorial measures are put in place.

*International Legal Instruments.* The international community has adopted several legal instruments to minimize public sector bribery and other illicit practices, recognizing that "international cooperation can help engender both the will to fight corruption and the capability to do so"(Klitgaard 1998, 5). Since bribery often involves illegal payments by transnational corporations to public officials in the country where the corrupt act occurs, international instruments tend to complement each other by criminalizing bribe payment by foreign firms and/or penalizing bribe acceptance by public officials or politicians in countries where paid. International cooperation also is often needed to investigate, prosecute, and punish corrupt individuals (or to recover ill-gotten assets) even when the offense is committed solely within a country's border without involvement of an offender from a second country.

Of particular relevance for post-transition Cuba are anticorruption conventions developed by the Organization for Economic Cooperation and Development (OECD) and by the Organization of American States (OAS).

The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, adopted by the OECD in 1997 (OECD 1998), is modeled after the U.S. Foreign Corrupt Practices Act (FCPA). It is intended to prevent bribe payments by private entities of signatory countries conducting business abroad. Signatories to the OECD Convention agree in Article I as follows:

1. Each Party shall take such measures as may be necessary to establish that it is a criminal offense under its law for any person intentionally to offer, promise, or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business.

2. Each Party shall take any measures necessary to establish that complicity in, including incitement, aiding, and abetting, or authorization

of an act of bribery of a foreign public official shall be a criminal offense. Attempt and conspiracy to bribe a foreign public official shall be criminal offenses to the same extent as attempt and conspiracy to bribe a public official of that Party.

An important regional instrument, very germane to post-transition Cuba, is the Inter-American Convention Against Corruption (ICAC), adopted in 1996 under the auspices of the OAS, whose focus is on curbing corruption at home. It complements the OECD Convention by requiring (in Purposes, Article II) signatory countries

To promote and strengthen the development by each of the States Parties of the mechanisms needed to prevent, detect, punish, and eradicate corruption; and

To promote, facilitate, and regulate cooperation among the States Parties to ensure the effectiveness of measures and actions to prevent, detect, punish, and eradicate corruption in the performance of public functions and acts of corruption specifically related to such performance.

The ICAC identifies and defines corruption acts relevant to its implementation and binding obligations under international law, and it includes articles dealing with transnational bribery, illicit enrichment, and extradition. It requires signatory countries to develop standards of conduct for public officials, strengthen control systems, and promote civil society involvement in the prevention of corruption. Corruption is defined as an extraditable offense, and signatory countries “shall not invoke bank secrecy as a basis for refusal to provide the assistance sought by another state” conducting an investigation.

Cuba in transition should promptly become a signatory to the OECD Convention, ICAC (both instruments are open to signature by nonmembers of the OECD and of the OAS, respectively), and other international agreements. It should also adopt the necessary legal enabling mechanisms to comply with domestic enforcement and international cooperation obligations embodied by these international instruments.

*A Professional Civil Service.* An essential component, or pillar, of a long-term transparency/accountability strategy is a well-trained, professional civil service capable of efficiently discharging its obligations to the nation and the public while safeguarding the national patrimony. Developing such a professional and nonpolitical civil service will require

many years of effort. The first order of business will be to establish the foundation for the development of such a service that operates according to transparent and nonambiguous rules and makes decisions without favoritism, and in which remuneration and advancement depend on merit and not on political favoritism or nepotism. Civil servants should be tenured and compensated adequately to reduce the temptation of corruption for those who are hard-pressed to feed their families. Adequate compensation will be a major challenge during the early years of Cuba's transition, as the backward economy will have to address numerous national priorities simultaneously. The actions of the professional civil service should be subject to scrutiny by civil society and by journalists.

The upper echelons of socialist Cuba's civil service are by definition thoroughly politicized: Communist party *apparatchiks* and their families and friends control the top positions in government. Furthermore, Cuba's civil service is bloated, notorious for its inefficiency, poorly attuned to modern managerial concepts, enmeshed in a tradition of secrecy and lack of transparency, oblivious to the notion of customer service, and poorly paid.

While the transition away from socialism will lead to a substantial reduction in the number of civil servants as more satisfying and better-remunerated employment opportunities open up in the private sector, a painful process of retrenchment lies ahead. Political sensitivities to some extent will determine which public officials will be retained and which will be let go, but, as much as possible, these decisions should be made according to skill criteria and managerial need. By doing so, Cuba will undoubtedly benefit from the experience of many countries around the world that have embarked – usually with the financial and technical support of international financial institutions and bilateral assistance agencies – on major restructuring programs to modernize their civil service systems. These international experiences offer various reform models that Cuba could consider. They also provide a record of how these complex reform programs could best be implemented, along with off-the-shelf training curricula that with relative ease could be adapted to local conditions in order to upgrade skills and instill transparency and values of public service among Cuban civil service officials.

*Financial Management, Control, and Audit.* Effective management of the national economy was never a policy priority of socialist Cuba. Generous Soviet subsidies, which lasted through the end of the 1980s, served to mask the regime's inefficiency and misuse of resources. During



a period in the mid-1960s, Cuba went so far as to abolish the Ministry of Finance, eliminate the national budget, and set aside accounting systems, doing away with concepts such as cost of goods sold and interest payments; the study of the political economy of socialism, as well as the career of public accountant, disappeared from the university during this period (Batista Odio 1986, 239-240). In the 1970s, some of these policies gradually began to be reversed as attempts were made – under Soviet prodding – to regain a modicum of economic efficiency. In 1995, President Fidel Castro, noting that an important factor behind the demise of the Soviet Union had been widespread corruption, put forth measures to improve accounting and audit procedures and to reduce black market activities (Reuters 2001).

In May 2001, the Cuban government announced the creation of a new Ministry for Audit and Control (“Creado el Ministerio” 2001). At the same time, the government began to implement other anticorruption measures, including a new code of ethics for public officials, a national financial control commission, new laws to punish corrupt public officials, and improved government accounting practices (Reuters 2001; see also Columbié Santana 2001). The government also has expanded training for accounting and audit personnel in Cuba and abroad to support *perfeccionamiento empresarial*, a new management system for state enterprises intended to enhance their efficiency within the context of continued state ownership and control; implementation of the system has been plagued by poor accounting practices. In 2000, for example, in 54 percent of 300 audited state enterprises, accounting procedures were poor and resources inadequately controlled (Espinosa Chepe 2001).

While many of these initiatives are part and parcel of the anticorruption tool kit, they are unlikely to have the desired impact under the conditions prevailing in socialist Cuba. The factors that conspire against their efficacy now should be at the forefront of thinking for those designing transparency/accountability initiatives during the transition. Perhaps the most significant requirement is that to fulfill its functions adequately and prevent corruption, a Supreme Audit Institution (SAI)<sup>11</sup> – the functional equivalent of Cuba’s current Ministry for Audit and Control – must be guaranteed political and financial independence. This can be assured only if the SAI is accountable not to an overtly centralized and dictatorial executive, but rather to a powerful legislature in a political system with appropriate checks and balances (Pope 2000, 75-82).

Post-transition Cuba must guard against the temptation to recreate

historical control institutions such as the traditional Court of Accounts (Tribunal de Cuentas), which elsewhere have failed to control corruption and instead have engendered political deals to cover it. The underlying principles of a Court of Accounts are in conflict with those of a modern SAI. While the SAI provides an independent audit function, promotes financial control improvements, and disseminates audit findings, it is not responsible for making legal determinations or prosecuting wrongdoing, the province of the Court of Accounts. That a Court of Accounts is empowered to render judgments and prosecute wrongdoing creates grave conflicts (and the opportunity for cover-ups) through the political process that governs the appointment of its members. Furthermore, the fairness of the Court's decisions are always open to question since its rulings cannot be appealed based on its own audit findings, absent independent review.

A Supreme Audit Institution can blossom when it provides oversight in a country with sound financial management practices. Since the 1980s, many Latin American countries, at the urging of the U.S. Agency for International Development (USAID) and with financial support from the World Bank and the Inter-American Development Bank, have embarked on long-term and ambitious efforts to develop Integrated Financial Management Systems (IFMS). An IFMS (Wesberry 2001b, 97) consists of

an interrelated set of subsystems, which plan, process, and report on resources, quantifying them in financial terms. The basic subsystems normally are accounting, budgeting, cash management, debt management, and their related internal controls. Other subsystems sometimes included in an IFMS are collection and receivable management, acquisitions and supply management, information management, tax and customs administrations, and retirement or social security system administration, together with their own internal controls. One of the most important elements of internal control is an independent and professional internal audit function, which constitutes an integral part of IFMS.

The strength of an IFMS in deterring corruption lies in its ability to generate a "common, single, reliable database to and from which all data flows," since all data users must submit information to a shared accounting system. As Wesberry (2001b, 98-99) notes (see also Pope 2000, 221-234), modern IFMSs, dependent on powerful high-technology tools and computing equipment, help prevent corruption in many ways. They provide multilevel budgetary control, permit the spotlighting of weaknesses,

allow for internal validation of integrity, and make feasible the control over resources. Further, IFMSs promote transparency, require the use of consistent policies, decentralize authority and accountability, reduce the need for accountants, give immediate audit capabilities, are capable of disclosing patterns of corrupt practices, and facilitate computer-assisted auditing.

Although the advantage of an IFMS for post-transition Cuba – both for efficiency in government and curbing of corruption – is beyond dispute, it will take a decade or more and tens of millions of dollars to make such a system fully functional. An IFMS national in scope requires the development and implementation of accounting and auditing standards, the initial and ongoing training of financial management personnel, and the acquisition and installation of modern computer systems linking all branches of government, from the central government to the municipalities. Fortunately, technological advances, particularly the development of microcomputers, make feasible the gradual introduction of modern financial management practices, perhaps focusing first on key organizations (i.e., ministries). Also to Cuba's advantage is the considerable experience and knowledge the international financial institutions have accumulated through the technical support and financial assistance they have offered to many other countries in the design and introduction of IFMSs.

*Code of Ethics for Public Officials.* A reading of the literature on public sector ethics suggests that for codes of ethics to be effective, they must be implemented in national settings characterized by political openness and transparency – two ingredients lacking in Cuba today. Codes of ethics have been found to work reasonably well in countries where the actions of the highest authorities can be discussed and challenged openly. Furthermore, codes of ethics appear to work best when “an improper act of a professional nature can be questioned by peers, and the professional group may take actions according to the mores of the group” (Ofusu-Amaah, Soopramanien, and Uprety 1999, 16).

On the basis of the conduct of public officials in socialist Cuba, ample reason exists for pessimism about the usefulness of codes of ethics for public officials as a means to limit corruption in the future. However, when the institutional, economic, ideological, and political setting is considered, there is some room for optimism.

In 1997, Cuba enacted a *Código de Etica de los Cuadros del Estado Cubano* (Columbié Santana 2001, 7). Reflecting the ideological dogma of the totalitarian state, this code of ethics relies on the same principles that

for more than four decades have failed to limit corruption in socialist Cuba, and the code fails to address issues of lack of transparency, individual accountability, and the inability to challenge the upper reaches of the political leadership.

Once a transition occurs, a code of ethics may have an important role to play in limiting corruption, particularly if institutional mechanisms and enforceable laws serve to control abuses of power. Among other things, public servants should be protected from political pressures; decision-making processes should be made transparent and open to scrutiny; and adequate accounting mechanisms should be adopted (Pope 2000, 175-194).

*Public Procurement Procedures.* Few areas of government activity offer more opportunities for corruption than public sector or government procurement. In pre-Castro Cuba, allegations of public sector procurement corruption were common and often gave rise to political disputes. Since 1959, comparable accusations have become relatively infrequent, mostly due to the centralized nature of the totalitarian state, absence of domestic private firms, and rigid press censorship. In addition, international public sector procurement in socialist Cuba is conducted behind closed doors, outside public scrutiny, and according to whatever rules are found expedient to satisfy political or national security goals or simply the interests of the governing elite.

With a transition to a market-oriented economy, Cuba would do well to adhere to accepted international norms regarding public procurement. An intensifying global movement aims to reform procurement procedures in order to accelerate economic growth, make government more efficient, and rein in public spending. The impetus for change has been the realization that corruption in public sector procurement creates many economic distortions that interfere with the development process. Key remedies appear to be related to greater transparency and clear rules whereby government contracts are awarded to bidders.

Several basic principles define a fair and efficient procurement process (Pope 2002, 206-207). It should be economical; that is, through the procurement process, the government should acquire those goods and services that offer the best combination of quality and price. It also should be fair and impartial. Bid winners should be chosen on the bases of qualifications and merit. Transparency is of the essence. Bidders should respond to specifications that are announced publicly. The process should have a complexity commensurate with the nature of the goods or servic-

es being purchased and, most importantly, should be accountable to the public. The bases for all decisions should be justified and recorded. Public sector procurement should be made as transparent as possible so that “institutions, processes, and decisions are made accessible to the public at large or to representatives of the public so that processes and decisions can be monitored, reviewed, commented upon, and influenced by the stakeholders” (Wiehen 2001, 86).

Establishment of a market-oriented public sector procurement system in a post-transition Cuba may be facilitated by the adoption of recommended norms proposed by international organizations. Examples are those norms embodied in the International Competitive Bidding (ICB) principles of the World Bank and the Model Law on Procurement of Goods, Construction, and Services of the United Nations Commission on International Law (UNCITRAL). These recommended norms, however, should not be adopted uncritically, but rather should be tailored to the national context in which they are to operate and always seeking to maximize, within that national context, efficiency and anticorruption objectives. Procurement reforms, in Cuba as elsewhere, as Rose-Ackerman (1999, 59) has observed, “highlight the tradeoffs between avoiding corruption and giving officials the flexibility to make decisions in the light of their own knowledge. Discretion increases corrupt incentives, but critics of elaborate procurement codes point to their excessive rigidity.”

When appropriate, past procurement experience should serve as valid selection criteria provided sufficient information is available to allow as many bidders as possible to participate in public competitions. Related to the above is the need to prevent the use of information by firms to collude and to rig prices. Rose-Ackerman also recommends that whenever possible, price benchmarking should be used (when comparable goods and services are available in the marketplace) to simplify purchases and acquire the best products and services for the lowest price. A basic principle for the design of a procurement system in which integrity is at a premium is that the more accountable and transparent it is, the more discretion it can allow public officials to have (Rose-Ackerman 1999, 64).

In summary, post-transition Cuba should design and implement public-sector procurement procedures guided by the principles of transparency and accountability of public officials. Bidding competitions should, following Wesberry (2001a, 86) “describe clearly and fairly what is to be purchased; publicize the opportunity to make offers to supply; establish fair criteria for selection decisionmaking; receive offers (bids) from

responsible suppliers; compare them and determine which is best, according to the predetermined rules for selection.” Contracts should be awarded to selected bidders with no price reduction demands or changes in winning offers. The establishment of modern and transparent procurement procedures should be part and parcel of a broader civil service reform process whose ultimate intent is the development of an efficient and responsive state.

*Citizen Oversight.* Broad consensus in the transparency/anticorruption community supports the premise that without a vibrant and vigilant civil society, legal and technical measures by themselves are insufficient to stem corruption. Initiatives to involve civil society in the fight against corruption are at the center of most anticorruption efforts today. This is the case, for example, with independent anticorruption commissions established in several countries, which have a three-pronged mandate: prevention, investigation, and public education (see below). The rationale behind this mandate is that the three domains are mutually supportive: A well-educated and vigilant public provides crucial input for preventive and investigative functions, while effective prevention and investigation encourage citizen involvement. Other more focused approaches, popular in Latin America, rest on the notion that the citizenry has to be educated and mobilized to provide oversight on how the government sector allocates and utilizes public resources. Social auditing – also known as *social control* in Honduras, *veedurias* in Colombia, and *score card* in India – entails the mobilization of citizens to provide oversight over particular types of projects, generally, but not always, at the community level.

While citizen oversight initiatives are part and parcel of the right of association citizens enjoy in a democratic society, and should rightfully have a role to play in limiting corruption in post-transition Cuba, the history of the country dictates that they should be designed cautiously. More than four decades of government-inspired and -controlled mass organizations<sup>12</sup> will surely leave a sour taste among many Cubans. They are likely to see citizen oversight institutions as akin to the Committees for the Defense of the Revolution and other totalitarian-inspired organizations created by the Castro government as instruments for social and political control. A similar concern, coincidentally, has been expressed in the former Soviet Union, where whistleblower programs advocated in the West have been found to be politically contentious, given the country’s totalitarian past. To succeed, future social auditing programs must be provided with very clear and specific legal mandates and promoted strictly

on a voluntary basis.

Current thinking in developing circles is emphatic in the belief that one of the most effective ways to curb corruption is to redistribute political power and spending authority away from central governments and toward local or municipal governments. Citizens are more aware of and have a direct stake in how local governments deliver services and manage resources, and they also have greater ability to influence the local decision-making process and more closely monitor performance. Thus, governments around the developing world, particularly in Latin America, have amended their constitutions and other legal instruments to increase gradually the amount of financial resources and responsibilities flowing from central to local governments, especially municipalities. Aside from efficiency and equity reasons, the goal is to shift power away from highly centralized governments that historically have been responsive to powerful urban-based political constituencies while largely neglecting other national constituencies.

Although the situation in Cuba over the past several decades has differed in some significant respects from that of most of the developing world, the centralization of decisionmaking under the socialist regime has been extreme. A notable exception appears to have occurred with the management of social services, with municipalities having been granted a greater say (Dilla 2001). A long-term transparency/anticorruption strategy must consider the devolution of political and financial management to communities, with the proviso that policies must be instituted to help develop the institutional local capability to manage and monitor public spending. Initiatives of this nature must be accompanied by legal instruments that encourage community participation in decisionmaking and grant individuals and citizen groups unrestricted oversight rights concerning the way local government decisions are made and financial resources are managed. Clearly, aside from its beneficial effects in controlling corruption, decentralization of financial and management authority will result in the deepening of democratic governance by encouraging citizen involvement in all facets of political life.

*Coalition Building.* Citizen oversight is most effective in combating corruption when broad sectors of society join forces. While efforts provided or led by individual citizens often are crucial, collective actions instigated or embraced by citizen-group organizations and coalescing around particular goals or professional interests can have multiplier effects that greatly enhance the impact of anticorruption initiatives. Most

obvious are those social benefits that could accrue from actions taken by professional associations – accountants, auditors, lawyers, engineers, physicians, educators, labor unions, media, business associations, and others to curb corruption. These could include, for example, the adoption of professional or business codes of ethics, ethics training, and peer-over-sight monitoring mechanisms to ensure proper conduct.

The role of the business sector as a key actor in the implementation of workable transparency/anticorruption initiatives should not be minimized. Some private-sector firms often bear the brunt of public-sector corruption, while others, perversely, benefit from it. Most reputable businesses would prefer to operate in a competitive, corruption-free environment, but often they are deterred from doing so by a “prisoner’s dilemma”: Firms unwilling to pay bribes or provide other favors to corrupt officials often lose business to firms not likewise constrained. If the private sector becomes organized and works together with civil society, however, this situation can be changed. Business associations that adhere to ethical principles can have a major impact on corruption by assisting their members to stay away from shady deals. Such associations can enact and help enforce business ethics codes, assist individual firms to comply with procurement procedures and rules that prevent the payment of bribes and serve as a conduit for an ongoing transparency-promotion dialogue between the private and public sectors (OECD 1999).

Even more significant is the coming together of various social sectors to achieve common goals, as when professional associations lend their technical expertise to civil-society organizations interested in monitoring the manner in which public sector projects are designed and managed, or funds spent. The cooperation principle is implicit in many social auditing schemes, for example, when professional associations provide expertise to citizen watchdog groups, or when firms agree to public procurement bidding principles monitored by citizens’ organizations. If a true commitment exists to adopt ethical and transparent values, then the broader the coalition for gradual expansion of an integrity framework, the better.

In Cuba’s case, such lofty cooperation will not be achieved overnight. Many propitious developments will have to come together to do away with the country’s ingrained corruption tradition and begin to create a culture of honesty and transparency. How will independent professional and partisan interest groups be organized and operate? Will economic growth be sufficient to allow individuals to satisfy their families’ needs without having to steal from each other or the state? Will Cubans gradually adopt



commonly shared civic and probity values, consistent with good governance and market principles? Will they overcome the behavioral legacy left by an economy of scarcity? When will they come to realize that the right to associate freely, without coercion or political manipulation, is a fundamental precondition for controlling corruption and to ensuring Cuba's democratic governance? These are major questions indeed. They call attention once again to the priority post-transition Cuba must assign to promote equitable economic growth, establish transparent government institutions, and promote education about civic values.

*Building Public Awareness.* Discounting the ignorance about democratic governance issues to which the population of Cuba has been subjected during more than four decades of socialist rule could be very costly. Modern concepts of transparency and accountability are unknown to most Cubans; they have been taught that the paternalistic state is not to be questioned and are familiar only with the information provided by the state media. To most Cubans, the concept that public servants are accountable to the citizenry is foreign, as is the very notion of transparency – the right of citizens to know how government decisions are made.

These basic principles are second nature to citizens of democratic societies, but will come as a revelation to many Cubans. This is not surprising since unfortunately, even today, basic rights of access to information and public accountability do not fully exist in many countries in Latin America and other developing regions. As in Cuba, in some countries the state budget and how it is derived continue to be treated as state secrets, programmatic and spending decisions still are made in the dark, and public officials act as if they were accountable to no one. These are most fertile grounds for corruption to flourish.

Once the transition is underway, a systematic and long-term effort must be made to educate the citizens of Cuba regarding their right to know and to monitor how government operates. These efforts must begin at a very elementary level and must include the issues of transparency and accountability as part of a broader national effort to inculcate in the population a basic knowledge about civil rights, basic democratic governance principles, and how a market economy operates. Governance education also must pay attention to the awe with which most Cubans regard the state: They must be taught that actions by public officials could and should be challenged, when warranted, without fear of retribution. These intense and long-term efforts obviously should be conducted through

every possible means: the mass media, school curricula, civic organizations, and government itself.

*A National Anticorruption Commission.* An important policy issue for a post-transition Cuban government will be to assess the desirability of establishing an anticorruption commission as a vehicle for the private and public sectors, as well as civil society, to collaborate, temporarily or permanently, in the development, implementation, and monitoring of a national transparency/accountability strategy. Such commissions have been established in several countries under different formats to provide a forum whereby representatives of government, business, and civil society can meet regularly to identify, discuss, and make recommendations regarding transparency/anticorruption issues. Some national commissions serve as consultative or policy-making bodies exclusively, while others have a more formal, broader mandate that may include an investigative role (e.g., the well-known Hong Kong Independent Commission against Corruption and the more recent Independent Corrupt Practices and Other Related Offenses Commission, ICPC, in Nigeria). In functioning democracies with transparent and efficient public sectors and routine citizen oversight of government activities, such commissions are unnecessary and redundant. The opposite appears to be the case in countries with a history of authoritarian rule and lacking a transparency tradition.

In a transition Cuba, a consultative and policy commission could maintain the corruption issue in the limelight and effectively mobilize public opinion, provided it includes business and civil-society members with a reputation for integrity to protect, along with honest and politically influential government officials committed to a transparency agenda. Equipped with a small, but well-qualified staff, and with assured funding from general government revenues (or from international sources, if needed), an anticorruption commission could serve as a channel for ongoing government-business-civil society dialogue and as a “transmission belt” for citizen input. While functionally limited to act as a consultation-and-recommendation body, the commission could be legally empowered to review government policies and programs and be required to make its recommendations public. In establishing a transparency/accountability commission, several decisions would be critical: the number and composition of its membership, criteria for selection of members and persons responsible for the selection, members’ term of service, the process for filling vacancies, and procedural rules for the commission.

If vested with the proper authority and a trusted membership, a trans-

parency/ accountability commission could serve during Cuba's transition as a highly visible forum for dialogue, citizen education, and development of policy-oriented recommendations. In addition, it could serve as a confidence-building body for a citizenry not familiar with the proper management of the state and its interaction with public and private sector business interests.

*Role of the International Development Community.* The role of the international financial institutions (IFIs) and the bilateral development agencies in preventing corruption in post-transition Cuba should not be underestimated. Growing concern about the devastating impact of corruption on social and economic development has helped galvanize an international consensus about the urgency of effective action to limit corruption. This has been manifested, as noted above, in the formulation of several international legal instruments (e.g., the Inter-American Convention against Corruption). Furthermore, IFIs and bilateral development agencies have designed or are aggressively implementing policies to prevent corruption within their own programs. They also are financing ever-more expansive and sophisticated projects in support of government- and civil society-sponsored anticorruption initiatives, including projects to strengthen the rule of law, financial control and accountability mechanisms, and citizen oversight.

The World Bank, for example, has revamped its internal operations to take the corruption factor into account explicitly, treating corruption as a critical element of governance. It has set aside long-standing reservations that made corruption a taboo issue due to (among other reasons) the Bank's explicit mandate to focus on economic concerns and not on corruption's political underpinnings (World Bank 1997, 25). The World Bank's anticorruption strategy therefore is predicated largely on preventing corruption in projects it finances and promoting reforms and economic-sector policies that help curb corruption.

Anticorruption efforts of IFIs and bilateral development agencies are mutually supportive. Bilateral development agencies are not constrained by a narrow economic mandate and are able to work on a range of issues typically set out in bilateral agreements with host nations, which delineate the broad outlines of the assistance to be provided. In fact, institutional strengthening efforts supported by different donors often overlap, inducing funding agencies to recur to formal or informal coordination mechanisms to avoid duplication of efforts. Such is the case, for instance, in many of the ongoing national Poverty Reduction Strategies (PRS), in

which the elimination of corruption increasingly appears at center stage (Clarke 2001).<sup>13</sup> While seeking to avoid the pitfalls associated with heavy-handed tackling of the internal politics behind corruption, bilateral development agencies increasingly are supporting programs whose ultimate intent is to weaken institutional features favoring corruption. The most obvious example is the providing of support to civil-society organizations that promote transparent and accountable government, along with funding of programs designed to improve governance and election systems.

In 2000, for example, the United States enacted Public Law 106-309, the “International Anti-Corruption and Good Governance Act.” The Act directs U.S. government aid programs to “promote good governance by assisting other countries to combat corruption throughout society and to improve transparency and accountability at all levels of government and throughout the private sector” (Section 202(b)). The Act specifically encourages U.S. foreign assistance programs to

1. Support responsible independent media to promote oversight of public and private institutions;
2. Implement financial disclosure among public officials, political parties, and candidates for public office, open budget processes, and transparent financial management systems;
3. Support the establishment of audit offices, inspectors general offices, third party monitoring of government procurement processes, and anticorruption agencies;
4. Promote responsive, transparent, and accountable legislatures and local governments that ensure legislative and local oversight and whistle-blower protection;
5. Promote legal and judicial reforms that criminalize corruption, and law enforcement reforms and development that encourage prosecutions of criminal corruption;
6. Assist in the development of a legal framework for commercial transactions that fosters business practices that promote transparent, ethical, and competitive behavior in the economic sector, such as commercial codes that incorporate international standards and protection of intellectual property rights;

7. Promote free and fair national, state, and local elections;
8. Foster public participation in the legislative process and public access to government information; and
9. Engage civil society in the fight against corruption.

While other democratic nations may not formalize the anticorruption thrust of their foreign assistance to the same extent as the United States, their intent is similar and generally complementary. In Honduras, for example, the major agencies providing international development assistance<sup>14</sup> regularly meet with Honduran government and civil-society representatives to coordinate cross-sector transparency/anticorruption initiatives. Similar efforts are under way in many other countries (see Gabriel and Stapenhurst 2001).

Post-transition Cuba should benefit from the technical transparency/accountability support and financing likely to be provided by the international donor community during the transition. In fact, a minimum level of transparency and accountability will result from internal controls the donor community will require to manage the disbursement of funds it will provide to assist the transition. While positive, these developments by themselves will not be enough to control, over the short-to-medium term, illicit acts rooted in inadequate institutional and political structures and an ingrained corruption culture, or which may blossom with the erosion of the totalitarian state. Thus, the international development community should prod a future Cuban government to adopt a proactive transparency/accountability strategy.

The outlines of such strategy could begin to take shape if the international donor community, in particular the Washington, D.C.-based financial and development agencies (WB, IMF, IADB, OAS, and USAID), were to establish a task force on transparency/accountability policy issues in post-transition Cuba. Precedents for the establishment of such informal consultative bodies exist. A relevant example is the Donors' Consultative Group on Accountability/Anticorruption (formerly on Financial Management) in Latin America and the Caribbean (DCG), sponsored by USAID.<sup>15</sup> The DCG has been meeting for more than a decade to assess financial management and, increasingly, corruption issues in the Latin America and Caribbean region. A Cuba-focused forum would provide a continuous venue for the exchange of ideas, identification of best practices potentially applicable to transition Cuba, and the opportunity to

negotiate a preliminary transparency/accountability division of labor among the IFIS and bilateral agencies.

## **Trust, but Verify**

It would be irresponsible to assume that future Cuban governments would embrace honesty and transparency as an administrative *sine qua non*. Given the country's history and the availability of corruption opportunities, particularly during the early stages of the transition, it would be more prudent to anticipate the contrary. According to this pessimistic, but probably more realistic, view, there is reason to expect a wholesale assault by public officials (old and new) and private interests (domestic as well as foreign) seeking to appropriate, by whatever means, the country's patrimony. Thus, any future transparency/accountability strategy must consist of several lines of defense, resting on two basic principles.

First, at the start of the Cuban transition, no private parties will own any property: With the exception of housing, personal effects (including some vehicles), and the relatively small number of small farms remaining in private hands, all other productive assets will belong to the state. The latter includes farmland in cooperatives and assets of joint ventures (other than foreign partners' shares). Thus, for all practical purposes, at the outset of the transition no one in Cuba would own any assets, financial or otherwise, of any significance.

Second, all ownership claims are questionable until their authenticity is verified. A computerized property-ownership registry that compares current claims against pre-1959 ownership information is an essential tool for verification. The creation of such a registry is certain to pose many challenges – and take time. Basic inputs could include pre-Revolution official public records, historical documentation held by claimants in Cuba and abroad, private property ownership rosters compiled in the United States or elsewhere, and more recent information provided by claimants. The registry should include as well information on joint venture properties, including names of foreign entities, valuation of original and current investments, and name(s) of the Cuban entity or entities (and individual officers) participating in the joint ventures.

To prevent the appropriation of state assets, the transition government could take several steps: (1) Declare null and void any transfer of state assets to a private party, including foreign persons, that has not gone

through the privatization or claim resolutions process to be set by the government; (2) declare null and void all corporations formed under the current regime, subject to reinstatement on a case-by-case basis under corporate audit procedures to be set up by the transition government; and (3) establish an oversight agent (equivalent to the U.S. General Accounting Office) to review and independently approve all government contracts in excess of a certain value threshold.

The availability of a claims resolution process will result in disputes over competing claims, which are likely to take years to resolve. This, of course, will be detrimental over the short term for property rights and will adversely affect the investment climate. Incentives could be built into the claims resolution process, however, by expediting property certification claims for bona fide owners who satisfactorily document or settle claims.

What we are suggesting should not be construed as a recommendation that properties taken over by the Cuban government since 1959 should or should not be returned to their original owners or their descendants. This is a difficult political and economic issue that should be addressed within an overall restitution or compensation framework (Roca 1993). Our concern here is with minimizing spontaneous privatization and other forms of state capture by powerful or well-placed government officials associated with the former regime, as occurred in several former Eastern European states, the old Soviet Union, and Nicaragua, to cite the best known examples.

Opportunities for large-scale corruption are particularly evident in the case of joint ventures, where indications already suggest that unscrupulous foreign partners have been conniving (or may be willing to do so in the future) with public officials to acquire private or state-owned property illegally or at very advantageous terms. It should come as no surprise that many of the foreign firms with some of the more considerable – and to some degree questionable – investments in Cuba are based in countries such as Italy, Spain, and Mexico, which have a less-than-stellar corruption record. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the eventual adoption of national enabling legislation by signatory countries provide some ground for optimism. The OECD Convention also may allow future post-transition Cuban governments, as well as private citizens and civil society groups, to contest questionable property ownership claims at the international level and to trace and recover proceeds of bribes and illicit transactions. The decision by Swiss authorities in April 2002 to return to

the Nigerian Treasury \$1 billion stolen by former dictator Sani Abacha and his family may constitute a powerful precedent to deter or redress acts of grand corruption in Cuba and elsewhere (Mason 2002).

International cooperation will be crucial in the detection of bribe payments and other corrupt practices. The various international anticorruption conventions – although in most cases still at an embryonic stage of development – should facilitate the exchange of information, the detection of illicit practices, the prosecution of corrupt public officials and private-sector firms engaged in bribery, and the detection and prosecution of international money-laundering and drug- and human-trafficking criminal networks. The international community could work with a transition government for the establishment of an anticorruption entity modeled after the Hong Kong Independent Commission against Corruption, which is vested with authority to investigate and refer corruption allegations for prosecution.

While it may never be possible to eradicate corruption totally in Cuba – or anywhere else for that matter – the toolbox available today to combat it is growing exponentially. Transparency, accountability, vigilance, and preparation for the worst may well be the best deterrents to prevent the scourge of corruption from derailing the long-awaited Cuban transition.



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## Notes

<sup>1</sup>The term “rent seeking” to describe the behavior of corrupt officials who take advantage of imperfectly competitive markets to seek bribes was pioneered by Krueger (1974).

<sup>2</sup>Klitgaard’s (1988, 75) formula of the “basic ingredients of corruption” is Corruption = Monopoly + Discretion – Accountability.

<sup>3</sup>Voslensky (1984, 75) defined the *nomenklatura* as (1) a list of key positions with the government, appointments to which are made by the higher authority of the Communist Party, and (2) a list of persons appointed to these positions or held in reserve for them. In his classic work, Djilas referred to this group as the “new class” and said about it: “The new class instinctively feels that national goods are, in fact, its property, and that even the terms *socialist*, *social*, and *state property* denote general fiction. The new class also feels that any breach of its totalitarian authority might imperil its ownership. Consequently, the new class opposes any type of freedom, ostensibly for the purpose of preserving ‘socialist’ ownership” (Djilas 1957, 65).

<sup>4</sup>In Nicaragua, the property-grab that occurred at the end of the Sandinista government is generally referred to as the *piñata*.

<sup>5</sup>Among the methods of privatizing state-owned enterprises employed by Eastern European nations and former republics of the Soviet Union, often combining more than one technique, are assets sales (Hungary, East Germany), voucher privatization (Czech Republic, early Polish divestitures, Russia), share offerings (later Polish sales), insider privatization (Russia), and spontaneous privatization (Slovenia) (Megginson and Netter 2001).

<sup>6</sup>Liquidation generally has not been the chosen privatization method of any country, but has been the default method in some instances where the use of other methods has not been feasible.

<sup>7</sup>The confiscations exclusively involved properties expropriated from former Batista government officials who allegedly had acquired them through corrupt practices. The legal bases for confiscating these properties never were validated by standard rule of law practices and, conceivably at least, some of those expropriations could have been or will be subjected to legal challenge.

<sup>8</sup>The indicators are derived from “194 measures drawn from 17 sources of subjective governance data constructed by 15 different organizations.... These sources include international organizations, political and business risk-rating agencies, think tanks, and nongovernmental organizations.... [Governance] includes (1) the process by which governments are selected, monitored, and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kauffmann, Kraay, and Zoido-Lobaton 2002, 2, 4-5).

<sup>9</sup>There is evidence that the Cuban *nomenklatura* has planted the seeds for an oligarchy by creating “privatized” enterprises (referred to as *sociedades anónimas*, or S.A.). These S.A. are headed by individuals loyal to the Cuban government and to the Cuban Communist Party. Unless the proper transition strategy is implemented,

these individuals will try to capture the Cuban economy during the transition for their own gain.

<sup>10</sup> The illustrative list of Type I and Type II measures is drawn from Svejnar (2002, 5).

<sup>11</sup> In many countries, the Office of the Comptroller General performs this function.

<sup>12</sup> The reference here is to official mass organizations such as the Committees for the Defense of the Revolution (CDR), the Federation of Cuban Women (FMC), the Cuban Workers' Central (CTC), and the Union of Communist Youth (UJC). These mass organizations, among others, are mentioned explicitly in Article 7 of the Socialist Constitution of 1976.

<sup>13</sup> A notable example is the PRS for Honduras.

<sup>14</sup> They are known as the Group of 15 or G-15 and include USAID and other major binational donors, as well as the IFIS.

<sup>15</sup> The DCG currently brings together 21 bilateral and multilateral organizations, including the World Bank, the Inter-American Development Bank, the Inter-American Agency for Cooperation and Development, the OAS, and the OECD.

## About the Author

**Sergio Díaz-Briquets** is Vice President of Casals & Associates, Inc. (C&A), a Washington, D.C. area consulting firm, and Executive Director of the Council for Human Development. At C&A, he currently manages U.S. Agency for International Development (USAID)-funded transparency and anti-corruption projects in Africa and Latin America. Previous institutional affiliations include the U.S. Congressional Commission for the Study of International Migration and Cooperative Economic Development, the Population Reference Bureau and Canada's International Development Research Centre (IDRC), as well as academic appointments. Díaz-Briquets' overseas consulting assignments – for USAID, the World Bank and other international development agencies – have taken him to dozens of countries in Africa, Asia, and Latin America. Author or editor of more than ten books, and numerous academic and policy papers, in 2000 he published (with Jorge Pérez-López) *Conquering Nature: The Environmental Legacy of Socialism in Cuba* (University of Pittsburgh Press), winner of the 2002 Warren Dean Prize of the Conference of Latin American History of the American Historical Association for best book on environmental history of Latin America published in 2000 and 2001, also published as *La conquista de la naturaleza: El legado ambiental del socialismo en Cuba* (Mexico: EDAMEX, 2001). Other books of his include (with Charles C. Cheney) *Biomedical Globalization: The International Migration of Scientists* (Transaction Publishers, 2002); *Cuban Internationalism in Sub-Saharan Africa* (Duchesne University Press, 1989); and *The Health Revolution in Cuba* (University of Texas Press, 1983). Díaz-Briquets, a graduate of the University of Miami and Georgetown University, received a Ph.D. in Demography from the University of Pennsylvania.

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