



Anti-Corruption and the Role of Chambers of Commerce and Business Associations

Recent initiatives such as the Global Compact (Principle 10) and the DAC Revised Principles for Donor Action in Anti-Corruption call for proactively engaging the private sector in anti-corruption efforts. These are new, important and promising agreements for combating corruption worldwide. However, the precise nature of how to engage and support the private sector is not defined. This brief explores ways for donors to increase their engagement with the private sector through the support of business associations and chambers of commerce.

Business associations (BAs) and Chambers of commerce (CCs) are taken together in this brief because their roles regarding anti-corruption measures often overlap. CCs and BAs have the general characteristic of working groups and are not usually governing bodies or umbrella organizations. This means that they cannot make decisions on behalf of their members, nor can they enforce compliance amongst their members. Members are free to decide which recommendations or commitments to accept and put into practice. Often businesses and corporations leave their



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association (or chamber) if they feel that their interests are poorly represented. Nevertheless, attempts by outsiders to instrumentalize bodies of organized business for their own purposes are common. Often this is done by governments or public authorities which try to shape chambers and business associations into tools with which to implement their own economic and political agendas. Governments in developing countries are no exception to this. To ensure conformity, governments often subsidize chambers and associations or go as far as to require governmental approval for decisions taken by chambers (including the staffing of internal positions). In order to assess independence and stakeholder representation, BAs and CCs can be classified according to criteria such as whether functionaries are elected or appointed, where funds originate, or whether state functionaries are involved in day-to-day activities. While the strength of associations and chambers in developing countries varies according to country, it is often influenced by (and may depend on) the capacity and engagement of individuals.

The presence of BAs and CCs in developing countries depends on various factors. As mentioned, they are numerous as political devices, but new chambers and associations are also being established within sectors that have traditionally not been represented (e.g. finance and agriculture) or due to 'reform-aversion' of old state controlled BAs/CCs. Furthermore, increased international trade, international regulatory mechanisms and sectoral assistance have spawned a new wave of BAs and CCs over the last decade. In the SADC region alone there are more than 1500 bodies of organized businesses encompassing local to regional foci. Donor engagement with BAs and CCs is promising but can be substantially strengthened. An increase in independent evaluations of such projects is also highly desirable.

The anti-corruption relevance of BAs and CCs

One key means is to hold government accountable and advocate for changes. BAs and CCs can be a force for the reform of government regulation and bureaucracy, leading towards an

Facts about business associations and chambers of commerce

Chambers of commerce (CCs), along with guilds, are one of the oldest types of business organizations. Usually they are organized bodies of classic trade and/or industry, and membership is open to all such businesses. As classic representations of businesses and industries, CCs are often bestowed with responsibilities and functions by governments in areas where they are better placed for policy formulation and design. CC membership is compulsory in most public law European Union countries, and voluntary in mainly English speaking/common law countries. CCs also frequently include economic development corporations/organizations or groups from outside the business community (often a formal branch of a local government, or tourism agencies). Some chambers also have joint state, national, or international bodies.

Business associations (BAs) on the other hand are bodies made up of corporations active in a specific sector /region, or pursuing a specific aim (e.g. promoting industry and business

through PR activities, education, political donations, public policy advocacy, or publishing). Thus, they have a more specific function than CCs, and membership is not open to all corporations/businesses.

BAs and CCs have the following commonalities:

- They represent the interests of business and provide a forum for the articulation and dissemination of relevant issues, policies, and courses of action.
- They have a (potential) monitoring role regarding member activity, especially in the field of corruption.
- While the size of member firms in BAs/CCs varies according to legal framework and geographic area, a large proportion are small or medium sized enterprises (SMEs). Eurochambres, representing European chambers of commerce and industry, has over 19 million member companies – of which more than 90% are SMEs. The U.S. Chamber of Commerce represents more than 3 million businesses, 96% of which have less than 100 employees.

environment where fewer opportunities for corruption exist (i.e. 'outward-looking' and reducing the demand side of corruption). In less direct ways, BAs and CCs can be a force for transparency and ethical ways of doing business by linking membership to a reduction of business risk and to higher profitability. In the ideal scenario, this would allow for minimum (voluntary) standards such as adherence to transparent accounting, or for codes of conduct to be endorsed.

While country-specific particularities (e.g. regime type, historical role of business, history of BA/CC, etc.) will always have an effect on the nature of the BA or CC, it is crucial that certain basic conditions are met in order for the effectiveness and resilience of any association or chamber to be ensured:

- There has to be 'buy-in' from the business community, i.e. a business case has to be established for a variety of companies. Starting points are to focus on communication and to develop demand driven programs and services (for instance, business development services, insurance, certification of origin, etc.).

- Governance structures should be clear and workable. If the internal systems are flawed and internal communications break down, a consistent message on behalf of the private sector and association is near to impossible.
- Strategic planning should be a priority in order for sustainability and long-term impact to be ensured.
- The membership base should be solid and able to sustain the organization.

Combating the demand side of corruption

For every country a specific set of factors impedes the development of a vibrant private sector and enables corruption. One of the first steps for chambers of commerce and business associations is to identify the inefficiencies in a bureaucratic system, which often provide the basis for corruption to occur (e.g. complicated tax codes, longwinded licensing procedures, an inefficient judicial system, etc.). While many databases and studies exist (for instance, the Doing Business Database

of the World Bank), their relevance for BAs and CCs is limited. In order for ownership, relevance, 'buy-in' from the business community, and ultimately sustainability to be ensured, this exercise is best undertaken by the BAs and CCs themselves. They have first-hand knowledge of the situation they operate in and are thus best placed to identify the issues that matter most to them. Parallel to fighting red tape and regulation conducive to corruption, BAs and CCs can act proactively by:

- Providing services that support investment and trade expansion in order to reduce the number of firms operating informally, for example by facilitating alternative loan systems through credit unions.
- Building and maintaining channels of information and communication with government, civil society, and the media.
- Providing positive publicity and public relations.
- Cooperating with other domestic and international (northern and southern) associations, chambers and institutions to develop a coordinated approach to anti-corruption issues.
- Working and interacting with government agencies to warrant the soundness, consistency and effectiveness of national and international efforts to curb corruption.

The various strategies finally adopted – whether reactive to state inefficiency or proactive – will depend on the specific circumstances in which the association or chamber is operating. However, in unpredictable and fragile legislative environments with a burdensome bureaucratic and regulatory framework, a vicious cycle can ensue: businesses disregard laws and avoid taxes and inspection/registration regimes, thus in turn eliciting even more state demands on business. Given the right circumstances, through the advocacy of business organizations for more efficiency and accountability from the state, this cycle can be broken.

Voluntary efforts

As a result of globalization, the structural power of corporate capital is enhanced and the context and instruments through which state power and authority are projected are

altered. The scope and effectiveness of state regulation are to a certain extent undermined. Furthermore, growing global producer- and buyer-driven production and distribution networks mean that the globalization of business is no longer confined only to large multinational corporations but also embraces SMEs. As a result of the diminished scope of action of state regulation, the increased independence and power of businesses (large and small), and the general popularity of voluntary codes of conduct (e.g. EITI), BAs and CCs have the potential to play a part in voluntary anti-corruption efforts. Associations and chambers could be a forum where peer pressure acts as a powerful incentive to improve integrity and implement 'soft law'. This is one of the few instruments for addressing corruption within the private sector.

In this regard business associations and chambers of commerce would take on the role of:

- Publicly speaking out against corruption.
- Leading by example, to the extent that their organizations are based on integrity, transparency and good corporate governance.
- Maintaining an effective code of conduct which commits members to a strict anti-corruption policy. However, this is only possible in circumstances where buy-in is strong, and a case against corruption is consolidated across the business community. There is no basis for enforcing behavioral change.
- Increasing awareness of the detrimental effects of corruption by continually educating and informing members and the public on issues of corruption (eg. conferences, case-studies, debates, and collaborating with advocacy groups and journalists).
- Independent extra-judicial bodies that provide avenues for reporting corruption as well as mechanisms for verifying allegations. Trade Unions are important when it comes to providing avenues of reporting corruption and protecting whistleblowers. However, their role in dealing with accusations of corruption between businesses is limited, as is their role of verifying

such accusations and administering possible redress or arbitration.

While voluntary efforts could have a role to play in advancing integrity and ethical conduct, this is by no means assured. The business benefits of committing to voluntary anti-corruption efforts might not be significant for all companies and some might even lose out. A common argument is that an inherent conflict of interest exists (short-term profit maximization versus potential long-term gains), but a variety of companies also rely on corrupt practices for profitability and success. This relegates voluntary anti-corruption efforts beyond effective implementation. If members have no interest in anti-corruption, BAs and CCs as representatives of their members' interests, would find it hard to be active anti-corruption champions themselves. Therefore, the business case for combating corruption needs to be carefully developed according to the product, industry, and/or service in question for each company. Here, donor input can take the shape of presenting a strong and business-oriented case against corruption.

While the effectiveness of voluntary efforts may be debatable, they are not meant to replace the rightful role of democratic governments to set regulatory frameworks for the benefit of society. Instead of a polarized debate about which tactic is most effective, it is more useful to understand when and how different approaches can create business and societal benefits. In the case of corruption, the two are complementary; both voluntary and regulatory approaches (codes of conduct, independent monitoring and efficient legislation) are relevant.

Potential problem areas and the role of donors: do's and don'ts

1. The single most important area where donors can enter the picture is by maintaining and supporting a structured public-private dialogue. **Do keep corruption firmly and permanently on the agenda.** This would support CCs/BAs in keeping their communication channels open (regular meetings, conferences, etc.), and through the engagement with corruption, relevant reforms can be worked out.

2. Approaching the issue from the side of competition, the effect of strengthening BAs or CCs could potentially be detrimental. When competing firms cooperate 'too much', a situation of collusion could arise which would be tantamount to insider trading or a 'cartel'. The less direct competition there is between members, the better. So, **do encourage a wide variety of sectors and differently sized companies to be represented.** Furthermore, through open communication and cooperation with other societal and governmental bodies, this danger could further be reduced.
 3. A real danger for donors is that initial efforts to engage the private sector in ways described here, may lose steam due to financial constraints and/or political considerations. **Do plan to be engaged over a longer period of time** and prioritize strategic planning. While cooperation with the same government might suffer in other areas if too much effort is focused on corruption, a balanced approach using alternative terms and descriptions in project titles, designs, reports and documents not overtly addressing corruption is already common practice, and constitutes a more 'diplomatic' approach to addressing the issue. **Don't disengage from anti-corruption initiatives due to political considerations.** Rather, find innovative ways to work around the problems.
 4. As a caveat to the point above, funding should not be a priority: While associations which do not primarily depend on members' fees are generally more successful, the effects of unearned income (donor money) could be detrimental. Firstly, the fact that members are not willing to pay, could indicate that the association or chamber is failing to address members' needs. Secondly, high aid volumes will inevitably create competition for donor support amongst chambers and associations. This is unproductive, and can lead to business associations or chambers of commerce being formed as vessels for receiving aid money. Due to independence from members, BAs and CCs might also gain a dynamic of their own, acting in the interests of their own staff rather than of their members'.
 - a. **Don't provide permanent subsidies.**
 - b. **Do provide the initial impetus and funding,** but hand responsibility for continuation over to the association or chamber.
 - c. If you provide financial assistance, **do award any support in an open and competitive way.**
 - d. **Do support the association or chamber to secure alternative sources of funding** through, for example, organizing trade fairs, specialized legal advice and representation, library services, product quality and documentation certification, etc.
 - e. **Do assist the development of technical capacity** in relation to point (d) above if needed.
 5. In a broader perspective, shifts in the contextual frameworks in which associations and chambers operate can shine either a positive or negative light on the anti-corruption (and developmental) impacts of business associations. This is due to limited research on the issue. While the current discourse suggests a positive role for business associations, some of the complex dynamics of the business-state relationship may be overlooked. Similarly, with different priorities in the international aid environment, this positive role might turn negative. Donor agencies have an important role to play in removing this limitation in current research. In this regard, **do aim to build a substantial body of specific examples and case studies** which illuminate the link between the public and the private sectors, as well as the different priorities and strategies adopted and obstacles faced by various chambers and associations in particular settings.
- While CCs and BAs are often instrumentalized by governments, attempts by donors and other 'development partners' to address the issue of corruption through those bodies is also a form of instrumentalization. The effects regarding restricted self-determination and the lack of a stakeholder driven agenda are also similar. More importantly however, while SMEs and other labor- and capital-intensive businesses relying on national and local markets may be persuaded to participate in anti-corruption efforts, large businesses in command of more resources as well as foreign businesses which can easily relocate when accused of corruption, may have fewer incentives to participate in donor-driven CC/BA anti-corruption efforts. Thus, in the short to medium term, cooperation with donors and active anti-corruption engagements may imply a competitive disadvantage for SMEs – they have to exercise ethics and restraint while large and foreign companies can free-ride on collective efforts. This uneven playing field is, however, more due to the size and mobility of a company, than to its participation in CC/BA anti-corruption efforts. This disadvantage would remain for SMEs even without any donor-initiatives. Thus, efforts to engage BAs and CCs in anti-corruption efforts should not advance independently of an improvement in the overall business environment, including the reduction of inefficient administrative and regulatory barriers.