

Washington DC. January 31, 2007

Progress & Challenges in the Global Fight Against Corruption

by Frank Vogl

INTRODUCTION

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Ladies and gentlemen, it is a privilege to be here. Corruption is complicated, it takes many forms and its costs are enormous. My focus is on grand corruption – defined as the large-scale abuse of high office.

- In business, the definition embraces the greed of top executives who take home vast sums - sometimes exceeding 1,000 times the annual average pay of the employees in their companies. I am talking about executives who in a variety of ways abuse their power to place their own enrichment above the priorities of their shareholders and other corporate stakeholders.
- In defining abuse of public sector office I include both the wealth illicitly secured by top officials; as well as the systems and conspiracies deployed by public officials to keep themselves in power and to broaden their control.

Today, I want to focus on five broad questions:

- First, what are the costs of grand corruption?
- Second, have we made meaningful progress in the fight against corruption since the founding of Transparency International, the leading global anti-corruption non-governmental organization (NGO) in 1993?
- Third, has the leadership of business lost its moral compass and, if yes, then what can be done to restore integrity to corporate leadership?
- Fourth, are we losing the fight to stop bribe-paying across national borders, and if so, what should we do to reverse this situation?
- Finally, does all that we have learned offer clarity when it comes to securing progress in the battle against public-office bribe takers?

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- First, what are the costs of grand corruption?

The Scale Of The Crisis

- Corporate ethics.
- Economic growth/free enterprise.
- Democracy.
- Human rights.
- Poverty.
- Security.

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The costs are enormous and diverse. They relate to many aspects of our society and global affairs.

- **Corporate ethics** - the scandals - from Enron to the 150 companies where senior executives are now under investigation for having backdated stock options - have weakened public confidence in our free market system. They have produced calls for more regulation, such as the Sarbanes-Oxley Act, that add business costs, add internal controls and bureaucracy, and threaten to weaken creativity and enterprise. Over time, the trend could be damaging unless there is strong evidence of enlightened and ethical business leadership. Candidly, when six Wall Street firms share \$36 billion in bonuses among their staffs – a sum bigger than the GDP of some national economies – then one senses that greed is all-powerful and we have much to worry about.
- **Economic growth** – corruption undermines the efficient functioning of markets; it robs economies of their assets and their potential. The costs to Africa alone each year are some \$150 billion, according to the African Union.
- **Democratic values** – corruption works against the building of democratic institutions that serve the public. Its prevalence leads to a backlash and to populism as we have seen from Venezuela to the Palestine Territories.
- **Human rights** – corruption is often a quest for both riches and power and it not only involves grand theft, but the quashing of political opposition and public criticism. Where there is grand corruption there is inevitably huge human rights abuse.
- **Poverty** – Massive corruption has repeatedly wrecked otherwise good aid initiatives designed to reduce poverty. Criminal acts in public sector contracting, the misappropriation of public resources and bribery of politicians and civil servants adds to human suffering in country after country. Resources that should be used to bring basic health, sanitation, shelter, education, even food, to the 4 poor are repeatedly diverted into the pockets of the powerful. The United Nations Millennium Development Goal of reducing global poverty by one-half by 2015 will not be attained so long as corruption continues unchecked.

Security

- Tony Blair quashes investigation.
- Nuclear secrets to N. Korea and Iran.
- Major bribery in Iraq.

Corruption is a critical issue in almost every aspect of international security today. 4

- **Security** – the area of greatest concern in the context of corruption relates to security. The defense industry is a major sector of bribery: governments cloak their arms budgets in secrecy under the guise of national security, which provides officials with huge opportunities for illicit actions.

Very recently, Prime Minister Blair bowed to Saudi Arabian pressure and quashed an official UK investigation into alleged bribery between the UK's British Aerospace Systems and the Saudi government. Blair said this decision was due to national security concerns. But, it threatens to wreck the OECD's Anti-Bribery Convention, as the head of the OECD recently noted. The Baker-Hamilton Iraq Study Group estimated the annual cost of corruption related to the U.S. engagement in Iraq at \$5 to \$7 billion. A Pakistani nuclear scientist was bribed to sell key secrets to North Korea and Iran. Money-laundering is a key tool for terrorist organizations and illegal arms trafficking. The vast opaque area of corruption and security ought to be of concern to all engaged in international relations.

So to my second theme:

- Have we made meaningful progress in the fight against corruption since the founding of Transparency International, the leading global anti-corruption non-governmental organization (NGO) in 1993?

Are We Winning?

- **Greater awareness.**
- **Research rises.**
- **Major new strategies.**

**But, no evidence yet of reduced
bribe-paying, or bribe-taking.**

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There has been enormous progress. Public awareness worldwide of the dangers of corruption has increased. Research into many aspects of the issue has become a priority and, generally, the topic is more openly and widely discussed than ever before.

There are a host of impressive results and initiatives. For example, Nuhu Ribadi, Executive Chairman of Nigeria's Economic & Financial Crimes Commission, reports that over \$5 billion in stolen funds has been returned to his country over the last three years. He adds that controls geared to preventing illicit outflows of cash have resulted in substantial sums of "corrupt cash" being invested in mainstream Nigerian businesses.

Then, for example, Redempto Parafina, coordinator of the G-Watch, a non-governmental organization in the Philippines, reports that anti-corruption actions by a growing number of civil society organizations have led to huge cuts in basic school text book prices and the ending of schemes that saw tens of thousands of books failing to reach designated schools. This project has been supported by a small grant by the Partnership for Transparency Fund. PTF gives micro-grants of no more than \$25,000 to individual NGOs that develop very specific anti-corruption projects. More than \$1 million of grants have been made with what we estimate has been an 85% success rate – that is the projects achieved their goals.

Then, in Bangladesh, the Transparency International chapter just attracted thousands of people to a live broadcast rock concert to protest corruption that was a spectacular success and highlighted the mounting public disgust in that country about the rotten state of politics.

Across the world a rising number of new anti-corruption initiatives are coming to the fore, promoted by civil society, business, government and international aid agencies and research centers. About a dozen years ago the landscape was largely barren. Transparency International was a pioneer and today it has over 75 national chapters around the world. At that time the World Bank and other aid donors largely ignored the corruption issue with the Bank's leadership asserting that it was "too political" for an aid agency. Now, the Bank and all other major multilateral and bilateral aid agencies have good governance and anti-corruption as a top priority. Numerous official international anti-corruption conventions have been signed and the official communiqués of global summits regularly feature anti-corruption resolutions (a decade ago this was rare).

Illustrative Areas of Anti-Corruption Progress

- Money.
- Punishment.
- Personal Risks.
- Values.
- Conventions.
- Humanitarian Assistance.
- Environment.

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Is there any evidence of reduced bribe-paying or bribe-taking?

It is very difficult to confidently say yes. A lot is happening to curb corruption and this bodes well and indeed, perhaps, modest optimism may be in order. This was certainly evident among the more than 1,200 delegates from over 100 countries who crowded into plenary sessions and more than 40 workshops at the 12th International Anti-Corruption Conference held in Guatemala last November.

The meeting provided an opportunity to take stock – to look at a host of critical issues and find some common ground on where actions can be taken on a priority basis. Permit me to just highlight seven diverse and important issue areas to illustrate what is now happening.

- **Money** - Greed drives corrupt practices and usually the focus is on cash. Bar the taking of cash and you bar much of the abuse of office for personal gain – corruption. There is enormous anger across the globe about corruption by top politicians, about the looting of state coffers, about the shipping of these funds offshore, and about the difficulties of securing the repatriation of these stolen assets.

A central concern is money laundering. Progress has been made in recent years, partly due to the voluntary efforts of banks and TI in forging the Wolfsburg Principles. Then, 9/11 made international anti-money laundering a major governmental priority given the imperative to cut funding to terrorist organizations. The authority of the Financial Action Task Force (FATF) rose. Corrupt officials, however, continue to engage intermediaries who facilitate the laundering of stolen funds across national borders.

The application of laws and regulations to foil the facilitators is undermined by hosts of national regulations from one country to another that often seem to contradict international regulations and thus create confusion. Banks and regulators are working on this, but progress is slow. It is a similar jumble of often contradictory regulations that also complicates the issue of the repatriation of stolen assets. Hopefully, recent Nigerian successes may inspire progress across a broader front.

- **Punishment** – But corrupt officials and the complicit financial intermediaries will continue to forge ahead if they feel the risks are few. Punishment of top officials and politicians in this area is infrequent. As former Peruvian public prosecutor José Ugaz explained at the IACC that politicians in too many countries enjoy immunity from prosecution while they hold public office and then they secure asylum in countries that ignore extradition demands. Why, he asked, is former President Fujimori still able to stay in Chile after a year there and not be returned to face trial in Peru?

The former top cabinet members in Kenya, who had been forced to resign office in 2005 because of documented allegations of their massive thefts, were reinstated into the Kenyan cabinet recently! In many countries the public has a cynical view of law enforcement – in one nation after another it seems that people are convinced that the law will never deal appropriately with the big corrupt crooks. It is hard to find evidence to suggest these views are misplaced. TI will shortly publish its *Global Corruption Report*, which will highlight the roles of the judiciary, where rampant corruption has greatly aided the villains.

People are angry. The recent U.S. Congressional elections illustrated the point. Exit polls in the U.S. indicated that 75% of voters saw corruption in politics as a key issue as they went to vote. The result: many powerful incumbent politicians lost their seats – punishment indeed!

- **Personal Risks** - Fighting corruption is getting more difficult. The dangers are rising in many countries for those who seek to wage the good fight. From Bangladesh and the Congo to Venezuela and Zimbabwe, anti-corruption campaigners live in fear of arrest or assassination. The murder of journalists investigating corruption in Asia and in Latin America has been rising. The threats to non-governmental organizations in Russia by the Kremlin are serious. The pressures by authorities in Congo, Sri Lanka and Ethiopia, are intense on those who might seek to challenge public officials and call for transparency and accountability.

At one plenary session at our recent conference there was an animated discussion of official regional and possibly global approaches to protect the basic rights of civil society to freedom of assembly and freedom of expression. A suggestion for initiatives of this kind was made by José Miguel Insulza, Secretary-General of the Organization of American States.

I hope that TI's annual Integrity Award is an encouragement to those who show constant courage and without whose efforts our fight would be far less. Our latest winner is Dr. Anna Cecilia Magallanes Cortéz from Peru who overcame enormous personal dangers to lead the force that successfully prosecuted 1,500 members of the criminal organization of General Vladimiro Montesinos, the collaborator of former President Alberto Fujimori.

- **Values** - crucial to the fight against corruption is the education of young people (as well as leaders of many diverse institutions from the media to business to academia, and of course government) about moral values. As Costa Rican President and Nobel Peace Prize winner Oscar Arias has eloquently noted, too little is being done to ensure in all societies that there is a core understanding and support of values that reach beyond material concerns and “place at the center the right of all human beings to a place under the sun.”

However, it is encouraging that in an increasing number of countries, civil society organizations are taking anti-corruption campaigns into the schools, working with teachers to find ways to make children strengthen their understanding of core values. Efforts are being made to involve faith-based organizations in this agenda (so far with limited success). More broadly, good governance campaigns by civil society in many countries are gaining traction with businesses and not-for-profit organizations that stress core values, building a values-based institutional culture, and emphasizing the importance to chief executives to demonstrate an ethical “tone at the top.”

- **Conventions** - Building international frameworks to achieve actions, to articulate the responsibilities of governments and to direct policies to curb corruption, has become a central theme of anti-corruption campaigns over the last decade. The OAS Convention was the first regional anti-corruption initiative of its kind, but its impact has been marginal at best. The challenge now is to ensure that its monitoring mechanisms are seen by the Latin public to be working. The anti-bribery convention of the Organization for Economic Cooperation and Development, signed by 36 countries, has yet to be enforced. There is now the United Nations Convention Against Corruption, which says all the right things. But, just like anti-corruption laws at the national level designed to secure clean governance and ethical politics, the key rests in enforcement. Alas, so far, the anti-corruption conventions have not been implemented. Enforcement is crucial and it is lacking.

Finally, in this very brief overview of the balance sheet of success and failure on the corruption playing field, permit me to highlight two particular sectoral issues – humanitarian assistance and the environment.

- **Humanitarian Assistance** - the massive earthquake in Pakistan and the tsunami in Sri Lanka, Thailand and Indonesia highlighted the opportunities for large-scale corruption at times of humanitarian disaster when the charitable funds and the official aid flood into disaster situations in a haphazard

manner. Time and again, it seems, the donors just do not learn from previous errors. The criminals benefit. Repeatedly, the opportunities for corrupt practices surface as the donors fail to coordinate adequately; their zeal to disburse funds rapidly overwhelms their prudence; their focus on being seen by the media to be highly active relegates a focus on safeguards to a low priority, and, the lack of local information by international donors compounds the problems.

What can be done? The international community needs to focus still more directly on measures that ensure that the victims of future natural disasters obtain the maximum benefits in ways that are transparent and efficient. Key actions should include a greater commitment by donors to coordination, enhanced priority to engaging civil society as a meaningful partner by governments and donors, and strengthening independent monitoring, which can include civil society. Perhaps, there would be progress if there was a major international commission of investigation into corruption in the tsunami's impact on Sri Lanka and Indonesia, where by some accounts vast amounts of cash have still not been disbursed and the agonies of countless tsunami victims continue to this day.

. **Environment** - There is an equal deficit in understanding, linkage and cooperation between environmental movements and the anti-corruption community. Initiatives have been launched relating, for example, to forestry and to safe water. However, progress has been tepid. There is a need for more research and the decision by Transparency International to focus its 2008 Global Corruption report on water may be beneficial. I am constantly struck how environmental NGOs and anti-corruption groups fail to come together more often and intensify their cooperation. What good are all the environmental protection laws in scores of developing countries when corporate executives can simply evade them by paying small bribes to inspectors? This is an area of huge potential, I believe, for cooperation between NGOs.

Business Ethics

- Declining public trust promotes more regulation – curbs entrepreneurship.
- Where is business's moral compass?

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• Now, for the balance of this discussion permit me to focus on solutions. My third key theme relates to the issue: has the leadership of business lost its moral compass and, if yes, then what can be done to restore integrity to corporate leadership?

Corporations have a responsibility for the scale of corruption in the world. The ethics they promote impacts our society in profound ways.

The ethics of American corporations as a whole are not as abysmal as the media often suggests. There have been major accomplishments over the last 20 years, from the approaches of business towards the environment indeed more U.S. companies are putting more resources into compliance with ethics codes and standards than ever before.

However, many of these achievements have been overshadowed by the constant drumbeat of disclosures of corporate fraud, CEO crime, greed and lying, as well as record fines for wrongdoing. So egregious have been the scandalous actions of numerous top corporate executives that restoring public trust in business will be a complex, long-term, undertaking.

Reform, be it to prevent abuse of stock option rights, or pursuant to the Sarbanes-Oxley Act, will fail unless it is implemented within a corporate values system that assigns the absolute highest priority to doing the right thing.

Take Aaron Feuerstein, who owned a company called Malden Mills in Connecticut. It was destroyed by fire. He could have pocketed the \$300 million insurance money. Instead he not only rebuilt the factory, but paid all employees for 90 days in full. He said his first thoughts at the time of the disaster

were for the distress caused to the employees and community. He had his values in good shape. Do you think he would endorse bribing foreign government officials to get a bit more business? Of course not.

Companies that fail to build corporate integrity cultures are going to fail. To introduce piecemeal reforms to companies that place maximizing profits over every other value is a waste of time.

Culture matters. Every institution develops its own culture as the driver of behavior of all who are engaged with the institution. To build a framework for business you need a corporate integrity culture that calls for the following eight actions:-

8 points- for building a corporate integrity culture

1. A substantive codes of ethics.
2. Codes must be current & comprehensive.
3. Leadership.
4. Accountability.

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1. Companies need substantive codes of ethics. These should be reviewed frequently with substantial input from all employees.
2. Codes need to be current and embrace a comprehensive agenda --- including a wide range of corporate social responsibility issues, from human rights to the environment.
3. Building and sustaining a strong integrity culture requires leadership. CEO's set the "tone at the top." At the moment too few CEOs get this. They take home huge compensation out of all proportion to the contributions of their co-workers and they still believe they are setting the right tone at the top. The very large number of greedy CEOs in our country is in denial about their responsibilities and the power of their example. Corporations need to determine how best to check the total power of the CEO, for example, by splitting the CEO and Chair positions and leaving director elections to the majority of voting shareholders.
4. Accountability and transparency are crucial to a vibrant integrity culture. Companies should publish an annual corporate responsibility report that is verified by a board committee and external experts. In an age of transparency corporations have nowhere to hide. If they seek to disclose only partial information on an unethical development, they can be assured that the whole story will eventually enter the public domain, either from the media or public regulators and prosecutors.

8 points- for building a corporate integrity culture

5. Enforcement.
6. Skilled Ethics Officers.
7. Employee Compliance.
8. Support Whistleblowers.

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5. There has to be assiduous enforcement. Boards of directors should fire CEOs that misbehave and ensure that such firings are not accompanied by handsome severance pay packages. Government regulators should impose punishments that are so harsh as to serve as a deterrents.

6. Corporations need to ensure that they have highly skilled ethics officers. The profession of corporate ethics officer needs to win a higher profile in corporations and in academia. The function should equate to that of the corporate general counsel in the top echelon of corporate management.
7. Business leaders need to secure compliance with the corporate code by all employees with a combination of communications, training and incentives for performance. Managers need to see an impact on their personal compensation as a result of their performance relative to the corporate code.

8. And, greater encouragement of whistleblowers is essential. The ERC's National Business Ethics Survey in 2005 found that of employees who reported misconduct, 48% received positive feedback, while 52% did not. It also found, that of employees who reported misconduct, 22% experienced retaliation, while 78% did not. Corporate leaders need to encourage people to report malpractice that they see and in this regard a critical area for attention needs to focus on curbing the fears of employees that their whistleblowing will damage their own careers.

These eight proposals aim to provide a framework for creating and sustaining an integrity culture within corporations. Major efforts are being made to strengthen awareness of what needs to be done and to encourage business leaders to commit their companies to voluntary international anti-corruption standards. These welcome actions need to be accompanied by full enforcement of governance and anti-bribery laws.

- From this background of general concern about corporate ethics let us go to my fourth issues: are we losing the fight to stop bribe-paying across national borders, and if so, what we do to reverse this situation?

Supply-Side of Corruption

- Enforcement is Critical.
- Facilitating payments are bribes.
- Forging Partnerships -EITI.
- Companies Must Say NO.

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Private investment is crucial for development and the path to economic growth in most nations requires the import from business of capital and know-how. But the imports have to be clean. If the relationships are based on bribes, then the outcomes for the peoples of the developing countries will be negative.

Actions to prevent corporate bribery of government officials, or collusion with competitors to rig governmental contracts, are key areas of corporate integrity. The supply-side of corruption in the international arena should not be seen as distinct from the core issues of business ethics. Rather, how a company operates relative to the public sector should be wholly driven by its values and integrity culture. Corporations that take their ethics codes seriously will not pay bribes, at home or abroad. They will have mechanisms in place to try and curb all forms of bribe-paying by their employees, by their partners and by intermediaries that might represent them.

The supply-side of bribery takes many forms and can be seen in many contexts. It has permeated relationships between members of the U.S. Congress and lobbyists for corporations; it is manifest in arrangements between Russian parliamentarians and domestic business leaders; it allegedly engulfs aspects of the public honors system in the U.K.; and it is bribery of public office holders by domestic companies that has a major corrosive effect in scores of developing countries.

My focus here is just on one aspect of the supply-side of bribery: illicit payments made by multinational corporations and government officials outside of the corporation's home country. This is an important part of the corporate integrity picture and one where we who are resident in major industrial countries, where most of the multinational corporations are headquartered, can strive to influence reform.

Massive bribery is pursued by multinational corporations. The Volcker Commission Report on the bribery involved in the United Nations oil-for-food program for Iraq, for example, found over \$1.7 billion in bribes paid by more than 2,000 companies in this program alone.

Enforcement is critical - companies need to fear being caught and punished for bribing public officials. Business leaders need to recognize that there are serious risks in bribe-paying. This is not the case today. Prime Minister Blair's recent action on Saudi arms sales sends absolutely the wrong signal. This is especially unfortunate because the overwhelming majority of the 36 countries that ratified the OECD Anti-Bribery Convention, which came into force in 1999, are not enforcing it.

FCPA Loopholes

The U.S. law needs to be changed ---
facilitating payments are a scandal.

Would you bribe U.S. Immigration, or
the EPA, or Customs?

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Not only should the law be applied, but loopholes in the laws should be closed. The OECD Anti-Bribery Convention and the national laws that flowed from it offer opportunities for abuse. For example, the law allows ‘facilitating payments.’ These payments are allowed under US law to enable companies to overcome demands for small illicit payments from foreign customs, labor and other middle- and low-level government officials.

These payments are bribes. The delays that foreign corporations may have in securing customs’ clearances, work permits and environmental permits in the U.S. may dwarf those that foreign companies experience in most developing countries, yet Americans would be appalled if foreign companies sought to make ‘facilitating payments’ to U.S. officials.

Civil society organizations (CSOs) can play valuable roles in strengthening enforcement. They need to develop the skills and the power to become effective watchdogs of public procurement, monitors of bidding processes, and investigators of major government contract awards that are not subject to competitive bidding.

At the same time, coalitions for transparency in procurement should be part of this CSO mandate. Experience over the last decade in a number of countries suggests that CSOs can serve as constructive catalysts and overseers of ‘integrity pacts’ where all aspects of major public procurement are independently monitored and sunshine is allowed into the process. Greater support is needed from aid donor agencies to expand this model approach, which has been pioneered by Transparency International. The multilateral development banks might consider how to make ‘integrity pacts’ standard practice for major contracts.

Applying clear codes in business-public partnerships is another step in the right direction. Approaches need to be developed to provide incentives for more direct engagement by private enterprise in infrastructure development in developing countries that is free of governmental red tape, kick-backs and bribes. The International Finance Corporation and the European Bank for Reconstruction and Development have experience in this area that other multilateral and bilateral aid agencies should draw upon. Within this process, companies must to be encouraged to accept ethics codes, such as the Equator Principles, as a prerequisite for co-financing with IFC and all other aid agencies. IFC has released new standards for business engagement in developing countries, including new disclosure provisions that apply to both its partners and itself.

Keeping pressures on companies to report on their anti-bribery actions is another component of an effective strategy. Shareholders need to press companies to report comprehensively. Companies need to acknowledge that the time when they could just say “trust us” is over. Companies need to earn the public trust by using their social responsibility and citizenship reports to describe the anti-bribery training programs that they use with their employees and the anti-bribery agreements they secure with their foreign partners.

Strengthening payments transparency is an additional key approach. The Extractive Industries Transparency Initiative (EITI) has created a framework to encourage oil, gas and mining companies to disclose all aspects of their financial relations with host governments. This is a good start and EITI is in many respects an excellent model in that it enjoys strong support from governments, major corporations and civil society. It is time to consider broadening this kind of initiative to embrace all companies that have dealings with governments. U.K. Chancellor of the Exchequer Gordon Brown has suggested this approach.

Saying NO is Vital

Companies that fail to learn how to refuse to pay bribes will wreck their own internal ethics and inevitably face public scandal...Siemens is just the most major example.

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Most importantly, companies must learn to say no and to forsake business, rather than bribe officials.

They should demonstrate that their ethics codes are applied and they should withdraw from countries when conditions become too difficult for those who refuse to pay bribes. Businesses, unlike aid agencies (that on a long-term basis need to find ways to continue operating in countries where regimes may be corrupt), do not have a core mission to aid the poor. For business, the critical priority has to be acting with integrity and according to its principles at all times and in all places.

Public understanding of these issues needs to rise and public pressure needs to increase. Corporations respond to pressure. The implementation of the above proposals will be all the greater if the general public has a sharper understanding of what is really at stake as the global corruption crisis continues. Building greater public pressure for change is difficult, but essential – pressure in the home countries of multinational corporations to secure law enforcement, to close the legal loopholes, to increase corporate accountability, and to strengthen the efforts of assistance agencies to work with business and CSOs. An approach to raising pressure rests in encouraging the media to highlight the lack of enforcement of the OECD Anti-Bribery Convention, to follow-up on the Volcker report on the U.N. oil-for-food program for Iraq, and to strengthen reporting on corporate actions to prevent foreign bribe-paying.

More generally, CSOs in the OECD countries need to be encouraged to broaden their education campaigns. By and large they have limited their awareness-raising efforts to top governmental elites, academics, aid agencies and foundations. For the public in general the corruption problems in developing countries continue to be seen widely as cultural or technical, rather than as the humanitarian tragedies that they really are.

The impact of corruption needs to become as well understood as the issues of child poverty that UNICEF is concerned with; as the HIV/Aids issues in developing countries that Bono has promoted; and, on a par with the human rights issues that Amnesty International and Human Rights Watch have brought to public attention.

- Now, finally, let me turn to the fifth section of this presentation and the question: does all that we have learned in recent years from manifold efforts by aid agencies and CSOs to curb corruption offer clarity when it comes to securing progress in the battle against.

Curbing the demand-side of corruption

The demand-side is intensely political – calling for key political responses on:-

- supporting mass public pro-democracy movements, and
- attacking the embedded political networks of corruption.

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Many initiatives have been launched in the last few years to limit the demand-side of the corruption equation. While it is too early to fully gauge their effectiveness, institutional capacity building has been supported by CSOs and aid agencies in a host of countries and, as a result, government departments have been able to upgrade their auditing systems, judges have been better trained, legal systems have been reviewed, anti-corruption commissions have been established, and measures to raise media standards and enhance access to information have moved forward. In time it is possible that many of these initiatives will contribute to better governance and reduced corruption.

SUSPENDING AID

- **Coordination.**
- **Sustained application.**
- **Find Ways Around Corrupt Regimes to Aid the Poor.**

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One approach that has become highly controversial concerns the degree to which official aid donors can pressure governments to reform. Sometimes donors stop lending to corrupt governments. Doing this at a time when major corruption in government suddenly hits the headlines can encourage the reformers and signal that the donors are keenly aware of the rot that is being exposed.

But this approach needs to be highly coordinated and sustained. It is pointless for the World Bank to cease lending to a country and for bilateral donors to soon after raise their grants to the same country. It is absurd for the aid agencies to suspend lending because a government has been clearly seen to be highly corrupt, then resume lending before the government has made meaningful decisions to curb the abuse. Moreover, decisions to suspend lending need to carefully consider the damage done to the poor by such actions. These decisions dare not be taken in haste; they dare not be taken in a haphazard manner; and they need to be pursued with strong international support. So far, this has not been the case.

On a longer-term basis the decision not to lend to a country because its government is corrupt equates with turning one's back on the poor of that country. I believe this is morally wrong. In every case the donors need to ask: despite poor governance, are there opportunities here to assist the poor with foreign aid? And, what actions can we take to boost such opportunities?

Some aid agencies are striving to design matrices to determine which countries can and cannot obtain aid based on generalities about their anti-corruption performance. This is absurd. The realities today are that countries that one day may look like excellent performers may be exposed tomorrow as being totally corrupt. Every country situation needs to be studied in great detail, not categorized into convenient classes that meet the priorities of academics at the World Bank and MCA (Millennium Challenge Corporation).

The dramatic anti-corruption rhetoric used in the first post-Moi election in Kenya by now President Kibaki impressed the donors. Kibaki was hugged by Jim Wolfensohn and was the darling of the donors. We now know that massive corruption was pursued by leading members of Kibaki's cabinet and he did nothing to stop it. Once the scandals were exposed, the donors voiced outrage and announced that they would suspend aid. No doubt Kenya fell on the internal scales to the bottom. But, then it rose again as the cabinet ministers were fired and Kibaki promised to investigate. Well, here we are some 18 months later and I have no idea where Kenya stands on the World Bank and MCA charts – but the villains have been reinstated into the cabinet and the investigations have gone nowhere!

Aid agencies are pursuing anti-corruption projects and programs placing enormous faith in technical assistance for capacity building and strengthening institutions of government. Large numbers of expatriate experts are diving into countries to pilot governance reforms. So far, a low priority for the major donors, notably the World Bank, is securing domestic broad-based public ownership of the reforms, or engaging directly in the thorny politics where corruption is, above all, rooted.

Moreover, in a growing number of countries, well-intentioned reform efforts supported by foreign aid agencies have created veritable mountains of laws, rules and regulations to curb corruption without sufficient attention being given to building effective enforcement institutions. Time and again 'big fish' get caught in corruption scandals in developing countries, but few of them receive serious punishments.

Bigger Roles for CSOs

- **Tracking & Monitoring.**
- **Appraising Projects.**
- **Building Public Support.**

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I believe that one part of the solution rests in international aid agencies building far more substantive relationships with CSOs as they seek to aid the poor while circumventing corrupt governments.

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The aid agencies need to listen to people on the ground that know their countries well and can best determine the most effective strategies. CSOs could be used far more, for example, in such areas as:

- Tracking the enforcement of laws, rules and regulations designed to curb corruption;
- Participating in the project appraisal missions of donor agencies – with the freedom, indeed the encouragement, to voice their views publicly when they consider projects to be misguided;
- Becoming key participants in efforts by donors to monitor the progress of donor-funded projects, with particular emphasis on the possible misuse of resources;
- Monitoring competitive bidding in public procurement at the national, provincial and municipal levels;
- Developing stronger roles for themselves in monitoring private sector business conditions and particularly the relationships between business and government;
- Playing leading public roles in international discussions about corruption in their own countries;
- Forging local, national and international networks to exchange information and learn.

But, this is just a start. And, of course, there are almost certainly some corrupt CSOs and many that urgently need training to be more effective and capable of shouldering the kinds of responsibilities that I have highlighted. I do not believe the aid agencies have yet assigned sufficient priority to listening to civil society in the countries where they seek to aid governance reforms, to strengthening the capacities of civil society and to learning from local experts. These failings place current aid-driven anti-corruption programs at risk.

Bluntly stated, the gravest gap in strategies to curb bribe-taking in developing countries by the aid agencies relates to politics and the establishment and development of democracy.

The citizens of each country are not only best placed to make judgments on the best political anti-corruption strategies to pursue, but they alone can take the initiative. Speaking on National Public Radio's Morning Edition program on June 2, 2006, John Makumbe, chairman of Transparency International Zimbabwe, said: "All the elements outside Zimbabwe's borders can only support reform, but only the people inside the country can initiate the salvation of Zimbabwe."

POLITICS

- **Good governance cannot be imposed from outside.**
- **Securing effective and open institutions takes an enormous amount of time and sustained public support.**

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The demand-side of corruption is intensely political. It is true that deregulation can reduce the opportunities of regulators to seek bribes; that freedom of information laws can enhance transparency of governmental actions; that providing officials engaged in the rule of law with decent wages and salaries can reduce their own interest in using extortion to boost their incomes; that privatized industries offer fewer corruption opportunities to officials than do monopolistic state enterprises; and that many other specific actions can all contribute to making life more difficult for corrupt officials. Many of these measures raise the risks of corrupt officials being caught. But we need to draw lessons from the events in so many countries that show how leading politicians and civil servants are adaptable, flexible and very skilled in operating embedded networks of corruption.

The villains often know how to encourage aid donors to work with them and see them as partners. Reformed administrative systems in government may make life harder for the corrupt, but on their own, unaccompanied by far-reaching democratic initiatives, they will not suffice in wrecking long-established networks of embedded corruption that pervade so many governments in developing countries and in Eastern and Central Europe, as well as in leading industrial countries.

Anti-corruption strategies, country by country, need to strike at both the sophisticated embedded political networks of corruption and the broader landscape of official corruption. Attacking the former requires coalitions of experts who know their national political systems very well, who know their way through the corridors of power and who know how to mobilize legislatures, media, courts, and police. The implementation of such strategies will only work if those who are spearheading it are confident of mass public support. Securing public commitment for reform has long been seen by aid experts as essential to the successful implementation of economic adjustment programs – securing widespread public commitment is just as important in the anti-corruption reform area.

Sustained progress in the anti-corruption field will only emerge if government is open and subject to the scrutiny and the checks and balances that are central to a modern democracy. Building this takes a long time – a lot longer than the project timeframes that the World Bank deploys.

Given all the resistance and inexperience, the effective implementation of freedom of information laws, the application of meaningful anti-corruption programs in the appointments of judges, the development of fiscal oversight by parliamentarians, and many other such key approaches, may take many years to take hold in many developing countries. Even then there will be abuse. We dare not lose sight of the goals, nor underestimate the difficulties, nor become impatient with the slowness with which reforms really take hold. We need to learn from our own history in the United States – learn about the abuses of high office here, the imperfections of the checks and balances in our governmental system and the vigilance needed to ensure that the system works for the people.

Vibrant democracies support free speech, a competitive and uncensored media, programs that ensure there is sunlight on governmental transactions, accountability of politicians to the electorate, and the equitable and fair enforcement of the law with no special favor to those holding great political power. These are the necessary conditions if the demand-side of corruption is to be curbed and it can take decades to build.

In many countries there are moments in time when opportunities arise to strengthen mass public pro-democracy forces and set the base for reforms, including anti-corruption measures. The ending of the era in Kenya under former President Moi, or the recent successful protests against the King in Nepal, have given rise to such opportunities. At such times the international community should move with speed to maximize support behind the reformers. But how?

Our aid agencies need to find ways to be more responsive, more flexible and more dynamic and openly and publicly support mass political movements. Our major charitable foundations need to find ways to provide far more direct funding to such movements. International CSOs need to be far more engaged in supporting these movements, encouraging their development and promoting their causes, than they are today. I do not mean the CSOs involved with electoral systems who are already quite stretched, but those CSOs operating around the world on anti-poverty programs, human rights, corruption and justice, because building democracy in poor countries is central to achieving their global goals. To be sure, much is already being done, but there is a need for more.

The time has come when we need to ensure that strong civil society organizations, driven by their own firm integrity cultures, are equipped to play leadership roles at the center of the stage in the global fight against corruption. They need to be actively promoting the full panoply of actions and reforms that

open to the public the processes of government, that enhance the enforcement of the rule of law, and that strengthen accountability by public officials.

Conclusion

In conclusion, permit me to just recap and make a few points:

- The costs of corruption are higher than most people perceive.
- We are making progress in the fight, but there are huge obstacles to be overcome and at best we can be cautiously optimistic.
- Corruption takes many forms. It may be tempting to seek 'one-size fits all' solutions but each country is unique and each solution has to be tailor-made.
- The operations of all organizations need to be driven by a robust integrity culture that is managed and directed on a top priority basis by their leaders. When this is absent, then the actions of governments and regulators to promote better corporate governance will be of marginal benefit.
- Restoring a moral compass to business is an essential component of the fight. Our corporate leaders need to fully appreciate how essential it is for our society and for global commerce that they set the right tone at the top.
- For all the new conventions and enhanced debate about corruption and the emphasis by many people on business ethics codes, the bottom line is that if bribe-paying is to be curbed, then laws must be enforced. It is time to have a far more effective set of strategies to promote enforcement.
- When it comes to curbing bribe-taking, then sustainable reform has to be home grown. External organizations that seek to contribute to reform in individual countries have to understand that their role is a complementary and supplementary one.
- Success in curbing public sector corruption demands, as its leading edge, vigilance on key political issues that both pressure leaders to demonstrate to the public at large that they recognize that they must be accountable for all their actions, and that at the same time explicitly address the embedded networks of corruption that exist in different forms in most, if not all, governments.

There are no short-cuts to curbing corruption. Its complex and intractable nature means that the road to victory will be long with a frustrating number of setbacks.

Thank you.

Conclusion

- The costs are very high.
- There is progress, but...
- No one-size solutions.
- Integrity cultures are key.
- Business needs a moral compass.

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Grand Corruption

There are no short-cuts to curbing corruption. Its complex and intractable nature means that the road to victory will be long with a frustrating number of setbacks.

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