



STANFORD INSTITUTE FOR INTERNATIONAL STUDIES

## LECTURE TRANSCRIPT

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### CHASING CORRUPTION AROUND THE WORLD: HOW CIVIL SOCIETY STRENGTHEN GLOBAL GOVERNANCE Arthur and Frank Payne Distinguished Lecture

**PETER EIGEN**

Chairman, Transparency International

#### **I Introduction**

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It is a tremendous honor to be invited to present to such a prestigious audience a message that I am convinced will increasingly engage political scientists, economists and social science researchers in the years to come. It is a stark message, a worrying one, and one that demands the attention of opinion-shapers across the globe, not least in a famous university such as Stanford. I will talk today about the catastrophic impact of corruption on the global economy, and about the remedies that need to be introduced with a matter of great urgency.

I will first present the impact of the curse of corruption, then trace the evolution of public debate about governance over the past ten years, and finally point to some solutions. I will try to show that an essential component of any solution to the problem of corruption is the active participation of civil society organizations in global governance – in fact, I will argue that this is also true for other burning problems of global governance, such as violation of human rights, destruction of the environment, breach of basic labor standards.

A free and vigilant civil society is essential, if we are to tackle poverty and the injustice of globalization, and to dispel the climate of despair and alienation that serves as a breeding ground for conflict, war and terrorism.

## II. The curse of corruption

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Corruption is everywhere. The arrogant and hypocritical assumption that placed the responsibility for corruption mainly at the doorsteps of the developing world is long gone. From grand to petty corruption, the whole spectrum of abuse of power permeates politics, business and private life in rich and the poor countries alike. Its devastating impact is increasingly recognized and a powerful coalition is emerging that will simply not tolerate this scourge any longer.

TI uses the term “corruption” in rather a broad, non-technical way, covering the **abuse of entrusted power for private gain**. Hence we do not include in our definition all forms of misbehavior such as theft, fraud, organized crime, drug trafficking, and money laundering, even though they are the ugly sisters of corruption. In the public sector this covers, of course, the misuse of public power for private gain – but we want to capture also private-to-private corruption and other forms of abuse that are conducive to severe political, economic, and social costs. Corruption usually has no single, directly identifiable victim. In the end, it is society as a whole that suffers, particularly its most vulnerable members.

### *The impact of corruption*

The scourge of corruption is a barrier to positive change, preventing the flow of funds to worthwhile housing, health and educational projects. Unchecked, corruption undermines compliance with environmental and employment regulations, distorts competitive markets and leads to wasteful misallocation of resources. In short, everyone loses.

The most damaging effects of corruption are felt by the victims in the developing world, ordinary people who lack the political or economic leverage to bring about change.

Corruption represents a direct attack on democratic institutions. It poses a growing threat not only to the democratic gains of the past decade, such as in the former communist countries of central and Eastern Europe, but also to long-established democracies. Political costs manifest themselves above all in the loss of legitimacy, and therefore of public support, for the regime in place. If the

legitimacy of a political regime and its leaders rests upon the belief of the citizens in the capacity of those in power to defend and work for the public interest, and if this belief provides the basis for public endorsement of government policies, then corrupt behavior will lead to increased disillusionment with the leaders' authority.<sup>1</sup>

Let me just mention a few striking examples from Latin America in recent years, which illustrate the dangerous deficit of integrity in the political world.

In Honduras, former president Rafael Callejas faced charges that he transferred US\$11 million into the secret account of the presidency during his term of office. Former president Leonel Fernández of the Dominican Republic was investigated for corruption during his rule from August 1996 to August 2000. He was questioned about the irregular handling of US\$84.3 million from a special account; no charges were brought against him in the end, though a number of his officials appeared in court.

In April 2002, a judge filed charges against former Nicaraguan president Arnoldo Alemán and officials of his government for fraud, embezzlement and the misuse of public funds in connection with a television deal. Alemán's immunity from prosecution was lifted after long obstruction of the majority by a vote in parliament in December 2002. Argentina is only now beginning to recover from the legacy of corruption of Carlos Menem's regime, and the economic and political collapse that followed. The Peruvian experience with President Alberto Fujimori and Vladimiro Montesinos is little better.

But above all, corruption hits the poor, the weak and the vulnerable in society. Corruption distorts public expenditures and investments away from sectors for which the government has traditionally been responsible, such as education and primary health services. Corrupt practices discriminate against those who cannot afford to pay off corrupt officials, and make a mockery of the most basic economic and social rights.

In the city of Bangalore, southern India, an independent survey<sup>ii</sup> of the quality of maternity health services for the urban poor conducted by the NGO Public Affairs Centre revealed that the poor pay huge amounts of extortion money in their interactions with the public maternity hospitals. The average patient in a maternity ward run by the city corporation pays 1,089 rupees (approximately US\$22) in bribes to receive adequate medical care. A further 61 per cent of the respondents

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<sup>1</sup> On the concept of political legitimacy, see Max Weber, *Economy and Society* (New York: Bedminster Press, 1968) and Seymour Martin Lipset, *Political man* (London: Heinemann, 1960).

<sup>ii</sup> Sita Sekhar, 'Maternity Health Care for the Urban poor in Bangalore: A Report Card', Public Affairs Centre, June 2000

were forced to pay for medicines, though public policy clearly mandates that they be given free of charge.

Similarly, in parts of the former Soviet Union, “free health care” is now only provided to those who pay a bribe.

In many parts of Africa, parents have to bribe teachers to educate their children while many teachers expect children to pay them in order to receive good grades. Widespread bribing practices discriminate against those who cannot afford to pay off corrupt officials.

### *Corruption Perverts Economic Management*

It has been estimated by Daniel Kaufmann, Director of Governance at the World Bank Institute, that about US\$1 trillion a year is being paid for bribes worldwide. This amount could pay 40 times over for the costs estimated by UNAIDS for the global campaign to stop the spread of the HIV/AIDS virus.

But gigantic as this number is, the economic damage caused by the perversion of economic decision-making through corruption is many times higher. Corruption diverts public funds to promising opportunities for rent-seeking, such as large infrastructure projects, which benefit certain well-connected individuals. It also deepens a country’s indebtedness for generations to come; estimates put the cost of corrupt projects in developing countries at more than one-third of the debt burden of the developing world. Wasteful projects generate recurring costs, and they are often poorly implemented because tenders are allocated to those who pay kickbacks instead of to bidders offering quality and value for money.

In addition to the erosion of freedoms, corruption causes significant economic losses. The World Development Report 2005<sup>iii</sup>, published at this week’s IMF/World Bank Annual Meetings in Washington, gives central prominence to the message that corruption is one of the most important determinants in the investment climate for everyone.

Research confirming this message has been available for many years. Paolo Mauro was among the first to attempt to quantify the economic impact of corruption at a macroeconomic level. Arguing that a corrupt institutional environment acts as an additional tax on business, thereby seriously deterring private investment, he goes on to estimate the cost of corruption on the economy’s growth. Mauro developed a

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<sup>iii</sup>Based on in part on surveys of more than 30,000 companies in 53 developing countries; *World Development Report 2005: A Better Investment Climate for Everyone* by World Bank, September 2004, <http://publications.worldbank.org/ecommerce/>

corruption index descending from 10 (no corruption) to 0 (widespread corruption), according to which a country that increased its standing from 6 to 8 would see its rate of private investment rise by 4 percentage points. According to Mauro's calculations, the per capita GNP growth rate would then increase by 0.5 per cent.<sup>iv</sup> The implication is that investors thus steer clear of countries where corruption levels are high.

Unfortunately, the countries most in need of foreign investment tend to be those who suffer most from widespread corruption.<sup>v</sup> A study by PricewaterhouseCoopers on foreign investment in Russia is a case in point<sup>vi</sup>. The company reckons that Russia loses up to US\$10 billion a year in potential foreign investments because of corruption, inadequate accounting procedures, weaknesses in its legal system, and lack of reliable financial information.

A study by Bo and Rossi of 80 electricity utilities in 13 Latin American countries examined how a change in corruption levels would impact upon the costs of electricity. Using two measures of national variations in corruption, TI's Corruption Perceptions Index and the International Country Risk Guide corruption index,<sup>vii</sup> they consider what would happen if the median country in their sample (Brazil) had the corruption level of the least corrupt country in their sample (Costa Rica). The authors find that operational and maintenance costs would fall by 23 per cent.

Corruption not only impinges on macroeconomic aspects of economic management, but also on the development of the private sector, especially small businesses. If a license to start a business can be obtained only by bribing a public official and continuing subsequent payoffs to a multitude of corrupt inspectors and law enforcement officials, the whole country's economic development is effectively stunted. With the abject failure of government-led development efforts in so many countries, the private sector is seen as the key to future economic development. As long as corruption reigns, such economic prospects simply remain an impossible dream. This year's World Development Report represents a strong endorsement of this observation.

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<sup>iv</sup> Paolo Mauro, "Why Worry About Corruption?" working paper, International Monetary Fund, Washington, DC, 1997; for similar findings, see also Shan Jin Wei, "How Taxing Is Corruption on International Investors?" working paper, International Monetary Fund, Washington, DC, 1997.

<sup>v</sup> See, for example, various editions of Transparency International's annual Corruption Perceptions Index. Transparency International, "Corruption Perceptions Index," <<http://www.transparency.org>>

<sup>vi</sup> The Opacity Index, PricewaterhouseCoopers, 25 January 2001, <<http://www.opacityindex.com>>

<sup>vii</sup> Ernesto Dal Bo and Martin A. Ross, 'Corruption and Efficiency: Theory and Evidence from Electric Utilities', mimeo (University of California, Berkeley, and University of Oxford, 2004).

### *Corruption Violates Human Rights*

If the rights to basic health care, education, and sanitary conditions are part of the system of human rights, then corruption must be seen as a violation of the most basic economic and social rights.

Corruption denies people the fundamental economic and social rights guaranteed to them by the Universal Declaration of Human Rights. Respect for human dignity and belief in justice are deeply rooted in the religious and cultural traditions of the world. Since the translation of these traditions into a comprehensive international legal regime, states have been charged with the obligation to promote and protect the human rights of their people. A corrupt state, however, will fail to do so, as corruption leads to a violation of human rights in at least three respects: corruption perpetuates discrimination, corruption prevents the full realization of economic, social, and cultural rights, and corruption leads to the infringement of numerous civil and political rights.<sup>viii</sup>

In fact this is exactly what Mary Robinson, former UN High Commissioner for Human Rights and now Executive Director of the Ethical Globalization Initiative, is asserting. The Minister of Justice and Constitutional Affairs of Kenya, Kiraitu Murungi, calls grand corruption “a crime against humanity”<sup>ix</sup>.

### *Corruption Undermines Freedom of Expression*

The right to freedom of expression is at the same time one of the most important weapons against corruption – but it is also severely threatened by it. The freedom of civilians is eroded when newspapers are closed in various countries and journalists are thrown in jail for exposing the corruption of political elites. The bravery of journalists in the fight against this high-level corruption is of immeasurable value in the face of life-threatening oppression.

According to the Committee to Protect Journalists, it was possible to identify 36 journalists who had been killed because of their work in 2003<sup>x</sup>. Among the 17 killed outside war zones, seven are believed to have been murdered due to their work reporting on corruption: the most dangerous countries for journalists investigating corruption are Russia, Colombia and the Philippines.

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<sup>viii</sup> Nihal Jayawickrama, *Corruption: A Violation of Human Rights?* Working paper, Transparency International, Berlin, Germany, 2 June 1998, <<http://www.transparency.org/documents/work-papers/jayawickrama.html>> .

<sup>ix</sup> “When Corruption is a Crime Against Humanity”, Kiraitu Murungi, 11th International Anti-Corruption Conference, Seoul, South Korea, 25 May 2003

<sup>x</sup> [www.cpj.org](http://www.cpj.org)

The killing hasn't stopped. In Bangladesh, Manik Chandra Saha was a brave journalist, frequently reporting on crime and political corruption for the *New Age* newspaper, but also for the BBC Bengali service. His determination to uncover injustice made him enemies and he received numerous death threats. Despite police protection for much of the past year, on 15 January 2004 he was killed in a bomb attack.

In Zimbabwe, suppressed freedom of the press is compounded by vote-buying and so-called "land reform", which amounts to nothing more than a transfer of white-owned farmland to cronies in President Mugabe's ruling ZANU-PF party rather than the avowed comprehensive redistribution to black Zimbabweans.

### *Corruption and Conflict Zones*

The cynical abuse of power by privileged elites has inspired and fed fanaticism among the poor and alienated them to the extent that they often seek recourse to violence and lawlessness. In particular, corruption and the scramble for resources have actually fed and prolonged military conflicts on new frontiers.

Those new frontiers include conflict zones where the trade in arms, diamonds, and oil has exacerbated the ferocity of the fighting and the rampant abuse of human rights. The conflicts in Angola, Sierra Leone, and the Democratic Republic of Congo (DRC), which embroiled surrounding states, were fuelled by a scramble for natural resources by politicians, generals, and international companies alike.

The bloody conflict in Sierra Leone was primarily sustained by economic plundering. The war was spurred by the criminal activities based in neighboring Liberia, whose president, Charles Taylor, shielded rebels from Sierra Leone and their illegal diamond trading activities. A report in January 2000 by the Canadian NGO Partnership Africa Canada concluded: "The point of the war may not actually have been to win it, but to engage in profitable crime under cover of warfare. Only the economic opportunity presented by a breakdown in law and order could sustain violence at the levels that have plagued Sierra Leone."<sup>xi</sup>

The report notes that, as rebels pushed into diamond fields, they acquired a financial base for their military campaigns. In turn, the government of Sierra Leone cut deals with foreign private security companies, which provided military support in exchange for diamond concessions. No wonder the term "blood diamonds" was coined.

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<sup>xi</sup> Ian Smillie, Lansana Gberie and Ralph Hazelton, "The Heart of the Matter: Sierra Leone, Diamonds and Human Security", Partnership Africa Canada, January 2000.

The international community has taken some steps to address the international diamond trade. Following the initiative of Global Witness and the launch of the Kimberley Process led by South Africa, a system of warranties has been set up, whereby each diamond needs a “conflict-free” warranty in order to be traded. The goal is to develop a comprehensive, worldwide system encompassing each step of the process, from the moment the diamonds are first extracted and sold onto the wholesale market, all the way up the chain until they reach retail outlets.

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In war-torn Angola, government loans were guaranteed against future oil production, but used to purchase weapons. The proceeds of oil exports were diverted for personal gain, enabling senior military officers and political leaders to reap additional profits from the war. To make matters worse, international oil companies in Angola were not required to file annual tax records, so the famous “signature bonuses” paid out to secure oil blocks were not recorded, and dubious accounting methods provided a convenient cloak for conducting illegal transactions benefiting the ruling elite.

Angola’s oil industry has been the focus of a major campaign, including Transparency International, Oxfam, Global Witness, and more than 30 other NGOS. Close to 90 per cent of Angolan government revenues come from the oil industry, but up to 40 per cent of GDP has in some years never reached the Treasury, instead being channeled into secret funds<sup>xiii</sup>.

The NGOs, including TI, have formed a coalition, known as the Publish What You Pay (PWYP) coalition, pushing for international companies to disclose what they pay to host governments and state oil companies, and for financial regulators in London, New York and elsewhere to make such disclosure a mandatory requirement of stock exchange listing. In Berlin in November 2003, TI brought together Nigerian President Olusegun Obasanjo and executives from oil companies, successfully creating a forum which resulted in a commitment from Obasanjo to publish what his country earns, as well as requiring foreign oil companies in Nigeria to publish what they pay.

TI is actively working with the British government on the Extractive Industries Transparency Initiative (EITI) to work towards the day when oil, gas and mining companies publish taxes, fees, royalties and other payments made to each host government as a condition for being listed on international stock exchanges and financial markets.

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<sup>xiii</sup> IMF reports on Angola 1996-2001. See [www.imf.org](http://www.imf.org)

While mandatory disclosure is the objective of the PWYP campaign, voluntary corporate disclosure is being explored under the EITI initiative. With the involvement of governments, the EITI complements the PWYP campaign, strengthening the pressure on – and incentive to – the industry leaders to take this seriously. If they do not, companies will continue to face and fear discrimination by host countries if they breach confidentiality clauses. For instance, BP’s ambitions to “publish what you pay” in Angola drew threats of concession termination from the Angolan state oil company, Sonangol.

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Tackling corruption in post-conflict situations should go hand-in-hand with peace-building. Even if security and short-term stability leads the international community to let corruption, or sharing the spoils of power, buy a temporary peace, a better tactic than complicity is to insist on a clear separation between combatants and economic interests. The use of amnesties for lower-ranking combatants, and international supervision to protect public finances from embezzlement, can secure a smoother transition towards accountable and transparent economic management.

The abuse of human rights and the complicity in it of some multinational companies, in particular in the arms industry and the natural resources sector, is now being investigated by Luis Moreno Ocampo, the Chief Prosecutor of International Criminal Court (ICC), in the context of the human rights abuses committed in the Democratic Republic of Congo (DRC), the first country where international humanitarian law might be applied under the auspices of the ICC since the court’s inauguration in July 2003.

### *Environmental Destruction*

Corruption not only threatens people’s livelihoods; it also exacerbates destruction of the natural environment. The 2001 Environmental Sustainability Index (ESI), launched at the World Economic Forum in Davos, found that out of the 67 variables that make up the ESI, corruption was the indicator most negatively correlated to a given country’s level of environmental sustainability.<sup>xiii</sup> In the words of Marc A. Levy, director of research for the ESI, the conclusion is

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<sup>xiii</sup> For many countries, however, such a correlation needs clarification. The ESI does not necessarily account for the “export” of environmental damage by international mining companies from countries with a higher level of environmental sustainability, nor does it mean that corruption is the primary cause of unclean air and diminished rainforests. Nevertheless, the correlation is too striking to ignore.

inescapable: “Corruption deserves a stronger role on the environmental sustainability agenda.”<sup>xiv</sup>

There are two main reasons why corruption tends to have a devastating impact on the environment: (1) Environmental safeguards are often overcome with the help of corruption; and (2) large, environmentally damaging selection and overdesign of projects tend to offer better opportunities for kickbacks and bribes. Hence the developing world is dotted with environmentally harmful power dams, roads, pipelines, ports that are mainly driven by grand corruption.

Often they have a devastating impact on the affected traditional communities. The Jatigede dam on the Cimanuk River in West Java, Indonesia, expected to commence construction in 2005, is supposed to produce power and bring irrigation to farmers. As well as displacing more than 40,000 people, the US\$ 964 million project will increase erosion in the reservoir area. Meanwhile, environmental experts argue that the dam is not needed: a better solution to prevent floods and droughts would be reforestation.

Even if the environmental impact were unavoidable, it is the planning process that is most questionable. The Bandung Legal Aid Institute, an Indonesian NGO, has asserted that US\$ 700,000 earmarked for compensation to displaced communities has been diverted from the budget.

The list of such destructive projects is long. In fact, my concern with two such projects in Kenya, the Turkwell Dam and the proposed Mzima Springs water diversion program, when I was Director for the East Africa Regional Office of the World Bank, were decisive triggers for my decision to take on the anti-corruption agenda, and to leave the World Bank and launch Transparency International.

### *Why Does Corruption Flourish?*

There are many reasons for corruption. Obviously the main reason is greed and selfishness of people, a human instinct in continuous conflict with other, better human instincts and values. Weaknesses in the system of values, of institutions and rules in society invite corrupt practices. In the context of the theme of this presentation, I am particularly interested in the question why corruption has taken root so dramatically in the globalized economy.

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<sup>xiv</sup> See Marc A. Levy, “Corruption and the 2001 Environmental Sustainability Index,” in *the Global Corruption Report 2001*, Transparency International, Berlin, Germany, 15 October 2001, [www.globalcorruptionreport.org](http://www.globalcorruptionreport.org) (15 October 2001), Data and Research section.

For centuries, global corporations have been able to use their global reach to operate in a marketplace that far exceeded the capacity of state governments to regulate their activities. The rapid globalization in recent years has not only opened up new frontiers for transnational organizations; it has also made it easier for them to avoid governmental oversight and establish their own ground rules in the global economy. As a result, global governance does not respond to the legitimate needs of the majority of the people. Grand corruption is one of the evils resulting from the lacunae of global governance: it has infected governments and corporations alike; they became at the same time victims and perpetrators of the cancer of corruption.

They use new opportunities to conceal the proceeds of overseas operations, for money-laundering, manipulating the international financial system, rigging stock exchanges across international borders, and reaping profits from conflicts in regions rich with minerals and other natural resources. In today's financial markets, with discrepancies between laws governing banking secrecy in different countries as well as "know your customer" practices, it is all too easy for corruption to prosper.

In this context a major responsibility must be borne by developed countries and their multinational corporations. They seemed to be unable or unwilling to confront the emergence of corruption – at least not at the expense of their short-term business interests. The myth that developing countries accepted corruption as part of their culture helped to pacify the conscience of sales managers and export promoters; the hypocritical observation that developing country governments could prosecute them for corruption, if they did not like it, added insult to injury.

There was a painful awakening from this concept, when in October 2002 the news hit the headlines that a Canadian engineering company, Acres International, was convicted by the High Court of Lesotho for bribery. This was just the first of many cases concerning 14 companies from Britain, France, Germany, Italy, South Africa and Switzerland for charges of bribing a government official to win contracts in the Lesotho Highlands Water Project, a US\$ 8 billion scheme to build dams to supply water to South Africa. Since then, a German and a French company have also been convicted in Lesotho. The significance lies in the fact that a court in a developing country has for the first time convicted international corporations for paying bribes rather than just prosecuting a local official for taking bribes.

### III Evolving Solutions

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It is hard to imagine that only five years ago the political and business elites of rich countries held the opinion that bribery by their citizens and enterprises outside their borders was necessary and permissible under their laws. This was the official legal system in all countries except the US, where President Jimmy Carter had initiated in 1977 the Foreign Corrupt Practices Act, responding to the revelations about bribes to foreign public officials that emerged from the Congressional hearings on the Watergate Affair. In all other countries, most corporations made use of this license to bribe and in their home countries even received generous tax write-offs for their corrupt expenditures. Accordingly, governments and international institutions looked the other way, when their exporters systematically bribed decision-makers abroad, to induce the wrong decisions about planning and design of huge infrastructure projects – I had to leave the World Bank, when as Director for the East Africa Regional Office I wanted to develop an anti-corruption strategy for our partner countries.

It has been a dramatic, and sometimes painful, road from this scandalous consensus among most exporting countries since TI started its work in 1993, to the present overwhelming consensus that corruption is perhaps the most important impediment to economic and social development, to peace and security, to a globalization that is beneficial to the majority of the people.

Corruption has emerged as a central topic on the international agenda, and most international organizations and agents have, to a greater or lesser extent, at least declared their intent to contribute to the fight against corruption.

In a dramatic policy reversal, incoming World Bank President James Wolfensohn declared war on corruption in 1996, correctly arguing that corruption is first and foremost an economic issue and therefore a legitimate concern of the World Bank Group. The World Bank has since engaged in a comprehensive fight against corruption, both internally and in the countries it works with. The International Monetary Fund (IMF), although opting for a less proactive approach, has taken up the fight against corruption as a central component of its lending policy.

At the March 2002 UN Conference on Financing for Development in Monterrey, Mexico, a succession of ministers from donor countries joined World Bank and IMF officials in a common judgment: that wherever corruption reigns, development aspirations will remain an unattainable dream.

## *The Role of Civil Society and Coalition-Building*

State governments and the private sector had failed to control transnational corruption. It was the contribution of civil society, which was angry with corrupt leaders and institutions, that helped to produce change. In many countries in Latin America and Asia, people took to the streets to call for the resignation of their corrupt leaders. The discredited governments and business establishments were unable to rebuild legitimacy and trust. As in other areas of failed governance – such as environmental destruction and human rights violations – civil society organizations (CSOs) stepped into the void.

This was the time when our organization, Transparency International, began to operate. We understood from the outset that we needed to build coalitions with governments and private enterprise, if we wanted to understand the complexity of corruption and develop practical strategies for reform.

Coalition-building has remained one of the key principles in our operations – it requires also one of the most difficult balancing acts, that TI and other CSOs have to perform daily: how to keep enough distance from political and business leaders, while cooperating with them for change.

The TI approach to building coalitions was evident in the evolution of the OECD Anti-Bribery Convention. The key to securing support for the Convention, which came into effect in February 1999, was the support of large companies. TI met between 1994 and 1996 in the Aspen Institute in Berlin with business leaders in a series of confidential conferences, some of them chaired by President Richard von Weizsäcker, and over time reached agreement on the need for global, simultaneous elimination of foreign bribery. The result was an open letter, signed by 20 European companies and sent to their ministers encouraging them to sign a Convention sponsored by the OECD, which would outlaw bribery of foreign public officials in international business transactions.

One of the elements to bring business on our side was to offer an escape route from the prisoner's dilemma in which they found themselves. Many business people do not want to bribe, but they felt they must, in order to keep up with their competitors. Our idea was to arrange no-bribes Integrity Pacts, to be signed by all competitors in given markets where all competitors are known.

It used to be an uphill battle to persuade businesses, particularly small and medium-sized businesses, that the benefits of operating on the basis of honesty outweighed the costs of losing business while competitors were bribing their way to winning contracts. Economists were inclined to agree that in a bribe-demanding environment the pursuit of profit would induce all competitors to behave equally;

hence building a bridge out of this corruption trap could give all players the confidence not to bribe.

TI combined the common search for joint solutions with major campaigns of awareness-building, using our annual Corruption Perceptions Index and Bribe Payers Index, regular publications, guidebooks and tool kits. The result during the past few years has been a dramatic change in public awareness. Serving the active operations of by now more than 90 national chapters all over the world, diagnosis, reforms and good practice, adapted to various countries, are now underway. It is now evident that the world has woken up to the dangers of corruption. A new consensus is emerging in recognition of the damage caused by corruption, and many powerful actors are now driving this agenda.

### *Emerging Anti-Corruption Initiatives and Instruments*

A global Coalition against Corruption has risen out of the ashes of the misery and destruction corruption has caused in the past decades. I am confident that the combined effect of the numerous major efforts that have emerged recently from this coalition will over time have a major impact on controlling corruption – hopefully “chasing corruption around the world”. Some of these initiatives are summarized in the following:

#### *International Anti-Corruption Conventions*

First and foremost, the OECD Convention of 1997 has to be mentioned. It aims at curtailing the bribing by OECD exporters of foreign public officials in order to win or retain business.

After the OECD Anti-Bribery Convention entered into force in February 1999, following the example of the Financial Action Task Force, the signatory states established a powerful monitoring process, to ensure that the obligations under the convention are translated into reality.

The legislation is currently being put into practice, with intrusive “country inspections” being carried out to ensure that each country is playing a full role in respecting the objectives of the convention.<sup>xv</sup> Again, TI and other civil society organizations are playing a pro-active part in this monitoring process.

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<sup>xv</sup> Such practices had hitherto been confined to checks on disarmament treaties and to surveillance missions for the Financial Action Task Force, so this genuinely represents a critical initiative by the international community.

Last December the United Nations completed for signature the UN Convention against Corruption in Merida, Mexico. The UN Convention provides powerful new capacities for mutual legal assistance among countries, in particular making easier the return of assets stolen by corrupt leaders. TI is working with the United Nations Office on Drugs and Crime (UNODC), the UN agency in charge of implementing this ambitious convention, to prepare an effective monitoring system, once the 30 ratifications required for entry into force are achieved. The UN General Assembly declared 9 December as International Anti-Corruption Day; the coalition against corruption is getting ready for major publicity campaigns on that day, including urging countries to ratify the UN Convention.

Several regional initiatives, generally broader in scope, have followed suit, though their practical impact remains to be seen. In 1996, for instance, the Organization of American States (OAS) agreed on an Inter-American Convention Against Corruption, an ambitious project similar in content to the OECD Anti-Bribery Convention. The OAS, however, goes further by denying sanctuaries to corrupt officials who have fled abroad.<sup>xvi</sup>

In 1997, the European Union enacted a new convention against corruption, the Fight Against Corruption Involving Officials of the European Communities or Officials of Member States of the European Union, which purports to penalize both active and passive corruption. Unfortunately, even such a modest convention has yet to be ratified by the majority of its 15 signatories. The Council of Europe, now an important trendsetter in international law, went much further by concluding both a criminal law and a civil law convention on corruption in 1999. The Council also established the Group of States Against Corruption (GRECO) to monitor conventions, which should provide useful guidance for other countries.

TI is working through our national chapters and other partners on the African continent to promote the signing and ratification of the AU Anti-Corruption Convention which was adopted by African Heads of State in Maputo, Mozambique, in July 2003. TI participated in the processes leading to the adoption.

By adopting this Convention, African leaders have demonstrated their commitment to the New Partnership for Africa's Development (NEPAD). However, the Convention requires 15 ratifications to come into force and, while a few countries have promised to ratify it, only four countries have done so to date.

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<sup>xvi</sup> The most conspicuous casualty to date of the new convention has been Vladimiro Montesinos, the former spy chief of the disgraced former Peruvian president, Alberto Fujimori. For a time the convention was in jeopardy as a number of states pressed Panama to offer Montesinos asylum, but to its credit the government of Panama stood by its international obligations and declined to do so. Eventually Montesinos was located in Venezuela and was extradited.

As well as being involved in the drafting and negotiations of a number of these new instruments, often through its National Chapters, TI is now actively supporting their ratification, monitoring and implementation.

### *Development Institutions*

The World Bank has undergone a remarkable metamorphosis since I had to leave it in a huff: it had been the captive of its shareholders and governmental partners for too long, who did not want to have the Bank involved in systematic anti-corruption efforts. It was only when President James Wolfensohn took this issue on in his speech against the “cancer of corruption” that a breakthrough emerged. Now the World Bank, with its tremendous resources, is a powerful partner. It is no coincidence that the new World Development Report 2005 again declares the fight against corruption as key to creating “A Better Investment Climate for Everyone”.

Regional and bilateral development agencies have also joined the global coalition against corruption. Some have been at the leading-edge of this agenda – and have come to the sobering recognition that development assistance without focused anti-corruption strategies may even compound corruption, in particular if it is the handmaiden of commercial interests of the donor country.

### *Working With The Private Sector*

Early on, some private enterprises and their associations actively supported the anti-corruption agenda. This is particularly true of the International Chamber of Commerce (ICC), in which as early as 1977 tried to introduce international rules against corruption, but at the time did not meet with success. Now they have embraced the help of civil society in creating a corruption-free international marketplace.

### *Business Principles for Countering Bribery*

In response to the need for common anti-bribery standards in the corporate world, TI joined forces with Social Accountability International to develop with business and other stakeholders a practical tool for companies to counter bribery. The result - the Business Principles for Countering Bribery - provides a practical framework for implementing a no-bribes policy to deal with the many challenges businesses face domestically and abroad.

Since completion in 2002, the Business Principles have become recognized as a no-bribes standard for industry. They are seen as valuable “content” for the anti-corruption principle of the UN Global Compact, as a starting point for the implementation of a no-bribes policy by industry sectors, and as a potential pre-qualification requirement for bidders on internationally funded projects. TI and industry representatives are holding discussions to this end with the World Bank, other development banks and the export credit agencies.

An increasing number of companies worldwide are now using these principles to develop or to benchmark their no-bribes policies. The principles have also provided the basis to create sectoral no-bribes programs under preparation by leading companies in the engineering and construction industry in the context of the World Economic Forum in Davos. In January 2004, a public statement was signed committing the industry group to a no-bribes policy. This is a significant initiative by an industry shown by TI surveys to be the industrial sector where international companies are most prone to bribery in emerging markets. Two further industrial groups, energy, and minerals and mining, are also committed to developing a common no-bribes policy.

Over the coming years, the legitimacy and credibility of such codes will be severely tested, but companies must be aware that the success of these codes is crucial to effective risk and reputation management. Reputation management will increasingly focus on corruption as the risks of prosecution and blacklisting threaten a company’s activities in international markets, and as public awareness of the evil of corruption grows. The recent three-year debarment from World Bank projects of the Canadian engineering consulting firm, Acres International, after its conviction in Lesotho, is a stark warning to those who think that bribery is a low-risk activity.

Typical areas of vulnerability include subsidiaries and joint ventures, where fees must be restricted to actual services rendered, and where absolute compliance with the company’s anti-bribery policies must be enforced. Problems with suppliers can be avoided through the use of fully transparent competitive procurement practices, due diligence of prospective contractors, and ensuring that the award of sub-contracts precludes kickbacks.

### *Cleaning Up Public Procurement*

A good example of cooperation between the private and public sector, and one that complements the Business Principles for Countering Bribery, is the TI Integrity Pact. The pact, a no-bribes agreement signed by all participants in major public procurement transactions, is designed to free businesses from the dilemma of

having to bribe in order to be competitive in the bidding process. The Integrity Pact, which includes sanctions such as annulment of the contract and blacklisting of the company if breached, has now been successfully implemented in a variety of contexts. It has a proven ability to reduce costs, both for business, in terms of the bribes they no longer have to pay, and for citizens and governments, in terms of resources no longer squandered. A tender for capital improvements for the Banco Agrario in Colombia in 2002, for example, resulted in a 30 per cent saving on the budgeted cost.

Due to the complex nature of corruption, the pursuit of financial accountability and transparency must be a truly cross-sectoral effort. It requires action not just by governments, but also by the private sector, civil society, international organizations and of course by individuals everywhere. The Global Compact is an example of a coalition built on this understanding.

Legislative reform is not the only means to promote transparency. Within the corporate sector, many business leaders are also taking up the challenge to curtail corruption. The Bribe Payers Index (BPI) 2002<sup>xvii</sup> reveals that companies from leading industrial countries are seen as slightly less likely to bribe than they were in the first BPI, carried out in 1999. Companies from Britain and the United States, however, were notable exceptions to the trend. But many businesses understand that stopping bribery makes sound economic sense. A survey carried out by Social Weather Stations in late 2001<sup>xviii</sup> found that entrepreneurs in the Philippines were willing to pay 2 per cent of their corporate net income to fund anti-corruption programs. They had estimated that preventing corruption would result in a 5 per cent increase in net income and a 10 per cent saving on contracts.

### *The UN Global Compact and Other Soft Law Solutions*

The extension in June 2004 of the UN Global Compact to cover corruption was a major breakthrough which TI had worked hard to achieve. This decision of practically all the participants comes at a time when the issue of corruption is increasingly being taken seriously on a global scale.

The challenge now faced is to set a common standard in good practice, and also to agree on a means of verification, without which investors cannot differentiate between effective compliance programs and hollow policies that serve as a smokescreen to hide malpractice. The voluntary agreement to comply with the ten principles of the UN Global Compact has now been signed by more than 1,500 companies. The existing nine principles of the Global Compact covered good

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<sup>xvii</sup> See <http://www.transparency.org/surveys/index.html#bpi>

<sup>xviii</sup> *Philippine Daily Inquirer*, 21 March 2002

corporate citizenship in the areas of human rights, labor and the environment, until a tenth principle, on anti-corruption, was added in June 2004 after receiving overwhelming support from the Global Compact's corporate members.

With companies signed up from 70 countries, the Global Compact has made a commendable start towards good corporate citizenship, but there are still important challenges to face: Most importantly it has not yet established its credibility with all CSOs as an independent agent of change, and we are aware of the fact that there are more than 60,000 multinational companies conducting business on an international level, not to mention millions of smaller businesses. There is still a long way to go.

The Global Compact offers the hope of providing two factors key to the success of corporate social responsibility drives, namely the achievement of critical mass in an industry sector, and enabling the strength of coalitions between the private sector and civil society to set an agenda for public policy to follow.

The Global Compact is complemented by a separate CSO-driven effort, the Global Reporting Initiative (GRI), which aims to codify reporting by businesses on non-financial performance. Areas covered include environmental, human rights, employment issues and business ethics, including compliance with the OECD Anti-Bribery Convention and a description of a company's anti-corruption policies. Use of the GRI is voluntary but growing, and civil society is monitoring its application by the corporate world.

The Publish What You Pay Initiative (PWYP) and the Extractive Industries Transparency Initiative (EITI) have been described as particular instruments aiming at reducing the impact of corruption in zones of conflict. TI is actively involved in the conception and implementation of these activities, with the hope that they might help to stop the killing and maiming of innocent people in countries like Sierra Leone, Congo and Angola.

### *Responses at the National Level*

The irony is that globalization may be international, but it sits on top of national systems, and these have to be an integral part of its weft and its weave. To strengthen our global system we must therefore address national (and local) governance structures. Initiatives to improve standards of governance worldwide have until recently overlooked what promises to be the most significant approach of all: the systematic and conscious fashioning of a country's "National Integrity System". Even the expression is of recent origin, having emerged from discussions

within the Transparency International movement, but now widely popularized by development agencies.<sup>xix</sup>

While the basic concepts and foundations of an integrity system need to be clearly understood, it is equally important that the resulting solutions be grounded in reality and practicality. Moreover, the solutions must relate to the other parts of the overall system; hence the need for a holistic approach. Many anti-corruption strategies have failed because they have been too narrowly focused. It is generally accepted today that modern government requires accountability. Without it, no system can function in a way that promotes the public interest rather than the private interests of those in control.

The ultimate goal of establishing a National Integrity System is to make corruption a “high risk” and “low return” undertaking. As such, the system is designed to prevent corruption from occurring in the first place, rather than relying on penalties after the event.

#### **IV The Challenge Ahead**

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Civil society and its emerging organizations (CSOs) have become a major force for shaping globalization. Nobody can deny the positive impact they have had on supporting global public goods – such as protecting human rights, the environment, and basic labor standards – but their destructive potential has also become evident in places like Seattle, Genoa and Cancun. CSOs can register their disagreement with the course of globalization in myriad forms, but the goal must be to effect change – change that improves the lives of the most vulnerable, and change that creates a more level playing field for national and international actors who demonstrate integrity in their endeavors.

CSOs need to engage with each other, and also with governments and the private sector, so that their voice is heard and taken seriously by policymakers at all levels. That is the key to the approach of Transparency International (TI).

As Pascal Lamy, the European Commissioner for Trade, expressed it recently, “Transparency International, contrary to many of its sister NGOs, is far more than just an agenda-setter: by joining forces with governments and business, Peter [Eigen] and his troops have managed to shape a range of international instruments

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<sup>xix</sup> For a detailed discussion, see Jeremy Pope, “Confronting Corruption: The Elements of a National Integrity System,” *Transparency International Source Book 2000* (Berlin, London: Transparency International, 2000).

to curb corruption, ranging from the OECD to the Council of Europe and the UN.<sup>xx</sup>

With the failure of government-led development efforts in most parts of the world, the private sector is seen as the key to future global governance. Therefore, powerful movements for business ethics and corporate social responsibility focus on strengthening the role of enterprises as global corporate citizens that serve the public interest of fairness and sustainable development. We applaud and support these initiatives, but we believe that the private sector has neither the mandate, skill nor credibility to be given this responsibility. It has to be embedded in an enabling environment allowing it “to do good, while it is doing well”.

This enabling environment requires the commitment and impetus to come from governments with a democratic mandate and, in the international arena, from international institutions. If these both fail to deliver responsive governance – as they did in allowing corruption to take roots in the past – then civil society will play its role, particularly international advocacy NGOs such as TI. Business will of course play an essential role, interacting with governments, but both need civil society and its wisdom, its courage, and its credibility in countless areas of governance failure. This applies especially in the area of global governance.

### *New Paradigm of Global Governance*

We can now see a growing recognition of the need for good governance and a serious dialogue between major CSOs, and key players in the public and private sectors. The efforts of the UN family of organizations, the international and bilateral development agencies, parliaments and research institutions world wide, to invite the participation of CSOs in their work are unprecedented. An outstanding example is the World Bank, which has gone so far in its interaction with CSOs that it receives complaints from its governmental stakeholders about civil society’s impact. In the field of fighting corruption, our own experience – particularly since the passage of the OECD convention – has been most encouraging.

The new-found respect of the private sector for civil society is to some extent due to the recognition that investors, employees and their customers respond to their performance in the globalized market; consumers, especially when galvanized by NGOs, have the power to influence corporate behavior through their consumption preferences. Again, many prominent companies are now closely working with TI towards the goal of a corruption-free market.

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<sup>xx</sup> Pascal Lamy, European Commissioner for Trade, “Curbing Corruption in a Globalised World: A Tribute to Peter Eigen and Transparency International”, Reader’s Digest European of the Year Award 2004, Berlin, 8 January 2004

The fight against corruption is a challenge not only for states, but also for the international community. We must have stronger, better-equipped global institutions to counter the abuses of the new economic order and thus ensure that the benefits of globalization do, in fact, flow to everyone - including the world's poorest.

### *The Challenge to Civil Society Organizations*

TI has succeeded in putting transparency, good governance and the fight against corruption at the center of the agenda of the world community. Similar results have been achieved in other areas of global governance, such as protection of human rights, the environment, and labor conditions. Civil society is crucial to holding governments to account, to monitoring development projects, but civil society also faces the challenge of its own accountability and its own legitimacy. Civil society must have more than a voice at the table, but it must earn that place through its own integrity and professionalism.

To live up to this challenge, a number of initiatives are underway to strengthen CSOs, particularly local civic organizations in developing countries. For instance, the leaders of about 40 major International Advocacy NGOs (IANGOs), such as Amnesty International, Oxfam, Transparency International, Save the Children, IUCN, meet regularly to consider issues affecting the impact of CSOs as effective participants in global governance.

### *The Challenge to Academia*

Researchers in economics and the social sciences, particularly on global governance and development aid, have developed a lively interest in the role of CSOs, and the pertinent literature has grown considerably. In addition, some universities have focused on educating new leaders towards a more responsible role of CSOs. But the need for closer interaction between the activists of civil society is still important.

Academia must rise to the challenge of the new paradigm by developing more applied research, and training. Particularly in Europe, the opportunities for training future leaders of CSOs are scarce. Research and writing is often too distant from

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<sup>xxi</sup> *Sud Quotidien* (Senegal), 7 May 2002

<sup>xxii</sup> International Rivers Network, *A Review of the World Bank's Inspection Panel Report on the Bujagali Hydropower Project* (Berkeley: International Rivers Network, June 2002)

<sup>xxiii</sup> *East African* (Kenya), 8 July 2002

the needs of the street fighter of civil society; we need research that can empower civil society with facts, arguments, tools, and best practice in order to challenge governments and the corporate sector.

### *Vision and Appeal*

In recent years, there has been a dramatic change in the way the world looks at corruption. Tackling corruption is now recognized as indispensable if sustainable solutions are to be found to global issues such as poverty and violence. A global coalition of governments, business and civil society against corruption has been formed. An arsenal of concrete tools and instruments to control corruption are being systematically assembled, like a mosaic for integrity and accountability.

We have to ensure that this level of awareness to the devastating effects of corruption does not fade away from public attention in the midst of the many pressing issues facing humanity today. The system of integrity has been supported by a “magic triangle” of state, private sector and civil society working together, to become and remain so all-pervasive that there is no room for the corrupt to hide around the world.

The experience of chasing corruption has been energizing and encouraging. Similar efforts are under way in fighting other failures of global governance – violation of human rights, slavery, exploitation of women and children, and the destruction of the environment. Civil society will have a key responsibility in this joint effort. If we succeed, we will be able to fight the abject poverty of billions of people on this globe, and the misery and hopeless despair that often lead to conflicts and terror.

We will have helped to build a more equitable, more secure, more sustainable world.