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The Global Assault on Corruption[1]

"Because corruption is such a broad and cross-cutting issue, confronting corruption is about building a better, fairer and more just world."

Peter Eigen
Chairman of Transparency International

While corruption takes many forms, it may be broadly defined as the use of public office for private gain. It is a conspiracy between briber and bribee to steal from the public. It exists and is harmful in every country. Democracy is not a protection against it, as is clear from recent corruption scandals in France, Germany, Italy, the United Kingdom, and India. Nor, at the top levels, is it a function of the personal economic hardship of public sector officials, as indicated by the very large amounts of money stashed in foreign banks by kleptocratic heads of state.

A decade ago, corruption—especially in developing countries—was considered relatively harmless and even beneficial in instances where "grease" was needed to accelerate legal government actions. Corruption was a taboo topic in discussions among governments and between international agencies and governments. In contrast, corruption is now widely viewed as very harmful (especially to the poor), a legitimate subject in international dialogues, and a concern worthy of frontal attention from international institutions such as the World Bank, the regional development banks, the IMF and the United Nations Development Program.

Aside from its out-of-pocket cost to bribers and its cost to non-bribers in lost business or delayed or non-performance by government, corruption has numerous indirect costs. Especially where it is pervasive, corruption can deter honest people from entering government service (which tends to make the corruption self-sustaining), provides incentives to create regulatory and approval requirements that generate opportunities for extortion, creates a planning and budgeting bias in favor of large capital-intensive projects at the expense of work in the social sectors (where the opportunities for grand corruption are less), reduces tax revenues thereby requiring higher tax rates, undercuts necessary regulations (including environmental ones and building codes), facilitates crime, and can erode political stability and respect for law.

[1]For a more detailed survey of the subject, see Peter Richardson, "Corruption" in *Managing Global Issues: Lessons Learned*, P.J. Simmons and Chantal de Jonge Oudraat, eds. (Washington D.C., Carnegie Endowment for International Peace, 2001).

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Corruption has been the subject of several recent treaties and of increased attention by civil society, governments, and businesses nearly everywhere. How was the change brought about, what can be done about corruption, what is being done now, and who is doing it?

In the forefront of the effort to get corruption and the fight against it closer to center stage has been a single-purpose international nongovernment organization founded in 1993, Transparency International. Its primary message was that corruption was both harmful and internationally contagious—in the words of World Bank President James Wolfensohn, a "cancer," a "major barrier to sustainable and equitable development."[2]

Beyond highlighting the harmfulness of corruption, Transparency International (TI) has worked to increase awareness of its global contagiousness, an awareness that has led to several new international conventions that require signatories to criminalize the bribing of foreign officials and remove its tax deductibility. TI has helped spotlight what should have been obvious—that the supply of large bribes from international businesses, a major source of "grand corruption," was as important a factor in corruption as the extortionate demands for them by country officials.

There are several reasons why corruption is contagious. Expectations of corruption by international business and government officials tend to be self-fulfilling. And because bribers have an advantage over non-bribers, unless all agree not to bribe few are likely to stop bribing. Globalization has intensified the contagiousness of grand corruption—given the growth of multinational corporations and international trade, the increased speed and ease of transport and communication, the increased mobility of capital, and the facilitation of money laundering.

To cope with corruption's international contagiousness, TI had to be a global organization. Highly decentralized, it has national chapters in some eighty countries, a secretariat in Berlin, and a hub in London. The chapters are essentially autonomous, except for accreditation and reporting requirements. Each chapter is a nonpartisan coalition of business, civil society and government.

More than a dozen foundations, some twenty-five public sector agencies and numerous paid corporate memberships have helped finance TI. Its Advisory Council has seven heads of state, and its activists include senior alumni of the World Bank, the European Commission, the Commonwealth Secretariat, the German technical assistance agency, USAID, General Electric, PricewaterhouseCoopers, and a large number of luminaries from developing countries. Unlike Amnesty International, TI is not, in most countries, a mass membership organization. While TI decries "petty corruption" as large in aggregate and especially injurious to the poor, grand corruption at the intersection of business and the public sector has been TI's primary early target—partly because, being less diffuse, it is easier to tackle than petty corruption, partly because it is more contagious internationally, and partly because many of the remedies for grand corruption tend to reduce petty corruption, as will the internal country-based tools for monitoring reform.

Corruption Perceptions Index

It has been essential to address corruption within countries but the supply side of grand corruption has also had to be addressed internationally. A key to getting corruption on the international agenda—as well as that of individual countries—was the effort to make it more visible. While several major scandals helped focus attention and strengthen the will to address corruption within affected countries, two indexes published annually by TI have had a wider impact. Based on perceptions data, the indexes were "softer" than hard data about clandestine payments would have been, but were nevertheless persuasive.

The first index, the annual "TI Corruption Perceptions Index (CPI)", is a composite of fourteen different polls from seven institutions which measure, for each country, the perceptions of business people, the general public and country analysts about the levels of corruption. In 2001, the CPI ranked 91 countries—all those for which the various component surveys were sufficiently correlated to justify confidence in their results. Each year, the rankings have received wide public attention, which has not only caused acute embarrassment and political pressure in most of the countries ranked near the bottom, but has also spotlighted the ubiquity of the problem. The second index, the "TI Bribe Payers Index (BPI)," is a supply-side complement to the CPI.[3] Based on surveys in 14 emerging market economies (accounting for 60% of the imports of all emerging economies), the 19 leading exporting countries were ranked by the propensity of their international businesses to pay bribes. Again, the wide attention given to the rankings has helped build pressure for reform. As a byproduct, the BPI showed that grand corruption was most likely in public works, construction, oil and other energy-related sectors, and the arms and defense industries. Interestingly, although the United States had criminalized the bribing of foreign officials in its Foreign Corrupt Practices Act (FCPA) of 1977, in the BPI ranking it tied with Germany for ninth place. In addition to problems in enforcing the FCPA, this may have reflected the finding that many of those surveyed considered it improper for a country to apply diplomatic or

[2] World Bank, *Helping Countries Combat Corruption: The Role of the World Bank* (Washington, D.C., World Bank, 1997).

[3] The CPI and BPI rankings and methodologies can be found at *www.transparency.org*.

political pressure overseas to secure competitive advantages for its businesses.

Internationally, a major early breakthrough in the fight against corruption was the decision of the World Bank and the IMF in 1996 to frontally address it—that is, to incorporate corruption as a subject of country dialogue, provide assistance in reducing it, and take it into account in determining levels of aid. The regional development banks followed the World Bank's lead as did the United Nations Development Program.

Equally important, in 1997 the 29 members of the Organization for Economic Cooperation and Development (OECD) plus five other countries agreed to a Convention requiring them to criminalize the bribing of foreign officials and cooperate with each other in enforcement activities. Under the convention, which took effect in 1999, OECD's Working Group on Bribery—on which each signatory was represented—was empowered to monitor implementation in two phases: first, passage by the signatories of legislation sufficient to accomplish the agreed purposes; and in the second phase, which is to begin this year, enforcement of that legislation. The Organization of American States had also, in 1996, agreed to an anti-corruption convention requiring (among other things) that signatories criminalize the bribing of foreign officials. That convention is now in effect, but although the signatories have recently agreed to establish the monitoring mechanism necessary to build confidence that the convention will be effectively implemented, they had not, as of this writing, done so. Lastly, the Council of Europe (COE), in 1998, adopted a Criminal Law Convention on Corruption and also, in 1999, approved a Civil Law Convention on Corruption requiring, among other things, that signatories protect whistle blowers and compensate parties injured by the corruption of public officials. The COE has a monitoring mechanism with respect to the agreed underlying principles, but its conventions have not yet gone into effect.

In parallel with these international initiatives (for which the U.S. government was one of the strongest supporters), the Financial Action Task Force, containing 29 member countries, focused on efforts to prevent money laundering. In June 2000, it publicly named 15 "noncooperative" countries as potential havens for ill-gotten wealth and, in June 2001, threatened to recommend sanctions against those that did not take remedial action. Also, after two years of TI-assisted consultation, eleven of the largest private banks agreed, in 2000, to the "Wolfsberg Principles" for taking action to identify—and avoid doing business with—money launderers. Efforts are now being made to extend the application of these principles to other banks and financial institutions.

Complementing all these efforts by addressing the corporate world more broadly, the International Chamber of Commerce (ICC)—which has a cooperative relationship with TI—approved, in 1996, new "Rules of Conduct to Combat Extortion and Bribery." The ICC with national committees in 62 countries, has collected and disseminated model codes of conduct, is promoting the adoption of such codes, and published in 1999 a practical "how-to-do-it" book of guidelines for designing and implementing them. The book emphasizes the need for top management leadership and employee training and the need to establish clear corporate responsibilities for providing advice to staff, hearing complaints, and monitoring and enforcing the codes. Contrary to what is sometimes assumed, most business would rather not have to bribe, for bribing introduces—in addition to the necessity of deceptive accounting—cost uncertainties and also adds to normal business risks the risks of blackmail, jail, and nonperformance by the bribee and the dangers of condoning dishonest behavior by a corporation's own employees or agents.

Within countries, especially those with pervasive corruption, a long-term, inclusive and holistic approach to building or improving the "national integrity system" is necessary. TI has found that this nearly always requires indigenous coalitions of government, business and civil society—hence, the TI national chapters. Their focus is on prevention. They are not staffed for investigation, and, in any event, an emphasis on prosecution and punishment would reduce the chances that government would join the coalition in the numerous countries where senior officials are beneficiaries of the corruption. Although successful prosecution might have a deterrent effect, emphasis on that aspect is primarily oriented to the past and tends not to be as potent a long-term deterrent as systemic improvements which make future corruption more difficult and more likely to be discovered and punished.

Anti-Corruption Coalitions

The country anti-corruption coalitions, the formation of which often follows a TI-assisted "national integrity workshop," generally perform five key roles:

- Inventorying major weaknesses and gaps in the country's integrity system
- Setting priorities for addressing them
- Identifying targets of opportunity
- Building pressure to act
- Monitoring the progress of reform.[4]

The scope and variety of improvements that might be needed in a country's national integrity system is formidable, and too broad a subject for discussion here, but it may be useful to indicate briefly the areas most likely to need attention. Although there is no generally applicable template, improvements of the following kind are often required: civil service reform (to strengthen merit-based promotion and ensure that salaries are adequate to support a reasonable life style), regulatory reforms (to reduce the number of approvals and the scope for official discretion in granting them), privatization (but with appropriate safeguards), government publication of judicial and administrative decisions and legislative debates, clarification and publication of criteria—and simplification of procedures—for obtaining licenses, permissions, customs clearance, and government grants or contracts, improved rules governing political contributions, and accounting and financial requirements to make visible all government money flows.

Even where these systemic requirements are well satisfied on paper, they will not be effective unless enforced. Fully effective enforcement requires:

- an independent and competent judiciary
- adequate prosecutorial capabilities
- whistle blower protections
- periodic asset declarations by senior public officials, watchdog organizations (such as anti-corruption commissions, independent auditors, inspector generals, parliamentary committees, ombudsmen, and TI national chapters)
- empowerment of private enforcers by giving them the right to recover damages and have government actions invalidated, and
- protections for the media to enable them to keep up the pressure for reform.

In addition to all the foregoing, there should be three types of professional standards which are widely understood and effectively enforced: conflict of interest standards for the public sector; professional ethical standards for lawyers, journalists, accountants, and auditors; and corporate codes of ethics (the policing of which by corporations will greatly multiply the total number of enforcers).

Needless to say, this holistic approach places a major strain on countries' capabilities to design and absorb change and it would be unrealistic to work on all fronts at once. But over the long term a comprehensive approach is unavoidable, for if major gaps are left in the system the corrupt will find a way through them.

To enhance the know-how that is needed, the literature on integrity-related reforms has been rapidly increasing. In 2000, TI revised and greatly expanded its "National Integrity Source Book." Its internet version—which is under continuous revision and augmentation—annexes numerous case studies, best practices, lessons learned, model laws, and commentaries. The previous shorter edition of the Sourcebook was translated into nearly twenty languages and adapted to take account of different legal/administrative contexts. To further the dissemination of research and exchange of experience, TI has helped stage international conferences, which also reinforce reformers and stimulate collaboration across borders.

Given the magnitude of the needed anti-corruption effort, strengthening political will within given countries has been essential. Beyond the CPI and BPI, demonstrations of the harm of corruption, and monitoring/enforcement of the new treaties, numerous tools can be employed. One is the "service delivery survey" pioneered in Bangalore, India. Consumers of public services are confidentially surveyed to ascertain for each government unit the incidence and magnitude of bribes demanded and paid. The surveys—which can be conducted by consumer groups, national anti-corruption coalitions, governments, or aid providers—indicate where reform efforts might be concentrated. When published, these surveys generate substantial pressures for reform. A different type of service delivery survey compares outputs delivered in relation to budgeted inputs to identify unexplained gaps. Another possibility (employed in some countries by the World Bank and IMF) compares customs receipts with macroeconomic data on imports to identify unexplained divergences. Customs is typically a magnet for corrupt activity. Yet another approach is the "Big Mac" survey to identify unexplained cost divergences for similar commodities (such as a school lunch or aspirins in a hospital). A "Big Mac" survey in Argentina revealed that essentially the same school lunch cost $5.00 in Buenos Aires and $.80 in Mendoza. Announcement of the result caused an immediate 50% reduction in the cost in Buenos Aires. Yet another approach is "integrity testing" of the police by, for example, tipping them off to a drug cache and then following up to see whether the drugs are turned in.

[4]The U. S. chapter, however, has devoted more effort to the international aspects of the problem than the domestic aspects—partly because the U. S. national integrity system, including enforcement mechanisms, is relatively well developed, at least at the federal level.

A Look to the Future

Towards further intensifying pressure within countries to reform and at the same time providing useful information to international business, PricewaterhouseCoopers has developed an "Opacity Index." It ranks countries' "opacity"—taking into account corruption, the legal system, economic policy, accounting standards, and the regulatory framework. Tied to the index is an estimate of the costs to each country of its opacity. Russia's additional cost of sovereign borrowing, for example, is estimated at 12%; its estimated tax equivalent on all investment, 43%. While corruption is only one of the components of the index and the five components are weighted equally, the index does—through its quantification—focus attention on the high costs of deficient transparency. The country coverage of the opacity index is being expanded and the methodologies underlying its cost estimates are being refined.[5]

For the future, in addition to the very full agenda of reforms required in many countries, emphasis will have to be given to monitoring implementation of the new conventions, extending the OECD convention to political parties and foreign subsidiaries, intensifying efforts to reduce money laundering and improve capabilities for asset tracing and recovery, and developing, installing and effectively implementing corporate codes of conduct. To enhance the movement's credibility and offset views that it may be quixotic, it will be important to demonstrate more widely that reductions in corruption can be achieved—as they appear to have been in Botswana, Chile, Costa Rica, Hong Kong, and Singapore.

In conclusion, although the worldwide transparency movement remains in its infancy, it has gained sufficient momentum to ensure that the corruption problem will continue to receive concerted and persistent attention over the next several years. The great diversity of actors and contexts guarantees a diversity of country-level approaches—a diversity which is sure to generate further insights about how to go about improving national integrity systems.

Much remains to be learned and even more to be done, but there are numerous tools and the pressures continue to build. A strong start has been made.

[5]See opacityindex.com