18

Curing the Cancer of Corruption

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The World Bank defines corruption as the abuse of public office for private gain. In 1996 the then-President of the World Bank, James D. Wolfensohn, declared that, for developing countries to achieve growth and poverty reduction, "we need to deal with the cancer of corruption."[1] With that speech at the annual meetings of the Bank and the International Monetary Fund, Wolfensohn confronted head on a topic that the development community had long studiously ignored. In the decade since then, fighting corruption has moved to the forefront of all national and international development dialogues. Several recent global public opinion polls indicate that corruption is seen as a major issue all around the world, affecting people's lives everywhere. For example:

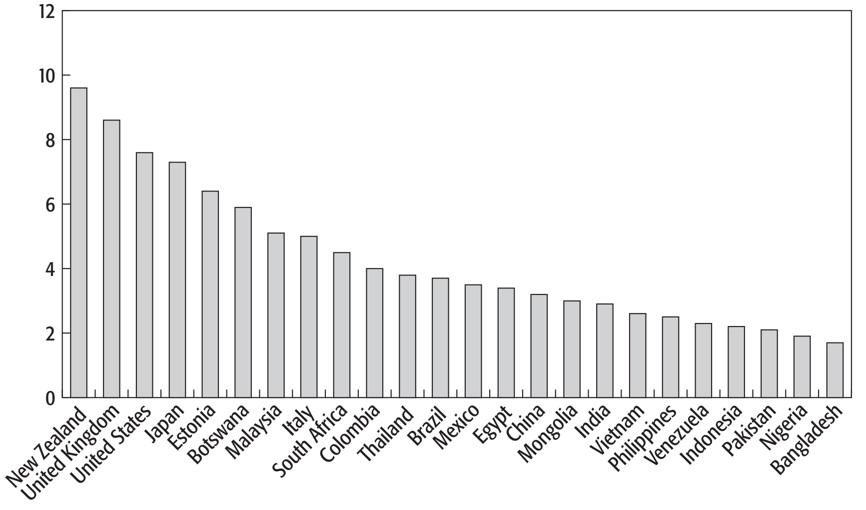
- In a 2003 Global Poll covering 48 countries, corruption ranked third among the most important development issues facing the world—close behind poverty reduction and education.
- In a 2005 Transparency International Global Corruption Barometer survey covering 69 developed and developing countries, 75 percent of respondents said that corruption affects political life in their countries to a moderate or large extent; 65 percent said the same thing about the business sector, and 58 percent said that corruption affects them personally.

Corruption occurs in a variety of forms (box 18.1) and in almost all countries, as shown by worldwide research on corruption by Transparency International as well as other cross-country governance indicators published by the World Bank Institute (figure 18.1).

BOX 18.1 The Types of Corruption

Corruption can occur in different forms, in different types of organizations, and at different levels within organizations. Because of these differences across several dimensions, the categories used to describe the types of corruption often overlap. Corrupt practices range from small amounts paid for frequent transactions (*petty corruption*) to bribes to escape taxes, regulations, or win relatively minor procurement contracts (*administrative corruption*) to massive and wholesale corruption. Corruption occurs within private corporations (*corporate corruption*) or, more famously, in the public sector, including the political arena (*political corruption*). When corruption is prevalent throughout all levels of society it is seen as *systemic,* and when it involves senior officials, ministers, or heads of state serving the interests of a narrow group of businesspeople, politicians, or criminal elements, it is aptly called *grand* corruption.

FIGURE 18.1 Corruption Perceptions Index for Selected Countries, 2005
Score (0 = most corrupt)



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Corruption as a Global Development Issue

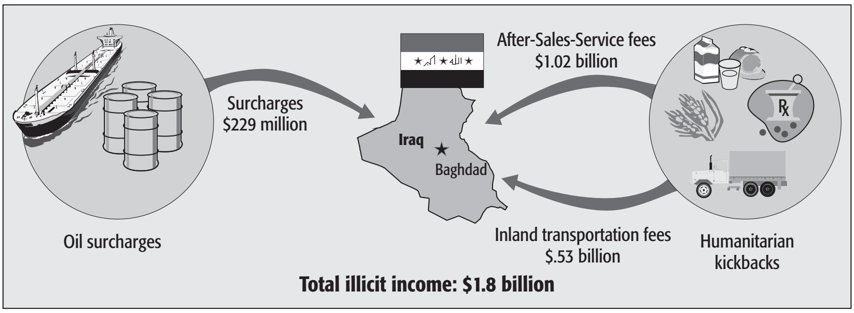
Experience and evidence show that corruption has both national and international dimensions. Although fighting corruption is primarily a national matter, many types and instances of corruption at the national level also have an international aspect, which requires international action.

The Transnational Scope of Corruption

In 2004 the World Bank estimated that, worldwide, more than $1 trillion, or the equivalent of 3 percent of gross world product, is paid in bribes each year. This form of corruption takes place at both the national and the international level, but the latter, or transnational corruption, is one of its most detrimental forms. The victims are usually developing countries, whose precious foreign aid and investment are siphoned off from badly needed development projects and into the pockets of corrupt government officials, their family members or cronies, or corrupt brokers or middlemen. The following examples demonstrate the nature and scope of transnational corruption; they also show that international corruption usually requires a permissive international business environment and the complicity of international companies as bribe givers:

- *The Iraq Oil-for-Food Scandal.* Following Iraq's invasion of Kuwait in 1990, the United Nations imposed comprehensive economic sanctions on Iraq, including sanctions on Iraqi oil exports. In response, Iraq's then-president, Saddam Hussein, refused to allow the United Nations to feed Iraq's starving children, in the hope of getting the sanctions lifted. In 1996 Iraq agreed to the U.N.-supervised Oil-for-Food Programme, which allowed the Iraqi government to sell oil as long as it used the revenue to buy humanitarian goods for its citizens. When the program ended following the U.S.-led invasion in 2003, over $64 billion worth of oil had been sold, of which $39 billion had been used to purchase food. However, reports started surfacing that the Iraqi government had been imposing surcharges on the oil and collecting kickbacks from companies supplying the humanitarian goods. A U.N. investigation in 2005 found that $1.8 billion in illicit payments had been diverted from the program and that much of the purchased food was unfit for human consumption. More than 2,200 companies were involved (figure 18.2). Illicit kickbacks came from companies and individuals from 66 different countries, and illicit surcharges were paid by companies from around 40 countries.
- *The Enron debacle.* In 2001 Enron Corporation, the seventh-largest publicly owned company in the United States and one of the world's largest energy, commodities, and services companies, filed for bankruptcy, driven to insolvency by the corrupt practices of its officials as well as corrupt business dealings. At the time of its collapse, Enron's 21,000 employees and its $32 billion in assets were spread across 40 countries, including operations in Asia, Latin America, Europe, and the

FIGURE 18.2 Illicit Income Received by Iraq under the U.N. Oil-for-Food Programme



Source: Independent Inquiry Committee into the United Nations Oil-for-Food Programme (2005).

Middle East. Its fall, therefore, had both direct and indirect international consequences, and some of its international deals were among those that came under scrutiny for corruption. Among those directly affected were Enron's worldwide investors and employees, with many of the latter losing their pension accumulations as well as their jobs. The scandal's silver lining was that it led to stricter U.S. regulation of the accounting industry, better disclosure policies for corporations, and harsher penalties for corrupt executives. The U.S. Congress also passed campaign finance reform legislation, partly in response to the finding that Enron had been a major political donor and may have unfairly benefited from its political connections.

- *Kleptocracy on a grand scale*. In its *Global Corruption Report 2004,* Transparency International estimates that Suharto, president of Indonesia from 1967 to 1998, embezzled somewhere between $15 billion and $35 billion during his presidency. Philippine President Ferdinand Marcos embezzled anywhere from $5 billion to $10 billion, and President Mobuto Sese Seko of Zaire (now the Democratic Republic of the Congo) up to $5 billion. These sordid achievements would not have been possible except in a global environment that enables multinational companies to enter into such deals and allows the domestic beneficiaries of these illegal payments to deposit funds in secret bank accounts or in dubious offshore companies. Frequently, when finally cornered, corrupt high officials have escaped prosecution by fleeing to developed country sanctuaries, taking their spoils with them. In recent years, however, some of the recipient banks have agreed to freeze and return such funds to the countries from which they were stolen.

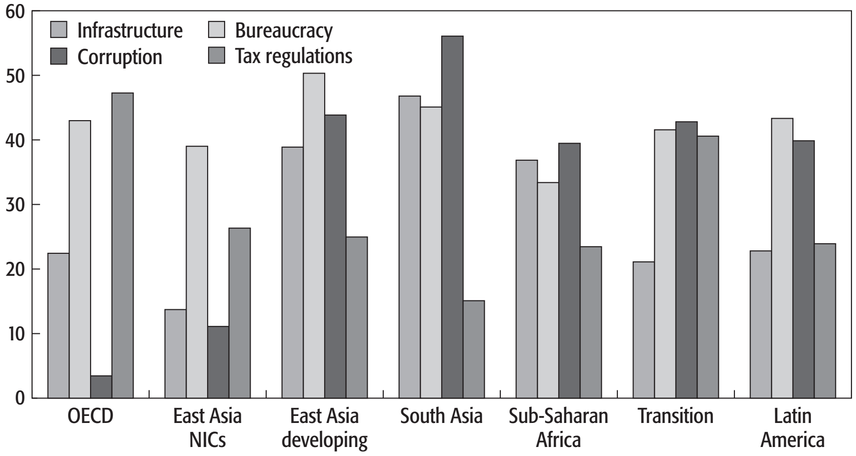
- *Acres International.* In 2004 the World Bank imposed sanctions on a Canadian firm, Acres International, for bribing, through an intermediary, the chief executive in charge of the $8 billion Lesotho Highlands Water Project. The Bank declared Acres ineligible to receive any new Bank-financed contracts for a period of three years. This debarment followed the precedent-setting conviction of Acres for bribery by the High Court of Lesotho in 2002, a conviction upheld by the country's Court of Appeals in 2003. Masupha Ephraim Sole, the executive who had accepted bribes from Acres and several other major international infrastructure companies, was sentenced to 15 years in prison, on evidence obtained through a Swiss court order to disclose Sole's secret bank accounts. Following the Acres trial, a German company, Lahmeyer International, was also found guilty of bribery in 2003—in fact, it had used the same intermediary as Acres. A South African intermediary also pleaded guilty to bribery, and French and Italian companies were charged as well. These cases are significant in that they held both bribe givers and bribe takers to account, and for showing that a small and very poor country could take several major international construction companies to court and win. In addition, the World Bank's response in the Acres case set an example for other international financial organizations; perhaps most important, the cases increased companies' perceived risk of punishment for bribery committed anywhere in the world.

The Costs of Corruption

Why are people around the world so concerned about corruption? The short answer is that, thanks to ever-increasing information flows in an interconnected world, people are becoming more aware that corruption is impeding economic growth, perpetuating poverty, and feeding political instability by undermining faith in society's key institutions of governance.

Corruption reduces growth and undermines development by lowering incentives for, and the efficiency of, both domestic and foreign investment (figure 18.3). It also reduces growth by lowering the quality of public infrastructure and services, as funds intended for these public goods are diverted to private pockets.

FIGURE 18.3 Key Constraints on Business as Reported by Firms, by World Region
Percent of firms surveyed that reported indicated constraint as among top three[a]



NICs, newly industrializing countries.
a. Firms were asked to "Select among the above 14 constraints the five most problematic factors for doing business in your country."
Source: World Economic Forum (2005). Reprinted with permission.

The 2005–06 *Global Competitiveness Report* discusses the links between corruption and growth, and between corruption and poverty reduction, as well as the payoffs from controlling corruption. The report cites econometric evidence showing that even a slight (one standard deviation) improvement in governance results in a threefold increase in income per capita in the long run. The research also shows that good governance substantially reduces infant mortality and illiteracy. A recent survey by Transparency International confirms that corruption not only lowers growth but also hurts the poor the most (table 18.1).

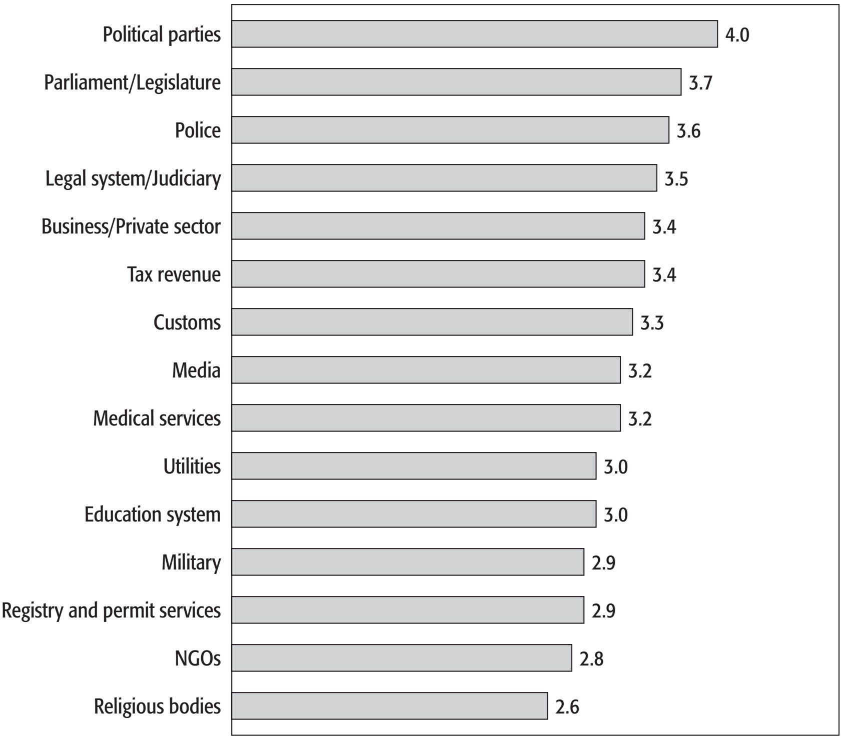
Another factor driving public concern about corruption is that it undermines key institutions of society and leads to political instability. Results published in Transparency International's *Global Corruption Barometer 2005* show that people in 69 countries believe that corruption affects all key governance-related sectors and key institutions in society (figure 18.4). As a consequence, public trust in governments, corporations, and global institutions is declining, as was reported by a survey reported at the 2005 World Economic Forum (figure 18.5).

TABLE 18.1 Personal Effect of Corruption on Respondents, by Household Income
Percent of households surveyed

	Household income		
Reported extent of effect	**Low**	**Middle**	**High**
Not at all or small extent	54	59	62
Moderate or large extent	42	38	36
Do not know or no answer	3	3	2

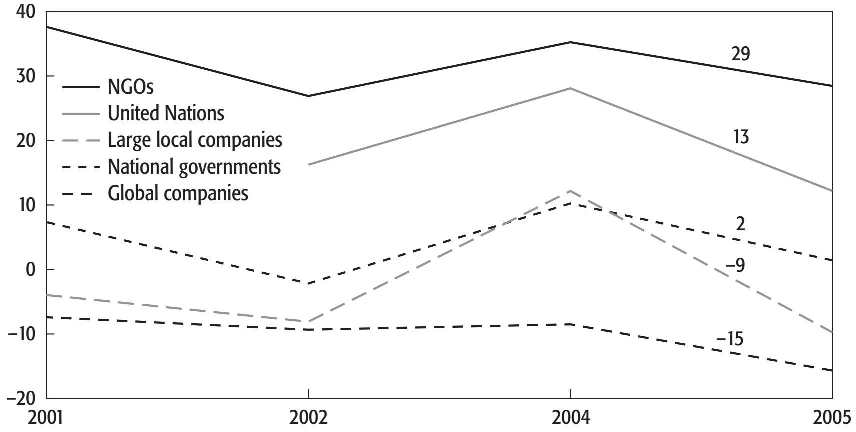
a. Percentages may not sum to 100 because of rounding.
Source: Transparency International.

FIGURE 18.4 Sectors and Institutions Most Affected by Corruption
Index (1 = not at all corrupt; 5 = extremely corrupt)



Source: Transparency International Global Corruption Barometer 2005. Reprinted with permission.

FIGURE 18.5 Trust in Organizations and Institutions, 2001–05
Score[a]



a. Higher values indicate greater trust. Data are averages for 14 countries.
Source: World Economic Forum. Reprinted with permission.

Can Corruption Sometimes Be Tolerated?

Some argue that, although corruption is undeniably a bad thing, under some circumstances it may be tolerated. The following arguments for tolerance are frequently heard:

- Corruption is a Western concept, inconsistent with the culture and traditions in some non-Western countries.
- Corruption is rooted in the colonial practice of paying civil servants below-subsistence wages and expecting them to take bribes to survive; therefore, until civil service pay is raised so that it provides a living wage, some corruption may have to be accepted.
- Bribes serve the function of reintroducing an effective price mechanism in the presence of scarcities of certain public goods due to public sector inefficiency or distorted prices.
- Some countries such as Bangladesh, China, and Vietnam are growing rapidly and reducing poverty despite widespread corruption; therefore corruption may not be worth the trouble of eradicating.
- Denying development assistance to poor people in countries with corrupt governments will only make their suffering worse and cause them to feel victimized by the donor community as well as their own government.

- A policy of zero tolerance for corruption in development assistance will only create more failed states, which will be much more costly to deal with than corrupt but functioning states.
- Even if some foreign aid is lost to corruption and fraud, at least the bulk of the funds reach the intended beneficiaries.

Most development experts and policymakers, however, agree that the cost and consequences of corruption to society on a global scale are simply too great to tolerate. Indeed, several recent global compacts articulate the importance of fighting corruption nationally as well as internationally:

- The United Nations' Millennium Declaration specifically includes (as part of Millennium Development Goal 8) "a commitment to good governance . . . nationally and internationally."[2] This pledge was reaffirmed by U.N. member countries as part of the Monterrey Consensus of 2002 and again at the 2005 World Summit.
- In 2001 a group of African leaders pledged to fight corruption as part of the New Partnership for Africa's Development, an integrated development framework designed to tackle the continent's chronic underdevelopment and marginalization.
- In 2002 the Group of Eight leading industrial countries acknowledged the importance of the African leaders' commitment to good governance and promised to match this commitment with economic and other forms of support in the G-8 Africa Action Plan. The G-8 followed up on this promise at its 2003 economic summit with detailed proposals for combating Africa's pervasive corruption.
- A February 2006 joint statement of the European Parliament, the Council of Europe, and the European Commission, "The European Consensus on Development," repeatedly stressed the importance of good governance for development.[3] The statement identified good governance as one of the European Union's main objectives, as a key competency of the Commission, as one of nine areas the Union will actively address, and as one of the cross-cutting issues it intends to mainstream in its activities.

Forces Shaping the Evolution of Corruption as a Global Issue

In a dynamic world, many forces will shape the way the global community addresses the global aspects of the cancer of corruption. Broadly speaking, the key forces that national and international public policymakers can influence or control will be the evolution of demand for good governance, supply responses to that demand, and the strength and effectiveness of governance-related institutions. A fourth, underlying force is globalization itself, and in particular the continuing global integration of financial systems that makes money flows harder to monitor and the spread of instantaneous forms of communication that multiply the risks of corrupt behavior.

Demand for controlling corruption globally and nationally will in turn be shaped by policies that increase transparency in the public, corporate, and international financial arenas, and by the extent to which ongoing research contributes new remedies for corruption as well as credible information on its incidence, its causes and consequences, and the effectiveness of global advocacy efforts. The supply response will take the form of anticorruption measures across a broad range of areas that shape the governance landscape nationally and internationally. Whether strong and effective institutions emerge will depend on the speed with which such institutions mature at the national and the international level, and the extent to which they practice good governance themselves and act to apply checks and balances.

Stimulating Demand for Control of Corruption

A steady flow of information from credible sources on the incidence and consequences of corruption, coupled with increased awareness of the involvement of international actors using international systems in this illicit behavior, is increasingly shaping public opinion and inspiring outrage, increasing the pressure on public officials to control corruption. The results of global and national opinion surveys and other research by international organizations such as Transparency International, the World Bank Institute, and the International Finance Corporation will be pivotal to strengthening the information arsenal in the fight against corruption.

In 1995 Transparency International published its first Corruption Perceptions Index, which compares levels of corruption across countries, and the *TI Source Book,* which introduced the concept of a "national integrity system" and reports on global best practice in fighting corruption.[4] These seminal tools were followed by annual reports documenting the organization's activities and thrusts; the Bribe Payers Index (starting in 1999), which "measures the propensity of leading exporting countries to bribe abroad"; and the *Global Corruption Report* (starting in 2001), which "provides an overview of the 'state of corruption' around the globe." Transparency International's newest tool, the Global Corruption Barometer (based on Gallup International's Voice of the People survey) measures international attitudes, experiences, expectations, and priorities on corruption.

The World Bank Institute, using a rich base of sources from 1996 onward, keeps track of six governance indicators: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. The institute publishes updates on these indicators every two years. Integrated into the indicators are measures of countries' ability to enforce their laws and guarantee the protection of property rights, measures of the degree of openness of their economic and political systems, and measures of other factors that may determine how much opportunity there is for corrupt behavior within their borders.

The World Bank and its affiliate the International Finance Corporation also maintain and publish databases of the costs of doing business and of the results of enterprise surveys in many countries. The surveys track such indicators as the number of days it takes to process a business license (the longer it takes, the more opportunity for corruption to occur), the amounts paid "unofficially" to obtain such licenses, the value of a gift expected to secure a government contract, and the severity of corruption as an obstacle to firms. These indicators reveal which countries have business environments conducive to bribery, that is, which ones lack clear rules, require "speed money" to cut through red tape and reduce costly delays, permit illegal activity in exchange for compensation, and give preferential treatment to those who can pay for it, among other common causes of corruption.

The international surveys mentioned above usually contain national data as well. However, some countries also collect and present data from their own national surveys. For example, in the Philippines, the Social Weather Stations, an independent social survey institute, has tracked public satisfaction with the government's anticorruption efforts for 20 years.

Although the availability of good-quality information on corruption has increased dramatically in recent years, efforts remain at an early stage. Much more research is needed on the causes and consequences of corruption and on preventive and remedial measures.

Another force increasing the demand for good governance is advocacy. Combined with increased information and instant communications, growing global advocacy against corruption increases the risks that corrupt elements must face and helps shift the balance of power to constituencies among whom the political will to control corruption is growing. Domestic pressure for reform will be crucial for any anticorruption strategy to take root; nothing lasting can be accomplished if the public is indifferent. Outside actors can help by assisting civil society in the monitoring of governance reforms,

BOX 18.2 Disclosure: The Right to Know

"Access to information ebbs and flows in any country but the transformation has begun and it is no longer possible to tell citizens that they have no right to know."

–David Banisar, Electronic Privacy Information Center, May 2004

In this global Information Age, governments are increasingly judged, by their citizens and the world, according to the credibility and timeliness of information they provide as well as the ease and willingness with which they provide it. "Freedom of information (FOI)"–or the right of the public to access information held by authorities and, conversely, the obligation of governments to disclose information to citizens–is enshrined in the constitutions and laws of over 50 countries. In more than half of these countries, the laws were adopted within the last decade.

The extent to which disclosure policies have increased transparency in the public sector, however, is dependent on many factors. Many of the laws are obsolete, inadequate, or even dormant. In some countries, governments abuse exemptions. Campaigns such as the global war on terror have undercut some of the laws. In other instances, international organizations are active in countries but are not subject to national disclosure policies.

The implementation of FOI laws depends on the ability of governments to move from a culture of secrecy to one of openness. Civil society must continuously push for this transformation and test it by demanding information. This has not happened in some countries with FOI laws such as Zimbabwe and Serbia. The Public Information Act in Serbia actually restricted public information. In Albania and Bosnia, the laws are mostly unused for lack of awareness or demand.

Implementation rules in many countries, such as Panama and Australia, make it very difficult or expensive to make use of FOI laws. National security is often invoked as a reason to withhold information from the public even when to do so would not actually put the state at risk. In the case of Mexico, after the information law was enacted in 2002, it was found that many official records had been destroyed or removed.

For national disclosure policies to more effectively increase transparency of government actions, therefore, constant pressure from civil society, the media, governance institutions, and the international community is needed.

Source: Banisar (2004).

supporting the mobilization of like-minded groups against capture by large vested interests, and backing responsible media. The international community can also exert direct pressure for reform, using both carrots (such as the promise of increased aid) and sticks (such as sanctions enshrined in international laws).

Increasing the Supply of Anticorruption Measures

Research is growing on the remedies for corruption. One important conclusion of this research is that combating corruption requires addressing broader governance and institutional issues. A multidimensional approach to the problem generally involves actions to improve legal, judicial, and prosecutorial systems; voice and participation by civil society; public sector expenditure management; competition in the private sector; and political accountability. Frequent areas for action are inadequate public sector pay, a culture of corruption, opaque rules and regulations and broad discretionary powers, inadequate regulation of the private sector, state capture, political corruption, weak disclosure requirements in the public and the private sector, lack of media freedom, and limited space for civil society organizations. Measures to increase the supply of reform include putting information about government services and performance in the public domain, arranging for inclusion and participation in the design and implementation of service delivery projects, promoting social accountability, increasing the access of the poor to justice and to productive assets, and promoting judicial independence and accountability.

One example of an international action to increase supply of anticorruption measures is the ADB/OECD Anti-Corruption Initiative for Asia-Pacific. In 2000, 36 member countries of the Asian Development Bank and the Organization for Economic Cooperation and Development launched this initiative to address the damage that corruption was wreaking on their economies and societies. As of April 2005, 25 countries had endorsed the ADB/OECD Anticorruption Action Plan for Asia and the Pacific, which lays out legally nonbinding principles and standards for policy reform. The plan is organized around three pillars (see the Annex to this chapter for details):

- *Public service reform: developing effective and transparent systems for the public sector.* This pillar focuses on integrity in public services (codes of conduct and civil service fairness and efficiency) and accountability and transparency (legal frameworks, management practices, and auditing procedures).
- *Private sector reform: strengthening antibribery actions and promoting integrity in business operations.* Here the focus is on effective prevention, investigation, and prosecution, and corporate responsibility and accountability.
- *Supporting active public involvement.* This third pillar focuses on public discussion of corruption, access to information, and public participation.

Under the Action Plan, the endorsing countries voluntarily commit to regional cooperation in fighting corruption and acknowledge the usefulness of regional and international anticorruption instruments such as those developed by the ADB, the Asia-Pacific Economic Cooperation forum, the Financial Action Task Force on Money Laundering, the OECD, the Pacific Basin Economic Council, the United Nations, and the World Trade Organization.

Anticorruption Institutions

Key institutions in the fight against corruption in any country are the judiciary, the regulatory agencies, an anticorruption commission or agency, a public ombudsman, public prosecutors, vigilance commission, the media (including investigative journalists), and citizen groups and other nongovernmental organizations. Some of these, such as the judiciary and the media, are—or should be—independent of the executive branch, while others are part of it. All require long-term support to become effective and must demonstrate best practice governance in their own operation.

These institutions must also function in an integrated manner. Otherwise they will most likely be ineffective, even if each functions well in isolation. As noted above, Transparency International has explicitly called for such an integrated approach, in the form of a national integrity system, whose aim should be to uphold national integrity and allow the country to develop in a sustainable manner, live by the rule of law, and enhance the quality of life of its citizens. Dependence on only a few of these institutions without the others, or on just one—a benign dictator, for example—would leave the system vulnerable to collapse. Beyond this, the efficacy of each institution depends on a number of factors, including clear mandates, rules, powers, and duties prescribed in the constitution or in law, or embedded in tradition; independence from influences that might compromise the integrity of the institution or of its authorities; transparency and accountability to key stakeholders, often including the general public; and adequate resources to fulfill its mandate, including competent staff, updated knowledge on international standards, and the ability to share information and experiences with relevant groups.

Finally, the past failure of many of these institutions, especially in developing but also in developed countries, makes it abundantly clear that institutions alone are not enough—governance matters, too. Many of these institutions are designed to work in an environment of good governance and have proved ineffective where corruption is pervasive and endemic. However, where leadership is strong—sometimes with international or bilateral support—there have been instances of success in even the most corrupt of environments.

International Actions to Combat Corruption

International initiatives against corruption are presently working along five major fronts:

- *Ensuring that loans and grants to developing countries are used effectively.* All international financial institutions and bilateral donors have adopted measures to prevent fraud and corruption in the projects they finance. Yet half of opinion leaders in developing countries surveyed in a global poll commissioned by the World Bank in 2002 still believed that most foreign assistance is wasted because of corruption.
- *Bolstering donor support for reform.* Bilateral donors are being encouraged to support reform measures, on both the supply side and the demand side, as are national and international organizations and institutions that promote accountability.
- *Reducing the incentives for multinational businesses to pay bribes.* Such measures may include criminalizing bribery, eliminating the tax deductibility of bribery as a business expense, and increasing the transparency and integrity of public procurement.
- *Promoting international programs to control organized crime and the flow of illicit funds.* It is very hard for outside organizations to reduce corruption linked to organized crime, such as money laundering, if such corruption has already become systemic.
- *Improving the institutional framework for resolving international disputes.* A stronger framework is needed to impose and enforce sanctions when nations fail to comply with agreed rules and treaties. The World Court, the International Centre for Settlement of Investment Disputes (a World Bank affiliate), and the World Trade Organization are among the institutions available to serve this purpose, although their jurisdiction is not entirely clear in all cases.

Beyond these five major areas, worthwhile measures can include linking aid and trade to good governance; improving corporate governance and corporate social responsibility; strengthening the capacity of global governance institutions, including civil society institutions, in fighting corruption; and increasing access to information.

A number of international initiatives have been undertaken recently to combat and prevent corruption. Most of these are voluntary agreements and thus do not have the force of law.

United Nations Convention Against Corruption

The United Nations Convention Against Corruption (UNCAC) is the first truly global anticorruption convention. It is unique not only in its global coverage but also in the extent and detail of its provisions. The convention takes a comprehensive approach, aimed at both preventing and combating corruption. It obliges the signatories to implement a wide range of detailed anticorruption measures, affecting their laws, institutions, and official practices. These measures aim to promote the prevention, detection, and punishment of corruption, as well as to strengthen international cooperation among the signatories on these matters. The UNCAC was initially signed by 111 countries in Mérida, Mexico, in December 2003; by September 2005 the number of signatories had risen to 133. The 30 ratifications required for the convention's entry into force were reached on September 15, 2005.

The UNCAC focuses on four key aspects in the fight against corruption: preventive measures, criminalization and law enforcement, international cooperation, and asset recovery. The convention also contains provisions promoting technical assistance and information exchange and specific provisions on mechanisms for implementation of the convention.

The UNCAC aims to fight corruption in both the private and the public sectors. Its prescribed preventive measures include the establishment of anticorruption bodies, enhanced transparency in campaign and political party financing, safeguards to ensure efficient and transparent delivery of public goods and services, codes of conduct and financial disclosure for public servants, and transparency and accountability in public finance transactions and in critical areas such as procurement and the judiciary. The convention also encourages participation by civil society and the general public in efforts to prevent and fight corruption.

The UNCAC goes beyond previous instruments of its kind in that it does not only criminalize bribery and embezzlement. Its provisions also cover trading in influence and the concealment of any gains from corrupt acts, as well as any support of corruption, money laundering, or obstruction of justice in the prosecution of such crimes. The convention also emphasizes cross-border cooperation in gathering and transferring evidence for use in court and requires signatories to support the tracing, freezing, seizure, and confiscation of the proceeds of corruption.[5]

Finally, the asset recovery provisions of the convention were a major breakthrough. Their inclusion will allow developing countries to recover much-needed development resources illegally taken from their coffers.

The OECD Antibribery Convention

The OECD Antibribery Convention (formally known as the OECD Convention on Combating Bribery of Foreign Public Officials in International Transactions) went into effect on February 15, 1999. This convention makes it a crime in the OECD member countries to offer, promise, or give a bribe to a foreign public official in order to obtain or retain an international business deal. The OECD actively promotes adoption of the convention in all parts of the world, with the aim of "leveling the competitive playing field for companies doing trans-border business" by raising international norms through its framework for fighting global bribery.[6] By 2005 all 30 OECD members and 6 nonmembers had enacted laws in compliance with the convention, making it a punishable offense for one of their multinational companies to bribe an official in a host country.

Members' compliance with the convention is managed by the OECD Working Group on Bribery and is based on a peer-review system in which examinations are conducted in two phases: first, a country's antibribery laws are assessed for their conformity with the convention, and then an intensive assessment is undertaken of how effective these laws are in practice. The second assessment is held in the country under examination and includes leaders from government, business, trade unions, and civil society, with representatives of two member countries in the Working Group leading the assessment.

The review process for each country ends with the release of reports from the Working Group on how the country can improve its compliance with the convention. Many countries have responded to these reports by amending their legislation according to the Working Group's recommendations. As of March 2006, 36 member countries had completed the first examination phase. By February 2006, 22 members, including all of the Group of Seven, had received assessment reports.

The Financial Action Task Force on Money Laundering

The Financial Action Task Force on Money Laundering (FATF) is an intergovernmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. Created in 1989, the FATF works to generate the necessary political will to bring about legislative and regulatory reform in these areas. It focuses on three principal areas: setting standards for national anti-money laundering and programs to counter terrorist financing; evaluating the degree to which countries have implemented measures that meet those standards; and identifying and studying money laundering and terrorist financing methods and trends. The FATF has published recommendations (40 basic and 9 special), which have been updated periodically, to meet this objective.

As of 2006, 30 countries as well as the Hong Kong Special Administrative Region of China, the European Commission, and the Gulf Cooperation Council (composed of six Middle Eastern countries) were members of the FATF. China has observer status and is being considered for membership, along with India. FATF observer status has also been granted to several "FATF-styled" regional organizations and to international organizations that have specific anti-money laundering functions. The former include such organizations as the Asia-Pacific Group on Money Laundering and the financial action task forces of the Caribbean, South America, and the Middle East and North Africa; the latter include the regional development banks, multilateral organizations, international police organizations, and others.

The FATF is working to broaden its jurisdiction and to respond to emerging threats. The latest special recommendation was adopted in October 2004, for example, to deal with problems that may arise with cash couriers. The organization also maintains a list of Non-Cooperative Countries and Territories, that is, those found to have deficient anti-money laundering systems. At present, of the original 47 countries and territories examined, only Myanmar, Nauru, and Nigeria remain on this list. All the others have made legislative reforms and put in place measures to comply with international anti-money laundering standards.

Civil Society Initiatives

A number of civil society organizations are also at the forefront of the international fight against corruption. Among the best known are Transparency International, discussed above, and the Extractive Industries Transparency Initiative (EITI). Other important organizations include Global Witness and the Global Organisation of Parliamentarians Against Corruption.

The EITI supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenue from oil, gas, and mining. Studies have shown that, when governance is good, the revenue from these resources can foster economic growth and reduce poverty, but that weak governance may instead cause poverty, corruption, and conflict—the so-called resource curse. The EITI aims to defeat this curse by improving transparency and accountability. So far only 8 countries have implemented or are implementing the EITI, although 14 more have endorsed it. Other participants include international financial institutions (such as the World Bank), bilateral donors, mining and oil companies, and nongovernmental organizations.

Global Witness is a nongovernmental investigative organization that aims to break the link between the exploitation of natural resources and the funding of conflict and corruption. It does this by gathering firsthand information and documenting evidence to feed an intensive campaign for reform. One of the organization's breakthrough successes was the eventual demise of the Khmer Rouge after undercover investigations unearthed an illegal multimillion-dollar log trade between the Cambodian communist group and Thai logging companies. The evidence presented by Global Witness, along with international pressure, forced the Thai government to close the border, thus starving the Khmer Rouge of funds. Global Witness is using the experience from this case to launch similar campaigns in conflict and natural resource–rich areas of Asia and Africa.

The Global Organisation of Parliamentarians Against Corruption (GOPAC) is a network of over 400 parliamentarians from 70 countries committed to fighting corruption. GOPAC enlists anticorruption experts to help members develop tools and initiatives to combat corruption and strengthen parliamentary oversight capabilities through knowledge sharing, training, and mutual support. The goals are to help parliamentarians improve and better implement international and national accountability and transparency standards and to fulfill their oversight role.

In the past decade, in tandem with the proliferation of national disclosure laws, international organizations and government financial institutions have also been working to improve international disclosure standards in the corporate sector:

- The first version of the International Accounting Standards was developed by 10 countries in 1974. To date, over 70 countries have adopted the standards or use them as national standards.
- The International Chamber of Commerce first published its Rules of Conduct to Combat Extortion and Bribery in 1977. Last revised in 1999, the rules include disclosure procedures as national preventive measures against extortion and bribery.
- In 1998 the International Organization of Securities Commissions (IOSCO) adopted a comprehensive set of Objectives and Principles of Securities Regulation that sets international benchmarks (including

benchmarks for transparency) for all securities markets. IOSCO members regulate more than 90 percent of the world's securities markets.

- In June 2000 the Global Reporting Initiative released the first set of GRI Sustainability Reporting Guidelines for public disclosure of corporate financial, environmental, and social performance. As of March 2006 over 800 countries from 80 countries had filed reports under these guidelines.
- In June 2002 George Soros, chairman of the Open Society Institute, launched the Publish What You Pay campaign. As of 2006 the campaign had grown into a coalition of over 280 nongovernmental organizations worldwide calling for the mandatory disclosure of payments made by companies in the extractive industry to all governments.
- Eleven major international banks were brought together by Transparency International in 2000 to form the Wolfsberg Group. In October of that year the group published the Wolfsberg Anti-Money Laundering Principles of Private Banking (revised in May 2002), followed by guidelines for correspondent banking in November 2002. These and other documents set global standards for banks in terms of knowing their clients and ensuring that clients' funds are from legitimate sources.
- In 2004 member companies of the World Economic Forum and Transparency International launched the Partnership Against Corruption Initiative (PACI), designed to help consolidate efforts to fight corruption in the private sector. The PACI Principles call for a commitment to improving business standards of transparency in private sector operations, among other anticorruption strategies.
- In 2004 a 10th principle against corruption was added to the U.N. Global Compact, an initiative of U.N. Secretary General Kofi Annan. Hundreds of companies have since committed to the compact, which urges them to lobby for the ratification and implementation of the UNCAC and to use anticorruption tools and collaborate in international anticorruption efforts such as those of Transparency International, the International Chamber of Commerce, the EITI, and Publish What You Pay.

Much More Can Be Done

The Oil-for-Food Programme, described above, became notorious as an example of corruption on a global scale. The corruption was so extensive and involved so many international institutions, companies, and high-level officials of various countries that it made clear that the international safeguards and agreements against corruption in place at the time were inadequate to the task. Changes in the international financial system, antibribery agreements, and mechanisms for the settlement of disputes between multilateral investors and states are therefore needed to counteract the increasing sophistication and the persistence of corruption. Several researchers have proposed ideas for such changes:

- Theodore Moran of Georgetown University suggests that the OECD Convention Against Bribery could change its definition of bribery from the present one, which simply criminalizes a payment to a public official by an international company, to the broader definition in the OECD Guidelines for Multinational Enterprises.[7] Those guidelines state that "Enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage. . . . In particular, enterprises. . . should not use sub-contracts, purchase orders or consulting agreements as means of channeling payments to pubic officials, to employees of business partners, or to their relatives or business associates." This, Moran feels, would close a major loophole.
- Kathryn Nickerson of the U.S. Department of Commerce has reported a number of concerns that have emerged from reviews of the implementation of the OECD Antibribery Convention, including lack of awareness by government officials, including prosecutors, police, officials stationed abroad, and relevant government agencies, of the pertinent laws; insufficient training and resources to enforce the laws; lack of public awareness, especially on the part of small and medium-size enterprises; poor enforcement of accounting rules; short statutes of limitation; weak sanctions; and narrow jurisdictions.[8]
- Moran has also suggested that, in the area of multilateral investor-state dispute settlement mechanisms, host states must be protected against misbehavior by international investors. Any international investor proven to have engaged in a corrupt act, such as paying a bribe, should lose the right to be compensated through international arbitration for actions a host state may have taken against it, such as confiscating assets or cancelling payments.
- In addition, Moran feels that the push for full transparency in international transactions must be expanded geographically and cover more sectors. Countries must require both state-owned and private companies to make records of all payments available to the public, and host governments must in turn be transparent regarding expenditure. These

records can then be audited and monitored by independent bodies, through initiatives such as the EITI, which can be expanded to cover other sectors, including infrastructure.

- Glenn Ware and Gregory Noone have suggested that multilateral development banks could also more aggressively investigate cases of corruption affecting their resources and programs and be bolder in publicizing all findings of impropriety or illegality.[9] They noted that organizations could share information with each other and maintain a common database of corruption intelligence that would aid each other's investigations. Ware and Noone also maintained that collective sanctions against offenders—whether companies or governments—could evolve into an effective deterrence system and would greatly increase the risk of detection and levels of punishment. In February 2006 the multilateral development banks took initial steps in this direction when they agreed to strengthen information sharing and to support each other's compliance and enforcement actions. A task force was formed to develop a uniform Framework for Preventing and Combating Fraud and Corruption by September 2006.
- Ware and Noone also proposed that voluntary disclosure programs, such as the one used by the World Bank, could be adopted by the other multilateral development banks. Under such programs contractors would voluntarily disclose information on corruption and fraud in programs funded by the bank, including (and indeed especially) in the contractor's own operations. In exchange for this voluntary disclosure, the bank would agree not to debar the contractor from future contracts. However, the contractor would have to make restitution of any damages to the bank, allow itself to be audited, and agree to improve its compliance programs. This would shift the responsibility of disclosure to the contractors and result in savings for the bank, not just in its programs but also from decreased investigative requirements.
- Vinay Bhargava and Emil Bolongaita reported on public hearings of the U.S. Senate Foreign Relations Committee from May 2004 to April 2005 on combating corruption in the multilateral development banks.[10] Among the key recommendations for bank action that emerged from these hearings were the following: write off "criminal debt"; change corporate cultures and staff incentives so as to achieve greater anticorruption accountability; improve the auditing and supervision of loans and projects by, among other things, adopting stricter governance criteria, promoting civil society and media participation in operations, and harmonizing anticorruption policies, including debarment of

firms; strengthening internal and external anticorruption capabilities, including in investigation and prosecution; and prioritize corruption risks in policy-based or programmatic lending, condition financial support on transparency reforms, and support governments in meeting transparency and accountability goals.

The Role of the World Bank in Combating Corruption

The World Bank confronts corruption globally by helping countries combat corruption more effectively, by making a country's anticorruption efforts a significant factor in lending decisions for that country, by working to prevent corruption from infecting Bank-financed projects, and by actively participating and often leading international efforts to fight corruption.

The Bank undertakes extensive analytical and operational work on corruption through its regional operations and through its Poverty Reduction and Economic Management department, the World Bank Institute, and the Legal Department. It uses this knowledge and expertise to help countries improve public service transparency and accountability.

The Bank requires that all Country Assistance Strategies, which are the basis for the Bank's lending decisions, address governance issues. In countries where corruption is widespread, governance issues often dominate the Country Assistance Strategy. In 2005 almost half of all new Bank projects addressed governance issues. The Bank also refuses to grant loans or suspends the disbursement of loans and debt forgiveness in cases where the government or the funded projects are plagued with corruption.

The Bank's Department of Institutional Integrity participates in fiduciary reviews of Bank-funded projects that are perceived as vulnerable to corruption and fraud. As a result of the department's investigations, over 330 companies and individuals had been sanctioned as of June 2005.

Among the multilateral development banks and other international financial institutions, the World Bank has led the way in the breadth and depth of its anticorruption and governance strategy and approach. In addition to mainstreaming corruption and governance issues into all facets of its operations, the Bank aims to set high standards by which it hopes governments and other international financial and development institutions will measure their own efforts and strive to attain or even exceed them.

In February 2005 the World Bank released its first annual report on corruption and fraud investigations involving Bank-financed projects as well as cases internal to the Bank.[11] The report's publication, together with other research and information produced by the Bank, provided an overview of its anticorruption efforts from 1999 onward with other agencies and groups. The report showed that the Bank spends $10 million annually, more than all the other multilateral development banks combined, on investigations and sanctions. Its investigative department has over 50 staff members, more than that of any similar organization. The Bank is also pioneering the use of such techniques as voluntary disclosure, by reducing sanctions and giving assurances of confidentiality for firms that provide information on their involvement in corrupt or fraudulent acts on Bank-financed projects.

The Bank recognizes that a concerted effort is needed to win more battles against corruption, and it actively supports international and interagency programs that aim to do so. The Bank has joined the International Monetary Fund and the regional development banks in reaching a consensus agreement on the broad policies and practices needed to address corruption within the organizations as well as in member countries.

This progress on improving coordination among the development institutions builds on ongoing and expanding programs in research, reform, enforcement, and other governance and corruption-related issues, through different partnership configurations. The World Bank, for example, has partnered with other institutions on research, such as its work with the European Bank for Reconstruction and Development to develop the Business Environment and Enterprise Performance Survey.

The work of the World Bank Institute on governance and anticorruption focuses on improving countries' governance capacity and is based on pioneering research gathered in a highly participative manner. The Institute has partnership agreements with nearly 200 organizations, and more than half of its activities are developed with partners in client countries. These partners include government ministries, nongovernmental organizations, professional organizations, interagency groups, bilateral aid agencies, media groups, think tanks, parliamentary associations, and research organizations, among others.

Notes

1. Wolfensohn (1996, p. 50).
2. The text of the Millennium Development Goals may be found at www.un.org/millenniumgoals.
3. European Parliament, Council of Europe, and European Commission (2006).
4. Pope (2000).
5. Article 31 of the convention. The text of the convention is available at www.unodc.org/pdf/crime/convention_corruption/signing/Convention-e.pdf.
6. The text of the convention is available at www.olis.oecd.org/olis/1997doc.nsf/LinkTo/daffe-ime-br(97)20.
7. Moran (2006). The text of the OECD guidelines is available at www.oecd.org/dataoecd/56/36/1922428.pdf.

8. Nickerson (2005).
9. Ware and Noone (2005).
10. Bhargava and Bolongaita (2005).
11. World Bank (2005x).

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Selected Web Links on Governance and Corruption

ADB OECD Anti-Corruption Initiative for Asia-Pacific	www1.oecd.org/daf/sasiacom/index.htm
BEEPS (Business Environment and Enterprise Performance Survey) Interactive Data Set	info.worldbank.org/governance/beeps/
Doing Business database	www.doingbuisness.org
Extractive Industries Transparency Initiative	www.eitransparency.org
Financial Action Task Force	www.fatf-gafi.org
Global Organisation of Parliamentarians Against Corruption	www.gopac.org
Global Reporting Initiative	www.globalreporting.org
Global Witness	www.globalwitness.org
International Chamber of Commerce	www.iccwbo.org
International Organization of Securities Commissions	www.iosco.org
Publish What You Pay	www.publishwhatyoupay.org
Transparency International	ww1.transparency.org/index.html
U.N. Convention Against Corruption	www.unodc.org/unodc/crime_con vention_corruption.html
World Economic Forum	www.weforum.org

ANNEX 18.1: Recommended Measures in the ADB-OECD Anti-Corruption Action Plan for Asia and the Pacific

Pillar 1: Developing effective and transparent systems for public service	Pillar 2: Strengthening antibribery actions and promoting integrity in business operations	Pillar 3: Supporting active public involvement
Establish systems of government hiring of public officials that ensure openness, equity, and efficiency, and promote the hiring of people with the highest levels of competence and integrity through: ▪ Development of systems for compensation adequate to sustain appropriate livelihood and according to the level of the economy of the country in question ▪ Development of systems for transparent hiring and promotion to help avoid abuses of patronage, nepotism, and favoritism; help foster the creation of an independent civil service; and help promote a proper balance between political and career appointments ▪ Development of systems to provide appropriate oversight of discretionary decisions and of personnel with authority to make discretionary decisions	Take effective measures to actively combat bribery by: ▪ Ensuring the existence of legislation with dissuasive sanctions that effectively and actively combat the bribery of public officials ▪ Ensuring the existence and effective enforcement of anti-money-laundering legislation that provides for substantial criminal penalties for laundering the proceeds of corruption and crime consistent with the law of each country ▪ Ensuring the existence and enforcement of rules to ensure that bribery offenses are thoroughly investigated and prosecuted by competent authorities; these authorities should be empowered to order that bank, financial, or commercial records be made available or be seized and that bank secrecy be lifted ▪ Strengthening of investigative and prosecutorial capacities by fostering interagency cooperation, by ensuring that investigation	Take effective measures to encourage public discussion of the issue of corruption through: ▪ Initiation of public awareness campaigns at different levels ▪ Support of NGOs that promote integrity and combat corruption by, for example, raising awareness of corruption and its costs, mobilizing citizen support for clean government, and documenting and reporting cases of corruption ▪ Preparation and implementation of education programs aimed at creating an anticorruption culture.

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ANNEX 18.1: Recommended Measures in the ADB-OECD Anti-Corruption Action Plan for Asia and the Pacific (Continued)

Pillar 1: Developing effective and transparent systems for public service	Pillar 2: Strengthening antibribery actions and promoting integrity in business operations	Pillar 3: Supporting active public involvement
■ Development of personnel systems that include regular and timely rotation of assignments to reduce insularity that would foster corruption.	and prosecution are free from improper influence and have effective means for gathering evidence, by protecting those people helping the authorities in combating corruption, and by providing appropriate training and financial resources ■ Strengthening bilateral and multilateral cooperation in investigations and other legal proceedings by developing systems that, in accordance with domestic legislation, enhance (a) effective exchange of information and evidence, (b) extradition where expedient, and (c) cooperation in searching for and discovering forfeitable assets as well as prompt international seizures and repatriation of those forfeitable assets	
Establish ethical and administrative codes of conduct that proscribe conflicts of interest, ensure proper use of public resources, and promote the highest levels of professionalism and integrity through:	Take effective measures to promote corporate responsibility and accountability on the basis of existing relevant international standards through: ■ Promotion of good corporate governance that provides for adequate internal company controls such as codes of conduct, the	Ensure that the general public and the media have freedom to receive and impart public information (particularly information on corruption matters) in accordance with domestic laws and in a manner that would not compromise the operational effectiveness of the administration or in any other way be

▪ Prohibitions or restrictions governing conflicts of interest ▪ Systems to promote transparency through disclosure and monitoring of, for example, personal assets and liabilities ▪ Sound administration systems to ensure that contacts between government officials and business services users, notably in the areas of taxation, customs, and other corruption-prone matters, are free from undue and improper influence ▪ Promotion of codes of conduct and take due account of the existing relevant international standards as well as each country's traditional cultural standards, and regular education, training, and supervision of officials to ensure proper understanding of their responsibilities ▪ Measures to ensure that officials report acts of corruption and measures that protect the safety and professional status of those who do	establishment of channels for communication, the protection of employees reporting corruption, and staff training ▪ The existence and the effective enforcement of legislation to eliminate any indirect support of bribery, such as tax deductibility of bribes ▪ The existence and thorough implementation of legislation requiring transparent company accounts and providing for effective, proportionate, and dissuasive penalties for omissions and falsifications for the purpose of bribing a public official, or hiding such bribery, in respect of the books, records, accounts, and financial statements of companies ▪ Review of laws and regulations governing public licenses, government procurement contracts, or other public undertakings, so that access to public sector contracts can be denied as a sanction for bribery of public officials	detrimental to the interest of governmental agencies and individuals, through: ▪ Establishment of public reporting requirements of justice and other governmental agencies that include disclosure about efforts to promote integrity and accountability and to combat corruption ▪ Implementation of measures providing for a meaningful public right of access to appropriate information.
Safeguard accountability of public service via effective legal frameworks, management practices, and auditing procedures through: ▪ Institution of measures and systems to promote fiscal transparency		Encourage public participation in anticorruption activities, in particular through: ▪ Cooperative relationships with civil society groups, such as chambers of commerce, professional associations, NGOs, labor

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ANNEX 18.1: Recommended Measures in the ADB-OECD Anti-Corruption Action Plan for Asia and the Pacific (Continued)

Pillar 1: Developing effective and transparent systems for public service	Pillar 2: Strengthening antibribery actions and promoting integrity in business operations	Pillar 3: Supporting active public involvement
▪ Adoption of existing relevant international standards and practices for regulation and supervision of financial institutions ▪ Adoption of appropriate auditing procedures applicable to public administration and the public sector, and measures and systems to provide timely public reporting on performance and decision making ▪ Adoption of appropriate transparent procedures for public procurement that promote fair competition and deter corrupt activity, and establishment of adequate simplified administration procedures ▪ Enhancement of institutions for public scrutiny and oversight ▪ Adoption of systems for information availability, including information on issues such as application processing procedures, funding of political parties, and electoral campaigns and expenditures ▪ Simplification of the regulatory environment by abolishing overlapping, ambiguous, or excessive regulations that burden business		unions, housing associations, the media, and other organizations ▪ Protection of whistleblowers ▪ Involvement of NGOs in monitoring of public sector programs and activities

Source: Bhargava and Bolongaita (2004). Adapted from the ADB/OECD Anti-Corruption Action Plan for Asia and the Pacific, November 30, 2001.