BOOSTING INTEGRITY

FIGHTING CORRUPTION
The OECD’s mission is to promote policies that will improve the economic and social well-being of people around the world. We provide a forum in which governments can compare and exchange policy experiences, identify good practices and promote decisions and recommendations to produce better policies for better lives.

The common thread of our work is a shared commitment to sustainable growth, employment and trade, based on international co-operation, and focused on the well-being of all citizens. Along the way, we also set out to make life harder for the terrorists, tax dodgers, and others whose actions undermine a fair and open society.
In all countries and at all levels of society, corruption threatens to distort social and economic interactions, reducing efficiency and increasing inequality by favouring the well-positioned. As a result, the cost of doing business increases, public resources are wasted and the poor are pushed aside.

The crisis has also led to a loss of trust and confidence in the economic system as a whole. A coherent, co-ordinated and effective commitment to fight corruption and promote integrity is now crucial to restore citizens’ confidence and pave the way for stronger, cleaner and fairer growth.

Angel Gurría
OECD Secretary-General
**The real cost of corruption**

Corruption is a global scourge that imposes costs in terms of human suffering that go far beyond the money lost to bribery, embezzlement or fraud. Counterfeit medical drugs at best do no good and at worst can kill; bridges built with substandard materials at best cost more to maintain and repair and at worst may collapse, injuring and killing people.

Corruption covers a wide range of activity, from the multinational company that pays a bribe to win the contract to build a local highway, to the local official who demands a bribe to issue a driving licence. In both cases, it is ultimately the individual taxpayer or customer who foots the bill.

Corruption is not a victimless crime, and those most hurt by it are the world’s weakest and most vulnerable. Child mortality rates in countries with high levels of corruption are about one third higher than in countries with low corruption, while infant mortality rates are almost twice as high (Gupta et al. 2011). Transparency International found that about 35% of births in rural Azerbaijan take place at home, because poor people cannot afford to pay the high charges for care in facilities which are supposed to be free (Global Corruption Report 2006).

On a purely financial level, the sums involved are huge, and this is money we cannot afford to waste as the world struggles to emerge from economic and financial crisis.

The African Union estimates that the equivalent of one quarter of the total economic output (GDP) of African states, amounting to USD 148 billion, is lost to corruption every year. The US health care programmes Medicare and Medicaid estimate that 5-10% of their USD 870 billion annual budget is lost to overpayment.

The cost of corruption makes itself felt at multiple levels. Investors are wary of countries where systems are known to be corrupt because they cannot assess the likely risk or return on their investment – IMF research has shown that investment in corrupt countries is almost 5% less than in countries that are relatively corruption-free. And lack of investment hampers economic growth and development.

The World Economic Forum estimates that corruption increases the cost of doing business by up to 10% on average. Siemens, the German engineering giant, had to pay combined sanctions of over EUR 1.24 billion for engaging in foreign bribery around the world. When the economic crisis hit and Turkish banks were threatened with collapse, investigators discovered USD 27 billion had been lost to corruption in the pre-crisis period (Turkish Banking Regulation and Supervision Agency, 2010).

In the public sector, it is not just a matter of officials taking bribes to award contracts or favouring friends and family when approving projects. Corrupt officials might also artificially slow down bureaucratic processes to increase their chances for personal enrichment – the longer the queue for a service or the more complicated the paperwork, the higher the incentive for citizens to bribe, to jump the queue or cut the red tape.

All of these elements underline the need to intensify the global fight against corruption in the interests of ensuring economic recovery, achieving better services with taxpayers’ money and re-establishing public trust around the world.

**10% estimated increase in the cost of doing business due to corruption**

*(World Economic Forum)*

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**International Conventions**

The **OECD Anti-Bribery Convention** is the first and only international anti-corruption instrument focused on the ‘supply side’ of the bribery transaction. It establishes legally binding standards to criminalise bribery of foreign public officials in international business transactions and provides for related measures, such as rigorous country monitoring in a peer review process and extensive follow-up mechanisms, to ensure effective implementation.

Entered into force in 1999, 39 Parties – all 34 OECD countries plus Argentina, Brazil, Bulgaria, Russia and South Africa – have adopted the Convention as of April 2012.

The **United Nations Convention against Corruption (UNCAC)** is the most comprehensive legally binding anti-corruption instrument in existence today. The UNCAC bans corruption and obliges States parties to take a far-reaching set of measures to fight it. States parties commit to prevent and criminalise corruption-related offences, to openly co-operate with one another and to return stolen assets to countries of origin.

States parties are reviewed as to the implementation of the UNCAC through a peer review process. Based on a self-assessment and subsequent active dialogue, a country review report is prepared. As of April 2012, the UNCAC counts 160 States parties.

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**Corruption in health care costs more than money. When an infant dies during an operation because an adrenalin injection to re-start her heart was actually just water – how do you put a price on that? The price of corruption in health care is paid in human suffering.”**

Huguette Labelle
Chair, Transparency International
Corruption could cost this sick girl her life.
A comprehensive approach through CleanGovBiz

To this end, the OECD developed the CleanGovBiz initiative, under the impulse of the Declaration on Propriety, Integrity and Transparency in the Conduct of International Business and Finance (PIT Declaration), adopted by OECD countries and Brazil and Russia at the 2010 OECD Ministerial Meeting chaired by Italy. In this line, the CleanGovBiz initiative supports governments to reinforce their fight against corruption and engage with civil society and the private sector to promote real change towards integrity.

Using a systematic approach, the CleanGovBiz Toolkit for Integrity draws together for the first time numerous anti-corruption tools under a single umbrella. It also provides user-friendly advice on how to make the best use of them.

CleanGovBiz provides the tools for governments to reinforce the trust of their citizens and eliminate waste and corruption. By implementing these tools in a comprehensive programme and working with civil society and the private sector, governments can improve efficiency and promote integrity in all their activities.

Richard Boucher
Deputy Secretary-General, OECD
To make the Toolkit most useful to governments, businesses and civil society organisations who want to step up their efforts in fighting corruption, it brings together not only all OECD tools but also those of the other most important organisations involved in the fight against corruption: the United Nations, the World Bank, the Financial Action Task Force, Transparency International, the Extractive Industries Transparency Initiative and the World Economic Forum.

Each of these organisations has valuable expertise in specific areas and help to make CleanGovBiz a truly comprehensive and inclusive initiative. In particular, the Toolkit contains information that could assist States in implementing some provisions of the United Nations Convention against Corruption.

The Toolkit covers four key elements:

**Healthy governance**
Putting in place healthy systems of laws, rules and institutions to ensure functioning markets and good governance. Such well-designed systems satisfy the needs of citizens and consumers and thus curb incentives for corruption.

**Effective prevention**
Effective prevention by establishing safeguards, integrity frameworks and scrutiny in risk areas of corruption.

**Sharp detection**
Strong systems of detection to be able to spot out corruption and denounce this clandestine crime.

**Robust prosecution and recovery**
Robust mechanisms of prosecution and punishment to make sure corruption does not pay.

**Healthy systems of governance**
- The right regulatory policy is the first key to strong governance. The absence of adequate regulations, for example the prohibition to accept “gifts” under a public procurement process, results in opportunities and incentives for improper practices and corruption. On the other hand, if there are overly complicated rules for registering a new business, if procedures to obtain a driver’s licence are opaque and lengthy, corruption very easily finds its way in the daily life of citizens.

Governments need to ensure that regulations are justified, are of high quality and achieve their policy objectives.
Better rules need to take into consideration what citizens want, what businesses need and what will curb corrupt practices. OECD tools such as the Guiding Principles for Regulatory Quality and Performance, the Recommendation on Improving the Quality of Government Regulation and the reviews of individual countries’ regulatory policy help make this happen.

- **Fair competition** rules are essential when it comes to the private sector. Well-designed competition law and effective law enforcement work to the benefit of all. Competition works for the consumer by encouraging innovation and value for money. But when businesses try to avoid competition by persuading governments to give them a protected position or by colluding with competitors to fix prices, the result for the consumer is a higher price for inferior goods. OECD instruments such as the Recommendation concerning Effective Action against Hard Core Cartels and the Guidelines for Fighting Bid Rigging in Public Procurement help to ensure free and fair competition.

- **Reliable judicial systems** are crucial to make sure laws and regulations are actually enforced. If verdicts or favours can be bought, any set of laws to curb corruption will be crippled. Clear rules on ethical conduct for judges and court officials, built around the fundamental principles of independence, impartiality, integrity, propriety, equality, competence and diligence, are essential, along with a system to make sure they are being implemented. International instruments such as the UN’s Bangalore Principles of Judicial Conduct and the UN’s work on boosting judicial integrity contribute to putting these systems in place.

- **Sound public financial management** can help governments to be sure they are making good use of taxpayers’ money. Public budgets should therefore be as comprehensive, informative and timely as possible. This is all the more true in light of the recent economic crisis. A credible and transparent budget process that shows how money is being spent can at the same time help win public support for difficult budget choices and minimise possibilities for embezzlement of funds or their biased allocation according to the private interests of politicians. OECD tools such as the Best Practices for Budget Transparency, the Guidelines for Off-Budget Funds, Producing a Citizens’ Guide to the Budget: Why, What and How?, as well as international initiatives like the Open Government Partnership, help countries strengthen their public financial management systems.

- **Development co-operation** can be an important tool for building strong governance systems. The effects of corruption are felt especially hard in developing countries, where corruption reduces states’ ability to deliver basic services such as health and education, weakens democratic institutions and slows inclusive economic growth. Donors can help developing country governments and other stakeholders address corruption and increase transparency and accountability. Moreover, donors can ensure high standards of integrity and transparency within their own programmes and projects. Instruments such as the OECD Principles for Donor Action on Anti-Corruption and the World Bank-led Public Expenditure and Financial Accountability framework (PEFA) help curb corruption through development co-operation.

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**Effective prevention**

- **Public sector integrity** is essential to maintaining trust in government. The OECD helps countries by mapping out good practices and developing principles, guidelines and tools to achieve them, as well as identifying “at risk” areas vulnerable to misconduct, fraud and corruption. OECD instruments such as the Recommendation on Improving Ethical Conduct in the Public Service, the Guidelines on Managing Conflict of Interest in the Public Service and the Public Sector Integrity Assessment Framework, as well as the UN Handbook on Police Accountability, Oversight and Integrity, help governments instil a culture of public service integrity.

- **Business sector integrity** is important because clean companies are more efficient and more competitive, which in turn leads to healthier markets and greater investor confidence. Governments can promote greater private sector integrity by encouraging companies to adopt stronger anti-corruption practices and robust corporate governance systems and to compete fairly and openly. A strong arsenal of resources to help keep business clean is available. This includes OECD instruments such as the Anti-Bribery Convention; the Good Practice Guidance on Internal Controls, Ethics and Compliance; the Principles of Corporate Governance; and the Guidelines for Multinational Enterprises. It also includes instruments from other organisations such as the APEC Anti-Corruption Code of Conduct for Business; the Ten Principles of the UN Global Compact; the EITI Principles and Criteria; the World Economic Forum PACI Principles for Countering Bribery; the TI Business Principles for Countering Bribery.

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**USD 1 TRILLION**

amount deemed to be paid in bribes each year

*World Bank*
Corruption could make this building unsafe.
More integrity could improve these children’s education.
Bribery; the ICC Rules of Conduct to Combat Extortion and Bribery; and the World Bank Integrity Compliance Guidelines.

Civil society has a key role to play in fighting corruption, from monitoring public services to denouncing bribery and raising awareness. Civil society organisations are uniquely positioned to investigate and bring to light cases of corruption as representatives of the general public. In this context, social media can be particularly helpful by gathering information and publically holding governments to account. Governments need to take measures to enable and strengthen civil society participation, such as involving the public in decision-making and raising awareness of the importance of combating corruption both for governments and civil society. Instruments such as Transparency International’s Corruption Fighters’ Toolkit, World Bank work on civil society and fighting corruption, and OECDWatch involvement in follow-up on the MNE Guidelines all ensure civil society’s effective role in the anti-corruption battle.

Lobbying by private interests is part of the policy-making process in modern democracies. Lobbying can improve government decisions by providing valuable insights and data. But poor policy decisions may result if lobbying is carried out behind closed doors or if too much influence lies with vested interests. For example, IMF research linked intensive lobbying by financial, insurance and real estate industries in the United States with high-risk lending practices before the economic and financial crisis. Clear rules are needed to ensure lobbying has a positive effect on public decision-making. The OECD Recommendation on Principles for Transparency and Integrity in Lobbying helps decision-makers promote good governance in lobbying.

Tax transparency is a major prerequisite for building integrity in governments, business and society. Tax evasion and other tax crimes thrive in a climate of secrecy and tax regulation. In a climate of tight public finances, governments need to demonstrate to their citizens that the tax system is being fairly applied to all. The OECD has been at the forefront of work in this area for many years. The Global Forum on Transparency and Exchange of Information for Tax Purposes, along with instruments such as the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, the Model Agreement on Exchange of Information on Tax Matters, and the Handbook on Implementing the Tax Transparency Standards, are helping governments ensure that their tax systems can be implemented in a borderless world. Through its Tax and Development programme, the OECD is working to increase the transparency of financial data of MNEs and to optimise tax incentives. The OECD’s Tax Inspectors without Borders initiative helps developing countries to bolster their revenues.

Integrity in public procurement is a vital element in keeping the public sector clean. Taking a bribe or favouring a friend when awarding a contract could result in building a school using substandard materials that could put the safety of pupils at risk. The OECD Principles on Enhancing Integrity in Public Procurement help governments prevent waste and corruption in this major risk area.

Citizens are doing it for themselves

Civil society has an important role to play in the fight against corruption. Organisations with global reach have had an impact on the international stage, but local, grassroots action is just as – and sometimes even more – important.

Take ipaidabribe.com, which helps tackle public sector corruption in towns and cities in India by inviting people to send emails or phone texts detailing bribes they were asked for by police or other public officials. The Bangalore-based NGO, the Janaagraha Centre for Citizenship and Democracy, uses the information to argue for better governance and law enforcement to reduce the scope for corruption. This successful model has been replicated by the local initiatives ipaidabribe.or.ke in Kenya and bribenigeria.com in Nigeria.

Meanwhile, in the Philippines, a civil society campaign on public procurement uncovered serious irregularities in the school textbook system. As a result, the government worked with civil society, which provided volunteers to monitor the whole textbook system from bidding to distribution. This initiative tracked 63.8 million textbooks between 2003 and 2007, and the average cost of a textbook was halved (gwatchdepd.wordpress.com).

Governments are recognising the growing importance of civil society participation and are starting to involve them in scrutinising government activities. In Mexico, participation of social witnesses to scrutinise the integrity of the procurement procedure is mandatory for large contracts. A study of the OECD and the World Bank Institute (2006) found that such practice had resulted in savings of approximately USD 26 million in 2006 and increased the number of bidders by over 50%.

EUR 14 BILLION additional tax revenues collected during the current crisis by tackling offshore secrecy (OECD)
G20 leaders recognised in 2011 that the OECD Recommendation on Enhancing Integrity in Public Procurement is a key instrument to monitor their commitment to promoting fair and transparent procurement systems. Moreover, public procurement systems that are well defined, effective and efficient reduce the opportunities and incentives for corruption. Instruments such as the UN Model Law on Public Procurement and the WTO Agreement on Government Procurement assist States in formulating a modern procurement law to achieve value for money and avoid abuses in the procurement process.

■ Export credit services, provided by many governments, help domestic exporters secure overseas contracts. An export credit is an insurance, guarantee or financing arrangement that allows a foreign buyer/borrower of exported goods and/or services to defer payment over a period of time. In providing such services, OECD governments have agreed that they should not support export transactions tainted by bribery. The OECD Recommendation on Bribery and Officially Supported Export Credits, outlines appropriate measures for deterring and detecting bribery in transactions benefitting from officially supported export credits.

Sharp detection

■ Money laundering enables criminals to hide the proceeds of corruption or disguise them as legally-acquired funds, so they can enjoy their illicit gains without fear of them being confiscated. A proper culture of compliance with standards of anti-money laundering creates an environment in which it is more difficult for corruption to thrive undetected and unpunished. The Financial Action Task Force (FATF) is the international standard setter in developing and promoting national and international policies to combat money laundering and the financing of terrorism and proliferation. Effective implementation of the FATF Recommendations has a positive impact on anti-corruption efforts.

■ Tax administration is a valuable weapon in the anti-corruption armoury. At one end of the scale, governments can ensure that money paid in bribes is not tax deductible – as is still the case in some countries. And then there is the role of tax administrations in detecting financial crime. Tax examiners are highly trained financial investigators whose job makes them ideally placed to detect and report suspicions of criminal activity (see box). OECD instruments such as the Recommendation on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions, and the Bribery Awareness Handbook for Tax Examiners help governments make the best use of tax administration to fight corruption. OECD initiatives such as the Oslo Dialogue, which encourages a whole of government approach to tackling tax crimes and other financial crimes, also buttress anti-corruption efforts by harnessing the information, investigative expertise and enforcement authority of different government agencies to tackle illicit activities.

■ Whistleblower protection is essential to encourage the reporting of misconduct, fraud and corruption. But employees who witness a corrupt act may be unlikely to say anything if they are subject to retaliation. Protecting whistleblowers in both the private and the public sector is therefore integral to efforts to combat corruption, safeguard integrity, enhance accountability, and support a clean business environment.

Whistleblower protection has been recognised by all major international instruments concerning corruption. The G20 has supported the OECD-prepared Guiding Principles for Whistleblower Protection Legislation and Transparency International has developed a set of Recommended Draft Principles for Whistleblowing Legislation.

In praise of tax inspectors

Tax inspectors and auditors are a perhaps unexpected weapon in the anti-corruption armoury, but their detailed examination of corporate and individual finances can uncover the telltale signs of fraud and corruption.

Questions by an alert tax auditor about the reality of some transactions during a regular audit led to the discovery of a EUR 200 million real estate fraud in the Netherlands involving dozens of construction and real estate companies. Dubbed the “Ivy” case because its tendrils spread widely and it was hard to root out, the methods used to hide the fraud, and the telltale “red flags” the auditor spotted, are now used in awareness training for tax auditors.

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More integrity in courts could save this woman’s freedom.
An independent media is critical in raising public awareness, promoting integrity, detecting and reporting on corruption. Governments, media owners and journalists have a shared responsibility to ensure that media can and does effectively contribute to strengthening accountability and curbing corruption.

Robust prosecution and recovery

Criminalising bribery of public officials, and enforcing the anti-bribery laws and measures, are a key component of a comprehensive anti-corruption framework. The OECD’s work in this area focuses on ‘active bribery’ (the offering, promising or giving of a bribe) as opposed to ‘passive bribery’ (the asking or receiving of a bribe). The OECD Anti-Bribery Convention is the first and only legally binding instrument to focus on the supply side of bribes to foreign public officials. Signatories must prosecute individuals and companies who offer, promise or give bribes to foreign public officials and subject them to effective penalties including heavy fines or imprisonment. The 2009 Anti-Bribery Recommendation helps strengthen Convention countries’ capacity to prevent, detect, investigate and prosecute this crime, while the Recommendation’s Good Practice Guidance on Internal Controls, Ethics and Compliance helps companies by giving them advice on how they can prevent this behaviour in their own business dealings. It is the only anti-corruption guidance of its kind to be adopted at an inter-governmental level.

Recovering stolen assets, reclaiming the money, property or other assets amassed through corruption, is an important element of making sure bribery does not pay. Corruption will remain a profitable crime as long as counterparts in other countries are willing to hide stolen resources. The World Bank-UN Stolen Asset Recovery Initiative (StAR) works with developing countries and financial centres to prevent the laundering of the proceeds of corruption and to facilitate return of stolen assets. An OECD-StAR report shows that four countries have repatriated a total of USD 227 million to foreign jurisdictions between 2006 and 2009. Governments can find advice on more efficient asset recovery in the StAR Asset Recovery Handbook and the StAR report on Barriers to Asset Recovery. Moreover, the OECD-StAR analysis on the Identification and Quantification of the Proceeds of Bribery provides useful advice on how governments can identify and quantify the proceeds of bribery, which is crucial to their confiscation and recovery.

How you can make a difference

As a citizen:
Go to the CleanGovBiz website and learn what can be done to fight corruption in different policy areas. Ask your local politicians what they are doing to improve integrity and advocate existing good practices.

As an employee:
Learn from our website about good practices to improve integrity in the business sector and see if your company is respecting international standards and putting in practice its commitments.

As a government official:
Browse the online Toolkit in your area of expertise and compare the guidance with what your government is doing. And if you want to take it further, get in touch with the OECD to prepare a comprehensive anti-corruption self-assessment using our Integrity Scans.

Integrity Scans: Putting guidance into practice

Governments wanting to step up their anti-corruption efforts and boost integrity often wonder where to start. What are the priority reforms to reinforce healthy systems of governance, and to be able to prevent, detect and prosecute corruption?

The OECD and its partner organisations have plenty of rules and guidance to help, but individual countries face different problems and it can be difficult for governments to determine which are the most urgent and appropriate for them to address first. Therefore, the OECD offers “Integrity Scans” to help governments assess the strengths and weaknesses of their legal, administrative and economic framework.

The Integrity Scans are mostly self-assessments based on the CleanGovBiz Toolkit and supported by a multidisciplinary team from the OECD. In a quick but comprehensive process, the scans identify priority reforms and may suggest further in-depth reviews based on existing tools. The OECD team can also help design specific programmes for improving integrity in a given economic and institutional context. This in turn will help reinforce confidence in government and fight corruption in a cost-efficient way.

We have made some incredible progress from a time when bribes were considered just part of doing business and companies could claim them back as a tax deduction. But there is still a long way to go.
Angel Gurría
Secretary-General, OECD
CleanGovBiz resources available online and in print

www.CleanGovBiz.org
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