

Anti-Corruption and the Sustainable Development Platform

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I would like to express my appreciation for the invitation to be with you here today.

Although a great deal of work has been done to fight corruption, its impact is so severe that it is essential that we work together to turn the tide towards prosperity with greater equity and give life to sustainable development. We come together now to continue to share our knowledge and to enhance the strategies that will take our work further. I believe that our shared commitment for more just societies can make a difference.

As the first initiative of its kind in the region, the ADB-OECD Anti-Corruption Initiative should be applauded for the great strides it is making in the fight against corruption.

I would also like to take this opportunity to acknowledge and encourage the leadership of the Asian Development Bank. In striving to ensure the transparent delivery and effective use of its financial aid, it has created a model that we all can learn from. The ADB's special focus on good governance demonstrates its commitment to a comprehensive approach to development.

Transparency International has also collaborated with the OECD for many years now, resulting in an important contribution to the forging of a "global coalition against corruption". The OECD is at the forefront of the anti-corruption movement, taking up a paramount role in combating corruption through a myriad of international instruments and initiatives, like the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the Global Forum on Taxation and the Principles for Integrity in Public Procurement.

Transparency International is proud to be a partner of the Bank and the OECD.

THE IMPACT OF CORRUPTION

The persistence of poverty when there is the potential for development is simply not acceptable. Despite the availability of natural resources, human capital, the aid committed to facilitate change or the sheer will of a population to raise their standard of living, poverty continues to burden families and communities around the world. At the same time, conflicts and violence persist in several countries, much of it nourished by the proceeds of corruption.

Too many people, especially the poor, must also bear the added burden of having to pay bribes to gain access to essential services. From health and education to water and sanitation, communities and families are paying the biggest price for corruption. It also weakens the availability of these services as less financial resources are available for their delivery.

At a different level, corruption in higher education is also detrimental to sustainable development. If you have to pay a bribe to enter university, to get your marks and eventually your diploma – as is prevalent in certain countries – you may eventually drop out or forego higher education altogether because you cannot afford to pay. When education is at the core of development, this is a losing proposition.

Primary education, the foundation of a child's potential, also suffers greatly from corruption. A Ugandan government official disclosed that corruption in universal primary education has cost the east African country 15 billion shillings or US \$8.2 million. As the level of corruption rises, the impact it has on children's lives is also amplified: an increase of one point in the corruption index reduces school enrolment by almost 5 per cent.

It is a scourge that undermines the effectiveness of aid and throws barriers in front of the political and economic changes that are vital to development. It siphons off the resources intended to alleviate the suffering of the poorest. For example, an estimated 25 per cent of African states' GDP is lost to corruption each year. This amount is equivalent to a total of US \$148 billion annually, not to mention the human costs resulting from inadequately resourced services.

Corruption is a global problem. No country is immune. Trillions are lost to embezzlement and money laundering each year. Money parked in fiscal havens or laundered in real estate by corrupt leaders is extremely difficult to find, recover and return to its country of origins due to uncooperative financial centres and bank secrecy. We are not speaking about a few million

dollars but, in many instances, of several billion dollars per case. Triggered by the financial crisis, the G20 has finally started to deal with this issue. This is commendable and must be pursued until its end goal has been achieved – ending fiscal havens and the type of bank secrecy that protects the proceeds of corruption.

The means of corruption are becoming increasingly sophisticated. For every genius who comes up with a means to stop corruption, there are ten others who instantly find ways to circumvent it. The professional facilitators of corruption are smart, very well paid and pervasive in institutions. This is why donors need to support developing countries in attaining the required sophistication to properly meet the challenge. Multilateral institutions such as IFIs, the OECD, the UNODC and Interpol, along with export development institutions, need to continue to enhance their cooperation, to share expertise and information, and to serve as a front line of defence to prevent and tackle corruption.

It is a big mistake to assume that petty corruption is not a big deal, when in fact it is a cancerous form of corruption that seeps into all aspects of life. The worst part about this kind of corruption is that it often occurs in places where the poor are the most affected. When a family has to pay up to 40 per cent of its US \$500 annual income to gain access to essential services, it has no choice but to forego them. And more than one in ten people interviewed in TI's latest Corruption Barometer reported having paid a bribe in the previous 12 months.

The same weak governing structures that enable such decisions also leave the door open to practices that are harmful for sustainable economic development. A visiting scholar at the IMF found that an increase of one point in the corruption index will result in a reduction in foreign investment by 8 percent. And we can hardly blame investors for their reluctance, considering the estimated 20 per cent "corruption tax" for doing business in these situations.

Although a number of private sector leaders have taken a strong stance against corruption by adopting a zero tolerance approach and introducing the necessary means to make this commitment work, corruption in business continues to be a pervasive problem. Between January and April of this year, white-collar crime cost the country of Indonesia a whopping Rp 2 trillion (US\$194 million). This amount was accrued from the more than 425 corruption cases investigated by the state during this four month period. In reading about this outrage, one man was driven to ask: "How many schools could we build? How many streets could we repair? How

many tons of fuels could we give to our fishermen? If only this Rp 2 trillion could be restored and used the right way!" I think we all share in this man's sentiments.

Business continues to be a major supplier of corrupt payments to public servants, members of government and political parties. Kickbacks may be solicited, extorted or offered. This bribery leads to a culture of impunity. Once the complicity of bribery is initiated, repeat bribery becomes difficult to stop. The scale and scope of bribes are believed to be exceedingly high and the consequences lethal. In developing countries and countries in transition, bribes in the order of US \$20 to 40 billion are believed to be received annually by public servants and politicians. As a result, business managers estimate that project costs are increased by 10 to 25 per cent. In a related vein, price-fixing cartels and similar collusion schemes can siphon huge sums out of development. They can also deter honest investors. Between 1990 and 2005, more than 283 cartels came to light with overcharges totalling some US \$300 billion. Some estimates even suggest that direct economic losses due to overcharges by international cartel activities alone could match or even exceed the total volume of development aid given to developing countries.

This is also where many rich exporting countries are still not fulfilling their responsibility or commitment to take a more active role in preventing their exporters from bribing and then to carry out investigations and prosecutions when serious allegations are made. As a result of the OECD Convention this is now a criminal act in signatory countries. This is pure negligence on their part.

When you begin to add up the various ways in which corruption is interlinked, it becomes obvious that as long as corruption prevails, sustainable development will be elusive.

THE SUSTAINABLE DEVELOPMENT IMPERATIVE

At present, the issue of climate change is creating new momentum for action on the sustainable development agenda. The unsustainable use of our natural resources, our land and our overall environmental deficit may stem from a lack of expertise, neglect or short-sightedness, but it is also derived from greed, state capture for personal gain, politicians and public servants with price tags, and inspectors and license providers willing to look the other way in exchange for a bribe.

The unprecedented pace of industrialisation in Asia, coupled with its population growth, dictates the need for more immediate and comprehensive sustainable development solutions. The initiative for change must be taken by each country and its people.

Going forward, we need to harness our brain power, cooperation and financial resources to research, model and introduce clean energy technology and energy efficiency in all new construction. We need to build public transit systems and rediscover the train in its modernised rapid incarnation to move people and goods, while ensuring land is available and nurtured for food production. We need to rebuild and manage our forests, while making our cities liveable and reducing their carbon footprints. And we also have no choice but to prepare for the impact that climate change will have on health, food production and the migration of populations as sea levels change.

We also need to look to economists to factor in the cost of inaction when determining the financial costs of mitigation and adaptation interventions.

As we address climate change, we cannot afford to neglect the persisting predicament of world poverty, as a number of countries continue to experience an increasing gap between the rich and poor.

The sustainable development agenda is huge, its implementation urgent. But it is achievable, so long as there is the will to act and to harness the necessary resources. This is one of the many reasons why we cannot afford to lose our precious resources to corruption. The ADB already stands at the vanguard in this regard. And in these times, it is uniquely placed to take on even greater leadership in Asia. Equally, the OECD has a great global track record. Its capacity to bring emerging nations into voluntarily compliance with the OECD Convention would be a tremendous accomplishment.

Although it is ultimately up to governments to commit themselves to reform and to take the necessary steps to make this reform a reality, donors have a major contribution to make. They are in a singular position to influence and support good governance and the strengthening of institutions and systems, whether through the support of programme funding or by providing budgetary support. The extent and quality of governance in recipient countries has been and should remain part of the donor's risk assessment.

Let us now look forward to the prerequisites and strategies which, based on our experience and most likely yours, have been important in tackling corruption.

PREREQUISITES IN DEALING WITH CORRUPTION

Integrity as a way of life

Rules and procedures are important, but ultimately, actions are based on a moral understanding of what is right and wrong. Fostering such a culture starts not only at the top of hierarchies, but also at the beginning of life. Here, the school system plays a key role.

Leadership and political will

Leaders at all levels and in all sectors, starting with heads of state and governments, should be at the front line, taking a strong and public stance against corruption. Laws and integrity institutions are essential, but unless these are implemented and enforced, corruption will continue to thrive and public trust will continue to erode. Visionary leaders, who place the public good ahead of personal gain, are necessary beacons to their people and they need our support.

Transparency is essential for accountability and trust

Transparency in all aspects of governance is imperative to building trust and accountability. It starts with decisions made at the top levels and moves down through every level of implementation, be it the enactment of a policy or the delivery of aid. When the intended results are not achieved, the transparency of the process allows those responsible to be held accountable for their actions. This combination of transparency and accountability instils a government with legitimacy both in the eyes of its people as well as in the international arena.

Good governance

Liberian President Ellen Sirleaf-Johnson' recent comment to the BBC (World News, August 2009), "Africa is not poor, it is poorly managed", has a universal resonance.

It is clear that good governance is absolutely essential to sustainable development. Strong institutions, laws, regulations, systems and programmes which focus on quality and accessibility of services, protection of people and the natural environment, and the optimal use of the country's resources – these have proven to break the vicious cycle of poverty in many countries.

These prerequisites are the currency of sustainable development, and they should permeate the strategies of government and business alike.

SOME KEY STRATEGIES TO PREVENT CORRUPTION AND TO MAKE DEVELOPMENT SUSTAINABLE

These are not new to this audience and we would all agree that they are essential for well-performing governments, yet they are still elusive in so many countries. Therefore the question remains on how best to achieve them in our cooperation with each other.

Supporting a highly performing justice system

A justice system that is imbued with integrity, which is highly professional; a judiciary independent from the executive, which is transparent in its proceedings and judgements; a system of justice which is enforced by a well-trained, properly supervised police – these should not be luxuries. Those working in the justice system need to be appropriately remunerated with an incentive system that rewards service and integrity, and punishes unacceptable behaviour. Unfortunately, the reality is quite different in many countries, with cases being manipulated on the whim of the executive, and police and judges living off of bribes.

Yet judicial reforms driven by donors have produced considerable results in Papua New Guinea (PNG). Court user forums chaired by national court judges are now active in seven of the country's 20 provinces. These forums bring together courts and key stakeholders to identify simple changes for improving efficiency. In 2006, there was a 73 per cent reduction in the case backlog in Wigani national court in Port Moreby as a direct result of efficiencies identified through the court user forums.

The ombudsman commission is also an important feature of PNG's judicial system with a mandate to investigate infractions of the PNG leadership code. It has been praised by the anti-corruption movement, but has at times endured intense criticism because of the increasing number of referrals of MPs and ministers to the leadership tribunal. Sixty per cent of referrals lead to convictions in 2006, compared to 17 per cent in 2005.

Fully functioning oversight institutions

Supreme audit institutions, anti-corruption commissions and other integrity institutions have proven to be of the utmost importance in holding government to account; discovering fraud, bribery and nepotism; and promoting integrity and good governance. To be effective, these agencies need be fully independent, properly resourced and the law must provide them with a sufficient range of appropriate responsibilities.

The South Korean Board of Audit, or BAI for short, extended their reach even further. They have involved civil society in audit planning with the goal of developing a focus that better addresses corruption risks. The citizens' Audit Request System, set up by BAI in 2001, even allows citizens to request audits of public agencies on the grounds of perceived corruption or legal transgressions. Public participation has increased the population's sense of ownership in the process and lends added legitimacy to BAI's work.

Equally important, but quite different in nature, was the work of the Independent Commission against Corruption in Hong Kong. It stopped construction and ordered the demolition of a major apartment complex when it discovered and investigated allegations that the foundations of the buildings had not fully reached the depth essential for safety. Thousands of lives were potentially saved as these buildings were in danger of eventual collapse. The contractor had wanted to avoid paying a contract penalty for delayed delivery of this phase of the project, choosing instead to take a potentially lethal shortcut.

The successes of the Indonesian Corruption Eradication Commission, or KPK for short, has also demonstrated how anti-corruption efforts can create a greater sense of public confidence, as reflected in TI's latest Corruption Barometer. Seventy per cent of respondents felt that the Indonesian government has been effective in addressing corruption, which many have attributed to the work of the KPK.

Development efforts to strengthen transparency in finance management can also be supported by parliaments and legislatures. Particularly with direct budget support, budget literacy is extremely important for legislators. They should be able to analyse the budget proposal, monitor expenditures and evaluate outcomes. However, the Global Organisation of Parliamentarians against Corruption has found that these technical skills are often lacking, especially in developing countries. Where training is not appropriate, specialised committees focused on budget oversight have been established to fill this gap.

Transparent financial systems are essential for accountability

Revenues which are totally transparent and accounted for; budgets that are accessible, organised by programme and easy to understand; and budget disbursements that are clear for all levels of governmental service delivery –these form the bedrock of accountability and, when taken together, are one of the best deterrents of corruption.

When budgets for a community's health clinic, its school and the local government are posted on the front door of these institutions, suddenly there is money for roads, teachers, water supplies and vaccines, when earlier, local residents were told that such funding did not exist.

While *en principe*, a greater devolution of programme responsibility and resources to local governments is a reasonable approach, without appropriate training, the necessary oversight or full transparency and accountability, corruption can be exponentially multiplied.

Tracking programme money can yield astonishing results. A good example of such a case took place in Chad. A survey was initiated to track the money intended for rural health clinics. It was found that only 1 per cent actually reached its intended destination. Where did the other 99 per cent go? How much can be attributed to bad management and how much went to lining individual pockets along the way? I doubt that this is an isolated case.

On the other hand, we find Mali. Under the direction of President Touré, and with the support of his Minister of Finance, a major system improvement of its tax revenues was implemented using technology, system improvement, staff training and more. Within a few years, they succeeded in quadrupling revenues from this stream alone. Other countries have succeeded in cleaning up corruption in their customs using similar means and have benefited from additional revenues.

Infrastructure and procurement

Hundreds of billions are needed for essential infrastructure in developing countries alone. The stimulus packages being introduced around the world to deal with the fall out of the financial crisis are adding significantly to this sum. Procurement is a major cost for all governments. Because these two sectors are among the most vulnerable when it comes to corruption, proper care and due diligence could prevent massive losses.

Allegations of wrong-doing continue to surround the Port Klang Free Trade Zone (PKFZ), a major construction project in Malaysia. The media reports that land for the project was acquired at a price far higher than the assessed value, by a company with ties to senior politicians. The same company was later awarded sole rights to develop the zone without competitive bidding. A task force was set up by the Ministry of Transport to investigate the legal and financial aspects of the project - which have increased to over three times its initial estimated cost of RM1.9 billion. This group concluded that there was possible fraud, overcharging and unsubstantiated claims by this company.

On the flip side, a case for investing in procurement reform can be found right here in the Philippines. Through its online procurement service, set up with the assistance of the Canadians, the Philippine government has been able to save 53 per cent on the cost of drugs and medicine alone.

It is argued that, on average, approximately 70 per cent of central government expenditure turns in one way or another into contracts. However, systemic corruption can add an estimated 20-25 per cent to the costs of government procurement, and frequently results in an inferior quality of goods and services as well as unnecessary purchases.

This is why TI created Integrity Pacts, to be signed by all bidders and the agency inviting bids. These are agreements on transparency and integrity and include the threat of severe penalties if there is a breach by any party - usually the annulment of the bidding process or the disqualification of the bidder who failed to honour the agreement. These have yielded significant savings by preventing bribery and collusion. Independent monitoring of major projects during the life of the project has also been an important tool to prevent corruption, increase safety and ensure an efficient use of funds.

Enlisting the private sector

The private sector can be a force for good, or it can remain – as is often the case – on the other side of the corruption equation.

Business as an organisation has a clear twofold moral responsibility to engage in the global fight against corruption by setting a positive example through its own conduct, while contributing to the public good of working towards a corruption-free market. These aims reinforce each other.

All too often though, businesses attempt to gain an unfair advantage by offering or submitting to pay bribes. They wield the power of their potential investment to shape policies that will benefit their own company, regardless of the effects it has on the fair competition of the market or the welfare of the people. This manipulation of position for private gain is no less acceptable as a politician embezzling from state coffers.

The financial crisis that started in 2008 has illustrated that opacity, insufficient rules and regulatory oversight, and conflicts of interest can bring an entire system to the brink of collapse. The damage to development, lives and livelihoods around the world is unprecedented. The added evidence of recent major scandals originating in the industrialised world further demonstrate the universality of this issue.

A number of industry leaders are coming together under different entities to expand on the commitments made to greater integrity and to share their experiences. Whether this is done under the auspices of the OECD, the UN Global Compact, PACI, TI or the ICC, these networks are gathering steam and bringing peer support and pressure. We all need to support and encourage them.

The expansion of Integrity Units and audit functions at IFIs that have better and faster investigations, coupled with the blacklisting of culprits, have become powerful deterrents and need to be applauded. The publication of the debarment lists can add even greater weight to the deterrence factor. Export development institutions should look carefully at these lists before supporting debarred companies.

Citizen participation and the countervailing force of civil society and the media

Civil society along with a responsible and independent media must step up to their role as watchdog and educator. An informed population can better hold their leaders to account and become more active participants in programme planning.

Information should be conveyed to citizens in a way that will help them to understand how development should be improving their quality of life.

Donors increasingly encourage governments, and a number of governments themselves see the advantages of citizen participation in the planning and oversight of programmes designated for their benefit. I have often been told by countries' presidents that their best allies in the pursuit of a reform agenda have been the citizens and civil society organisations. Some countries like Rwanda have even legislated citizen participation in various local government planning sectors.

Using anti-corruption conventions to accelerate the fight against corruption

I have touched on various elements of a strategy to prevent corruption. Of course all these elements and more are covered by the UN Convention against Corruption, the OECD Convention and the ADB-OECD Action Plan. These instruments establish international and regional consensus in these areas. Naturally, the UNCAC is of particular importance for the Asia-Pacific region as it is the only binding convention covering the region.

The UNCAC helps address the fact that a great deal of corruption enters Asia-Pacific from other regions and that proceeds of corruption are also flowing out of the region. The importance of widespread and consistent implementation is readily illustrated by asset recovery, one of UNCAC's most promising provisions. Unless all banking centres establish consistent standards, stolen funds will flow to the countries with the weakest rules.

But UNCAC has recently suffered a major setback during negotiations in Vienna. The success of UNCAC in reducing corruption hinges on the commitment of State Parties to fully implement the convention's provisions –and this in turn is dependent on the establishment of an effective review mechanism to promote implementation. For a review mechanism to be robust and credible, certain fundamental elements are essential:

- Country visits by review teams from two governments (NOT including the government being reviewed);
- A transparent process with public release of country reports and recommendations;
- Opportunity for inputs from non-governmental sources, including civil society and the private sector;
- An Implementation Review Group composed of distinguished experts to assist the Secretariat and the Conference of States Parties;
- Adequate and dependable funding.

A seven-day long intergovernmental meeting that ended last week in Vienna (24 August – 2 September 2009) failed to resolve differences over the establishment of the review mechanism. This undermines hopes for a successful outcome of the November Doha summit meeting of the 140 parties to the convention. But we cannot allow another failure at Doha, which would mean that UNCAC will lose its strength as a meaningful tool for fighting corruption in the foreseeable future. TI calls on all parties to work together in the next two months to avoid defeat in Doha.

CONCLUSION

The persistence of poverty where there is the potential for development is simply not acceptable. If corruption has been entrenched until now, then we must find ways to entrench integrity, to entrench responsibility, to entrench a shared commitment to finally, and sustainably break the cycle of poverty, to achieve greater peace and to use our resources to build a more sustainable future.