

## Introducing the *Global Corruption Report 2003*

*Peter Eigen, Chairman, Transparency International*

The corrupt are running out of places to hide. That is the message that runs through the *Global Corruption Report 2003*. Empowered by technology – essential to the prompt and accurate flow of information – the media and the public are increasingly calling businesses and politicians to account.

To help secure that flow of information, national chapters of Transparency International have campaigned for freedom of information in Germany, Lebanon, Mexico, Panama and many other countries. Under their scrutiny and that of other civil society organisations and the wider public, governments are taking steps to further the cause of transparency. From Chile and Brazil to South Korea and India, the spread of e-government involves increasing use of the Internet to disseminate public information and to open up the bidding process in public tenders and privatisations.

But freedom of information is not enough. However professionally and accurately information is processed, corruption will continue to thrive without the vigilance of the media and civil society, and the bravery of investigative journalists and whistleblowers in particular.

These champions of transparency are as essential in the developing as they are in the developed world. The regional reports section of this volume opens with reviews of Western Europe and North America, from where the Enron scandal sent shock waves through the global corporate sector and severely damaged public trust in the integrity of business. Enron and the scandals that followed heightened the perception of collusion between auditors, tax advisers, lawyers and bankers and their corporate clients to massage accounts for the short-term benefit of managers – in defiance of the trust placed in them by shareholders, employees and the public at large.

To a certain extent, this type of unethical behaviour can be deterred by international initiatives such as the 1997 Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials. While its principal focus is to criminalise bribery of foreign officials, the convention and related OECD instruments also deal with accounting, auditing and corporate controls. TI has for some years urged the OECD to press member states for improvements in these areas. The impact of the convention is not yet satisfactory. Only a few cases are being investigated under the convention, and in most OECD member countries the political will to prosecute major bribery cases is lacking. Furthermore, the

## Preventing corruption: empowering the judiciary

The *Global Corruption Report* is not alone in calling attention to the recent scandals surrounding Enron, WorldCom and other public companies in the United States, and in demanding more effective reporting and control mechanisms to prevent their recurrence. These cases revolved around private enterprises under the control of external bodies that were themselves subject to conflicts of interest between their auditing and consulting functions. Some of these industrial groups, financial institutions and service providers exert more global influence than many countries. Nevertheless, what has come to light in the private sector may one day emerge in the public sphere with respect to a state's accountability to the public.

Transparency in government relies on parliamentary control, the foundation of democracy, which is upheld by public funds. But there is often an imbalance between the prerogatives of the executive branch and the capacity of a parliament to truly exercise its regulatory powers over public spending and the budget. How accurate, for example, are the figures that relate to budgetary deficits, the balance of payments, growth rate calculations, extra-budgetary investment in retirement funds or provisions to meet the state's responsibility in matters of public health?

Over the last few years, the magnitude of global corruption has been characterised by the repeated implication of public officials in fraudulent transfers

of public and private funds. Corruption can be prevented through greater transparency in accounting and better control mechanisms, particularly in the area of international intervention – be it with respect to aid or disaster relief – and in relations between large corporations and states regarding contracts for the exploitation of natural resources.

The battle against illicit financial transactions must be fought with sound strategy, one that empowers the justice system as an indispensable weapon. It is thus paradoxical that justice budgets represent only a small share of public expenditure. In Europe, for instance, only 1–2 per cent of the budget is allocated to the justice system in Spain, France and Germany.

In the current international climate, it is appropriate to reconsider this allocation of resources since, without a functional and well-endowed justice system, no major investigation can be successful. When an overloaded and under-resourced justice system is confronted by international organised crime, the latter is guaranteed impunity.

Without efforts to modernise legal institutions, new international agreements will remain unrealised and our democracies will continue to be threatened by our inability to track corruption and other criminal activities.

**Eva Joly**

OECD's monitoring process, which was designed to assure effective implementation and enforcement of the convention by member governments, is severely under-resourced and behind schedule. The convention will fail if the OECD cannot press governments to prosecute foreign bribery cases.

Legislative reform is not the only means to promote transparency. Within the corporate sector, many business leaders are also taking up the challenge to curtail corruption. The Bribe Payers Index (BPI) 2002 reveals that companies from leading industrial countries are seen as slightly less likely to bribe than they were in the first

BPI, carried out in 1999. Companies from Britain and the United States, however, were notable exceptions to the trend. But many businesses understand that stopping bribery makes sound economic sense. A survey carried out by Social Weather Stations in late 2001 found that entrepreneurs in the Philippines were willing to pay 2 per cent of their corporate net income to fund anti-corruption programmes. They had estimated that preventing corruption would result in a 5 per cent increase in net income and a 10 per cent saving on contracts.

At the national level, progress in the fight against corruption is also in evidence. Encouraging news has come from EU accession candidates in Central and Eastern Europe, where – along with pressure from international actors – political will and civil society efforts have promoted transparency and good governance. Yet progress is slow to reverse the damage corruption has caused to personal, public and corporate reputations. Throughout the world, the public has suffered a tremendous loss of confidence in politicians. Trust in political parties is lower than in any other public institution. New data from the New Europe Barometer, presented in the data and research section of this report, tells us that in Central and Eastern Europe as a whole only one in eight people trusts political parties and only one in seven positively trusts members of parliament.

While there is much room for improvement, the past 12 months did witness noticeable successes in the fight against money laundering and in the repatriation of stolen assets. The events of September 11th prompted the U.S. government and others to acknowledge the pernicious nature of money laundering and to urge the OECD's Financial Action Task Force to further tighten its anti-money laundering strictures. International cooperation between the judiciary and police forces has increased, and in November 2001 the EU adopted a new directive on money laundering that obliges member states to combat the laundering of the proceeds of all serious crime, including corruption.

The *Global Corruption Report 2003* also reflects a positive trend among donor agencies. While their efforts to curb corruption were noted in the 2001 report, organisations have become more demanding in the last year, insisting on a commitment to anti-corruption policies and procedures. This approach dovetails with the opening up of public accounts to independent scrutiny. Donors should also insist that civil society have full access to monitor spending and verify that support reaches intended recipients and projects, such as schools and hospitals.

As civil society organisations have begun to organise themselves more effectively, especially in many countries on the African continent, they too are making important contributions to the anti-corruption cause. Transparency International's national chapters in Africa are spearheading a campaign for the repatriation of assets plundered by former dictators and deposited in bank accounts in London, Zurich, New York and Liechtenstein. Nigerians finally saw the return of US \$1.2 billion in funds stolen from Nigeria by the late dictator Sani Abacha, although the breakthrough necessitated dropping theft and money laundering charges against

## Policing corruption

Law enforcement should play a pivotal role in ensuring the protection of fundamental human rights in a democratic society. Corruption can diminish the ability of law enforcement to accomplish its mission and hinder the efficient and fair functioning of society as a consequence.

This is particularly so when corruption influences the activities of law enforcement itself. A corrupt law enforcement officer who obstructs the pursuit of justice can render law enforcement ineffective in the fight against crime in general. This in turn can undermine public confidence and trust.

Those involved in organised crime are generally motivated by one thing – profit. Huge sums of money are generated through arms smuggling, trafficking of human beings and narcotic substances, and financial crimes. These monies are laundered so that they have the appearance in our financial system of the proceeds of legitimate business activity. In many cases these crimes are facilitated by corruption. Organised crime invests heavily to seek out a ‘weak link’, someone who can be persuaded or coerced to assist. Those targeted may include bankers, lawyers, prosecutors or judges, politicians, passport-issuing clerks, embassy officials and those engaged in law enforcement, such as customs and police officers. Often the commodity that is most targeted is information, the disclosure of which can critically compromise police activities.

As Secretary General of Interpol, the only global police organisation, I am committed to achieving excellence in the communication and use of police information. I have prioritised our information exchange activities, such as the real-time exchange of key police information, to combat a range of serious crimes, including corruption.

The international community is still reeling from the events of September 11th. Law enforcement agencies worldwide have

rallied to evaluate their structures and systems so as to remedy the weaknesses that may hamper their efforts to combat and prevent terrorism. That future terrorist acts may be facilitated by police corruption cannot be ruled out.

Part of the solution for law enforcement must be to ensure that national and international integrity systems are in place. Where they exist we must remain vigilant and refine or improve them to meet new developments. These systems are designed to identify where corruption may exist, to prevent the corrupt or those vulnerable to corruption from being recruited and, most importantly, to increase the risk and the fear of being caught and exposed.

Interpol, through its Expert Group on Corruption, has developed an integrity system for law enforcement. For our General Assembly in Cameroon in October 2002, Interpol’s 179 member-states were invited to adopt very comprehensive ‘Global Standards to Combat Corruption in Police Forces and Services’. Such standards, though not legally binding, are essential for an organisation whose primary task is to exchange sensitive police information. Implementation of the standards, which have already been adopted by a majority of Interpol’s member-states, will be monitored. We will support implementation by offering training and practitioner exchange programmes.

I remain committed to ensuring that Interpol assists its members in this way to provide effective service delivery, built on a foundation of sound ethical values infused with a high degree of professional integrity. A focus on efficient information exchange and an effort to strengthen the role of police within integrity systems are crucial building blocks of the common cause against corruption.

**Ron Noble**

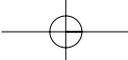
Abacha's son and one of his business associates. On this front, progress has also been made in South America. In Peru, the government of Alejandro Toledo has made significant efforts to right the wrongs of the Fujimori era. For example, US \$225 million in accounts belonging to Fujimori's intelligence chief Vladimiro Montesinos and others implicated in corruption has been frozen worldwide.

Civil society's efforts to combat corruption are buttressed by the work of investigative journalists. In October 2001, Transparency International's Integrity Awards committee honoured the memory of four individuals who lost their lives as a result of their tenacious efforts to root out corruption. Three of them were journalists. Carlos Alberto Cardoso, an investigative journalist in Mozambique, was assassinated in November 2000 while investigating the largest banking fraud in the country's history. Georgy Gongadze, a Ukrainian journalist who highlighted the corruption of the government on his Internet news service, was brutally decapitated and burnt with acid in autumn 2000. Norbert Zongo, an investigative journalist from Burkina Faso and editor of the weekly newspaper *L'Indépendant*, was murdered in 1998; the case remains unsolved. In 2001, one in four of the journalists killed died while investigating corruption. The killing has not stopped.

Yet we must also bear in mind that there is an abundance of cases in which the media neglect their role of watchdog and instead nurture unsuitably close ties with political leaders. In this context the media are not likely to expose corruption. Indeed, a recent World Bank study finds that exposure is not as common among state-owned media as it is among their private counterparts. In the Middle East, many TV stations are owned by government ministers whose conflicts of interest are not addressed. Journalists in the region continue to face imprisonment for criticising the political leadership, and most of the region's legislatures have yet to draft, pass and implement freedom of information laws.

Political pressure and inappropriate relationships with public figures are not the only factors that stand in the way of maintaining high journalistic standards. In many countries, the concentration of private ownership is increasingly threatening the vital role of the media in the fight against corruption. Issues of conflict of interest and media concentration come into sharp relief in Italy, where Prime Minister Silvio Berlusconi controls the majority of private TV stations as well as the public television network. Berlusconi had promised to resolve the conflict between his political role and media interests within the first 100 days of his administration, but by mid-2002 he still showed no signs of honouring his pledge. As a member of the EU, Italy has set an appalling example to EU accession candidates that have only recently escaped from the clutches of Stalinist censorship.

Civil society and international institutions fight corruption on many fronts. Corruption – which continues to destroy trust in public and private institutions – is a systemic problem; the means to fight it must also be comprehensive and systemic. Laws and regulations against the misuse of power must be used in this struggle. Restoring trust in public and private institutions must involve access to



information to promote transparency, perhaps the most important weapon against corruption. Only by insisting on both access to information and greater transparency in every sphere of society, from the local to the intergovernmental, can civil society, business and government hope to forestall and expose corruption, and ensure that the corrupt will run out of places to hide.

