

Introducing the *Global Corruption Report 2001*

By Peter Eigen

Chairman, Transparency International

Corruption respects no national boundaries. It deepens poverty around the globe by distorting political, economic and social life. Transparency International (TI) was born from the experience of people who witnessed first hand the real threat to human lives posed by corruption – and from its founders’ frustration that nobody wanted to talk about it.

Today, corruption at the highest levels captures headlines everywhere, and people are becoming aware of its disastrous consequences. But there is a real danger that the world’s citizens will grow weary of bad news and continue to feel powerless. Those engaged in the fight against corruption must continue to expose the way it works and to promote remedies and successes that can turn the tide. Sustained vigilance is required, and much more remains to be done.

Since its foundation in 1993, TI has consistently invited people and institutions from all walks of life to join the global movement against corruption. It is in this spirit that we embarked upon this new publication. I urge you to read on and learn not only how the curse of corruption afflicts societies around the world, but also what concerned people can do, and are doing, to counter it.

What is the *Global Corruption Report*?

The *Global Corruption Report 2001* examines the current ‘state of corruption’ around the world, analysing recent developments, identifying ongoing challenges and pointing to possible solutions. TI commissioned outside journalists and experts to take a hard look at corruption and to provide their perspective on its impact. As a result, the report adds a new dimension to TI’s efforts to raise awareness of corruption in all its guises.

The *Global Corruption Report 2001* highlights the bravery of those tackling the problem, from new political leaders elected on anti-graft platforms, to whistleblowers risking their own livelihood, to the growing number of NGOs that make up the global movement against corruption. The report helps us to understand the realities that underlie the Corruption Perceptions Index (CPI), our

annual ranking of countries according to their perceived levels of corruption. It also contributes a global dimension to the concept of National Integrity Systems, as set out in the *TI Source Book*.¹

The *Global Corruption Report 2001* is not exhaustive, but it provides a unique overview of corruption for the year 2000–01. The individual reports are assessments made by each author. They do not always reflect the views of TI national chapters, or of the TI movement as a whole. But we stand proudly behind this work, which we think offers a revealing portrait of corruption today.

Lessons from the *Global Corruption Report 2001*

Not surprisingly, the *Global Corruption Report 2001* provides a mixed evaluation of the state of corruption – though some notable patterns do emerge.

Corruption scandals dominate the news and public discussion of corruption.

The good news is that corruption is attracting more public scrutiny than ever before. In the past year, we have witnessed the exposé of high-level officials and politicians in India by internet reporters who filmed alleged pay-offs on weapons contracts; the Elf Aquitaine affair, which led to the conviction of leading French officials; and, in Peru, a daily television diet of secretly made video films of political leaders taking bribes. In the Philippines, public outrage at corruption forced a national leader out of office. The secretive web that once shrouded corruption is fast unravelling.

Numerous and prominent elections have centred on the fight against graft. Mexico is one striking recent example where people demonstrated that they had had enough of many decades of pervasive corruption, by electing Vicente Fox as President. But scandals in Germany, and in several countries in Southeast Asia and South America, have intensified concerns about corruption in party and election financing. In the US, a crisis of integrity and accountability is evident in the system of political campaign finance: Senator John McCain won a national following in the 2000 presidential elections due to his critique of ‘soft money’. The *Global Corruption Report 2001* looks at the possibility of international standards to tackle this problem.

A downside of the increase in attention to corruption is the way the issue is often politicised and exploited, a phenomenon that is pronounced in the politics of several countries in South Asia, Southeast Asia and West Africa. The danger of corruption-related witch-hunts is very real, the report shows. Such political manipulation threatens other efforts to expose corruption and bring perpetrators to justice.

There are signs of increasing commitment by political leaders to anti-corruption reforms, but national anti-corruption programmes have had mixed results. The increasing prominence of corruption in public debate has pushed leaders, both new and not so new, to try and address it. Russia's President Vladimir Putin, in his quest to enforce the rule of law, has had to face the reality that corruption is rampant throughout the Russian establishment: a single decade of privatisation of state assets resulted in the outflow of tens of billions of dollars into the personal overseas bank accounts of former state officials. In Japan, the new leadership seems to recognise that economic recovery requires a loosening of the stranglehold that has kept corruption a taboo in political debate. Accused of foot-dragging until recently, the Japanese government, along with the re-elected Labour government in Britain, have started bringing national legislation into line with the OECD Anti-Bribery Convention.

In China, the authorities declared war on corruption, tacitly accepting international pressure to clean up for entry into the World Trade Organisation. Huge schemes to defraud the state have been exposed and brought to court, but continued use of capital punishment against offenders is a draconian measure that must be condemned. Hong Kong's Independent Commission Against Corruption is a model anti-corruption agency, and the Chinese government may yet find a way to apply the lessons of its success. Repression of the media in China remains a key area of concern, however.

National anti-corruption efforts are undermined across the world by ongoing corruption in procurement practices. The *Global Corruption Report 2001* highlights the way military procurement in particular can fall prey to illicit deals and kickbacks, as in Southern Africa and South Asia, with dangerous ramifications for regional security, and at the expense of basic public services. Procurement the world over needs to be rid of the secrecy, conflict of interest, and systems of patronage that prevent transparency at this critical juncture of the public and private spheres.

Dedicated anti-corruption agencies stand little chance of success if they are not independent. In Kenya, the High Court declared the Kenya Anti-Corruption Authority unconstitutional in December 2000, with serious implications for Kenya's relations with its foreign donors. In South Africa, the head of the Special Investigating Unit mandated to probe corruption was excluded by a constitutional commission from taking part in a high-profile investigation.

Public institutions need to be strong, effective and the right size to ensure that opening up to the global market does not allow the state to be captured by private interests, which the report shows has had harmful effects in many of the countries of the former Soviet Union. Moreover, national anti-corruption pro-

grammes that succeed do not stop at the enactment of laws and establishment of institutions, but demonstrate serious intent through realistic and creative strategies for implementation and monitoring. In many cases, the input of civil society, as in Slovakia or Colombia, has helped to strengthen these programmes, providing greater credibility and wider public exposure.

Greater transparency in all areas of government practice is probably the most effective single instrument against corruption. New approaches to transparency are starting to become more standard in some areas. E-government, through internet bidding for procurement deals for instance, has taken hold in Chile, Estonia and the city of Seoul. Increasingly, governments are putting records, income statements and other documentation on-line. The Latvian Finance Minister went so far as to put a web camera in his office to show what he is doing to anyone who cares to look. The doors to power continue to be forced open by the strength of new technology.

Business has begun to address corruption and has made efforts to introduce new standards to identify and prevent it. The *Global Corruption Report 2001* demonstrates that the private sector cannot escape its responsibility as part of the corruption equation. This echoes TI's Bribe Payers Index, due to be updated in 2002, which points out the ongoing propensity to bribe among firms from leading exporting countries. Initiatives from business have made an enormous difference in the fight against corruption – and business is a crucial player in any anti-corruption coalition.

In recent years, the hushed tones of international private banking led to cries of public outrage, as it emerged that a number of banks kept shamefully quiet about, or negligently failed to notice, enormous deposits of dubious origin. Efforts to stamp out money laundering now focus on introducing transparency and making the rules and requirements in banking more consistent in all jurisdictions. Voluntary steps are also being taken: TI had a vital role to play in facilitating a 'know your customer' initiative of 11 leading international banks, known as the Wolfsberg Principles. The sum effect of new efforts may be that the market for depositing illicit funds is shrinking.

Similar voluntary initiatives have emerged in the international diamond trade, where leading players have responded to the demand for clean diamonds by advocating certification or chain of custody schemes. The *Global Corruption Report 2001* includes this account of an entire industry reacting to civil society and international advocacy as an example of a mutually-beneficial process and of steps taken toward more transparent business practices. The anti-corruption movement can learn from such cases.

The initiative of the business community is particularly important in areas that legislation cannot tackle alone. With increased pressure for ethical trading and corporate social responsibility, many business leaders have launched efforts to secure compliance with codes of conduct that incorporate anti-corruption provisions. Companies that want to remain clean have already indicated that they try to avoid investing in corrupt countries, as empirical contributions to the *Global Corruption Report 2001*'s data and research section show. While this is a good sign, the private sector must continually be encouraged to hold itself to the highest possible standards of transparency.

On balance, the international community's efforts to fight corruption have had a positive impact. This is one of the encouraging lessons that we can take from the *Global Corruption Report 2001*, though there are important exceptions. In Bosnia and Herzegovina, international institutions failed to cooperate effectively. In parts of Africa, as in many developing and transition countries, the impact of international involvement is contested and complex: activists have underlined for several years that privatisation and liberalisation have been advocated too uncritically as means of reducing corruption. The *Global Corruption Report 2001* demonstrates that such remedies, promoted internationally but applied locally without sufficient caution, can present opportunities for increasing corruption.

At the regional level, the Organisation of American States has been particularly active in the anti-corruption field. More recently, regional organisations as varied as the Southern African Development Community, the Economic Community of West African States and the European Union (EU) have also brought anti-corruption reform onto their agendas, indicating new sources of regional pressure to stop corruption. The EU has had a major impact on the countries of Central and Southeast Europe in the run up to their accession, and, along with the Council of Europe, has taken first steps toward tackling corruption in party funding. The Council of Europe, for its part, has developed criminal and civil law conventions on corruption and has been actively engaged in a programme of evaluation of anti-corruption strategies in its member states.

Other international efforts have also met with some success: a recent Financial Action Task Force blacklist of countries that had failed to cooperate in combating money laundering resulted in considerable reform in a number of the 'listed' countries. The implementation of the OECD Anti-Bribery Convention, which came into force in 1999 and makes bribery abroad a crime in signatory states, is a landmark measure which promises important results. Bribes can no longer be deducted from taxable income as a legitimate business expense. These are major achievements for the anti-corruption movement, but it remains neces-

sary to look ahead, towards sealing loopholes in the Convention and pressing for its enforcement, which must be monitored closely.

Increased international cooperation is essential to turn the tide against corruption. The institutions responsible for multilateral and bilateral development cooperation are now focusing more than ever on anti-corruption measures, and should continue to do so. A forthcoming opportunity to promote anti-corruption work at the international level might be a UN convention against corruption. We expect that this UN initiative will concentrate on areas currently not adequately addressed – such as the repatriation of stolen funds and mutual legal assistance – and, therefore, that it should not delay or displace other efforts to strengthen integrity, particularly at the national or regional levels. A UN convention against corruption could pave the way for a more powerful and universal consensus about the unacceptability of the problem, and about the need to provide an enabling environment for worldwide support for the anti-corruption movement.

Civil society groups around the world have unleashed an ‘anti-corruption eruption’. Citizens are mobilised as never before to demand greater transparency and to hold to account those entrusted with power. When aided by the news media and the power of the vote, civic action has played a key control function in the struggle to stop corrupt practices. Civil society showed its strength in the past year in many countries, both as watchdog and partner of those in power. In Peru, for example, civil society helped to forge a new path forward following allegations of bribery and abuse under Fujimori and Montesinos. Almost all 12 regional reports in the *Global Corruption Report 2001* pay tribute to the courage of civil society, including the news media, in the fight against corruption.

Civil society groups have demonstrated their ability to innovate and adapt. But despite their growing capacity, the perseverance of activists and journalists, and the important voice they provide to citizens, civil society is not always welcome at the table. And many governments still prohibit freedom of information and the press, as in Zimbabwe, or tolerate overwhelming media concentration in the hands of politicians, as in Honduras and Italy.

The importance of a free press cannot be over-emphasised. The media spotlight has resulted in widespread awareness that corruption is strangling societies around the globe. Despite the dangers journalists have faced, news media reported vigorously during the year, whether tracking bribery in the Argentinian senate or exposing electoral malpractice in Ghana. In relative terms, news media also managed to become more active in places not known for press freedom, such as the Middle East and North Africa.

Next steps

The *Global Corruption Report 2001* has reaffirmed that the problem of corruption is enormous and varied, affecting all societies, rich and poor. The report serves as a strong reminder of the centrality of political and public sector corruption in popular discussion of the issue. But it also shows how the private sector is part of the problem – and the solution. By demonstrating that bad governance, disaffected citizens and poverty are corruption's inevitable outcomes, the report reaffirms that the fight against corruption must not be a passing fad – but has to be sustained if it is to be successful. Planting corruption firmly on the international political agenda is but a beginning.

When assessing what has worked in the fight against corruption, time and time again the necessity of coalition building is apparent. The brave men and women in TI's national chapters who fight corruption, often at personal risk, have shown that to do so takes courage, commitment and the capacity to build broad alliances that can stand the test of time. Linkages must be made within and across societies both to reduce incentives to bribe and to enforce anti-corruption commitments. Recent efforts, such as the Wolfsberg Principles, Integrity Pacts in Colombia, and civil society monitoring of the sale of state assets in Bulgaria and Slovakia, all show the way such creative alliances can bring positive results.

At the international level, we at Transparency International are working hard to build public awareness and coalitions, and pressing for stronger anti-corruption efforts from international financial institutions, intergovernmental organisations and multinational companies. Global norms for integrity and transparency have much to recommend them, as the *Global Corruption Report 2001* demonstrates. But the battle against corruption also has to be fought country by country. As this report shows, however, we are only beginning to gather lessons and learn what works.

Like the anti-corruption movement it serves, the *Global Corruption Report 2001* is a work in progress. The contents of the report may make uncomfortable reading for some. For others, they may point to problems that urgently need to be addressed. We are keen to hear the reactions of our many partners, supporters and critics. We want to improve and refine the process of reporting on global corruption, to create a publication that serves the broad needs of the international anti-corruption coalition.

¹ TI's Corruption Perceptions Index is an annual index of countries, ranked according to their perceived level of corruption, and drawn from multiple surveys. See p. 232 for the 2001 CPI. TI's *Source Book*, now translated into over 20 languages, argues the case for a holistic approach to transparency and accountability, using TI's concept of a National Integrity System. Jeremy Pope, *TI Source Book 2000 – Confronting Corruption: The Elements of a National Integrity System* (Berlin: Transparency International, 2000).