

# Better governance and anti-corruption as pillars of the fight against poverty and climate change

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Civil G8 Dialogue

Kyoto, 24 April 2008

**Anti-corruption measures** are integral to fighting both poverty and climate change. Weak institutions, poor governance practices and the excessive influence of private interests will continue to undermine the best efforts to promote equitable and sustainable human development, for which we need a vigorous, honest exchange of expertise and development cooperation between rich and poor countries.

Hunger, child mortality and illiteracy cannot be eradicated as long as corruption continues to sap resources from the world's poorest countries. One key lesson from the last 30 years of development efforts is that the progress in poverty alleviation in the world's poorer countries with high level of corruption and weak institutions has not been substantial and / or sustained. Similarly, environmental regulation, including CO2 controls, forest and biodiversity protection will not be effective as long as law enforcement and other decision-makers can be bought. The possibility of a world where all countries and all people can share in the wealth of the global economy hinges on fighting corruption, strengthening public institutions and improving governance and standards of accountability and transparency across the world.

The Millennium Development Goals will also remain out of reach without concerted global anti-corruption policies, and humans will continue to pay a terrible price in terms of lack of access to education and drinking water and an undermining of efforts to combat HIV / AIDS.

The Group of Eight bears a special responsibility in leading the effort against corruption and for stronger governance, as powerful and privileged societies of plenty. And they bear a responsibility not just in formulating measures for clean, accountable governance, but also in being the first to carry these out, whether in the context of their domestic institutions, the regulation of their companies or as development assistance partners.

## **1. Corruption and development**

The vision expressed in the Millennium Development Goals of equitable development and end to abject poverty is endangered by pervasive corruption – the abuse of entrusted power for private gain. Transparency International's 2007 Global Corruption Barometer shows that citizens in the poorest countries pay bribes more frequently than those in wealthy ones. And studies by our national chapters in countries such as Bangladesh and Mexico, show that the poorest citizens in a given country bear the greatest burden – with bribe payments absorbing up to a quarter of household income - robbing them of already scarce resources. With few other choices, poor people may resort to corruption as a survival strategy and to overcome exclusion from service provision and the denial of basic rights.

Families are forced to make impossible choices, such as deciding between food or medical care, or between sending a young daughter or a young son to school. Research has shown that families may often opt to pay the schoolmaster a bribe for their son's education, but balk at doing so for a daughter, thus widening the gender gap for coming generations in the world's poorest communities. Corruption dis-empowers, marginalises and impoverishes citizens.

On a systemic level, public budgets are decimated by theft of funds, leaving community schools and medical facilities without essential resources. The provision of clean drinking water is interrupted.

Structures for treating those living with HIV / AIDS are compromised, and the associated stigma encourages silence and leads to an absence of policy response. The nations with the highest HIV infection rates in the region are also among some of the most corrupt countries. Based on the 179 countries surveyed as part of TI's Corruption Perceptions Index (CPI), the rankings offer a window into the problem: Botswana and South Africa are the exceptions with comparatively high scores, while countries such as Lesotho (84<sup>th</sup>), Mozambique (111<sup>th</sup>), Swaziland (84<sup>th</sup>), Zambia (123<sup>rd</sup>) and Zimbabwe (150<sup>th</sup>) populate the very bottom rungs, indicating public sectors that are severely plagued by abuse of power for private gain.

Aid effectiveness is dampened and the public decision making process is distorted, ultimately costing much more than just the money lost to theft and bribery. The G-8 pledge at Gleneagles to channel another US\$25 billion a year to Africa by 2010 will fall short in its effectiveness – even if the aid flows are achieved - unless this 'cost of doing business' is addressed.

TI continues to advocate comprehensive approaches that tackle corruption and poverty, which enable the poor to fight corruption on equal terms. There needs to be greater disclosure of public and aid budgets, particularly with information made available to end beneficiaries – such as posting a local school's budget on the front door.

Civil society and the media must have the room to advocate for reforms and to see and monitor budgets and expenditures. International frameworks such as the Paris Declaration on Aid Effectiveness and the United Nations Convention against Corruption commit states to mutual accountability and to actively promote the participation of citizens and civil society in key public decisions. This also breaks the vicious corruption cycle that disempowers, marginalises and impoverishes.

## **2. Corruption and Environment**

Corruption undermines the ability of governments to respond to the challenge of sustainable development and is a major stumbling block to mitigating climate change, yet it has not been recognised in the climate change debate. Undermining oversight and enforcement, corruption contributes to water and air pollution, to unsustainable bio-fuel projects and exploitation of mineral resources, to illegal logging and to the poaching and trade of protected species.

The downstream effects of this damage are very clear in the water sector. When corruption is present in water distribution, it leaves lasting scars for generations, destabilizing water supply and harming the environment. TI hosts the secretariat of the Water Integrity Network (WIN), an alliance of research institutes, universities and international organisations, which aims to find sustainable anti-corruption solutions in the water sector. TI's flagship annual publication, the Global Corruption Report will focus on the water sector in 2008 and will be published weeks ahead of this year's Summit. Yet unless corruption is dealt with in development strategies and responses, it will be impossible to meet the MDG target of halving the number of people without access to safe drinking water and basic sanitation.

Based on country and regional estimates compiled by the UN, 55 countries will fall short of increasing water access while another 74 nations are off track in realising promised improvements in sanitation. When water and sanitation services are available, they often come at a higher price. In cities in the developing world, citizens often pay much more than their counterparts in the developed countries. Water prices are up to three times higher in Accra and Manila than they are in London and New York. Yet barriers to access and costs are not evenly distributed among the population and fall disproportionately on the poor. The poorest households in countries such as El Salvador, Jamaica and Nicaragua spend more than 10 percent of their income on water while their cohorts in rich nations like the United States pay only a third as much.<sup>[3]</sup> Much of these elevated costs are linked to corruption.

In the Asia Pacific region Transparency International has launched its regional Forest Governance and Integrity Programme which involves key export, transit and import countries in the region, the EU and the USA. It aims to secure sustainable management in the forestry sector by addressing corruption and governance risks. Beyond the damage directly

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associated with illegal logging, it is worth bearing in mind that 25 per cent of greenhouse gas emissions are generated through deforestation.

There remains a huge gap in the response of relevant institutions to this challenge. Customs and procurement regulations and enforcement must be stepped up to limit the use and demand for illegal timber. Financial institutions must practice greater due diligence in terms of identifying clients that may be engaged in illicit and environmentally harmful activities. And emerging mechanisms for mitigating the climate change threat must incorporate transparency and accountability to local communities.

The Kyoto Protocol and the United Nations Convention against Corruption provide complementary global frameworks for holding signatories to account. Corruption and measures to empower civil society to fight corruption, such as much greater transparency and accountability to local communities, must be taken up into the Kyoto Plus agenda.

### **3. Corruption and Mineral Resources**

The G8 have accurately recognised extractive resource wealth – minerals, metals, oil and gas – both a risk factor for poor governance and a potentially powerful motor for development. Today sixty percent of the world's poorest people live in resource-rich countries. Consequently, transparency in oil, gas and mineral extraction has taken an increasingly prominent role in the global policy dialogue in recent years.

There is a growing focus on the responsibility of host governments to transparently manage natural resource revenues, clean business practices for extractive companies, and stronger enforcement by the countries that are home to these companies. The Extractive Industries Transparency Initiative (EITI) has been the most visible vehicle for this relatively new approach, although the principles of anti-corruption and transparency need to be applied more broadly and across more industries than the EITI currently captures.

In this vein, Transparency International will publish a report this coming Monday, 28 April, on oil and gas disclosure policies and management practices in the context of its Promoting Revenue Transparency project, to create greater pressure for ethical reporting practices by companies. The ramifications of these industry practices are far broader than mere market concerns – how oil, gas and other minerals are extracted and traded has very real effects on developing economies, on the environment and on the health and poverty of local communities.

### **4. Corruption and the World Economy**

Whether investing the profits from illegal logging or laundering the proceeds of corruption, the potential for abuse of the global financial system remains immense. There has been progress in international cooperating and in banking procedures, but the transparency of cross-border capital flows and the coordination of financial institution regulation remains inadequate. Illicit transfers of funds from offshore centers are several times higher than the aid provided to these countries to fight poverty.

What is needed are international corporate reporting standards and globally coordinated policies on the regulation of off-shore financial centres with internationally recognised anti-money-laundering standards, rules to prevent legal structures from being used for illicit purposes and stronger regulation of tax evasion and who banks can service as customers. International accounting standards must require that in the annual reports of multinationals, activities performed with offshore centres be identified, justified and that the offshore centres comply with FATF rules. At the same time, asset recovery efforts must be expedited as a matter of high priority. Leading banking centres should explore with urgency the development of uniform expedited procedures for the identification, freezing and repatriation of the proceeds of corruption. Clear escrow provisions, specialised trust funds and other mechanisms for disputed funds are equally essential to ensure that the money is not stolen for the third time.

The United Nations Convention against Corruption is again essential here as it lays out provisions for mutual legal cooperation across borders in the investigation of corruption and in the tracing and reclaiming of stolen public assets.

### **5. Corruption and Human Rights**

Corruption has greased the wheels of exploitation and injustice since time immemorial. The great human tragedies of recent history – genocides and institutionalised racism – have likewise been welded to abusive political systems that twist the public trust for private gain. That is why we say: the fight against corruption is not a footnote in the struggle for human rights.

It is the fact that the poor and marginalised are most affected by corruption that should give us pause. In brutally concrete terms it means that those with least influence are faced with demands for bribes in the most vulnerable situations, during contact with law enforcement, health care providers or the education system. This is a direct contravention of the (Declaration for) Human Rights' principle of non-discrimination.

All humanity suffer as Cabinet's and Boardroom's continue to fuel and/or turn a blind eye to grand corruption eroding our ability to tackle the challenges of our time: global warming, violent conflict and mass poverty. It is our human right to call them to account.

### **Group of Eight: Words and Action**

The responsibility for fighting corruption and improving governance always begins at home – although international cooperation is indispensable. That means not only that the countries of the G8 must support the South in building institutions and capacity through development assistance and support for initiatives such as the Extractive Industries Transparency Initiative and African Peer Review Mechanisms - they must also lead the charge in terms of their own actions.

This means rigorously enforcing prohibitions on the bribery of foreign public officials by their companies – a practice that helps drive the cycle of corruption in the poorest countries. But it also means putting an immediate end to a situation that sends, at best, mixed signals to the rest of the world, namely the continued failure of three G8 member countries, the bearers of the 2007, 2008 and 2009 G8 presidencies, Germany, Japan and Italy to ratify the key global instrument in the fight against corruption, The United Nations Convention against Corruption.

The Group of Eight has increasingly recognised corruption and governance as a priority in its documents over the past decade, but has yet to benchmark its own progress on those commitments. For this reason, Transparency International and its chapters in G8 countries and Africa have issued a call for the G8 to report back on its progress at the 2008 Summit in Toyako, Japan.

As long as the world's wealthiest and most privileged countries fail to practice what they preach, the most detailed and sophisticated commitments will remain empty. With the crushing pressure of poverty and climate change bearing down on the global community, there is no time to equivocate.

In summary, Transparency International with our national chapters in 98 countries around the world urges the G8 to:

- promote the United Nations Convention against Corruption
- crack down on overseas bribery by G8-based multinationals
- harmonise and strengthen anti-corruption measures in the work of national and global aid institutions
- safeguard the international financial system against misuse by corrupt officials
- report on its own progress on previous commitments.

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