

The background of the cover is a painting. It depicts a hand in shades of pink, red, and orange, holding a dark pen. The hand is positioned over a document with some illegible text and a circular stamp. The overall style is expressive and somewhat abstract, with visible brushstrokes and a warm color palette.

# DEVELOPMENT Outreach

PUTTING KNOWLEDGE TO WORK FOR DEVELOPMENT SEPTEMBER 2006

43621

FIGHTING  
CORRUPTION  
BUSINESS  
AS A PARTNER

WORLD BANK INSTITUTE

Promoting knowledge and learning for a better world

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## ABOUT THIS ISSUE

For the past ten years, the World Bank has acknowledged corruption as a major impediment to economic development. More recently, it has played an increasingly active role in supporting anti-corruption efforts and good governance by broadening its research agenda and by disseminating results. This issue of *Development Outreach* is part of a communications campaign to raise awareness of these issues in the world community. It is being released to coincide with the International Monetary Fund/World Bank Annual Meetings in Singapore in September 2006, which will include good governance and anti-corruption as major themes.

The Annual Meetings will be an important forum for discussion of the World Bank's long-term strategy to promote good governance. A strategy paper has been prepared at the request of the Bank's Board of Governors Development Committee, which lays out the main issues and proposed actions. The paper presents a policy framework and discusses the operational implications for the World Bank and its client countries, including an increased level of support for country efforts to strengthen governance and reduce corruption. The strategy paper, which will soon be made public, has been prepared with input from other multilateral development banks and relevant stakeholders from a wide range of countries.

The World Bank Institute (WBI) plays an important role in these efforts by providing participatory action-oriented learning for policymakers and national and local government leaders, and by developing tools for gathering, assessing, and disseminating data on governance in-country and worldwide. As part of the program of seminars at the Annual Meetings, WBI and the International Finance Corporation have organized a plenary session on *Partnerships to Combat Corruption: Rising to the Challenge*. Among the panelists will be some of the authors of this special report. The Institute has also developed a Web Portal on Partnerships to Combat Corruption: (<http://developmentandbusiness.org/A-C/webportal>) to provide information on country-specific and regional training opportunities to strengthen governance.

This issue of *Development Outreach* aims to take the anti-corruption message beyond the meeting room to our broad readership of government officials and citizens—the suppliers and the consumers of good governance.



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THE WORLD BANK

# DEVELOPMENT Outreach

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PRIVATE  
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ACTION

*tackle*

# CORRUPTION?

*Guest Editorial*

BY FRANNIE LEAUTIER, DJORDJIJA PETKOSKI, AND MICHAEL JARVIS

## INTRODUCTION

**CORRUPTION** IS AN **IMPEDIMENT** TO GROWTH and **poverty** reduction. As the authors in this issue of Development Outreach will document, corruption limits opportunities, creates inefficiencies and forms additional barriers to the smooth delivery of services. Crucially, from the perspective of the World Bank Group, corruption cumulatively undermines progress towards achieving development objectives, not least as its impact is most adversely felt by the world's poor. The World Bank has taken a clear public stance based on exhaustive

**research**—to seek ways to combat corruption. To this end we do and must work together with other international organizations, governments, civil society **groups**, and the private sector. As noted by World Bank President Paul **Wolfowitz**, the private sector worldwide is one of the most important partners in this process and, without the active engagement of business, progress will be limited.' Business action is already showing the potential for sustainable results in limiting opportunities for corruption, but a core theme of this publication is that such potential is best realized by being integrated with the efforts of other stakeholders in the form of collective action.



Me

# KORRUPSIONIN

 UNITED NATIONS  
Office on Drugs and Crime

paguajmë të gjithë.

## Why should business care?

“**Corruption** not only **undermines** the ability of governments to function properly, **it also stifles** the growth of the **private** sector. We **hear** it from investors, domestic and foreign, investors **who worry** that **where** corruption is rampant, **contracts** are unenforceable, **competition** is skewed, and the costs of **doing** business becomes **stifling**. When investors see that, they take their **money** **somewhere else.**”

— *Paul Wolfowitz, World Bank President, Jakarta, Indonesia, April 11, 2006*

A **lot** is at stake for the private sector. It is becoming increasingly obvious that the private sector has a critical role to play, alongside more traditional government and **civil** society actors, in fighting corruption. But why should business care? Continuing to participate in, or turning a blind eye to, corrupt activities can have significant negative consequences for the private sector in **terms of competitiveness**, the ease of **doing** business and the **sustainability** of development efforts. **As Peter** Brew notes in his article in this issue on “**The Power of Joining Forces,**” corruption is estimated to add 10 percent or more to the **costs** of doing business in many parts of the world. Corruption also renders government policies less **effective**, which in **turn** produces negative knock-on impact on the business environment

**Corruption** affects everyone and exists all over the world—in developed and developing country contexts—and can greatly hinder firm, national and regional-level competitiveness, as well as significantly affect the attractiveness of investment climates. According to Batra, Geeta, Kaufmann and Stone," the level of corruption is identified as a serious constraint to doing business by over 70 percent of firms in South Asia and almost as many in East Asia and in the Middle East and Northern Africa regions. Sixty-four percent of firms in Africa, almost 60 percent of those in Latin America, and about half in the Commonwealth of Independent States (CIS) and Central and Eastern Europe regions report corruption to be a serious impediment to private sector development.

Capacity of government to regulate is key. The private sector is recognizing that it is in its own best interest to fight corruption to foster sustainable and stable business growth. Global business leaders are more publicly supportive of increased regulation to limit corruption and to ensure a level playing field. However, as commonly reiterated by fellow authors in this issue, treaties, conventions and codes are only as effective as their enforcement. Therefore a careful assessment is needed of the capacity of government and international agencies to enforce, or private sector bodies to self-regulate, these agreements, as well as the capacity of the range of companies (in size and ownership structure) to implement procedures to reduce corruption. Multinational businesses typically have the resources to train and monitor internally, but local firms, including down to the level of small and medium enterprises, will often require assistance to develop workable controls.

## So, What Is Being Done?

A RANGE OF ACTIONS ARE UNDERWAY. Recent experiences show that effective and consistent private sector efforts can be effective in combating corruption. Actions can be at the level of an individual **firm**, through the collective action of business associations, and as a result of work across entire industries.

Action by **individual firms**. The articles by Mohamed Ibrahim of Celtel International and Glenn Ware of Diligence LLC outline what individual firms can and are currently doing to fight and avoid corruption, for example by instituting and enforcing tighter ethical codes combined with training for employees on how to manage typical situations where pressures arise to participate in corruption. However, corruption is hard for one firm to eradicate on its own—and if a firm does attempt to uphold strict standards, it can have all

too real negative consequences in terms of lost business. Some large companies may have the resources to absorb this loss or find ingenious, but typically more expensive, ways to supply the promised goods and service, but, for most companies, this is not an option and they subsequently feel trapped into accepting corruption.

Collective action **and the** role of associations. This suggests the importance of taking anti-corruption initiatives to a more collective action level. This endeavor can be private sector-led, for example by business associations, who can act as cheerleaders for policy reform, develop and provide access to training tools and codes relevant to their members, as well as utilize their clout that comes with representing a broader swathe of business. Leading private sector institutions, such as the International Chamber of Commerce (ICC), have a potentially important role to play in this regard, as do counterpart national chambers of commerce and business associations at the country level. They can provide guidelines for member companies, but also utilize their outreach skills and typically high level access to decision makers to be positive agents for reform, linking with other sectors. There is great value in linking business with government and civil society to find more comprehensive solutions, as Peter Brew points out in his article using the example of the China Business Leaders Forum anti-corruption initiative. Other examples include the Center for International Private Enterprise (CIPE) country-level anti-corruption initiatives, and Transparency International's national integrity pacts, in which companies, together with government and civil society, voluntarily implement anti-bribery agreements that are monitored by an external party.

Industry-wide efforts also hold promise. Effective change must also be pursued at the industry level and through global governance channels. Industry specific initiatives among businesses **and** other stakeholders have proven to be an effective method of tackling corruption as they impact local business practices beyond the capacity of any single company. The Extractive Industries Transparency Initiative (EITI) and the Forest Law and Enforcement and Governance (FLEG) initiative are just **two** examples of recent groundbreaking initiatives, both supported by the World Bank and International Finance Corporation, that have brought multiple stakeholders together to collectively address corruption within a particular industry sector. In further signs of this trend, we have also seen significant business and NGO investment in ensuring good practice in specific industry segments,

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such as the Kimberley Process for diamond production and the code now under development for gold mining.

Global standards can be effective at producing peer pressure to reform. In terms of fostering global governance, efforts to bring together government, business and civil society in dialogue around anti-corruption initiatives have proliferated, not least through efforts to identify appropriate global standards. The OECD Convention on Combating Bribery of Foreign Public Officials continues to gain traction and has been supplemented by the UN Convention Against Corruption Treaty. As Georg Kell discusses in this issue, in 2004, the UN Global Compact added a tenth principle to its list of principles stating that "Businesses should work against all forms of corruption, including extortion and bribery."<sup>3</sup> Signatories commit to mainstream these principles into business activities worldwide.

## The World Bank's Contribution

LEADERSHIP IN INTERNATIONAL EFFORTS TO COMBAT CORRUPTION. To help foster both industry and global initiatives to combat corruption, the World Bank Group works closely with international anti-corruption organizations and networks, including the Partnership for Transparency Fund, Financial Action Task Force, the Public Expenditure and Financial Accountability program, and OECD-Development Assistance Committee Network on Good Governance and Capacity Development. Active participation in such international efforts illustrates how the Bank has progressed rapidly from taking an ad hoc, low-visibility approach towards instances of fraud and corruption in member countries, Bank-financed projects, and among staff, to assuming a clear leadership role among multilateral institutions in all three areas.

Increased attention to its own loan portfolio. The growing attention the Bank pays to anti-corruption work, and, more broadly, to public sector governance and institutional reform, is reflected by changes in its loan portfolio. In the 1995 fiscal year, only 0.6 percent of Bank lending went to support public expenditure, fiscal management, and procurement reforms. As of the end of June, 2005, it had climbed to 4.6 percent. In the 2005 fiscal year, almost half of the new Bank projects had at least one component addressing governance, public sector or rule of law issues. The proportion of new projects with accountability/anti-corruption components jumped from 0.4 percent in the 1995-96 fiscal years to an average of five percent in the 2004-05 fiscal years. Within its overall loan portfolio and operations, the Bank recognizes that it has no magic immunity to corruption. Therefore anti-corruption initiatives related to its own lending portfolio are very effectively spearheaded by the Bank's Department of Institutional Integrity with the strong backing of senior management.

The power of data and benchmarking. The International Finance Corporation plays a proactive and innovative role in

partnership with its private sector clients in improving effective long term corporate governance through mechanisms such as the Equator Principles and through development and application of measurement tools such as the *Doing Business* indicators. Many countries and businesses worldwide have found the data encapsulated in the *Doing Business* surveys to be critical in benchmarking their performance, not least on good governance.

Embedding governance and anti-corruption at the heart of country strategy. Increased Bank financing for good governance components contributes to the core objective of supporting anti-corruption efforts at the country level. To help meet this goal, the Bank now requires that all Country Assistance Strategies (CAS) address governance issues. In some of the higher risk countries, governance and anti-corruption have become central planks of the entire country program. In support, the World Bank Institute (WBI), with the benefit of fifty years of experience in capacity development, facilitates action-oriented and participatory programs to promote good governance and limit corruption at the country level. Deliveries, in collaboration with World Bank Operations and often in partnership with international organizations, are targeted to around thirty countries—principally in Sub-Saharan Africa, Latin America, Eastern and Central Europe, and more recently, Asia.

Powerful diagnosis and analytical tools help guide actions at the country level. These efforts are supported by rigorous empirical diagnostics and analysis. WBI publishes data and analyses assessing many dimensions of governance for 209 countries and territories which are used extensively to raise awareness nationally and globally and to help inform policy reform. These indicators, which are constructed on the basis of hundreds of variables, measure voice and accountability, political stability and absence of major violence and terror, government effectiveness, regulatory quality, rule of law, and control of corruption.

Affecting both the demand and supply side of good governance. WBI utilizes such data and analysis to build momentum for change. The complexity and pervasive nature of the corruption problem pushes a capacity development approach that moves beyond conventional training to knowledge dissemination, policy advice based on the latest research and operational findings, and participatory and consensus-building activities. It is not enough to look at the symptoms of corruption. Instead we must look for new tools that will help tackle supply and demand. Individual efforts, although necessary, are not sufficient, and the fight against corruption needs to be taken to the next level.' As highlighted throughout this publication, the challenge is to work with the range of stakeholders in society, not least the private sector, and to maintain an open approach that strengthens individual stakeholder actions, but also recognizes the potential value of collective action through bottom-up coalitions for reform.

## The Challenge of Forging Effective Collective Action

“...fighting corruption requires a long-term strategy that systematically and progressively attacks the problem, and that is why any strategy for solving the problem requires the commitment and participation of governments, private citizens, and private businesses alike.”

—Paul Wolfowitz, World Bank President,  
Jakarta, Indonesia, April 11, 2006

COLLECTIVE ACTION is potentially an integral part of the solution, but is not a panacea. As outlined above, the Bank, along with other development actors, is reviewing approaches to combat corruption to improve efficacy. However, scaleable impact will also require engagement from government and civil society. So, are collective multi-stakeholder approaches the most viable? On paper the logic is clear—corrupt activities, and the corrupting influences that generate them, permeate all sectors of society, often rendering unilateral solutions to fighting and reducing corruption inappropriate or ineffective in the long-term. Yet, there is still a need for caution. The range of projects reviewed in this issue suggests there are emerging best practices and lessons to be learned, but there is not yet a systematic operationalization of concrete multi-stakeholder governance and anti-corruption strategies.

Multi-stakeholder partnerships are a complex and nuanced **undertaking**. To date, existing documentation of collective action and multi-stakeholder partnership anti-corruption initiatives is largely anecdotal. As Roderick Hills points out in his article, the void created by a lack of empirical research makes such initiatives difficult to replicate, scale-up, monitor and evaluate over time. Furthermore, factors such as the level of political engagement and the transparency of the business environment, as well as the capacity of individual stakeholders to engage in partnerships, can all impact any initiative's effectiveness and long-term sustainability. Understanding business environment indicators, as Michael Klein points out based on the findings of the World Bank *Doing Business* surveys, are indicative of specific economic and social outcomes, among them levels of productivity, informality, and corruption in a particular country.<sup>5</sup> It is important to study these factors and to carefully build capacity locally and across stakeholders before considering and engaging in collective action initiatives. WBI is committed to doing exactly this through its learning programs that support the efforts of the private sector and other stakeholders, individually and in partnership, to fight corruption and render development efforts more effective.

## In This Issue

THIS ISSUE OF DEVELOPMENT OUTREACH specifically considers the role that the private sector can play in the fight against corruption. Georg Kell stresses the importance of the individual responsibility of the private sector through the expansion and deepening of corporate citizenship and corporate governance on a global scale. In order to affect this principles-based organizational change across organizations, institutions and supply chains, Kell argues, all actors in society must be involved in promoting organizational change, providing necessary tools and training, and supporting action campaigns against corruption. Following on this message, Peter Brew argues the case for collective business action in fighting corruption, examining the pros and cons of business-led versus multi-stakeholder initiatives and providing a concise list of the elements necessary for effective collective business action. William Laufer, however, cautions against the immediate inclination to jump on the collective action bandwagon, stressing the necessity of assessing the situation thoroughly before adopting a multi-stakeholder partnership solution.

The overall success of reducing **corruption** depends on two forces **working** in parallel: government's own efforts and the response of the private sector. Roderick Hills continues with a call for business-led collective action among academia, government and the private sector to effectively identify corrupting influences and to deal with corruption. To this end, Worth MacMurray points out that, while governments take steps to strengthen their own anti-corruption requirements, the private sector is a critical stakeholder throughout this process as it decides if and how to respond to increasing mandatory and voluntary regulatory pressure.

Implementation of anti-corruption measures is possible even in difficult environments. The next two articles concentrate on anti-corruption experiences at the implementation level. Mohamed Ibrahim of Celtel International outlines in detail how an African company has dealt with corruption, while operating in often corrupt and corrupting environments. Kebour Ghenna provides a civil society perspective from Ethiopia, focusing on private-private corruption. Ghenna argues that, to be truly effective, ethics must play an integral part in organizational culture, which requires the mobilization and strengthening of the civil society sector to undertake regular monitoring, enhance public awareness and encourage widespread private sector commitment and support. The article by Dani Kaufmann, Aart Kraay and Massimo Mastruzzi focuses on specific myths and realities related to the measurement of corruption and helps set the context for assessing the private sector's role in corruption, as well as its impact in fighting it, rendering the private sector more of an "investment climate maker" than an "investment climate taker." Kaufmann et.al. emphasize the value of empirical research in problem diagnosis and the monitoring of results. However, as the article points out, there is still much debate on how best to go about these activities.

**Dialogue can be a powerful tool for change.** The department Voices from the Field features two conference summaries: "Research on Corruption and Its Control," by Moana M. Erickson, and "Seeking Clarity in A World of Murky Transactions." The latter covers a global high-level e-discussion, "Towards a More Systematic Fight against Corruption: The Role of the Private Sector," organized jointly by WBI, the UN Global Compact and Zicklin Center for Business Ethics Research at the Wharton School of Business from June 26 to July 7, 2006. The impressive level of participation in the e-discussion, as well as the depth and breadth of the discussion itself, reinforces the importance of information sharing. Of equal importance is remaining open to new and innovative ideas on how to combat corruption, while maintaining a level of flexibility knowing that corrupt actors will also adapt to new anti-corruption strategies. Corruption is a multi-headed beast that will not be slain easily. 

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#### Endnotes

- 1 Wolfowitz, Paul, World Bank President, Jakarta, Indonesia, April 11, 2006
- 2 Batra, Geeta, Daniel Kaufmann and Andrew H. W. Stone, "The Firms Speak: What the World Business Environment Survey Tells Us about Constraints on the Private Sector Development," in *Voices of the Firm 2000: Investment Climate and Governance Findings of the World Business Environment Survey*, World Bank Group, 2002.
- 3 <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>
- 4 Kaufmann, Daniel, "Myths and Realities of Governance and Corruption" in Schwab, Klaus and Michael Porter, *The Global Competitiveness Report 2005-2006*, World Economic Forum, 2006. According to Daniel Kaufmann, Director of Global Programs at the World Bank Institute, the way forward is not "fighting corruption by fighting corruption" (i.e. launching another anti-corruption initiative, introducing more anti-corruption commissions or implementing new codes of conducts).
- 5 Klein, Michael, *Doing Business in 2005: Removing Obstacles to Growth*, World Bank, 2005. The Bank is a leader in the development and application of governance diagnosis, from the *Doing Business* report to *Investment Climate Assessments* to indicators that assess six dimensions of governance in more than 200 countries. These indicators are used extensively to raise awareness nationally and globally and help to support policy reform.

## INTERNATIONAL FINANCE CORPORATION: FOSTERING GOOD GOVERNANCE

### CORPORATE GOVERNANCE

To improve corporate governance, IFC works directly with client companies from more than 80 developing countries on their board practices, shareholder rights, internal control environment, and transparency and disclosure. Such reforms increase shareholder value, reduce the cost of capital, and improve long-term performance. IFC has invested equity in about 670 companies in emerging markets, and has helped many companies grow to become leading regional or global players today.

### MAKING A DIFFERENCE IN THE EXTRACTIVE INDUSTRIES

In association with the World Bank and MIGA, IFC has begun implementing a set of proposals to improve the governance, revenue management, and community involvement of the extractive industries—oil, gas, and mining. This reflects the recent Extractive Industries Review, which consisted of independent evaluations of World Bank Group involvement in this sector. The Bank Group is setting up an Extractive Industries Advisory Group to provide advice. It will also increase its investments in natural gas and renewable energies.

### BETTER GOVERNANCE ATTRACTS INVESTMENT: A COUNTRY EXAMPLE

Back in 2002, Kuibyshevazot Joint Stock Company, based in the Samara region, Russia, enrolled in a corporate governance program run by IFC's Private Enterprise Partnership with  from the Netherlands and Switzerland. Kuibyshevazot's management and shareholders developed a plan to upgrade corporate governance practices. These efforts have made the company a regional leader in corporate governance. Furthermore, IFC assisted with an environmental audit, which led to an integrated health, environment, and safety management system that the company is now putting in place. In 2005, IFC provided a \$15 million corporate loan to Kuibyshevazot to refinance a local currency bond and finance the company's capital expenditure program.

### PRIVATE SECTOR DEVELOPMENT (PSD) FORUM (April 4-6, 2006)

(See press release at: [www.ifc.org/ifcext/media.nsf/Content/PSD\\_Forum\\_06](http://www.ifc.org/ifcext/media.nsf/Content/PSD_Forum_06))  
The PSD Forum panelists and participants agreed that the continued success of World Bank Group work—and in particular the PSD Vice Presidency led by Michael Klein—in tackling the main three objectives of reforming the business environment, creating jobs, and fighting corruption will depend on several key things: the energy of Bank Group staff, effective coordination across the Bank Group, the menu of products and services the Bank Group can offer clients, effective measurement of the projects' impact, and the building of lessons learned into future operations.

Source: IFC 2005 Annual Report

# Anti-Corruption and Corporate Citizenship

BY GEORG KELL

CORRUPTION IS ON THE GLOBAL AGENDA. Now the search is on to find winning strategies. The business community has a major stake in this and an important role to play, and voluntary initiatives such as the UN Global Compact can help to augment positive forces of change while complementing what Governments do or do not do.

The case has been made with respect to why anti-corruption measures deserve the highest priority. Aid professionals

know that the quest for successful development remains elusive in the absence of public and private sector governance improvements. Corporations and Governments alike, in the North and the South, understand in principle that corruption undermines public trust, the precious glue that holds the social fabric together. Corruption perpetuates moribund political elites who hold back their own people from escaping poverty. And, it distorts markets by rewarding cheating and thus closing the door to responsible entrepreneurship, the surest and arguably only reliable way to escape poverty.



Indonesia's top model, Five V Rahmawati (L) during a press conference in Jakarta, Indonesia. She hosts a television anti-corruption program for the official Anti Corruption Commission.

The business community is sensitized to the risk that corruption poses. Related scandals have shown how brands and assets can be destroyed, and, as global supply chains expand, so does the nature of enterprise risk. Corruption scandals in far away places may cause disproportionately large damage in an age of heightened transparency and instant communication. Corruption has become a systemic risk factor and the propensity to build pro-active safeguards has grown accordingly.

With the growing knowledge about the costs of corruption has come a growing number of regulatory and voluntary initiatives trying to stem and reduce the tide of corruption. But despite the flurry of activities around corruption, surprisingly little is known about what works and what does not. All too often, anti-corruption measures are framed narrowly, ignoring that it is a deeply societal phenomenon with great variations over time and across cultures and economies, involving societal values, power structures and all segments of society. Many futile efforts have been spent on making the case for or against regulation or for and against voluntary approaches. Both are needed. What matters is finding the right balance.

Business-led approaches must be an integral part of any comprehensive anti-corruption strategy. They cannot substitute for effective regulation but they can complement regulatory efforts. Regulation alone will not work. Even if applied effectively, it can, at best, define a minimum floor below which society is prepared to impose sanctions. Regulation feeds compliance-based behaviors and cost minimization; it does not provide for the trust-based informal social norms, without which markets and societies cannot function. Nor does it stimulate innovation. This is where voluntary business-led initiatives, such as the UN Global Compact, can play an important role. These voluntary initiatives help to make the case for good corporate performance and, thereby, can provide an impetus for broad-based change, especially if good performance is rewarded and established as a defacto behavioral norm.

The good news is that anti-corruption has become an integral part of the rapidly evolving corporate citizenship movement, which until recently was primarily concerned with human rights, workplace issues and the environment. The fact that many human rights and supply chain dilemmas, as well as environmental problems, are often an outgrowth of corruption has greatly facilitated this trend.

Indeed, a number of rapidly unfolding trends suggest that the corporate citizenship movement offers great opportunities to make progress or tackle corruption on a global scale through market-led solutions:

## Four key trends

### 1 Corporate citizenship goes truly global

Corporate citizenship has seen explosive growth in recent years. For example, the United Nations Global Compact began with roughly 50 participants in July 2000. Today, there are more than 3,000 participants and stakeholders from 90

countries and demand, especially in emerging economies, continues to grow. But it is not only the numbers that describe the picture. There is also a gradual change towards higher quality and deeper engagement. Senior management and board responsibilities are expanding, suggesting that corporate responsibility (CR) issues are taken more seriously today than a few years ago. This expansion reflects the recognition that societal legitimacy goes beyond shareholders and that risk management in a globalizing world and related CR activities need to be dealt with at the highest level of a company's operations. And, as corporate responsibility creates new materiality around the issues it advocates, board responsibilities may also now include issues that used to be the exclusive domain of governmental cooperation.

### 2 From avoiding costs to creating value

One way of capturing this overall trend is to track the broad motives with respect to why corporations have engaged in corporate responsibility initiatives. There has been a shift from an initial attempt to respond to social tensions and occasional accidents towards a more pro-active, value-creation attitude. Thus, along with the moral case, has come the business case for a principles-based change process. And, the business case is no longer just about avoiding costs for getting it wrong. It is increasingly about the benefits for getting it right, including improving competitive position and expanding business opportunities.

### 3 Financial markets are catching up

Encouragingly, mainstream financial markets are now starting to take seriously the expanding enterprise risks and opportunities in a globalized world in analysis and long-term investment decisions. The market up-take of the IFC's Equator Principles and the UN Principles for Responsible Investment reflect this important trend. What used to be considered "soft issues" are now gaining financial relevance. Increasingly, for example, mainstream financial analysts are incorporating environmental, social and governance issues into research and processes, while institutional investors are recalibrating policies and mandates to reflect this new reality. This trend promises to recognize and reward companies that are taking the long view.

### 4 A new symbiosis: corporate governance and corporate responsibility

The rise and expanding role of corporate governance has given major impetus to the issues before us. Corporate governance and corporate responsibility are now reinforcing each other. The overall trend is one of convergence. Anti-corruption and transparency measures have been a driving force in this development, in addition to a greater appreciation of the long-term risk management dimension.

Inspired by the pioneering work of Transparency International and the International Chamber of Commerce, the first summit meeting of the UN Global Compact introduced its tenth principle against corruption in July 2004, following the adoption of the UN Convention against Corruption. Despite initial resistance on the side of many business participants, the tenth principle has rapidly become a source of dynamic change, motivating a range of actions at the global and country level—and reinforcing the convergence between corporate governance and corporate responsibility. Global corporations have begun to introduce no-bribe policies as part of their citizenship agenda across global supply chains. And, increasingly, corporations are discovering that working with like-minded peers and other stakeholders can be a way to reduce risks and costs.

In addition, the following can be said:

First, effective implementation of the tenth principle within organizations follows the same organizational change process as for the other Global Compact principles on human rights, labor standards and environment. While anti-corruption may involve additional reporting requirements in accordance with prevailing regulation, the overall processes to make anti-corruption an integral part of corporate strategy and operation are the same: leadership commitment, effective organizational change and management processes, empowerment of employees, incentives, the capacity to assess change and impact, and communication to shareholders and stakeholders.

Second, when it comes to actions in society that go beyond the immediate sphere of influence of individual organizations, the tenth principle has greatly underscored the importance of working together. More than any other principle it encourages cooperation between corporate participants and other stakeholders and policy makers. A number of Global Compact local networks have already undertaken collective action inspired by the tenth principle, in all regions of the world. Dialogues and joint actions have already started to take place on quite a large scale in places such as Malawi, Egypt, Norway, Germany, Denmark, Brazil and Argentina. Some of the most encouraging examples include business voices speaking jointly to public institutions by making the case that business can only become more competitive if public institutions are more effective.

## The way forward

SUPPORTING CORPORATE CITIZENSHIP offers several tangible opportunities to advance the anti-corruption agenda. Progress can be made on a global scale by tapping into existing market trends and augmenting them. The fact that corporations from emerging economies play an active role in corporate citizenship also assures that such supportive efforts are locally owned and thus have a greater chance to transform societal values relevant for markets to grow.

Based on experiences made so far, a variety of supportive measures seem suitable to advance the agenda:

### 1 Promoting organizational change

Accelerating the widespread adoption of good corporate citizenship and governance based on universal principles by way of recognizing, rewarding and promoting good practices will be key. Already, hundreds of business leaders have put in place—in the developed and developing world—pro-active organizational policies. Such efforts need to be supported so that they gain further grounding and become dominant models of behaviorism. This can be done by way of identifying outstanding “Communications on Progress”, showcasing good performance and lessons learned (Global Compact 2006). Promoting organizational change, reducing downside risks through prevention while heightening employee morale and productivity is a long-term effort, but the more sound business ethics are promoted, the closer we come to changing the culture towards no-bribe policies.

### 2 Offering tools and training

In many countries, there is an enormous willingness to embrace the corporate citizenship agenda. Emerging successful entrepreneurs who aspire to compete in the global market place or who wish to establish linkages as suppliers are eager to be part of the solution. But all too often there is no practical guidance available on how to go about this. Offering training and support on good corporate governance and responsibility can go a long way in accelerating organizational change processes. One way of doing so is through the UN Global Compact's local networks where able and willing business and civil society actors have already embarked on this agenda.

### 3 Supporting action campaigns

In situations where systemic corruption prevails, creating islands of sound business ethics may not go very far. Those who benefit from corruption are unlikely to give up their advantages on a voluntary basis and few corporations are willing to institute no-bribe policies if their competitors are unwilling to do so. In such situations it makes sense to support broad-based movements that bring together like-minded public and private actors. Offering platforms for dialogue and learning that combine global advocacy with local action can help to overcome systemic barriers. Within the UN Global Compact we are observing in a number of countries like-minded corporations, global and local, teaming up with civil society organizations, such as national chapters of Transparency International and sometimes involving policy makers, to reduce risks to brand while lowering transaction costs and increasing competitiveness. Again, entrepreneurs of emerging economies are often leading these efforts, together with global corporations, realizing that in today's competitive environment business cannot succeed if public institutions are not effective. It is too early to say whether

## REGULATORY INITIATIVES

- ▶ United Nations **Convention against Corruption**, 2005
- ▶ OECD **Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**, 1999
- ▶ African Union **Convention on Preventing and Combating Corruption and Related Offences**, 2002
- ▶ Council of Europe **Civil Law Convention on Corruption**, 1989
- ▶ Council of Europe Criminal **Law Convention on Corruption**, 1999
- ▶ The European Union Convention on the **fight against Corruption involving Officials** of the European Communities or Officials of Member States, 1997
- ▶ **Organization of American States Inter-American Convention against Corruption**, 1996

## VOLUNTARY INITIATIVES

- ▶ United Nations **Global Compact**
- ▶ OECD Guidelines for Multinational Enterprises, 2000
- ▶ The **Financial Action Task Force on Money Laundering (FATF)**, Revised 2003
- ▶ Transparency **International Steering Committee** on the TI Business **Principles for Countering Bribery**
- ▶ The **International Chamber of Commerce Anti-Corruption Commission**
- ▶ The World Economic **Forum Partnering Against Corruption Initiative (PACI)**
- ▶ International Federation of **Consulting Engineers (FIDIC)**
- ▶ The **Extractive Industry Transparency Initiative (EITI)**

## PRACTICAL TOOLS

- ▶ "Business **against Corruption—Case stories and Examples**," **Global Compact**, April 2006
- ▶ "Business **against Corruption—A Framework for Action**," **Global Compact, International Business Leaders Forum, Transparency International**, December 2005
- ▶ **International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery, Revision 2005**
- ▶ **Transparency International Business Principles for Countering Bribery**
- ▶ **Transparency International Integrity Pacts**
- ▶ The World **Economic Forum Partnering Against Corruption Initiative (PACI) Principles**
- ▶ **Transparency International Six-Step Implementation Process**
- ▶ **First to Know—Robust Internal Reporting Programmes, TRACE, ISIS Asset Management, International Business Leaders Forum**
- ▶ **TRACE Transparent Agents and Contracting Entities**
- ▶ **FIDIC Code of Ethics and Business Integrity Management System**

For updates on the Global Compact's tenth principle please refer to the website: [http://www.unglobalcompact.org/Issues/transparency\\_anticorruption/index.html](http://www.unglobalcompact.org/Issues/transparency_anticorruption/index.html)

these broad-based action campaigns will lead to lasting change. But clearly, supporting such efforts will enhance their chances for doing so.

## Conclusion

IN CONCLUSION, the focus on anti-corruption and its integration in the corporate citizenship agenda are important developments. They contribute to greater market integrity and hold the promise of infusing improved governance in the public and private spheres alike. We may not yet know what works best. But we do know that there are at least two viable pathways ahead: advancing a principles-based organizational change process across all organizations and supply-chains, and fostering collaborative efforts that involve all actors in society. In this, continued advocacy, discourse, and research will also be crucial, including, and especially through, the voices of civil society and a strong and free press. 

Georg **Kell** is Executive Director, UN Global Compact.

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Global Compact, April 2006, "Business Against Corruption-Case Stories and Examples."

## LESOTHO ATLAS OF SUSTAINABLE DEVELOPMENT

By D.M. Bohra, ISBN 99911-645-02, December 2003, pp.xxxvii+480, Size A4, Hb, US \$95 (Postage Free)

This book portrays three critical dimensions of sustainable development, namely, longevity, education, and command over resources at national, regional, and sub-regional levels. Human Development Index (HDI) and poverty deprivation indices have been analyzed. The book also provides a telescopic view of the demographic and socioeconomic impact of the HIV/AIDS epidemic and it argues that the unabated spread of the epidemic with deepening poverty will seriously put a brake on reaching the Millennium Development Goals in Lesotho as in much of Africa. The book is of fundamental concern to everyone interested in sustainable human development.

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# Civil Society and the Private Sector

## *Fighting corruption is good business*



**BY HUGUETTE LABELLE**

NOT SO LONG AGO, when it came to bribery, businesses in many developed countries were not just given a nod and a wink; their governments actively encouraged bribes, offering tax breaks and other legal incentives. It was viewed as good business to "work with the locals".

But bribery isn't a business strategy; it's a crime.

Transparency International defines corruption as the abuse of entrusted power for private gain. When entrusted power is abused, the decision-making process is distorted by greed, and the decisions often hurt innocent people and stand in the way of progress. The result: reduced economic growth and productivity, and opportunities stolen from the poor and disenfranchised.

### Local practice or complicity?

**MANY BUSINESS PEOPLE** want to act honestly and contribute to the social and economic welfare of the country where they are doing business. Too often, though, these good intentions are put to the test in the form of extortion, endless red tape and demands for bribes. And of course, in bidding for large contracts, **trying** to improve your chances by actively offering a bribe remains common practice. A hand under the table may seem like an expedient and harmless way to advance a thorny business

transaction; it may be rationalized as respecting local business traditions.

When does following local practice become complicity? Even small acts of bribery make a company a partner in corruption and contribute to undermining a nation's economic and social welfare. Such payments might be the product of a genuine desire to maximize profits for shareholders, but they can also result from a normalization of corporate greed, and they raise significant questions about the ethical climate of business. They can be a stepping stone to corruption on a larger scale—the so-called "grand corruption" of dictators and mega-corporations, or the perversion of political processes—that sucks the wealth out of poor nations, empowering corrupt government officials, diminishing public trust, locking generations in poverty and sometimes feeding conflict or even terrorism.

"Creed is good," said Gordon Gekko in the 1980s film *Wall Street*. Since then, there has been a sea-change in the way corruption is viewed. Organizations like the World Bank, which had long considered the subject a taboo, now help drive the debate. Businesses increasingly acknowledge the risk in actively supporting or passively conforming to corrupt systems, having recognized both the human cost and the impact on the bottom line.

Companies increasingly acknowledge that short-term profit maximization through corruption does little to create long-term value. Recent corporate corruption scandals underscore this. Strict disclosure and conflict of interest requirements could have limited the damage to shareholders and staff at Enron, Tyco, DaimlerChrysler and any number of others. And such events speak against the idea that companies can be entirely self-policing. As shown by cases currently before courts in Europe and the United States, when the invisible hand wreaks havoc, it's hard to find an invisible wrist to slap.

Strong, vibrant and enduring companies are built on *reputation*, and that is a vital and fragile resource. Companies that take ethics seriously, that adopt a genuine programme of 'corporate social responsibility' and embrace the practice of anti-bribery as well as the theory, often perform better in the long run.

## The pursuit of financial accountability and transparency

YET BRIBERY CONTINUES. The World Bank Institute estimates that, around the world, US \$1 trillion is spent in bribes each year. A comparable amount is believed to be laundered. Nearly every penny of this dirty money will pass through financial and other "legitimate" enterprises at some point. The pursuit of financial accountability and transparency requires a cross-sectoral effort that civil society is helping to facilitate.

Such coalition building is at the core of Transparency International's philosophy and is a main route to tackling the complex social, economic and political problem called corruption. Civil society plays an essential role in increasing awareness and producing creative and effective solutions. It has a strong record as a catalyst of practical anti-corruption approaches.

The landmark United Nations Convention against Corruption entered into force following a concerted advocacy

effort by civil society, and provides a binding framework for mutual legal assistance across borders. In practical terms, that means Nigeria has a legal basis—rather than existing voluntary agreements—for its effort to recover the billions of dollars spirited into Swiss and other bank accounts during Sani Abacha's rule.

In partnership with Social Accountability International and other organizations and companies, Transparency International created the Business Principles for Countering Bribery, a generic framework for a no-bribes policy that can be adapted to any corporate context. An increasing number of companies worldwide now use this tool to develop or benchmark their no-bribes policies. The Principles have also been the basis for sectoral anti-corruption policies brokered by TI with extractive industries and energy companies.

Systemic corruption can add up to 25 percent to the cost of government procurement, and frequently results in inferior quality goods and services, as well as unnecessary purchases. The Integrity Pact, developed by Transparency International, is a no-bribes agreement between governments and companies bidding for projects, so ethical participants are not disadvantaged by less ethical competitors. If a party fails to comply, the Pact specifies sanctions, which can include cancellation of the contract, liability for damages and disqualification from future government contracts. With provisions for oversight by civil society, Integrity Pacts have been used in more than 80 projects around the world, and have been adapted for use on World Bank projects. Pacts were signed in 2005 for the procurement and construction of the Berlin Schönefeld airport in Germany, and for Paraguay's national oil company Petropar. Integrity Pacts reduce costs for business, citizens and governments,





because bribes are no longer paid, and resources no longer squandered.

The Business Principles and Integrity Pacts are now used in countries around the world. For instance, Transparency International will soon begin work in China to "train the trainers" on their implementation.

The work of the **Financial Action Task Force**, created by the Group of Seven and now run by the OECD, has made great strides in promulgating **common** standards on stemming the flow of laundered funds, including the identification of **high-risk** customers. There has also been a dialogue between the Task Force and the **Wolfsberg** Group of leading private banks to develop a framework for combating international money **laundering** and, after September 11th, guidelines to combat terrorist financing. These standards hold banks accountable for knowing their customers, for carrying out increased diligence and for cooperating with domestic and international authorities.

The FTSE4Good corporate citizenship indicator looks at corporate integrity and reporting. It incorporates criteria launched this year from the Business Principles for Countering

Bribery, and will be vital in determining ethical investment decisions and, potentially, even credit ratings.

The UN Global Compact, a voluntary citizenship initiative, brings together civil society organizations and over 2500 corporate members in a commitment to advance universal principles on human rights, labour, the environment and other social issues. A tenth and final principle—transparency and anti-corruption—was added to the Compact last year following the intervention of civil society groups, including Transparency International.

The Principles for Responsible Investing, an initiative sponsored with the UN, was adopted earlier this year by a large representation of institutional investors. The provisions, like so much to do with corporate citizenship, remain voluntary, but this is a commendable start to developing a new concept of how to conduct business ethically.

Voluntary compliance is a vital ingredient in improving corporate behaviour but must be supported by strong and intelligent regulation combined with well-crafted and fully funded monitoring and enforcement. Governments must continue to ratchet up enforcement of the OECD Anti-bribery Convention. According to a recent Transparency International report, two-thirds of the signatory countries have done little to fulfill their commitments to fight corporate bribery abroad.

This requires a visible demonstration of political will to take forceful action against companies that bribe to win business abroad. Signatory countries account for about two-thirds of world exports of goods and services. Because most major multinational companies have their headquarters in OECD signatory states, more effective monitoring and enforcement of the Convention would be a substantial step in closing the taps on the supply-side of international corruption.

## Conclusion

**ETHICAL BUSINESS IS GOOD BUSINESS.** Corruption is not a competitive advantage. It is a **powerful** threat to a stable and fair economic environment that benefits all citizens. In alliance with business, organizations and individuals around the world, civil society is working to ensure those benefits for all. 

Huguette Labelle is Chair, Transparency International.

# The Power of Joining Forces

*The case for collective action  
in fighting corruption*

BY PETER BREW

CORRUPTION IS NOW RECOGNIZED to be one of the world's greatest challenges. It is a hindrance to sustainable development, with a disproportionate impact on poor communities and a corrosive effect on the very fabric of society. The impact on the private sector is also considerable—it impedes economic growth, distorts competition and represents serious legal and reputational risks. Corruption is also very costly for

business, with the extra financial burden estimated to add 10 percent or more to the costs of doing business in many parts of the world. The World Bank has surmised that "bribery has become a \$1 trillion industry."

Business leaders often take the view that it is a problem they cannot do much about, although it would be desirable to exclude all forms of corruption from their operations. There is a perception that corruption—from petty bribery and facilitation payments to state capture—is so much part of accepted business



practices or local custom that there is no remedy for the individual company if it is to remain competitive in local markets.

Although business managers increasingly recognize that corruption is a serious business challenge, they may not always accept that they have a responsibility and a key role in changing practices that have become endemic. The dilemma is to balance doing what is right against putting business operations at a competitive disadvantage.

This is not to suggest that there are circumstances in which corruption is acceptable, merely to acknowledge that business managers may perceive that promoting change in accepted local business practices could jeopardize their business interests. It is often relatively easy to get business managers to acknowledge that it would be beneficial to both them and their competitors if corruption were eliminated. But it is more difficult for them to take the first step to act together in combating corruption, for fear of losing out to each other.

## Understanding the need for collective action

IN PRACTICE, collective action with other companies offers an effective way to create a level playing field on which to compete, and increases the impact on local business practices beyond the capacity of any one company. Knowing that other companies in your sector or location are committed to good practice helps to build mutual confidence and the sustainability of changes in behaviour.

The Extractive Industries Transparency Initiative (EITI) is possibly the most high-profile example of collective action by companies, in this case in cooperation with non-governmental organizations and governments, to improve transparency and fight corruption ([www.eitransparency.org](http://www.eitransparency.org)). At the same time, there are many examples from around the world where local businesses or business associations have combined to tackle particular aspects of corruption that were proving to be a barrier to business development.

## Recognizing the need for facilitation/convening

THE INCREASINGLY WIDESPREAD recognition that it often takes companies working together to tackle corruption has led to a growing body of experience and examples of companies joining forces in different ways, in different places and in different business sectors. A common thread running through these kinds of initiatives appears to be the importance of some kind of external facilitation—a business organization, government body or non-governmental organization to act as an

intermediary. Such an intermediary organization can act as a convenor and provide a neutral platform or "safe haven" from which collective action initiatives can be built.

Any such initiative needs to be jointly owned by those involved, but the intermediary provides "coordinating energy." Often there are already locally represented organizations that can provide this facilitation, for example Transparency

International's national chapters, local business chambers, and the United Nations Global Compact's local networks. Auditing firms and larger consultancies can also play an important role in facilitating this collective action by working with clients who have encountered similar corruption issues.

## Supporting environment

Although much of the effective action against corruption has to take place at a local level, a number of overarching support mechanisms are available to raise awareness and to provide frameworks for sustainable improvement. These include:

### Global initiatives

The United Nations Global Compact's 10th Principle;  
Transparency International's Business Principles;  
The World Economic Forum's Partnering Against Corruption Initiative (PACI);  
The Extractive Industry Transparency Initiative (EITI).

### Sector-specific initiatives

Some collective action initiatives are sector-specific, focused on the specific challenges a particular group of companies or a particular business sector has encountered (again, EITI is a good example). These initiatives have the obvious advantage that they can be tailor-made and focused in terms of the issues and the outcomes expected.

## Business-led vs multistakeholder

THROUGH THE INVOLVEMENT of a wide range of actors, companies, non-governmental organizations, and governments, initiatives such as the United Nations Global Compact can quickly obtain a high degree of legitimacy and authority. Other multistakeholder initiatives, such as the EITI, have come about because of the campaigning of non-governmental organizations.

A potential drawback with multistakeholder initiatives is that they often grow rapidly and consequently may become cumbersome to manage. Also, it may be difficult to turn aspi-

Collective  
action  
with other  
companies  
offers an  
effective way  
to create a  
level playing  
field on which  
to compete,  
and increases  
the impact on  
local business  
practices  
beyond the  
capacity of any  
one company.

## DRIVEN LOCALLY: THE CASE OF THE CHINA BUSINESS LEADERS FORUM

In 2003 the International Business Leaders Forum started exploring issues of corporate governance and corruption with a group of Chinese and foreign business leaders and other appropriate institutions in Beijing with the expectation that, drawing on a wider international experience, a basis for collective action could be developed. The result has been the launch of the China Business Leaders Forum (CBLF, [www.cblf.org.cn](http://www.cblf.org.cn)) in partnership with the Renmin University in Beijing. CBLF provides a "safe haven" for business leaders to meet around an agenda of business standards challenges, including governance, transparency, tendering and procurement, recruitment and employee development, setting and meeting expectations on product and service delivery, improving joint venture relationships, and the like.

rations into tangible action. As the number of participants increases, the early dynamism and confidence of the original smaller group of participants can dissipate.

On the other hand, business-led initiatives that are focused on solving specific business challenges can often be more results-driven, but may not satisfy the expectations of other stakeholders.

### What it takes to make collective business action happen

IF IT IS ACCEPTED that making a significant impact on corruption demands more than companies adopting stringent standards on their own, that collective action is often required to reinforce and achieve real progress; and that such joint solutions need some kind of facilitation, then it is necessary to explore what it takes to get such joint actions off the ground. The following are some of the experiences that have emerged so far:

#### Local practical relevance

Collective action initiatives flourish best when they are addressing locally relevant issues. Some initiatives, such as Tranparencia por Colombia's collaboration with a group of textbook publishers, have emerged from needs identified locally. In such cases, there has been relatively limited input from outside sources. In other cases, organizations such as the United Nations Global Compact, Transparency International, the World Economic Forum, the International Business Leaders Forum and the Ethics Resource Center have joined forces with local companies with the aim of initiating local projects. In these circumstances, it is critical that the agenda is "localized" early on and adapted to the challenges encountered locally.

#### Facilitation

Experience suggests that having a neutral party bring key stakeholders together to determine local priorities is often critical for progress. Facilitation is largely about managing the process and providing a framework of internationally recognized principles and ambitions within which the practical realities can be addressed. It is clearly important for the facilitating organization to have an understanding of both worlds—of basic international research and what has emerged internationally as best practice and, on the other hand, what challenges a local businessman encounters.

#### Building confidence

It takes time to build confidence amongst groups of business leaders who may initially be sceptical about what can be achieved, as well as concerned with the implications of working with competitors and others outside their normal set of relationships. Focusing on issues that have important current impacts on business and the community and then conducting a series of individual and group meetings to explore the opportunities and barriers to cooperation are essential steps leading to the formalization of any initiative.

#### Funding of collective initiatives

When it is agreed that some kind of facilitated initiative is required, funding is required to pay for such a joint effort. The costs will normally arise from the coordination of the initiative, research, meeting arrangements, translation, access to expertise, facilitation, travel and the like.

Current experience suggests that there are many advantages in sharing the costs among the companies, not-for-profit organizations, multilateral or bilateral agencies and government agencies involved. Organizations that make a financial contribution are always more likely to remain engaged, take a project seriously and demand practical results.

#### The role of leaders

The successful initiation and building of collective business

THE POWER OF JOINING FORCES  
continued on page 30

# The Importance of Cynicism and Humility

## *Anti-Corruption partnerships with the private sector*

BY WILLIAM S. LAUFER

IT IS NEAR BLASPHEMY TO CHALLENGE the mechanics and wisdom of anti-corruption regimes. It wholly misses the mark to question corruption rankings of countries as resting on weak empiricism; anti-corruption conventions, codes, principles, and business association pacts as possibly ineffective, and the construct of corruption as poorly defined and understood. It is indisputable that corruption impedes development, that the enabling environment is the key to reform, and that we need a sea change in behavior. Critics do no more than distract those who see the injustice and deprivation that come from corruption, understand its corrosive, delegitimizing force and, hence, appreciate the critical need for good governance practices derived from multisectorial partnerships.

The coordinated campaign against corruption resembles the good corporate citizenship movement that spread ethics codes and ethics training programs in the United States over the past decade and, more recently, a corporate governance movement born from apparent failures of citizenship, compliance, and gatekeeping. In these movements, there is little room for those uninspired and unconvinced by the promise of strong private sector-government partnerships combating organizational deviance. All are asked to buy into compliance incarnations of firms that accompany carefully crafted plea agreements; reports from the Fortune 1000 of social, environmental, and humanitarian accomplishments; fierce rhetoric of regulators and politicians that corporate predators will be brought to justice; and well-placed expenditures to be "in compliance" with the Sentencing Guidelines or, more recently, with the strictures of Sarbanes-Oxley and new exchange rules.

I maintain below that it is the absence of constructive cynicism and measured humility that actually misses the mark. In other words, there must be room for those who remain uninspired and unconvinced by the jingoistic rhetoric associated with private sector reforms in partnership with governments. Cynicism should generally accompany campaigns or move-

ments that involve the private sector. This is especially true when they aim to curb behaviors as old as civilization itself, in base rates still to this day unknown, committed by corporate actors who find it somehow too complex to just say "no." In the wake of regular lapses of citizenship, compliance, and governance by icons and pillars of the corporate community, reasonable caution must accompany hope for credible partners in the private sector. Hope should be tempered by the private sector's long and distinguished track record of gaming government partners in past, failed partnerships against deviance.

Perhaps nothing begs for a combination of caution and humility more than the practice of narrowly defining corruption in the context of development, pinning this blight—at least in part—on the weak governance structures of developing, emerging and transitional economies, and then offering inspired, prescriptive anti-corruption guidance. Thinking about corruption as a catalyst for only greater inequality and poverty, in terms of losses in foreign direct investment, and as reductions in the internal revenues, narrowly frames the construct. Broadening our construction of corruption immediately invites scrutiny of political, government, and private sector corruption that generously dots our own landscape, from city halls to the halls of Congress, from front offices and back offices to boardrooms, and from the money that influences state and local elections to the Herculean influence that must be sought to enter and compete nationally.

Looking beyond corruption to corrupting influences only broadens the construct further. The root sources of corruption reflect a host of independent variables that, quite unfortunately, remain underexplored, including wide authority, little accountability, and perverse incentives (Hills Governance Center, 2005). Add to this "opaque regulations, weak enforcement mechanisms, barriers to business, inefficient Government agencies, absence of a public dialogue on corruption, excessive discretionary powers in the hands of public officials, and a lack of checks and balances" (Sullivan, 2005). In the end, it is with healthy cynicism and humility that

the moral suasion necessary for genuine change in private sector behavior is earned.

## Partnerships, limits of law, and the lesson of cynicism

MULTILATERAL ORGANIZATIONS greet the idea of partnerships with unbridled enthusiasm. Engaging business, government, and civil society is more than an innovation, it is a necessity. Partnerships represent a critical link in a transformative process for the United Nations System, the international finance institutions, and donor agencies; a move from intergovernmental organizations to providers of capacity-building, sustainable solutions to the challenges facing emerging and transitional economies. Multisectorial partnerships share and enhance resources, harness underdeveloped markets, develop and implement codes of conduct, and facilitate and leverage advocacy. Most important, partnerships create efficiencies, pool resources, and enhance the likelihood that interventions, such as anti-corruption regimes, will work.

When commentators consider the limitations of such partnerships, the focus turns to the need for common objectives, the importance of an optimal "interface capacity," concerns over the management of all stakeholders, the value of local ownership, and the integration of a systematic evaluation of, among other things, impact. Other challenges include the marginalization of partners, the allocation of adequate resources, and the difficulties of partnership selection.

There is a very different set of challenges, however. chal-

lenges made inevitable by the union of some very familiar bedfellows. Elsewhere I have written about the ways in which the private sector professes a commitment to government prescriptions of ethics and integrity while gaming corresponding legislation and regulation (Laufer, 2006). The "old game" of corporate ethics involves companies conceiving of regulatory and legal compliance as a form of insurance. Compliance is purchased as a hedge against liability and, in some cases, raises the prospects of moral hazards. The greater the purchase of compliance, the less likely regulators will look, the less likely evidence will be found, and the less likely that significant criminal sanctions will follow in the event that inculpatory evidence points to the firm. For some companies, therefore, greater compliance expenditures may actually increase the tendency toward or likelihood of deviance.

This argument and the lessons learned about compliance games may be extended to recent governance reforms. Businesses are playing the "new game" of corporate ethics, where the idea of citizenship is increasingly overshadowed by calls for changing the responsibilities, composition, liability, and operation of boards of directors; the responsibilities of audit, compensation, and nominating committees; the legal oversight over corporate governance; and their compliance with SEC, NYSE, and NASDAQ standards and the requirements of Sarbanes-Oxley. The rigors of regulatory enforcement, the difficulties of detection, the integration of new governance requirements into firm-wide compliance initiatives, the strength of sanctions for non-compliance, and importantly, the direction of the sanctions, will reveal the success of any new corporate gaming.



**TABLE 1: INDICTMENTS AND CONVICTIONS OF LOCAL, STATE, AND FEDERAL OFFICIALS FOR PUBLIC CORRUPTION IN FEDERAL COURTS (UNITED STATES)**

By level of government, 1973-2004

**ELECTED OR APPOINTED OFFICIAL**

	TOTAL			FEDERAL			STATE			LOCAL			OTHERS INVOLVED		
	In-dicted	Awaiting trial on Dec. 31	Con- victed	In-dicted	Awaiting trial on Dec. 31	Con- victed	In-dicted	Awaiting trial on Dec. 31	Con- victed	In-dicted	Awaiting trial on Dec. 31	Con- victed	In-dicted	Awaiting trial on Dec. 31	Con- victed
1973	191	18	144	60	2	48	19	0	17	85	2	64	27	14	15
1974	305	5	213	59	1	51	36	0	23	130	4	87	80	0	52
1975	294	27	211	53	5	43	36	5	18	139	15	94	68	2	56
1976	391	199	260	111	1	101	59	30	35	194	98	100	27	70	24
1977	535	210	440	129	32	94	50	33	38	157	62	164	199	83	144
1978	530	205	418	133	42	91	55	20	56	171	72	127	171	71	144
1979	579	178	419	114	21	102	56	29	31	211	63	151	198	66	135
1980	727	213	602	123	16	131	72	8	51	247	82	168	285	87	252
1981	808	231	730	198	23	159	87	36	66	244	102	211	279	70	294
1982	813	186	671	168	38	147	49	18	43	257	58	232	349	72	249
1983	1,076	222	972	460*	58	424	81	26	65	270	61	226	265	77	257
1984	931	269	934	408	77	429	58	21	52	203	74	196	262	97	257
1985	1,157	256	997	563	90	470	79	20	66	248	49	221	267	97	240
1986	1,208	246	1,026	596	83	523	88	24	71	232	55	207	292	84	225
1987	1,276	368	1,081	651	118	545	102	26	76	246	89	204	277	135	256
1988	1,274	288	1,067	629	86	529	66	14	69	276	79	229	303	109	240
1989	1,348	375	1,149	695	128	610	71	18	54	269	122	201	313	109	284
1990	1,176	300	1,084	615	103	583	96	28	79	257	98	225	208	71	197
1991	1,452	346	1,194	803	149	665	115	42	77	242	88	180	292	67	272
1992	1,189	380	1,081	624	139	532	81	24	92	232	91	211	252	126	246
1993	1,371	403	1,362	627	133	595	113	39	133	309	132	272	322	99	362
1994	1,165	332	969	571	124	488	99	17	97	248	98	202	247	95	182
1995	1,051	323	878	527	120	438	61	23	61	236	89	191	227	91	188
1996	984	244	902	456	64	459	109	40	83	219	60	190	200	80	170
1997	1,057	327	853	459	83	392	51	20	49	255	118	169	292	106	243
1998	1,174	340	1,014	442	85	414	91	37	58	277	90	264	364	128	278
1999	1,134	329	1,065	480	101	460	115	44	80	237	95	219	302	89	306
2000	1,000	327	938	441	92	422	92	37	91	211	89	183	256	109	242
2001	1,087	437	920	502	131	414	95	75	61	224	110	184	266	121	261
2002	1,136	413	1,011	478	119	429	110	50	132	299	118	262	249	126	188

Source: U.S. Department of Justice, Criminal Division, "Report to Congress on the Activities and Operations of the Public Integrity Section for 1991," pp. 28, 29; "1991," pp. 36, 37; "1999," pp. 38, 39; "2004," pp. 36, 37. Washington, DC: U.S. Department of Justice. (Mimeographed.) Table adapted by SOURCEBOOK staff.

The relevance of both new and old compliance games to anti-corruption initiatives is simple. Private sector-civil society partnerships are fraught with some of the very same complexity that can compromise the prognosis for rule-based, code-based prescriptions against organizational crime, whether these prescriptions are voluntary or required by law. Of course, no one doubts the importance of the guidance that comes from prescriptions against corruption found in internal company controls and other voluntary instruments. At the same time, it is conventional regulatory dogma that the threat of the criminal law is the ultimate lever that empowers less formal social controls, like the self-regulation prompted by voluntary, private-sector initiatives. "Without a strong state capable of credible deterrence and incapacitation," as John Braithwaite notes,

"you cannot channel regulatory activity down to the base of the pyramid, where trust is nurtured" (Braithwaite, 1998, p. 356) There must be a formidable and credible weapon sitting prominently in the background available for use when regulatory authority meets frustration, capture, old and new games.

The lesson that at least some cynics have learned, however, is that private sector-public sector partnerships often fail to breed laws that serve as credible background weapons, successfully channeling activity toward the base of the regulatory pyramid. This is not to say that self-regulatory initiatives and principles are of little value. From the Extractive Industries Transparency Initiative of 2002, to the Equator Principles of 2005, examples of important—critically important—private sector anti-corruption programs abound.

So, too, do sound corporate governance programs that promote transparency in ways that can only inhibit the demand side of corruption. The point is, however, that the success of these initiatives and programs hinge on the genuine threat of resort to more formal social controls. Where this resort is compromised by clever corporate stratagems, regulatory laxity, capture, or other strategic impediments, the rhetoric of integrity, ethics, good governance, transparency, and compliance is sometimes all that remains. And this rhetoric is mighty convincing, with or without any evidence to support it. Thus, the call for cynicism is no more than the realization that rhetoric from these familiar bedfellows is best verified. Evidence of program effectiveness for corporate agents and commercial intermediaries, for example, and ongoing external

third-party monitoring offer needed assurance that progress claimed is genuine and, in fact, verifiable. The adoption of zero-tolerance policies, clear expressions of intolerance to corruption by top management and members of the board, the integration of this intolerance into recruitment, incentive, and performance reviews, and secure and accessible channels for reporting violations and whistle-blowing may be critical features of an anti-corruption program. Standing alone, they do not constitute evidence of an effective program.

## Leadership, humility and the social construction of corruption

MULTI-SECTORAL PARTNERSHIPS require leadership that approaches the scourge of corruption with some modicum of humility. The deconstruction of corruption into its three constituent elements reveals a very familiar, if not common pattern of behavior in the very partners vested with the success of anti-corruption regimes, i.e., the misuse of power, attempts to achieve personal gain, and the sacrifice of public benefit. This is a challenge for leadership that has multiple meanings, after overlooking the obvious irony that our hope for a world without corruption is somehow enhanced by fostering partnerships between the most likely supply-side and demand-side suspects.

With a narrow construction of corruption in relation to development, it is easy to be somewhat simple-minded about how the private sector and governments in emerging and transitional economies have much to learn from those with more mature legal systems and governance practices. No doubt they do. Research on such governance indicators as voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption by Kaufmann et. al (2005) points to significant if not dramatic differences between OECD and non-OECD countries. That said, even a cursory look at official data on federal prosecution of public corruption in the United States, which one must assume represents a very, very small share of actual corrupt behavior, is also impressive (see Table One). Not in any way comparable, but impressive in the sense that the burden of corruption is also borne by those who feel particularly empowered to offer if not prescribe anti-corruption solutions. Comparable official data for white collar crime and corporate prosecutions, again consisting only of federal offenses, make the same point for good governance prescriptions.

## Finding legitimacy and moral suasion

IT MAY BE ARGUED THAT these data do more than highlight the prudence of humility. They offer a not so subtle hint that effective regimes to curb political and corporate corruption are necessary here, as they are elsewhere. With state and local data, and knowledge of those offenses not reported or known to authorities, this point would be that much stronger. As a practical matter this suggests the need for evidence-based research on corruption to assure effective solutions. On a less practical and more thoughtful note, our legitimacy and moral suasion to affect corrupt business practices elsewhere would

be enhanced by recognition of our own problem with the very same phenomenon, and a genuine commitment to effective solutions in serious reforms.

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# Business as a Partner in Fighting Corruption?

BY RODERICK HILLS

IT IS A FINE IDEA and there are admirable companies in practically all countries that declare their genuine desire to reduce corruption. But who is the partner? Who do they fight? What do they do? First and foremost companies must not yield to the cynical views: "Why does it matter: Everyone does it; Why should we buck the system?"

We have all met businessmen who are cavalier about corruption. They will say a few bribes can make an inefficient bureaucracy work better, or they dissuade you from complaining on the grounds that a given country will always be corrupt; "you can't change them," people will say. Others will say: "It's a cultural thing in much of the developing world that is infested with corruption. Even the best minded business people in such countries are forced to act unethically to do business."

On the basis of the 40 years that I have spent in so many parts of the developing world, I firmly reject the odious notion that some civilizations are naturally corrupt. What is true, of course, is that there are often more corrupting influences in the developing nations. Why? State control of the economy puts critical decisions that affect business in the hands of bureaucrats who are often poorly paid. Whenever such decisions are left to such discretion, corruption is likely whether that discretion is held by a Minister in Jakarta or in Washington, D.C.

In 1975 the commission rates charged by stock brokers for the sale or purchase of stock were set by the Securities & Exchange Commission (SEC). Unable to compete for business from the large fund managers on price, a significant number of stock brokers competed with gifts (bribes). Some were an elaborate dinner in New York. Others countered with similar dinners in Paris or cars in garages. In May of that year the SEC stopped the fixing of commissions and stock brokers were forced to compete on price; they lost the ability to compete with bribes.

What we in the United States need to appreciate is that our founding fathers gave our business community an enormous advantage in the fight against corruption. Those who drafted our Declaration of Independence and our Constitution expressed the fear they had of corrupt civil servants, primarily the judges in the vice-admiralty courts of England. They did

not wish such bureaucrats to betray the people's interest in our new country. Prominent constitutional scholars believe that the dominant purpose of our Constitution was to prevent corrupt individuals—government officials and cliques of insiders—from abusing individual rights. They point to the clauses in Article I that are designed to prevent conflicts of interests and to require transparency so that the majority of our people can monitor their government and to Section 5, clause 3, that requires publication in a journal of all votes and debates because the English Parliament withheld that information to conceal corrupt deals. Section 6, clause 2, bars patronage by barring members from holding or taking executive office when they have voted to increase the pay of that office and section 6, clause 1 requires pay be set by law; and finally, Article VII requires ratification by popular convention a clause that reflects 18th Century ideology that the people are less corruptible than public officials.

What is so apparent is that the Founding Fathers knew very well that corruption was prevalent in the world from which they came and they wished to take serious steps to keep it from the shores of their new nation. Shaw, in speaking of the same subject, put it differently: "Democracy substitutes election by the incompetent many for appointment by the corrupt few."

As our Constitution was being drafted in 1780, Edmund Burke warned: "Corrupt influence, which is itself the perennial spring of all prodigality, and of all disorder, which loads us more than millions of debt; which takes away vigour from our arms, wisdom from our councils, and every shadow of authority and credit from the most venerable parts of our constitution. Edmund Burke said: "Among a people generally corrupt, liberty cannot long exist."

The sad fact, however, is that Voltaire may have been right when he said that corruption "is an evil that grows respectable with age." What then can business do to make corruption less respectable?

By far the most important step would be for business to accept that corruption is one of the most, if not the most, difficult economic problem facing our world in the 21st century and to convince their employees, their government and the body politic of that fact. My own view is that corruption and related problems of governance, whether corporate or gov-

ernmental, present at least as great a threat to the democratic way of life that we value as that we once attributed to Communism. Some examples:

- In 1997 our Justice Department estimated that sophisticated computer techniques allowed thieves to steal about \$10 billion annually from America's financial institutions;
- An economist with access to classified data of the Federal Reserve System estimates that drug trafficking, prostitution, pornography and black market currency provide \$70 to \$100 billion.
- A professor at the Yale School of Law has identified econometric research indicating that illegal payoffs can increase the costs and lower the quality of public work projects by as much as 50 percent.
- In the first 6 years of independence from the Soviet Union the Ukraine attracted less than \$2 billion of investment, but in that same period it is estimated that \$15 to \$20 billion was illegally taken out of the country.
- The United Nations Drug Control Programme estimates that the annual turnover of illegal drug trade is over \$500 billion.

- The International Monetary Fund states that international drug trafficking now represents 2 percent of the world's economy.
- Others conclude that when drug trafficking is added to other organized crime income the total may well be as much as 6 percent to 8 percent of the world economy.

What business needs to accept is that the fight against corruption is not just more laws and more police. As a wag once announced: "We have already passed more than 10 millions laws just to enforce the 10 Commandments." What business can do is to lead efforts to identify the "corrupting influences" that distort the way in which they conduct their affairs and to both quantify and explain to their societies the cost that such influences impose on the economy.

It is sadly a fact that the subject of corruption needs far more attention: from our academic institutions, our governments and the business sector. We do not know enough about the corrupting influences of our respective societies to effectively deal with them. Its extraordinary that in 1975 the U.S. government did not realize that the fixing of commission rates was an incentive for stock brokers to bribe fund managers.



hi!



**Drug traffickers intercepted in the Mediterranean Sea with four tons of hashish.**

The objective of the Hills Governance Program at the Center for Strategic and International Studies is to work with U.S. and foreign businesses, with support from the World Bank, to establish Centers for the Study of Governance in respected academic institutions. Our distinguished Academic Council assists us in convincing all parties that dealing with corruption is not confined to passing laws; that the disciplines of sociology, political science, economics, and international relations are at least as important as laws.

Our Centers, with advice from supporting businesses and advisory boards, select specific governance problems in their region that they wish to address, and organize effective teams to:

- Identify the corrupting influences that exacerbate the problem,
- Quantify the costs that such problems are imposing on the economy; and
- Develop and implement plans to eliminate or reduce those influences.

It is not easy in many countries for companies to publicly challenge repugnant governmental policies that benefit both officials and their own employees. This is not a problem resented for emerging economies. In the 1970's President Ford initiated a major and successful effort to eliminate the economic

regulation of industry that protected companies from price competition. The strident resistance of those companies that liked the protection of fixed rates made it difficult for others to support him. For example, tiny Frontier Airlines in 1975 spoke bravely for airline deregulation, while the major airlines and airplane manufacturers fought the President's initiative.

The one objective for which all business interests should be united in all countries is "Rule of Law." A government of laws rather than a government of individual fiat is the one sure bulwark against corruption. 

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**Roderick Hills is director of the Hills Center and former Chairman of the U.S. Security and Exchange Commission.**

# Private Sector Response to the Emerging Anti-Corruption Movement

BY WORTH D. MACMURRAY

SINCE 2001, there has been a dramatic and unprecedented rise in enforcement actions by the U.S. Department of Justice and the Securities and Exchange Commission for violations of the U.S. Foreign Corrupt Practices Act (FCPA).<sup>1</sup> The FCPA makes it a crime for U.S. companies and individuals to bribe foreign officials in order to obtain business.<sup>2</sup> This criminal statute is only one of a number of regulatory actions that are on the rise globally in the fight against corruption. Transnationally, the Organization of Economic Cooperation and Development (OECD) reports that there are over 40 bribery investigations ongoing within OECD member states following implementation of the OECD Convention on Combating Bribery in Foreign Public Officials in International Business Transactions.<sup>3</sup> On December 14, 2005, the United

Nations Convention against Corruption, the most comprehensive corruption convention yet adopted, entered into force, further underscoring the increasing importance of anti-corruption enforcement. In addition to these regulatory regimes, financial regulators themselves are becoming more prominent, such as the *Autorité des Marchés Financiers* (AMF) in France, the Financial Services Authority (FSA) in the United Kingdom and the Financial Market Authority in Austria. In Europe alone, there are 28 known domestic regulators among the member countries of the Federation of European Securities Exchanges.<sup>4</sup> Within the United States, the powerful Securities and Exchange Commission and their enforcement division have become noted transnational regulators.

Following on the heels of governmental regulators, international financial institutions such as the World Bank, the Inter-American Development Bank and the European Bank for



The Bill on Corporate Responsibility positioned for President Bush's signature in July 2002.

Reconstruction and Development are beginning to take on an anti-corruption regulatory role by investigating and sanctioning companies involved in corruption when their own financing is involved.<sup>5</sup> Finally, there are a host of nongovernmental organizations which have devoted substantial resources to initiatives, including raising the awareness of the global corruption crisis, recommending legislation to strengthen governments and their institutions in the fight against corruption, and covertly investigating governmental abuse and corruption.<sup>6</sup>

A string of corporate scandals, such as Ahold, Enron and World Com, and the enactment of the Sarbanes Oxley Act, as well as the tragic events of 9-11, underlie the rising tide of governmental and nongovernmental action against transnational corruption in the United States. Internationally, "concerns about the impact of significant corruption on developmental loan effectiveness, transparency, accountability, ethics and integrity underlie wider initiatives, all of which are part of the broader public agenda of promoting good governance of public and private institutions to ensure that public money is used for its intended purpose."

## Private sector response

ALTHOUGH THE PRIVATE SECTOR response to reducing the regulatory risk arising out of these initiatives is growing, the response has not been universal or uniform. Many companies around the world continue to do nothing to change their business practices of providing commissions or bribes to government officials in exchange for a business advantage. The risk of detection, although increasing, remains small and many companies find it to their competitive advantage to use corrupt business practices to capture or retain market share. Others have drafted codes of business ethics which seemingly restrict their company's practice of paying bribes, yet do little in actual practice of reducing bribery (so-called "paper programs"). Still other companies make sizeable investments to reduce the risk of corruption by their managers and business developers seeking to capture or retain business. Notwithstanding the mixed response by the private sector, pressure mounts as governments, international organizations and NGOs continue to press the private sector to take more action in curbing corruption. For example, Transparency International, the leading anti-corruption NGO, pushes companies to adopt their Business Principles for Countering Bribery: "the United Nations, through its Global Compact, has enlisted more than 2,500 companies throughout the world to promote responsible corporate citizenship in the area of anti-corruption;" and the International Chamber of Commerce Anti-Corruption Commission encourages self regulation by the private sector to combat extortion and bribery."

Listed below are some of the better known initiatives that companies have taken in order to reduce the risk of corruption in their business transactions. These programs are generally referred to as Internal Control Programs, Compliance Programs or Anti-Corruption Business Practices. Notwithstanding the name of the anti-corruption program adopted by a company, to be effective the programs need to be integrated into the overall business practice of a company's control structure.<sup>7</sup>

## Elements of an effective anti-corruption program (e.g. Compliance Program)<sup>13</sup>

### Code of Ethics and Corporate Conduct

The initial corporate framework for specifying responsibilities of corporate actors is generally set out in ethics guidelines for corporate conduct.<sup>14</sup> This Code states what is expected of employees in a range of areas including workplace behavior, sexual harassment, conflicts of interest, gifts, fees and commissions (e.g. bribes) to government officials. To be effective, these guidelines should be adopted by the Board of Directors and mandated for all company officials and employees. The Code should state with specificity the conduct that is prohibited, the means of seeking advice on interpretation, how to report violations, and management's responsibility when they receive an allegation. In many codes, whistleblower protection provisions can also be found, which prohibit retaliation against employees who make a complaint. In many instances, companies set up hotlines for employees to make anonymous or confidential complaints of corporate wrongdoing.

### Tone at the Top

In addition to an effective anti-corruption ethics code, and perhaps most critical to the success of a private sector anti-corruption initiative, is the "visible and active commitment"<sup>15</sup> by the Chief Executive Officer and senior management of a company or enterprise for its anti-corruption policy—the so called "tone at the top." The tone at the top is more than merely making corporate announcements or strong denunciations about corruption; it is visible leadership, a single point of senior responsibility, accountability and allocation of resources in furtherance of the purposes of the policy or code.<sup>16</sup> For large companies, resources in terms of money and dedicated staff are required to effectively implement anti-corruption programs. For example, in many large multinational companies, Chief Compliance Officers are being hired to create and implement corporate ethics codes and to investigate allegations of violations. Some larger companies doing business around the globe maintain a large staff of investigative auditors to quickly respond to allegations, to seize evidence of corporate malfeasance and provide it to senior management so that the CEO and management team can take necessary action to mitigate the risk of corruption. Such action may include:

- a) Termination of employees found to have violated the policy;
- b) Enhancement of the internal control structure prevent repeat violations;
- c) Corporate announcements denouncing the practice and enhancing training of affected business units;
- d) Disclosure of the matter to the Board of Directors; and
- e) Disclosure to regulators.

### Anti-Corruption Training and Accountability

Effective anti-corruption control requires ensuring that all employees are trained and knowledgeable about the company's anti-corruption policy. Best practices dictate that such training be conducted on an annual basis and that employees

certify in writing that they have received the training and understand the policy. The growing corporate need for training on anti-corruption is quite apparent by the large number of accounting firms, law firms and consulting firms who now routinely offer anti-corruption policy and training services to businesses around the globe.

Enhanced due diligence of foreign agents, consultants and **subsidiaries**

One of the biggest risks for companies doing transnational business is the risk that one of their local agents, joint venture partners or subsidiaries are violating the company policy by paying foreign officials to obtain a business advantage. In response to this concern, companies are conducting enhanced due diligence of their actual or intended agents, joint venture partners or prospective acquisitions to ensure their intended associations do not increase their risk of being involved in a corrupt act. Enhanced due diligence, which can be done in-house or by specialized companies, involves:

- a) Examining the reputations, associations, activities, and ethics of potential partners, investors or key hires;
- b) Confirming or refuting allegations and rumors of criminal or questionable business practices;
- c) Identifying, early on in the deal process, any undisclosed liabilities or questionable financial reporting;
- d) Researching unusual offshore structures and unexplained financial arrangements associated with a potential merger, acquisition, or joint venture targets; and
- e) Clarifying the nature of relationships between target companies and various individuals, including government officials.

#### Internal Control System

Companies that are intent on ensuring that funds are only used for purposes consistent with their anti-corruption policy must have a system of internal auditing controls in place that is robustly and periodically tested to provide "reasonable assurances that transactions are executed in accordance with the management's authorization."<sup>7</sup> These aspirations for anti-corruption controls are embedded in the Sarbanes-Oxley Act, which requires these controls for public companies in the United States. Many accounting firms around the globe have adopted these standards as best auditing practices regardless of the jurisdiction of the company.

## Conclusion

CONTROLLING FOR CORRUPTION in the private sector is increasingly becoming a priority for companies concerned about the regulatory and reputational risk associated with such illicit activities. In the next decade, as more governments strengthen their own anti-corruption requirements flowing from the host of domestic and international initiatives, corporations will be seen as critical stakeholders in reducing the deleterious effects of the cancer of corruption. 

Worth D. **MacMurray** is Principal of Compliance Initiatives LLC in **McLean**, Virginia.

## Endnotes

- <sup>1</sup> 15 U.S.C.S. §§ 78dd-1, 78dd-2, and 78dd-3. See the following discussions of the rising tide of FCPA enforcement actions, <http://dandod1ary.blogspot.com/2006/05/fcpa-70s-revival.html>; [http://www.insidecounsel.com/issues/insidecounsel/15\\_168/regulatory/214-1.html](http://www.insidecounsel.com/issues/insidecounsel/15_168/regulatory/214-1.html); [http://www.dlapiper.com/files/upload/WhtCollarj\\_060612.htm](http://www.dlapiper.com/files/upload/WhtCollarj_060612.htm);
- <sup>2</sup> *Id.*
- <sup>3</sup> See remarks of Director of OECD Legal Directorate, Nicola Bonucci, 14th National Conference on the Foreign Corrupt Practice Act, November 15-16, 2005. New York. New York. See also discussion of the OECD convention and progress on implementation at [http://www.oecd.org/dep/depn/V0,2688,en\\_2649\\_34855\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/dep/depn/V0,2688,en_2649_34855_1_1_1_1_1,00.html).
- <sup>4</sup> Ware, Glenn T., "Filing the Regulatory Gap: The Emerging Transnational Regulator," 12 *Global Governance* 2, pg 135, April-June 2006 See also speech by Glenn. T. Ware before the International Consortium on International Governmental Financial Management, *The Emerging Transnational Regulator* Brookings Institute, Washington DC October 5, 2005
- <sup>5</sup> *Id.*
- <sup>6</sup> See a discussion on various NGOs such as Transparency International, Global Witness, the International Chamber of Commerce at: Hamann, K.M., Urofsky, N., Healy, N.M., Wrage, A., and Ayers, M., "Developments in U.S. and International Efforts to Prevent Corruption," *The International Lawyer*, Vol. 40, No. 2 (Summer 2006)
- <sup>7</sup> See [http://www.insidecounsel.com/issues/insidecounsel/15\\_168/regulatory/214-1.html](http://www.insidecounsel.com/issues/insidecounsel/15_168/regulatory/214-1.html)
- <sup>8</sup> See generally Klitgaard, R., *Controlling Corruption* (Berkeley: University of California Press, 1988). Rose-Ackerman, S., *Corruption: A Study in Political Economy*. (New York: Academic Press, 1978) and *Corruption and Government: Causes, Consequences, and Reform* (Cambridge: Cambridge University Press, 1999) and Ware, G.T. and Noone, G.P.). "The Anatomy of Transnational Corruption," *International Affairs Review*, Vol. 14, No. 2 (Fall 2005)
- <sup>9</sup> See generally, Transparency International, <http://www.transparency.org>
- <sup>10</sup> See generally, the United National Global Company, <http://www.un.org/Depts/ptd/global.htm>.
- <sup>11</sup> See generally, ICC Anti-Corruption Commission, <http://www.iccwbo.org/policy/anticorruption/>
- <sup>12</sup> See a thoughtful discussion of this integrated model by Jay Singh at [http://www.transparency-usa.org/survey\\_96.htm](http://www.transparency-usa.org/survey_96.htm).
- <sup>13</sup> The U.S. State Department has listed the elements of a compliance program at <http://www.state.gov/p/inl/rls/rpUfgcrpt2001/3146.htm>,
- <sup>14</sup> See examples of corporate codes of conduct at <http://ir.fedex.com/downloads/code.pdf>; [http://www.palm.com/us/company/corporate/PalmInc\\_WW\\_Code.pdf](http://www.palm.com/us/company/corporate/PalmInc_WW_Code.pdf); and [http://www.ups.com/content/corp/code\\_conduct.html](http://www.ups.com/content/corp/code_conduct.html).
- <sup>15</sup> See Transparency International Business Principle No. 6, Programme Implementation Requirements at: [http://www.transparency.org/building\\_coalitions/private\\_sector/business\\_principles.html#countering](http://www.transparency.org/building_coalitions/private_sector/business_principles.html#countering)
- <sup>16</sup> *Id.*
- <sup>17</sup> 15 U.S.C.S. §§ 78dd-1, 78dd-2, and 78dd-3.

# The Challenge of Ethical Leadership in Africa

BY DELE OLOJEDE

## An ethical compass

I WAS BORN in a small university town in western Nigeria not that many years ago, into a large polygamous household, a vastly complicated organism that nevertheless seemed to us rather simple and well-ordered at the time, under the mostly wise and often lucky leadership of my father. Our moral universe was an extension of the wider community around us, in which people clearly understood and subscribed to a set of rules governing behavior. In that world raising us children was a joint venture among the community's adults. Everyone lived under an overriding moral code encapsulated in the simple injunction that you shall not bring your family name into disrepute.

My duty in the household was to fetch the morning papers for my father. The vendor, who evidently had a full-time job elsewhere, always left the newspapers in neat stacks at the street corner. Without fail, day after day and year after year, buyers picked up the papers and left the money in a pile right there by the roadside. It was an honor system, not at all uncommon throughout Africa.

This is the good news. It is the one thing that proves to us that despite the appalling ineptitude and outright immorality that permeates leadership ranks throughout our continent, we are not culturally or genetically predisposed to more often than not produce the most wretched kind of leaders.

The urgent task of improving the quality of leadership in Africa—one that is ethically grounded, self-denying and thoroughly understands the concept of the common good—is evident from the extremely high cost of our current arrangement.

In order to overcome the ruinous cynicism of many Africans about the prospect for enlightened leadership ever emerging in their countries, we must be able to think of the impact of corruption differently.

The first thing to understand is that corruption kills—not metaphorically, not even indirectly. At the end of last year a planeload of school children crashed in southern Nigeria, killing all on board. It was one of several airliner crashes in that country last year, exposing the completely shambolic state of the regulatory agency for civil aviation, the corruption that circumvents normal inspections and the enforcement of

rules. So although a government official claimed the crash was an act of God, the reality in Nigeria and much of the continent is that poorly maintained aircraft that would not otherwise pass the test of airworthiness are routinely allowed in the skies by bribe-taking officials.

Corruption literally makes citizens sick, when officials routinely expropriate for personal use the resources allocated to public health.

Corruption also is the principal cause of the mass impoverishment of African people, a grinding, agonizing poverty that shrivels ambition and leaves people susceptible to the sweet whispers of false prophets, who tell us that poverty is a friend of God. Religion has become a tool of the kleptocracy, which keeps the poor in their place by encouraging their sense of powerlessness, their superstition, their belief that their reward is in heaven, and that they will be rescued not by the sweat of their striving, but by divine intervention.

The widespread indifference to ethics by much of Africa's political elite has helped reinforce the view that government, with rare exceptions, is primarily an obstacle to ordinary citizens. By and large the elite that took over from the colonial authorities has proved to be made up largely of those described by V.S. Naipaul as "the mimic men," who see their roles primarily as exploiters in the same way that the colonial rulers did.

While government is essential to development, in many African countries it continues to be perceived, if not as outright illegitimate, then at least as something best avoided by citizens whenever possible.

To begin to change the relationship between governor and governed for the better, a new kind of leader is required in Africa. Luckily, the right examples can be found scattered throughout the continent, where leaders are actually visibly and actively engaged in the hard work of building a good society, whether in Botswana or South Africa or, lately, Ghana and a handful of others.

We all know the essential characteristics of ethical leadership: selflessness, honesty, imagination, ambition, moral rectitude, sacrifice, humility, even wisdom. We know as well that, while this is our fondest wish, there can be no guarantees that we will get any such leader.

To best illustrate this point I often quote Karl Popper, the Viennese philosopher, and I will quote him here again without

shame. For he most intelligently expresses my attitude to the necessity for constraints on political leadership. Popper says "it is not at all easy to get a government on whose goodness and wisdom one can implicitly rely. If that is granted, then we must ask whether political thought should not face from the beginning the possibility of bad government; whether we should not prepare for the worst leaders, and hope for the best."

In other words, we must face the reality that Africa continues to be hobbled by Big Man politics, the all-wise Father-Knows-Best who should stay in power indefinitely. The exam-

ples are all around us—in Zimbabwe, Uganda, and recently in Nigeria, where an abortive attempt was made to do the same.

The idea of term limits for political office holders is not necessarily the best option in all circumstances. After all, the United States is almost unique among the industrialized countries for imposing it on its presidency. But in the case of Africa, where state and civic institutions are weak and the president typically wields virtually untrammelled power, term limits are most assuredly an essential ingredient of good governance.

We know from human experience that leaders good, just and wise, are hard to find. As Popper says, "it is reasonable to adopt, in politics, the principle of preparing for the worst, as well as we can, though we should, of course, at the same time try to obtain the best." The question we must ask is, "how can we so organize political institutions that bad and incompetent rulers can be prevented from doing too much damage?"

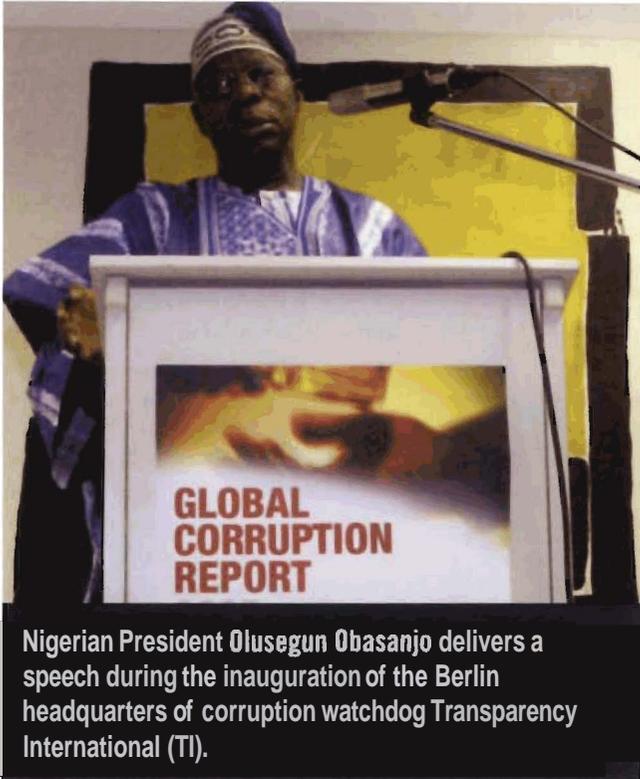
## The international community

AS WE STRUGGLE with these questions, international institutions and powerful governments also can choose to be our allies, not collaborators with those rapacious leaders who seek to strip Africa bare. The dirty secret of the western world is that governments and banking institutions, in Europe and America, find it convenient to let Africa's ruling kleptocracy make off with the family silver, so long as it ends up in bank accounts in London, Washington, and Switzerland. Just a couple of years ago, during an unrelated investigation of Riggs National Bank in Washington, Congressional investigators found that ExxonMobil secretly deposited more than \$700 million in the personal accounts of the president of Equatorial Guinea, Teodoro Obiang Nguema Mbasago. These deposits, which could not be adequately explained as anything other than corruption, never led to any ExxonMobil executives being tried for contravening U.S. law.

If anything good can be said to have come out of al-Qaida's terrorist onslaught, it is that western governments, pushed by Washington, are no longer so easily turning a blind eye to money laundering. A series of Nigerian governors have been arrest-



A picture of children killed in an airplane crash in southern Nigeria as a result of corruption in the regulatory agency for civil aviation.



Nigerian President Olusegun Obasanjo delivers a speech during the inauguration of the Berlin headquarters of corruption watchdog Transparency International (TI).

ed in London with suitcases full of U.S. dollars, and some effort is being made now to stanch the criminal flow of cash from poor countries to western banks. But what would really help Africa is not so much financial aid, but a serious collaboration to stop the illegal extraction of the common wealth by thieving leaders.

Good things are happening throughout Africa. Fitfully and unevenly, many African countries have entered the reform era, and this promises to have a more lasting effect because, for the first time, it is not happening through the benevolence of outsiders but is being spearheaded by a new generation of Africans. Many Nigerian political leaders, in significant though not yet dominant numbers, are already succeeding in changing their country's direction. The same cries of *reformasi* that we heard in the streets of Jakarta and Surabaya in the late 90s resounded in the streets of Nairobi and swept away an ossified oligarchy. Ghana is turning the corner, and an elected Senegalese government successfully organized elections that it then lost, peaceably, to the opposition. Liberia elected Africa's first female leader, and the country has set about the urgent task of rebuilding from the ruins of war.

To broaden the positive changes we are seeing, and to make them more lasting, Africans must set minimum standards for leadership—as well as maximum tenures.

Dele Olojede is a Pulitzer Prize-winning journalist based in Johannesburg, South Africa.

This article is based on a presentation given at the World Economic Forum in Oxford, in March 2006.

## THE POWER OF JOINING FORCES

continued from page 17

action often depends on identifying one company or a small group of companies to take the lead and to act as a champion for the project. This reinforces the importance of ensuring that the issues being addressed are priorities for the business community and are likely to deliver tangible results.

## Conclusion

**THE FIGHT AGAINST CORRUPTION** will be more effectively fought by companies acting together to reinforce and enhance the impact of the application of codes, policies and processes within their own operations, supply, and distribution chains.

Businesses, often competitors, have a mutual vested interest in improving the environment within which they operate, and by acting together they can also be a stronger influence on other sectors in reducing corruption.

Peter Brew is Director, Responsible Business Solutions, International Business Leaders Forum (IBLF).

This is based on an article by Peter Brew and Jonas Moberg, formerly Programme Director. IBLF, now Special Advisor, Global Compact, that appeared in the United Nations Global Compact publication *Business against corruption*, [http://www.iblf.org/media\\_room/general.jsp?id=123754](http://www.iblf.org/media_room/general.jsp?id=123754)

The International Business Leaders Forum (IBLF) is a not-for-profit organization, established in 1990 to promote responsible business practices that benefit business and society and contribute to sustainable development. Recognizing that corruption is of major detriment to development and to enterprise, and a contributor to human rights abuses, IBLF launched a Business and Corruption program in 2002. This program promotes the role business can play in tackling corruption and the need for companies to work together locally to improve the business climate. [www.iblf.org](http://www.iblf.org)

For further information email: [info@iblf.org](mailto:info@iblf.org)

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# Fighting Corruption the Celtel Way

*Lessons from the front line*

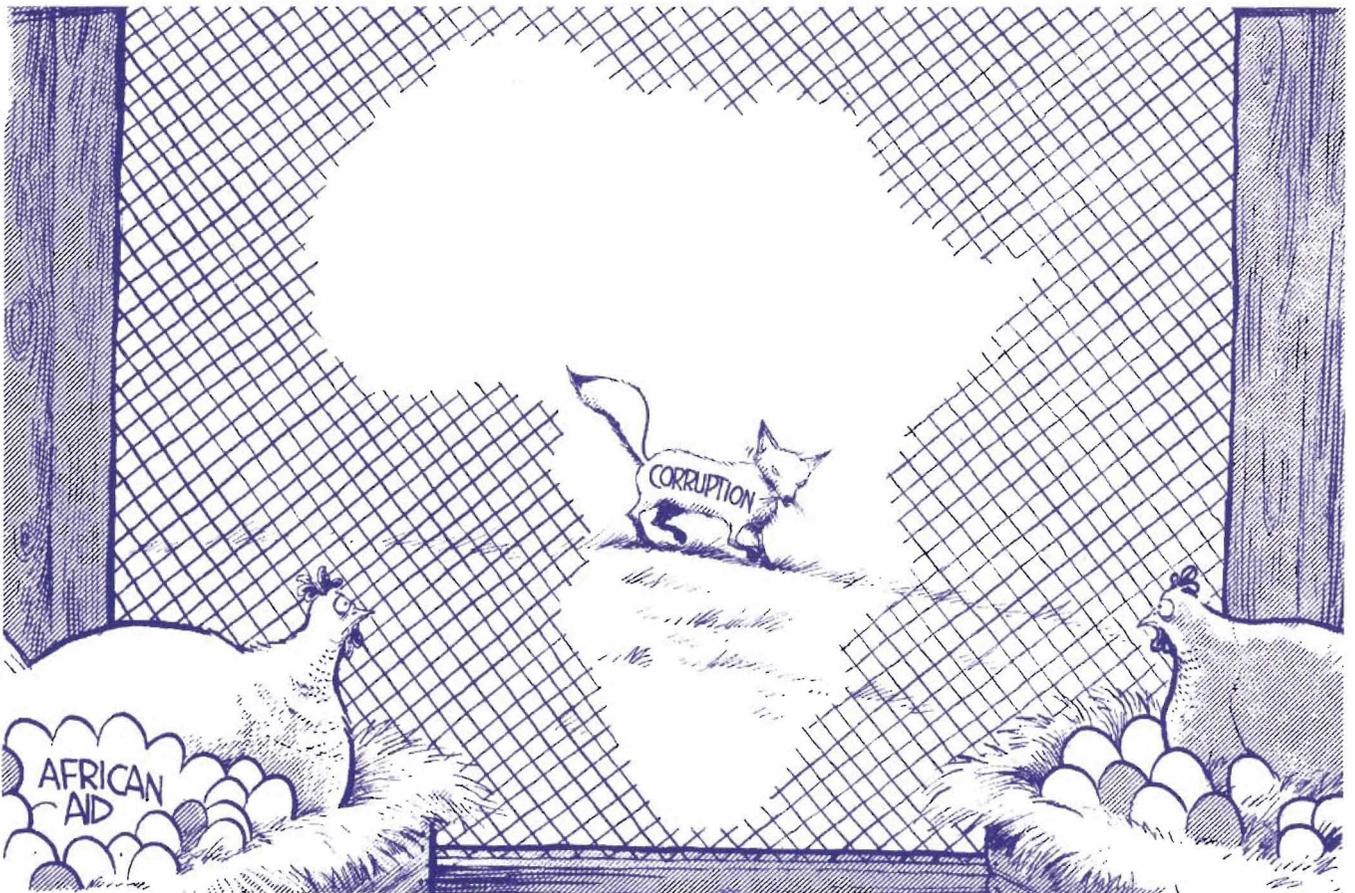
BY MOHAMED IBRAHIM

IF YOU "GOOGLE" *corruption and Africa* you get over 25 million hits.<sup>1</sup> Such is the scale of the problem. Yet Celtel is a success story from the poorest and, according to Transparency International rankings, the most corrupt part of the world – sub-Saharan Africa.

Today Celtel provides 15 million Africans with mobile phone service across 15 countries of sub-Saharan Africa:

Burkina Faso, Chad, Democratic Republic of Congo, Gabon, Kenya, Madagascar, Malawi, Niger, Nigeria, Republic of Congo, Sierra Leone, Sudan, Tanzania, Uganda, and Zambia. Five of these countries are in the bottom decile of the Transparency International Corruption Perceptions Index.<sup>1</sup>

Since 1998 Celtel has raised over \$1 billion from the Western financial community and invested it in mobile telecoms infrastructure in Africa. Celtel's \$3.4 billion 2005 acquisition by MTC of Kuwait not only demonstrated the suc-



cess of the business, but unleashed a wave of Middle Eastern investment into Africa.

## Africa's development

THERE IS A CONSENSUS that Africa—the original cradle of human civilization—today suffers from underdevelopment. Many studies have attributed this to different causes: climate, colonialism, cultural diversity, geographic fragmentation, the curse of natural resources, political instability, state ownership, and underinvestment in education and infrastructure.<sup>3</sup>

Celtel was formed as a private sector business to focus on telecoms infrastructure—now recognized as an essential driver of development in Africa. The Economist reported in a study on Africa by Professor Waverman of London Business School: "Plenty of evidence suggests that the mobile phone is the technology with the greatest impact on development. A new paper finds that mobile phones raise long-term growth rates, and that their impact is twice as big in developing nations as developed ones."

## Corruption

THE "BLAIR REPORT" COMMISSION for Africa 2005 summarized the issue as follows:

"Corruption is systemic in much of Africa today...It is another of Africa's vicious circles: corruption has a corrosive effect on efforts to improve governance, yet improved governance is essential to reduce the scope for corruption in the first place. All this harms the poorest people in particular."

It also recognized that Western countries need to look hard at themselves in the mirror: "After all, as the former Zairian dictator Mobutu Sese Seko once reportedly said "It takes two to be corrupt: the corruptor and the corrupted." And he should know."<sup>5</sup>

Earlier, in 2002, the African Union had put a figure on the scale of corruption across the continent: \$148 billion or one quarter of the GDP."

## Celtel approach to governance and corruption

ANY INTERNATIONAL BUSINESS operating in Sub Sahara Africa needs to face the issue of corruption. From the beginning Celtel adopted a very strict set of six values, the first of which is: "We are open, honest and transparent." We applied these values at all levels: from the shareholders and the Board to a handbook for every employee.

When searching for shareholders we sought institutions

who could contribute expertise and guidance as well as money. Early examples included the Commonwealth Development Corporation (now Actis), the British Government's development finance arm and the International Finance Corporation —part of the World Bank Group. Both had many years of experience investing in Africa and were rigorous in ensuring that every Celtel investment and local partner passed their transparency scrutiny.

Right from the start Celtel was run as a Western institutionalized company (it is based in the Netherlands). We believe good governance starts at home. So we formed a very talented and experienced Board of Directors, with shareholder representatives and strong independent directors from the worlds of politics and business such as Lord Prior, formerly a UK Cabinet minister, Dr Salim Salim, the African statesman and a former Prime Minister of Tanzania and Sir Gerry Whent, the original founder of Vodafone.

Some might regard such a heavyweight Board as restrictive to a start up company. But for Celtel this has helped navigate some of the complex political currents. We made it clear that any requests for political donations and the like would be referred to the main Board and discussed by the representatives of major donor nations. It showed everybody that we were serious about our anti-corruption stance and it was a great protection.

It also brought recognition to Celtel: when giving the inaugural IFC Client Leadership award, Peter Woicke, former IFC Executive VP, said Celtel is "a company that sets the gold standard for its peers anywhere in the world, a company that is a role model for others, regardless of sector, region or country."<sup>7</sup>

## Business advantage

CELTEL'S RIGOROUS STANCE against corruption is not drawn from a purely moral motive—it is also good business practice. For corruption, like blackmail, is insidious. Once started it is very difficult to stop paying. Far better to pass up, as Celtel has done, a few business opportunities which, while superficially attractive, involve partners or governments about whom one has major doubts.

For a Western company, the costs of getting it wrong can be devastating. For obvious reasons few of the examples are well documented. But the U.S. Courts released documents of the SEC investigation into Titan Corp., summarized as follows by the Wall St Journal (WSJ 2005): "In the biggest foreign-bribery penalty under U.S. law, Titan Corp. (of San Diego) pleaded guilty and agreed to pay \$28.5 million to settle allegations that it covered up payments in six countries, including

It is clear that if the Millennium Development Goals are to be achieved in Africa, the issue of corruption must be addressed. It is also clear that solutions must come from both within Africa and from outside it.

millions of dollars funneled to an associate of an African president to influence a national election Titan's foreign bribery was uncovered by Lockheed Martin Corp. during acquisition negotiations. Though both companies cooperated with the ensuing investigation, delays in resolving the probe scuttled the \$1.6 billion deal in June."

## Curing corruption

SOME MAY FIND IT IRONIC that it was Lockheed Martin as potential acquirer and Arthur Andersen as external auditor who uncovered this example. But to its credit, the USA has had the Foreign Corrupt Practices Act in place since 1977 which makes it illegal for U.S. corporations to pay bribes to foreign government officials or political parties in order to secure or maintain business transactions or secure another type of improper advantage. If a violation is established, not only can a large fine be levied against the corporation, but executives, employees, and other individuals involved may be fined or jailed or both. And while American corporations are subject to the law, it is possible that it may also, be applied to overseas subsidiaries or joint venture partners of U.S. companies. However other countries have been much slower to recognise the problem at home. Until 1997 bribery was still tax deductible in some Western countries.

Finally the OECD countries implemented the Anti-Bribery Convention in 1997, with entry into force on 15 February 1999. But implementation has been slow and there have been few prosecutions. Now adopted by all 30 OECD countries plus 6 others, the Phase 1 implementation monitoring has been completed (compliance of national anti-bribery laws with OECD Convention). Phase 2 (peer review assessment of effectiveness) has been done by 21 countries with remainder to be done by 2007.9

UN Convention against corruption was adopted in October 2003 and came into force on 14 December 2005. 140 countries signed but only 52 have ratified it and we are still waiting for G8 countries to participate."

Meanwhile, Africa is starting to record real progress in addressing the problem of corruption. One of the first acts by President Obasanjo of Nigeria was to set up the Anti Corruption Commission. The former President of Zambia and Vice President of South Africa are facing corruption charges. Under the auspices of NEPAD, the New Partnership for African Development, African countries are undertaking peer reviews.

## Conclusion

IT IS CLEAR THAT, if the Millennium Development Goals are to be achieved in Africa, the issue of corruption must be addressed. It is also clear that solutions must come from both within Africa and from outside it.

Celtel is dedicated to "making life better." In our eyes this means ensuring a sustainable business to continue the infrastructure investment essential to Africa's development. And it means doing so in a fully transparent manner, including publishing what we pay to Governments and state owned enterprises: this amounted to some 35 percent of Celtel's revenue

in 2005. The Celtel story shows emphatically that it is possible, if not always easy, to run a successful clean business in Africa which can benefit all stakeholders and help to enable development.

Mohamed Ibrahim, Founder and Chairman, Celtel International.

### Endnotes

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**WHAT ROLE DOES PARLIAMENT PLAY IN CURBING CORRUPTION?**

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# Dealing with Corruption in Ethiopia

BY **KEBOUR GHENNA**

THE END OF THE VIOLENT socialist regime in Ethiopia in the early nineties opened new perspectives by shifting the focus from ideological interests to concerns about effectiveness and sustainability of development efforts. Since then, the new government has embraced the idea that a sound political and institutional framework is essential for achieving sustainable economic and social development. This issue led to the promotion of the concept of "good governance" and has since then come to the fore of the agenda of the country's development program and cooperation. Initiative Africa (IA) is one of the few independent, non-profit organizations intent to contribute to a better understanding of the complex area covered by this concept.

Established in 2002 by individual business entrepreneurs, IA has a mission of improving the quality of life by bringing together public-private initiatives to advance the concept of good governance for this and future generations. This mission is to be accomplished through education, sharing of good practices, and exploring innovative approaches.

One focus of IA has been the promotion of accountability systems, administrative control and transparency towards the public. Its program revolves around sharing experiences and best practices in fighting corruption within the private-private and the private-public sectors.

Of late, going through without paying any bribe in Ethiopia is seen as an achievement by peers; corruption has, therefore, acquired a certain 'performance feature' with its own reward (moral) or penalty (financial and/or otherwise). Although the incidence of corruption is increasingly widespread, it has not yet become systemic.

This is why there is growing interest of the private sector and CSOs/NGOs and the international community in fighting corruption. CSOs/NGOs are increasingly concerned with poverty reduction through free and accessible information disseminated and probed by an active opposition, free press, and assertive civic organizations and NGOs.

## Private to private corruption

**WHEN** THE ISSUE OF CORRUPTION is raised in Ethiopia almost always we mean the involvement of a private party that

pays, or is ready to pay, money to a public figure in order to gain advantage. This is generally referred to as private to public corruption. Because this type of corruption is said to impede the development of markets, drive away investment, increase the costs of doing business, and undermine the rule of law, private to private corruption has not attracted the same interest or attention. Private to private corruption is as serious as the private to public corruption. The fact that people talk less about it, as compared to the private to public corruption, may have deceived many outside the business world to think it is not significant.

The relative lack of concern may be due to:

- lack of knowledge of cases involving private to private corruption;
- many consider the cases as less threatening and having a lesser impact on the social fabric of the country;
- lack of business accountability culture;
- lack of competition;
  - many assume the private sector is less vulnerable to such problems;
- under-reporting by the media of cases involving private to private corruption.

In the past two years IA has launched a regular round-table series to publicize the private to private corruption by inviting speakers to present concrete cases, go over the variety of cases (bribery, commissions, gifts, under/over invoicing etc), explain who benefits (the company or the employer), and address the moral problem of private to private corruption. What transpired from these dozen or more sessions was the various confusion that exist in terms of the legal treatment of private to private corruption. For example, many private business officials have difficulty in delineating between what they call an acceptable marketing scheme and clear-cut corruption. An example may be the excursion trip related to business offered by a seller; can this be considered unethical inducement or acceptable practice?

Breach of trust, for example, although an offense, its application in the court of laws is rarely exercised. In many instances the companies are not responsible for the behavior of their managers. And there is very little, in terms of criminal law, to help prosecute corrupt behaviors. Such sessions have helped in raising the awareness of business of the extent of private to private corruption as well as of the need to take

specific measures to prohibit, detect, prosecute cases, and even ensure protection for whistleblowers.

## Bringing the private and public sector together

IN MANY WAYS the division between private to private and private to public corruption does not seem to carry the same moral weight in Ethiopia. The former seem to carry less moral affliction than the latter. And yet it is the small business sector, the backbone of the economy, that is vulnerable to such corruption related problems. It is our experience that the majority of SME owners do not want to participate in corrupt practice, but they lack information and support in avoiding it. They become resigned to corrupt practices as a necessary cost of doing business. Moreover, the occurrence of "private-to-private corruption" is often precipitated by efforts of private sector players to mitigate or avoid the negative effects of an economic depression at any cost.

The private sector often times plays as important a role as the public sector, making the importance of good business practices in the private realm especially important to the economic, political and social health of the country or region in question. Because of the increasingly globalized character of national economies, corruption occurring in one region can no longer be confined within the nation's borders. Any instance of corruption is a global problem. IA's Dealing with Corruption initiative aims to keep the issue of corruption on the national agenda and to locate practical ways for SMEs to break down the cycle of corruption in their immediate stakeholder circles.

In the past years, Ethiopia faced its own set of battles against corruption in the private sector. Early 2000 saw well-publicized scandals which diminished investor confidence and raised concerns about the erosion of civic responsibility. Large, as well medium sized compa-

nies collaborated with corrupt and ineffective bureaucracies. But as we move through 2006, we can also see the hope offered by emerging corrective measures and the increasing public outcry for ethical accountability in private organizations and even the government. NGOs and the government by themselves cannot reduce corruption—business participation is a must to attain success. Simply getting rid of corrupt officials is not enough. One needs to address the underlying problems,



Children at a rally protesting corruption within the Ethiopian government in the handling of World Bank funds.

notably, weak media, excessive discretionary powers, weak enforcement mechanisms, opaque regulations, etc. Initiative Africa is proud to contribute ideas and best practices for reforms but also to reduce the gaps that exist between policy intentions and policy outcomes in the struggle against corruption.

To be truly effective, ethics must be an integral part of the organizational culture rather than an appendage grafted on to the administrative systems. That is why IA is mobilizing and strengthening civil society organizations that indirectly prevent corruption, but which do not have this as an expressly stated goal, to lobby private companies to appoint an officer that will instill a fundamental set of values throughout the organization. Of course a mere appointment of an ethics officers cannot be sufficient, such a move must be seen as fundamental to the organization and prized for contributing to its values and atmosphere. Ethics officers and their perspectives must be heard and respected, especially in tough situations that call for organizational self-scrutiny.

Civil society organizations believe that adhering to the prescribed ethics process will result in greater respect for the private as well as public organizations, both from within and without. As a result, in the past year a number of civil society organizations and private companies, that have shown interest in the program, have come together to develop recommendations to instill values such as respect, integrity, communication and excellence, within their own organization as well as the government. The recommendations, which are under preparation aim to rebuild the country's sense of propriety; they demand for example, the enforcement of the government rules of subjecting officials and executives, as well as their families, to mandatory audits of financial positions—before assuming office, annually during tenure, and after leaving the government service. They also demand the raising of penalties for financial impropriety, the reforming of the electoral process and the liberalization of the media. Such recommendations, we hope, will persuade the government to demonstrate its commitment to stifle corruption, as well as cultivate and strengthen integrity nationwide.

## The challenges

INITIATIVE AFRICA has consciously chosen a focused view approach, putting the fight against corruption as a central element of its governance program. Its main emphasis has been on raising awareness focusing on private to private corrup-

tion, and dealing with fundamental issues that do not necessarily demand heavy investment. Still, despite positive response from both the CSOs and the private sector, many insist the ethical approach, to which we give high priority, is not sufficient to cope with corruption. They insist the need to develop industry-based collective measures to help individual firms have a stronger voice in the face of public or large scale enterprise corruption. They also insist of the need to create a "safe and neutral" mechanism for firms to notify incidences of corruption.

In general there is consensus on the need to increase awareness of citizens on the problems of corruption. One challenge for IA is to be able to provide basic information on national and international standards established by public-interest organizations and business groups and on steps that companies can take to implement responsible business practices in the area of the fight against corruption and bribery. Furthermore, IA should look into gathering and sharing resources and examples that show how leadership companies have responded to the imperatives of combating corruption and bribery, and, most importantly, in building a coalition of civil society organizations to introduce a nation-wide institutional framework for public-private cooperation in countering corruption. By these means, IA should help individual companies benchmark their programs to combat bribery and corruption and develop and enhance their ethical policies and practices.

## Conclusion

ALTHOUGH THERE ARE MANY NEW WAYS to combat corruption, the most important factor is the political will of Ethiopian political leaders. For now there is a lot of inconsistency among the leaders in this area. That is why IA stresses the involvement of nongovernmental organizations, the media and the private sector to build public awareness of the costs of corruption and shared responsibility to combat it. Today private-public partnerships against corruption can make a difference. Such partnership is the most appropriate anti-corruption model for the nation and even for the region as a whole. We need, however, to build the following three main pillars—encouraging widespread commitment from the

private sector, enhancing public awareness and building the capacities of committed CSOs to undertake regular monitoring of corruption dynamics.

**Kebour Ghenna is Director of Initiative Africa and President of the Ethiopian Business Coalition Against HIV/AIDS.**

Civil society organizations believe that adhering to the prescribed ethics process will result in greater respect for the private as well as public organizations, both from within and without.

# Measuring Corruption

## *Myths and Realities*

BY DANIEL KAUFMANN, AART KRAAY, AND MASSIMO MASTRUZZI,

OVER THE PAST DECADE measuring corruption has become an ever-growing empirical field. Since the mid-nineties, we have undertaken various projects to measure corruption at the aggregate and disaggregated level. Among the latter, we have carried out and analyzed many surveys of the enterprise sector. They have provided particular insights on the private sector role in corruption. Such analysis of this empirical work has led us to question conventional approaches to addressing private sector corruption and investment climate constraints. This empirical analysis questions the traditional notion of viewing the firm as an 'investment climate taker' and thus ignoring that powerful conglomerates can also shape the business climate and thus become 'investment climate makers'. This implies that it is warranted to move away from simply blaming government officials for prevailing corruption, and to question the value of popular initiatives such as voluntary—and often un-monitorable—codes of conduct.<sup>1</sup>

Progress in fighting corruption on all fronts requires measurement of corruption itself, in order to diagnose problems and monitor results. This recognition has renewed interest in the World Bank, and among aid donors, aid recipients, investors, and civil society, in developing measures of corruption, both in aid-financed projects as well as more broadly in developing countries. This in turn has also sparked debate on how best to measure corruption and monitor progress in reducing it. In this context, some popular notions are espoused, which either lack clarity or are not backed up by rigorous analysis or evidence. In this article we highlight some of the main issues in these debates, in the form of seven myths and their associated realities, and conclude by also pointing to some brief implications for the private sector.

### MYTH 1 Corruption

REALITY: Corruption can, and is being, measured in many forms. Different approaches serve different purposes, as seen in the following three broad ways of measuring corruption:<sup>2</sup>

□ *By gathering the informed views of relevant stakeholders.* These include surveys of firms, public officials, and individuals, as well as views of outside observers in NGOs, multilateral donors, the private sector and experts in investment rating agencies and think tanks. These data sources can be used individually, or in aggregate measures which combine information from many such sources. Literally dozens of such sources are available, many of them covering very large sets of countries, often over time for several years. These are the only available data sources that currently permit large-scale cross-country comparisons and monitoring of corruption over time.

2 *By tracking countries' institutional features.* This provides information that can be related to opportunities or incentives for corruption, such as procurement practices, budget transparency. These do not measure actual corruption, but can provide useful indications of the possibility of corruption. In addition of not constituting a direct measure of corruption, these efforts as yet have limited country coverage, and almost no time dimension yet.

□ *By careful audits of specific projects.* These can be purely financial audits, or more detailed comparisons of spending with the physical output of projects. Such audits can provide information about malfeasance in specific projects within a very particular context within a country, but not about country-wide corruption more generally. These tend to be one-time confined to specific projects and countries, and so are not suited for cross-country comparisons or for monitoring over time.

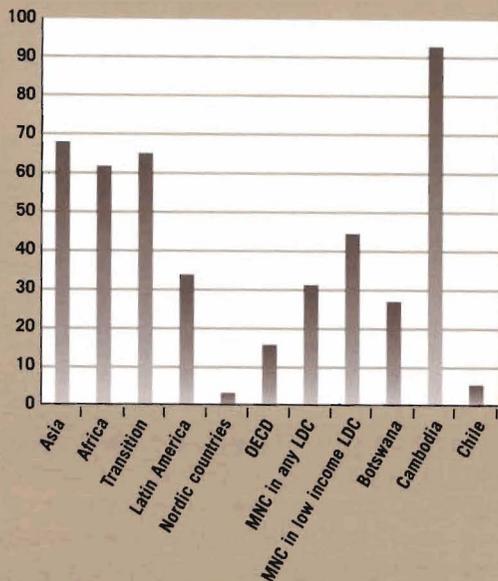
### MYTH 2

**Subjective data reflect vague and generic perceptions of corruption rather than specific objective realities**

REALITY: Since corruption usually leaves no paper trail, perceptions of corruption based on individuals' actual experiences are sometimes the best, and the only, information we have. Perceptions also matter directly: when citizens view the courts and police as corrupt, they will not want to use their services, regardless of what the 'objective' reality is. Similarly, firms will pay less taxes if they believe that they will be wasted by corruption, and they will invest less in their country. Further, while social norms might affect what people view as corruption, in practice such

**FIGURE 1A: BRIBERY REPORTED BY FIRMS FOR PUBLIC PROCUREMENT**

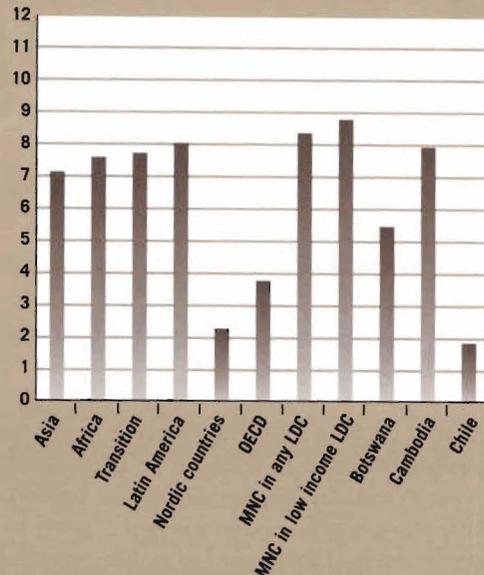
PROPORTION OF FIRMS REPORTING PUBLIC PROCUREMENT BRIBERY



Source: Authors' calculations based on EOS enterprise survey by World Economic Forum. MNC stands for Multinational Corporation, headquartered in a rich OECD country, while LDC stands for developing country.

**FIGURE 1B: BRIBERY REPORTED BY FIRMS FOR PUBLIC PROCUREMENT**

% BRIBE FEE PAID BY BRIBE PAYERS FOR PUBLIC PROCUREMENT



Source: Authors' calculations based on EOS enterprise survey by World Economic Forum. MNC stands for Multinational Corporation, headquartered in a rich OECD country, while LDC stands for developing country.

cultural bias in perceptions does not appear to be substantial. It is telling that perceptions of corruption from cross-country surveys of domestic firms tend to be very highly correlated with perceptions of corruption from expert ratings in commercial risk rating agencies or multilateral development banks.<sup>3</sup>

Survey-based questions of corruption have also become increasingly specific, focused, and quantitative. For example, we have commissioned from the Global Competitiveness Survey coordinated by the World Economic Forum the following specific question: "When firms like yours do business with the government, how much of the contract value must they offer in additional payments to secure the contract?". As illustrated in Figures 1A and 1B, the results can be very specific—and also sobering—pointing in this case to the extent and frequency and extent to which firms—including many multinationals—continue to pay bribes to obtain public procurement contracts. Similar specific questions are also posed by other firm surveys like the World Bank's Business Environment and Enterprise Performance Survey (BEEPS). And household surveys like the Gallup's Voice of the People and Global Barometer Surveys and the Latinobarometro ask respondents to report actual percentages of corrupt officials or actual number of times they witnessed acts of corruption. In fact, these surveys rely on citizens and firms residing in the country—even multinationals, which are a small minority in the enterprise surveys, provide responses through questionnaires administered in the subsidiary operating in the recipient country.

**MYTH 3**

**Subjective data is too unreliable for use in measuring corruption**

**REALITY:** All efforts to measure corruption using any kind of data involve a irreducible element of uncertainty. No measure of corruption 'objective' or subjective, specific or aggregate, can be 100 percent reliable—in the sense of giving precise measures of corruption. This imprecision or measurement error stems from two problems that are common to all types of data, specific, subjective or otherwise:

1 There is measurement 'noise' in specific corruption measures. A survey question about corruption in the courts is subject to sampling error. An assessment of corruption in procurement by a commercial risk rating agency may not be accurate. Even a detailed audit of a project cannot conclusively distinguish between corruption, incompetence and waste, and other sources of noise in the data.

Specific measures of corruption are imperfectly related to overall corruption--or to another manifestation of corruption. A survey question about corruption in the police need not be very informative about corruption in public procurement. Even if an audit turns up evidence of corruption in a project, this need not signal corruption in other projects, or elsewhere in the public sector.

Tracking particular forms of corruption, and especially overall corruption at the country level, inevitably runs into one or both

types of measurement problems. Efforts to measure corruption should aim at minimizing measurement error and be transparent about what inevitably will always remain as residual error. For example, the Kaufmann-Kraay-Mastruzzi corruption indicator average many different data sources for each country, in order to reduce measurement error. Unusually, in these aggregate indicators (measuring six dimensions of governance, one of which is corruption), we also report explicit margins of error, summarizing the remaining unavoidable noise. Unfortunately, the practice of being explicit and transparent about imprecision in estimates of corruption or other dimensions of governance is very uncommon, and thus should be generalized.

Users of governance data should not confuse the absence of explicit margins of error with accuracy: all approaches to measuring corruption, and governance and investment climate more broadly (such as Doing Business indicators), involve elements of uncertainty and margin of error. Nor should they confuse specificity of corruption measures with precision or reliability. Very specific measures, such as proxying for the opportunity for corruption in procurement based on a review of procurement practices (or through specific survey questions) are affected by both types of measurement error, as illustrated above.

**MYTH 4** We need hard objective measures of corruption in order to progress in the fight against corruption

**REALITY:** Since corruption is clandestine, it is virtually impossible to come up with precise objective measures of it. An innovative effort to monitor corruption in road building projects in Indonesia illustrates the difficulties involved in constructing direct objective measures of corruption.<sup>5</sup> The audit compared reported expenditures on building materials with estimates of materials actually used, based on digging holes in the roads and assessing the quantity and quality of materials present. But separating sand from gravel, and both from the soil present before the road was built, is difficult and inevitably involves substantial measurement error. As a result the study could not provide reliable estimates of the level of corruption, although it was still useful as it could provide good estimates of differences in corruption across different types of interventions (such as a likely project audit).

One can also obtain objective data on institutional features such as procurement practices or budget procedures that may create opportunities for corruption, for example through the Public Expenditure and Financial Accountability (PEFA) initiative for monitoring financial management procedures in the public sector. Such approaches can usefully document the "on the books" or official description of specific rules and procedures. But these will only be imperfect proxies for actual corruption, not least because the "on the ground" application of these rules and procedures might be very different.<sup>6</sup> Given the common gap between what procedures, policies, budgets and regulations are on the books as compared with the implementation on the ground, there should be no presumption that objective data is necessarily more informative about the concrete reality

than reports from experts, citizens or firms on the ground—irrespective of the extent of 'subjectivity' of the latter. Indeed, we have estimated the margins of error in the so called 'objective' indicators to be at least as substantial as those in other indicators.

**MYTH 5** Subjective measures of corruption are not "actionable" and so cannot guide policymakers in the fight against corruption

**REALITY:** Several different surveys of firms and individuals ask detailed and disaggregated questions about corruption in different areas of government. As mentioned, Figures 1A and 1B illustrated the kind of specific detail on procurement bribery for instance that can nowadays be gathered through surveys. While such detail does not always point to what specific detailed reforms needed (say, within procurement, or judiciary, etc), it is very useful in identifying priority areas for action. Specific objective indicators of opportunities for corruption are no more "actionable"—in the sense of guiding specific policy interventions. For example, one can measure whether a country has an anticorruption commission or not, or whether competitive bidding is mandated by fiat ('in the books') for some areas of public procurement. But this does not tell us whether such reforms are effectively implemented and enforced on the ground, or whether implementing such reforms in these specific areas will necessarily have a large impact on corruption.

Moreover, tracking even quite general perceptions about corruption can also be a useful way—even if not alone—of monitoring anticorruption programs. In fact, governments in democracies around the world rely on polling data to set policy priorities and track their progress.

**MYTH 6** There is no need to monitor corruption closely since many countries with high corruption have also had fast growth

Skeptics of the anti-corruption agenda are quick to point out countries such as Bangladesh that score poorly on most cross-country assessments of corruption, yet have managed to turn in impressive growth performance over the past decade. One should not confuse these exceptions to the more general strong empirical finding that corruption adversely affects growth in the medium- to long-run. Studies have shown that a one standard-deviation increase in corruption lowers investment rates by three percentage points and lowers average annual growth by about one percentage point.<sup>7</sup>

These results are at some level difficult to interpret when we recognize that corruption is likely to be a symptom of wider institutional failures. A large body of recent empirical work has documented that broader measures of institutional quality explain a significant portion of income differences across countries. One widely-cited study found that an improvement in institutional quality from levels observed in Nigeria to those in Chile would translate into a seven-fold difference in per capita incomes in the long run.<sup>8</sup> This type of evidence sug-



virtually all of the underlying individual data sources that go into our aggregate governance indicators. This data, and accompanying papers, and web-based analytic tools, are available at [www.worldbank.org/wbi/governance/govdata](http://www.worldbank.org/wbi/governance/govdata).

Such data, with the accompanying dose of caution for interpretation (as detailed in the papers, in the web, and in this article), may continue to serve a useful purpose for governance and anti-corruption monitoring and analysis. They will also challenge conventional notions—often devoid of empirical evidence—on what actually is transpiring on the public and private side of the corruption equation, and what can be done about it.

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#### Endnotes

<sup>1</sup> For details on the rationale for rethinking conventional approaches to address corruption, and the specific recommendations as an alternative to

conventional initiatives to mitigate the private sector side of corruption (which overall have not been seen as bearing results), see "Click Refresh Button: Investment Climate Reconsidered," by D. Kaufmann, in *Development Outreach*, March 2005 issue.

- <sup>2</sup> Kaufmann, Kraay and Mastruzzi (2005) provide an exhaustive list of 22 different data sources that provide perceptions data on corruption. Examples of measuring institutional features that create opportunities for corruption include the Public Expenditure and Financial Accountability (PEFA) framework, and the Public Integrity Index of Global Integrity. Examples of audits include Olken (2005), Hsieh and Moretti (2006).
- <sup>3</sup> The correlation between corruption ratings from the Global Competitiveness Surveys and expert polls such as Economist Intelligence Unit, and Global Insight, or Multilateral Institution ratings such as the World Bank's Country Policy and Institutional Assessments (CPIA) are very high. A related critique is that assessments of corruption produced by think-tanks and commercial risk-rating agencies display ideological biases, generally pro-market and pro-right-wing. In Kaufmann, Kraay, and Mastruzzi (2004) we develop a test for such ideological biases and find that they are quantitatively unimportant.
- <sup>4</sup> How much measurement error is reduced by aggregation depends on the extent to which individual data sources provide independent estimates of corruption. In Kaufmann, Kraay, and Mastruzzi (2006) we develop tests of this independence assumption and show that it is not unreasonable.
- <sup>5</sup> Olken (2005).
- <sup>6</sup> See for example Kaufmann, Kraay, and Mastruzzi (2005) who show that much of the difference between objective measures of business entry based on statutory requirements and firms' perceptions of the ease of business entry, can be explained by the extent of corruption.
- <sup>7</sup> Mauro (1995). See also Knack and Keefer (2005)
- <sup>8</sup> Acemoglu, Johnson and Robinson (2001). Other studies include Knack and Keefer (1995), Rigobon and Rodrik (2005), Rodrik, Subramanian and Trebbi (2004), Hall and Jones (1999), and Kaufmann and Kraay (2002).

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# Research on Corruption and Its Control

## *The State of the Art*

BY MOANA M. ERICKSON

THE CSIS-HILLS PROGRAM ON GOVERNANCE, in partnership with the World Bank Institute and Wharton School of Business, brought together leading academics on corruption for a comprehensive workshop entitled: "Research on Corruption and its Control: The State of the Art." The principal objective of the workshop was to highlight cutting edge research on corruption and to identify needed areas of research for the purpose of reducing corruption and improving curricula on the subject.

The Workshop dealt with corruption in practical terms, recognizing that free markets are distorted by corruption and that the rule of law is rendered ineffective when bribes are paid to police, prosecutors and law enforcement officials. A survey of developing economies suggests that firms in countries with high levels of corruption achieved half the output growth of firms in countries with far lower levels of corruption.

At the Workshop's opening dinner on March 3rd, His Excellency Ernesto Zedillo, former President of Mexico, stressed that enforcing the rule of law with an impartial judiciary, is the most important weapon in the war against corruption. Without a focused effort on strengthening the rule of law, corruption flourishes and policies for economic development and reform are undermined.

Paul Wolfowitz, President of the World Bank, in his remarks via video, noted that corruption costs the developing world about \$80 billion a year—an amount approximately equal to the total of all development assistance. Notice was made of the enormous loss to corruption from the administration of the \$64 billion oil-for-food program in Iraq between 1996 and 2003. Fighting corruption is now a priority for the World

Bank, and it plans to do its part by imposing heavy sanctions on fraud connected to World Bank projects.

A number of themes emerged in the Workshop ranging from the accuracy of corruption perception indexes, to sources of political corruption, to an analysis of the psychological causes of corruption. Following are some of the highlights.

### The micro-level study of corruption

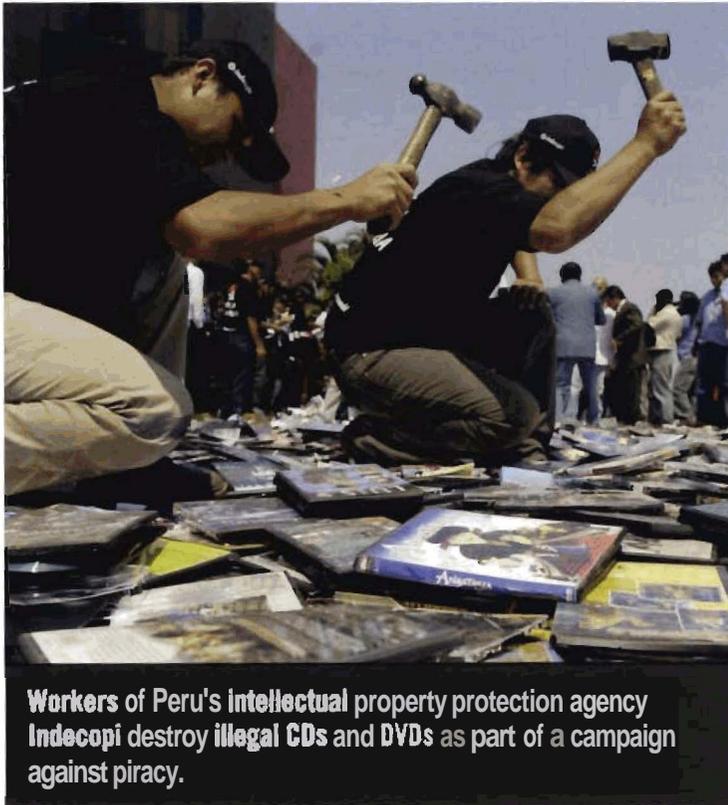
THE BROAD-BASED PERCEPTION INDEXES, while useful in capturing the general atmosphere in a particular country, fail to offer specific steps and solutions, such as where to concentrate policy resources. They do not measure real instances of corruption, nor do they distinguish types and causes of corruption in a country. On the other hand, detailed studies of corruption in a single country and sector would offer policy-makers more concrete evidence of steps that must be taken to root out corruption.

One type of micro-level study of corruption, the "Randomized Field Experiments," produced empirical data on the effectiveness of various anti-corruption measures on a single public works project, such as a World Bank village-level road building project in Java, Indonesia.

Another instance of a useful micro-level tool to fight corruption is the pre-shipment inspection (PSI) as an anti-corruption measure in customs agencies. PSI firms

are multinational companies that inspect goods prior to shipment then send the information on value, quantity and tariff classification of the shipment to the client, typically the government of the recipient country. PSI programs on average have been extremely effective at reducing corruption in customs agencies. Implementation of PSI programs increased import duty

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**Workers of Peru's intellectual property protection agency Indecopi destroy illegal CDs and DVDs as part of a campaign against piracy.**

revenue by 15 to 30 percent within 5 years after implementation. PSI programs have also proven to be cost effective. Further research should include "mystery shopping," a tactic employed by firms to monitor customer service. "Mystery shopping" could be used to monitor provision of public services in sectors like public health and business licensing that frequently suffers from inefficiency and graft.

The investigation of capital markets can be used to measure market distortion caused by corruption. A prime minister or cabinet member on the board of a firm is a strong political connection. If the market believes a company's profitability is the result of political connections rather than operational ability, the market should reduce a firm's value when its political connection is jeopardized. This proved to be the case in Indonesia under Suharto, and in Brazil and Thailand where crony capitalism is prevalent. In contrast, Halliburton's stock was not negatively affected by Cheney's heart problems. A well diversified company in a more transparent democracy may be less dependent on any single political connection.

## Sources of political corruption

IT IS GENERALLY BELIEVED that corruption is not caused by any single political or economic factor.

Consequently, future corruption research must seek to identify the factors that facilitate an environment of corruption. While corruption may reduce the amount of development dollars that reach their intended recipient, growth can occur in a corrupt environment, creating difficulties for researchers intent on measuring the detrimental effects of corruption. Corruption is different in every nation-state and must be treated as a non-linear problem. Furthermore, political corruption poses a different set of problems than typical bribery or diversion of funds. It involves an element of deceit. Therefore, it requires a new definition: holding out democratic norms to the public, but in actuality acting on undisclosed pecuniary motives.

Political corruption must be studied on three levels: the local level, the bilateral level, and the multilateral level. At the local level, charges of corruption against politicians are as disruptive to democratic elections as actual corruption. In emerging democracies such as Kazakhstan and Belarus, political competitors are eliminated from elections by charges of corruption. Charges of corruption at the bilateral level may be based on foreign policy interests rather than ethical norms. At the multilateral level, the forum for action on corruption is primarily the Doha Round of WTO negotiations, where corruption is addressed under the guise of "government procurement."

## Psychological causes of corruption

PSYCHOLOGISTS HAVE RECOGNIZED for some time that corrupt behavior is conditional upon expectations. The expectations that influence social norms include what people know is expected in a situation, as well as what people believe is expected in a situation. Research on ambiguous situations, where the ethically correct path is not clear, illustrates that people choose the ethical path when they are reminded of ethical norms before the experiment, while those facing an ambiguous situation without ethical guidance are more likely to transgress. People who behave unethically without a reason are rare. This is important in institutional settings because it suggests people will act ethically where opportunities for corruption are minimized and ethical norms are publicized. The availability of information about acceptable practices is important in institutional settings.

## Anti-corruption efforts by multi-lateral donors

THERE IS AN ABSENCE of regulatory frameworks to govern how multi-lateral development banks (MDBs) deal with internal corruption, but MDBs have increased anti-corruption measures that affect the lending process. The World Bank's Institutional Integrity Unit has investigated hundreds of reports of fraud involving Bank projects, as well as conducted due diligence on loans from particular sectors to ensure better safeguards in the expenditure process. Analyzing the World Bank's corruption database would be valuable. If MDBs can measure the impact of money lent and the discount due to corruption, MDBs will be able to determine the cost effectiveness of loans, allowing them to better manage resources. Opening the MDBs database to outside research would allow external monitoring, which if conducted independently of the World Bank, would pressure other MDBs and member countries to be more transparent about their own experience with corruption, allowing private investors to benefit from MDB experience.

## Political corruption and democracy

THE COMPLEX RELATIONSHIP between political corruption and democracy includes the study of social networks, clienteles and patronage inherent in many developing countries, as well as corrupt networks both within and outside of the official realm. A prominent factor in this context is the creation of effective anti-corruption agencies by nations with disruptive corruption problems. The first best practice rule for success is not to place police in charge of the new institution. The Philippines government staffed a new anti-corruption agency with personnel from their corrupt police force, dooming it to failure. In contrast, Singapore and Hong Kong have successful anti-corruption agencies. Both began by assigning anti-corruption enforcement to the police force: but the police force failed severely in both countries prompting the establishment of independent anti-corruption agencies administered by officials with proven integrity. These new autonomous institutions have since been successful in their mission to reduce corruption.

## Business and corruption

WHEN COMPANIES SEEK to do business in countries where corrupting influences are prevalent, difficult situations and conflicting interests arise. An example of a challenging situation is illustrated when a company hires a local consultant who guarantees the ability to land a particular contract. Turning a blind eye to the destina-

tion of the consulting fee could invite prosecution under the Foreign Corrupt Practices Act. To reduce the risk of prosecution, the company should request due diligence on the consultant: information about his/her ties to local government; how he/she could assure landing the contract; information about his/her past consultancy contracts; whether he/she has ever been accused of bribery; and information about his/her financial history. Furthermore, the consultancy contract could not run afoul of any local laws or procurement regulations.

## Conclusion

IN SUM, ANTI-CORRUPTION researchers have made substantial progress in collecting accurate data on corruption and developing new methods for studying anti-corruption measures. More work must be done to investigate the causes of corruption and corrupting influences in different political-economic environments. Anti-corruption research would benefit from micro-level studies that identify the variables that facilitate corruption in different sectors. Weaknesses exist in macro-corruption perception indexes as well as in micro-case studies, but both are useful. Further research on the effectiveness of different anti-corruption programs would provide policy-makers with hard evidence of successful strategies. Where persons in power have a stake in corrupt government, the international community must promote media exposure of corruption and unilaterally penalize parties that take part in foreign corrupt practices. The many manifestations of corruption preclude a silver bullet. Instead, governance weaknesses must be addressed using tailored approaches that include strong and streamlined institutions, frequent audits, transparency, accountability and judicial enforcement.

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Moana M. Erickson, Executive Director, CSIS-Hills Program on Governance.

This article summarizes the workshop, "Research on Corruption and its Control: The State of the Art," organized by the CSIS-Hills Program on Governance, in partnership with the World Bank Institute and Wharton School of Business, on March 3rd and 4th, 2006. For more information on this workshop, a list of participants and the agenda, please visit the World Bank Institute Web Portal on Partnerships to Fight Corruption: <http://developmentandbusiness.org/A-C/webportal>. A comprehensive CD-ROM of the event, including video clips, audio clips, presentations, and resources, compiled by the World Bank Institute is also available.

# Seeking Clarity in a World of Murky Transactions

BY MICHAEL JARVIS  
AND AMINA EL-SHARKAWY

WHAT ARE THE DOCUMENTED effects of corruption on the business environment and competitiveness? What are the best private sector approaches to fighting corruption in different contexts? Do collective action initiatives and multi-stakeholder partnerships hold real promise to reduce corruption on a larger scale? As there is increased global attention to the issue of corruption and as more and more organizations seek to find ways to tackle the problem, there is no shortage of questions to address. The sharing of knowledge, not least discussion of what has worked and what has not, becomes all the more important to avoid duplication of efforts, repeating the same mistakes and failure to capture opportunities that could have a major impact.

Recognizing the need to get the lay of the land in combating corruption in terms of private sector-led and multi-stakeholder approaches, the World Bank Institute's Business, Competitiveness and Development (BCD) Team partnered with the UN Global Compact and the Zicklin Center for Business Ethics Research at the Wharton School of Business, to organize a high-level global e-discussion.<sup>1</sup> The resulting dialogue, *Towards a More Systematic Fight against Corruption: The Role of the Private Sector*, took place from June 26–July 12, 2006, and brought together forty invited experts and practitioners from the public, private and civil society sectors, as well as academia. This group also represented viewpoints from an impressive list of countries, including Brazil, Canada, Denmark, Mexico, Norway, Slovakia, South Africa, Spain, the United Kingdom and the United States, and relayed news of projects in many more countries. Given the complexity and potential sensitivities inherent to dialogue on this topic, the e-discussion was conducted in a closed format that ensured a frank and candid exchange of views and ideas. expertly moderated by representatives of Transparency International, the Center for International Private Enterprise, United

Nations Global Compact, and the Wharton School. A brief article cannot do the wide ranging debate justice, but does provide a sampling of the discussion.<sup>1</sup>

The participants recognized the pervasive presence of corruption that can permeate all sectors of society, often rendering unilateral solutions ineffective and unsustainable. Hence, close attention and steadfast commitment to fighting corruption must come from the range of stakeholders in order to address its root causes: as well as its symptoms. The private sector is increasingly recognizing that it is in its own best interest to address and eliminate corruption in order to foster a stable business environment, but the discussion highlighted the limitations of individual firm actions and the difficulty of implementing them across international and local businesses alike. Recent experiences, ranging from Vietnam to South Africa to Colombia, suggest that effective and consistent private sector efforts have great potential worldwide, particularly when aligned with NGOs and, potentially, government partners. However, the challenge of moving from individual examples to finding a model that works in different settings remains great.

Echoing and reinforcing the closed format of the e-discussion itself, one theme emerging from the discussion was the need and importance for a "safe space" in which counterparts, colleagues and competitors can freely talk about the realities of corruption. Varying levels of mistrust amongst these parties, as well as the fear of negative repercussions arising from a candid approach, such as negative effects on reputation and brand, and the threat of blackmail, can be major factors limiting the ability to discuss corruption issues openly and to organizing collective efforts to fight it. More needs to be done by all sectors to break the taboo around corruption. As with other sensitive development related issues, such as fighting HIV/AIDS, half the battle lies in admitting the problem exists. Only after a frank recognition of corruption can substantive and systematic action be taken. Many leading development institutions and donors have only relatively recently become leaders in

taking on corruption. In the case of the World Bank, corruption has come front and center on its agenda only over the past ten years, begun under the presidency of James Wolfensohn and continuing under the active leadership of Paul Wolfowitz.

Of course, in order to actually be able to discuss corruption in the first place, especially across sectors and geographic regions, it is critical to utilize a common language. There exists a lack of common definitions for corruption and its associated terminology, causing confusion and frustration. There are many ways to define corruption, and as the e-discussion participants highlighted, there remains much talk of different "types," such as private-public corruption and private-private corruption, or even "levels" of corruption. Yet it is hard to decide if one form is more egregious than another. Where does one draw the line on what is acceptable practice? Given the ambiguity, taking a hard line is often the only way to bring clarity. However, situations on the ground are often far more complicated. For example, it came clear over the course of the e-discussion that there remains no consensus across sectors on facilitation payments, which are unofficial payments made to procure or speed up the provision of goods or services. Facilitation payments fall into an ethically gray area as they are a normal (and legal) part of doing business in some countries, but are outlawed in others. This creates a dilemma for multinational companies who are prohibited from making facilitation payments in their home countries, but may face a need to make these payments in the countries in which they operate. Recognizing that there are not yet clear protocols or standards for such situations, e-discussion participants found agreement on the need to address corrupting influences, as well as limiting opportunities for the corrupt transactions themselves, for example with educational campaigns backed by enforceable sanctions.

Dovetailing with the need for more universally accepted definitions of corruption is the need for more empirical research and quantitative data on corruption and anti-corruption initiatives. This was a point of agreement not just among academics, but practitioners, too. Armed with a solid business case for fighting corruption, quantifiable economic costs of engaging in corrupt activities, and empirical evidence linking engagement in corrupt activities to decreased firm, national, and regional-level competitiveness, those in the field are better equipped to facilitate the scaling up and replication of successful initiatives, as well as implement more effective mechanisms for the monitoring, evaluating and reporting of initiatives.

When conducting and collecting this research and data it is important to include small and medium enterprises (SMEs). The majority of anti-corruption solutions and

initiatives are typically geared towards larger firms, overlooking the SMEs who often want to engage in anti-corruption initiatives but feel helpless to do so or cannot discern a viable entry point. While the amounts may be smaller, the toll of corruption on SMEs is heavy as their profit margins are also smaller. They are less able to let an order fall through or a shipment languish in a warehouse. During the e-discussion, participants from several different regions reiterated the findings of different surveys suggesting that SME owners almost universally find the pressure to engage in corruption distasteful and harmful to business. Yet just as universally, "they feel trapped by it" as noted by one private sector consultant from Slovakia, reflecting results from a range of Integra Venture anti-corruption reports completed in recent years.<sup>3</sup>

Building the capacity of SMEs to reject participation in corruption is a concern increasingly shared by larger firms who contract SMEs within their supply chains. They do not want to be held responsible for corrupt practices further down (or up) the chain. Recognizing the dynamics impacting all levels of the supply chain, the participants in the e-discussion emphasized the importance of understanding the business environment of a specific country or sector. Corruption—be it in the customs house, the banking system or property markets, is one facet of this business environment, and the government has core responsibility for the functioning of this environment. As one participant noted, while the private sector has a role to play, in the end "Governments, not companies, are responsible for managing the legal and regulatory framework." Therefore, for a successful broad anti-corruption initiative, obtaining government buy-in and securing political will is vital.

This is not to say that the private sector cannot play a strong role in changing the environment in which it operates. The e-discussants agreed that effective legal prohibition of corrupt behavior is in the interest of all (or almost all) private companies, as effective legal sanctions change the incentive structure away from the prisoners' dilemma constellation that makes it difficult to break cycles of corruption. As one academic argued, this means that business associations, or simply groups of individual industry leaders, should, theoretically at least, be the strongest proponents of effective legal mandatory rules on company behavior. As a private sector representative in turn pointed out, "Business associations can play a role in lobbying governments by making clear what the costs of failure to reform will be. In many cases they may be able to provide technical advice. The objective should be to work together to address a common problem. That process is unlikely to begin until it is made clear to government that there is a problem, and how much it costs in lost revenue and lost business."

Even with private sector lobbying for reform, improvements in the business environment are typically a lengthy process. Ensuring transparency and commitment to fighting corruption in any sector can take a long time to assess and put into motion, and an even longer time for implementation. In the meantime, what approach should business take? Several participants in the discussion pointed to the conflicting pulls between the long-term ideal that a firm might have for an operating space where corruption can be avoided altogether, and what is feasible in the short-term. Companies therefore do look for shorter term solutions to find and fight corruption. One newer mechanism, highlighted in the e-discussion, is the use of private enforcement actions, which are utilized more to level the playing field than to eliminate corruption for a broader ethical purpose. Private enforcement actions involve companies initiating investigations of their competitors in order to procure evidence on whether or not they are engaging in corrupt activities. Such actions, in and of themselves, bring up issues of ethics and transparency, particularly in regards to how the information uncovered by private enforcement actions is used. As in the case of private enforcement actions, new strategies and practices ensure that the range of stakeholders continually need to monitor and evaluate their appropriate stance, and, if necessary, their appropriate response.

Industry approaches, such as the Extractive Industries Transparency Initiative (EITI), may provide a more transparent mechanism for competitors to share information and "level the playing field." However, EITI and other industry-led collection action initiatives, raise their own set of issues. For example, participants in the e-discussion debated how best to deal with state-owned enterprises that, even if they do sign up to such agreements, are not held accountable in the same way as international publicly traded firms. Some trends offer opportunities to require more transparency, including the moves of many national firms, such as oil companies in India or China, to partially list on international stock exchanges. They might then be subject to requirements to detail payments in order to retain a stock exchange listing, but such solutions are partial at best. As noted by one major oil company representative, such schemes would still not capture the universe of companies competing in the oil sector.

Additionally, industry approaches, such as EITI, are typically voluntary mechanisms which face issues of enforcement, credibility and verifiability. The participants comments in the e-discussion duly reflected the broader global debate that applies to corporate responsibility standards as well as anti-corruption regimes. on finding the right balance between mandatory and volun-

tary regulations with a consensus emerging that a mixture of both is necessary, as they reinforce each other. The caveat is that appropriate combinations will vary from country to country, sector to sector, and circumstance to circumstance. The concluding sentiment is that, although there are no easy solutions, it is worthwhile to continue to refine collective approaches to fighting corruption. Dialogue among the different players will be crucial to the success of such collective efforts. Reassuringly, the e-discussion suggests there is great willingness from leading businesses, NGOs and academics to share knowledge, collaborate and continue that dialogue. The networks formed through such discussions are crucial in supporting individual actors and creating opportunities for wider scale impact.

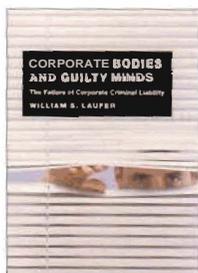
**Michael Jarvis and Amina El-Sharkawy are Consultants, Finance and Private Sector. World Bank Institute.**

#### Endnotes:

<sup>1</sup> The e-discussion was one of a series of events leading up to the UN Global Compact workshop Collective Business Action and National Initiatives on Anti-Corruption, July 10–11, 2006 in Barcelona, Spain, and the plenary session *Partnerships to Combat Corruption: Rising to the Challenge* on September 17, 2006, during the Program of Seminars at the IMF/World Bank Group/Board of Governors Annual Meetings in Singapore. The agenda of the e-discussion was designed in alignment with the issues to be covered during these two events. Weekly summaries and further information on the BCD Team's anti-corruption programs and events can be found on its Web Portal on *Partnerships to Combat Corruption*: <http://developmentandbusiness.org/A-C/webportal>

<sup>2</sup> Commentators for the e-discussion included representatives from The Control Risks Group, the US Department of Commerce, Tecnológico de Monterrey, Chevron, and Diligence LLC.

<sup>3</sup> Integra Venture, Anti-Corruption Project Slovakia Report, September, 2000, [http://iintegra.infotech.sk/downloads/13\\_Publications1\\_en.pdf](http://iintegra.infotech.sk/downloads/13_Publications1_en.pdf); Integra Venture, Anti-Corruption Project Croatia Report, November, 2001, [http://iintegra.infotech.sk/downloads/14\\_Publications2\\_en.pdf](http://iintegra.infotech.sk/downloads/14_Publications2_en.pdf); Integra Venture, Anti-corruption Project Bulgaria Report, July 2002, [http://iintegra.infotech.sk/downloads/15\\_Publications3\\_en.pdf](http://iintegra.infotech.sk/downloads/15_Publications3_en.pdf)



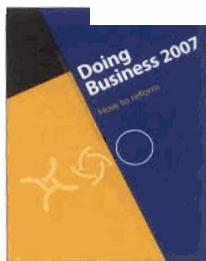
**CORPORATE BODIES AND GUILTY MINDS: THE FAILURE OF CORPORATE CRIMINAL LIABILITY**, William S. Laufer.

*University of Chicago Press, 2006.*

In this timely work, William S. Laufer argues that even with recent legal reforms—and those about to be enacted—corporate criminal law continues to be ineffective. The book outlines the many reasons why this is so. But none of these factors, according to Laufer, trumps the fact that there is no single constituency or interest group that strongly and consistently advocates the importance and priority of corporate criminal liability. In the absence of a new standard of corporate liability, the power of regulators to keep corporate abuses in check will remain insufficient. A necessary corrective to our current climate of graft and greed, *Corporate Bodies and Guilty Minds* will be essential to policymakers and legal minds alike.

**FIGHTING CORRUPTION IN EAST ASIA: SOLUTIONS FROM THE PRIVATE SECTOR**, Jean-François Arvis and Ronald E. Berenbeim, World Bank, 2003.

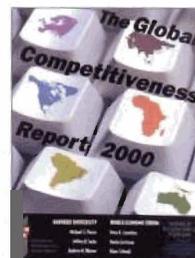
Although attention has focused on public sector initiatives to fight corruption on the demand side, private companies in every region have developed programs to fight it on the supply side. Based on case studies of international and regional corporations, this book looks at the content of the programs and at issues pertaining implementation and effectiveness such as the role of the business culture. It also analyzes the incentives, internal and external, that drive the adoption and implementation of those techniques. Many examples of actual mechanisms and alliances to disseminate good practices are presented, often involving partnerships with the public sector or the civil society.



**DOING BUSINESS 2007: HOW TO REFORM**, The World Bank, 2006.

The fourth annual Doing Business report focuses on reform. The report presents quantitative indicators on business regulations and their enforcement compared across 175 countries—from Afghanistan to Zimbabwe—and over time. Top reformers are identified and best practices in how to reform are highlighted. Published annually, Doing Business reports investigate global regulations

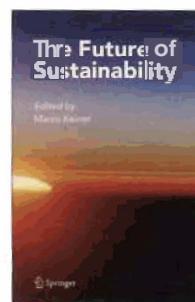
that enhance business activity and those that constrain it, ranking countries on their "ease of doing business." This year, analysis is presented from 50 case studies of reform. Visit the web site for more information, to order copies, or to generate your own reports using the Doing Business data: [www.doingbusiness.org](http://www.doingbusiness.org)



**THE GLOBAL COMPETITIVENESS REPORT 2005-2006**, Augusto Lopez-Claros et al., eds., Palgrave Macmillan, new edition, 2005.

The World Economic Forum continues its tradition of excellence with the 26th edition of the annual *Global Competitiveness*

*Report* featuring the latest national statistics and results of the Executive Opinion Survey, which captures the perception of over 10,000 business leaders. The report provides the most comprehensive assessment of 117 developed and emerging economies. Produced in collaboration with a distinguished group of international scholars and a global network of over 100 leading national research institutes and business organizations, the report presents individual detailed country profiles highlighting the competitive strengths and weaknesses of each economy as well as an extensive section of data tables containing country rankings for over 160 indicators.

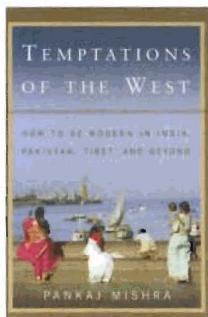


**THE FUTURE OF SUSTAINABILITY**, Marco Keiner, ed., Springer, 2006.

This book provides a broad discussion on sustainable development, rethinking and improving its effectiveness as a paradigm of today and tomorrow by bringing together the visions and contributions of highly esteemed thinkers on the subject (such as Herman E. Daly, Ernst Ulrich von Weizsacker, Mikhail Gorbachev, Dennis Meadows and others). Communities, states, and transnational corporations must take steps to transform engrained practices and priorities. If they fail to do so, Sustainable Development will remain an abstract concept or a superficial catchword and will not become reality.

**ANTI-CORRUPTION IN TRANSITION 3: Who Is Succeeding... and Why**, James Anderson and Cheryl Gray, World Bank, 2006.

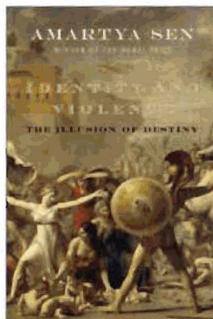
This report is the third in a series of studies examining the patterns and trends in corruption in the former socialist economies of Eastern Europe and Central Asia. The findings show that reforms in the region in cutting red tape, simplifying taxes, and strengthening audits, among others, are reducing the opportunities for corruption. Firms report bribery to be less frequent and in smaller amounts. However, corruption is not falling in all countries or all sectors, and even the most successful reformers still tend to have higher levels of corruption than in Western Europe. Corruption continues to weigh most heavily on new private firms that are the engine of growth and employment in the region.



**TEMPTATIONS OF THE WEST: How to Be Modern in India, Pakistan, Tibet, and Beyond**, Pankaj Mishra, Farrar, Straus and Giroux, 2006.

In his new book, Pankaj Mishra, author of *An End to Suffering*, brings literary authority and political insight to bear on travels that are at once epic and personal. Traveling in the

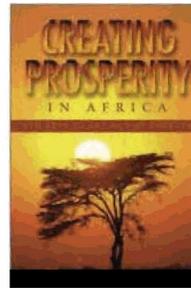
changing cultures of South Asia. Mishra sees the temptations of Western-style modernity and prosperity, and teases out the paradoxes of globalization. *Temptations of the West* is a book concerned with history still in the making—essential reading about a conflicted and rapidly changing region.



**IDENTITY AND VIOLENCE: The Illusion of Destiny**, Amartya Sen, Norton, 2006.

Amartya Sen proposes in this sweeping philosophical work that the brutalities that plague the world are driven as much by confusion as by inescapable hatred. Conflict and violence are sustained by the illusion of a unique identity, overlooking the

need for reason and choice in deciding on bonds of class, gender, profession, scientific interests, moral beliefs, and even our shared identity as human beings.



**CREATING PROSPERITY IN AFRICA: Ten Keys to Get out of Poverty**, Eugene Nyambal, Inkwater Press, 2006.

The author analyzes Africa's performance in the global economy. He shows how Africa can design its own future and create more wealth for its people, while abandoning the spirit of aid

dependency. Also, he addresses the role of leadership in fostering economic development and argues for a new modus operandi for international financial institutions.

**GLOBAL DEVELOPMENT FINANCE (GDF)**, The World Bank, 2006.

This report is part of a two-volume annual publication. *Volume I: Analysis and Statistical Appendix* reviews recent trends in financial flows to developing countries. *Volume II: Summary and Country tables (GDF)*, published annually by Development Data Group (DECDG), contains statistical tables on the external debt of the 135 countries that report public and publicly guaranteed debt under the Debtor Reporting System (DRS). It is the sole repository for statistics on the external debt of developing countries on a loan-by-loan basis.

#### OTHER TITLES OF INTEREST

**BUSINESS AGAINST CORRUPTION: CASE STORIES AND EXAMPLES**, UN Global Compact, April, 2006.

**DISPELLING CORRUPTION MYTHS: WHAT WORKS AND WHAT DOESN'T**, Aleksandr Shkolnikov and Andrew Wilson, Center for International Private Enterprise, June 2005.

**BUSINESS ETHICS: A MANUAL FOR MANAGING A RESPONSIBLE BUSINESS ENTERPRISE IN EMERGING MARKET ECONOMIES**, UN Global Compact, April, 2006.

**BUSINESS AGAINST CORRUPTION: CASE STORIES AND EXAMPLES**, US Department of Commerce, International Trade Administration, Washington, DC, 2004.

**SMALL BUSINESS DEVELOPMENT AND CORRUPTION**, UN Office on Drugs and Crime (UNODC) and UNIDO, Discussion Paper, March 2006



**TRANSPARENCY INTERNATIONAL (TI)**, a global civil society organization leading the fight against corruption, brings people together in a powerful worldwide coalition to end the devastating impact of corruption on men, women

and children around the world. TI's mission is to create change towards a world free of corruption.

[www.transparency.org](http://www.transparency.org)



**WORLD BANK INSTITUTE PARTNERSHIPS TO COMBAT CORRUPTION** provides an introduction to the BCD Team's Learning Program on Business Ethics and Anti-Corruption. The Learning

Program consists of a series of activities leading up to and following the plenary session "Partnerships to Combat Corruption: Rising to the Challenge" that will take place at the 2006 IMF/World Bank Board of Governors Annual Meetings in Singapore. It also serves as a resource center for business and NGO leaders, policymakers and future leaders interested in business-led partnerships, perspectives and solutions on fighting corruption.

<http://info.worldbank.org/tools/bcdwebportal>



**GOVERNANCE DATA: WEB-INTERACTIVE INVENTORY OF DATASETS AND EMPIRICAL TOOLS** provides an inventory of the available datasets on governance, in order to facilitate the user's access to a broad spectrum of such data.

The total number of datasets in

this inventory exceeds 140, and goes well beyond the obvious, such as the WB Governance Indicators Dataset, Transparency International Corruption Perception Index, and the WEF Global Competitiveness program. The site only includes datasets and associated empirical tools where actual data exists and is made accessible to the user.

[www.worldbank.org/wbi/governance/govdatasets/index.html](http://www.worldbank.org/wbi/governance/govdatasets/index.html)



**ETHICSWORLD** is an independent, not-for-profit forum designed to contribute to the strengthening of global ethics and governance. EthicsWorld is for professionals in business, government, civil society, and

academia as well as students and the media. Its goal is to provide knowledge through news, research, and best practices, and encourage an active exchange of views.

[www.ethicsworld.org](http://www.ethicsworld.org)



**HUMANITARIAN ACCOUNTABILITY PARTNERSHIP (HAP)**

is the humanitarian sector's first international self-regulatory body, striving to make humanitarian action accountable to its intended

beneficiaries: those people whose lives are at risk due to armed conflict or other calamitous events. It shares a commitment to making humanitarian action accountable to disaster survivors. At the heart of this endeavour lies HAP's Principles of Accountability.

[www.hapinternational.org](http://www.hapinternational.org)



**COMBATING CORRUPTION: A POLICY TOOLKIT** is a page of the

website featuring the Center for International Private Enterprise (CIPE), a non-profit affiliate of the U.S. chamber of

Commerce and one of the four core institutes of the National Endowment for Democracy. This page lists a number of practical recommendations for policymakers to combat corruption, which can be implemented right away. These recommendations involve the supply side as well as the demand side.

<http://www.cipe.org/programs/corruption/corruptiontoolkit.php>



**INTERNATIONAL COMPLIANCE ASSOCIATION (ICA)** is a non-profit professional organization dedicated to the furtherance of best compliance and anti money

laundering practice in the financial services sector. It supports and educates compliance of professionals in the fight against terrorist financing, corruption, money laundering and financial crime.

[www.int-comp.org](http://www.int-comp.org)



**WHITE COLLAR CRIME** is designed to help people understand and recognize such frauds as bribery and corruption, and teach them how to stop them. This site is a joint project between the South

African Police Service's KwaZulu Natal Commercial Crime Division, Business Against Crime's KwaZulu Natal White Collar Crime Task Group, and J. Blindell. It will provide an electronic version of BAC's *Dealing with White Collar Crime* handbook.

[www.whitecollarcrime.co.za/news.php](http://www.whitecollarcrime.co.za/news.php)



**THE INTEGRA VENTURE** is a network of Community Economic agencies in Central and Eastern Europe that offers practical and professional help to entrepreneurs to start and grow their business. It also promotes marketplace ethics

and corporate social responsibility, thus helping to strengthen civil society, democracy and the free market economy in those countries.

[www.integra.sk](http://www.integra.sk)



**DOING BUSINESS DATABASE** provides indicators of the cost of doing business by identifying specific regulations that enhance or

constrain business investment, productivity, and growth. The Doing Business indicators are comparable across 155 economies. They are developed by the Private Sector Vice Presidency of the World Bank Group in cooperation with the Lex Mundi Association of law firms and the International Bar Association.

[www.doingbusiness.org](http://www.doingbusiness.org)



**PARTNERSHIP FOR TRANSPARENCY FUND (PTF)** is an international non-governmental organization dedicated to helping civil society play an effective role in the design,

implementation and monitoring of national anti-corruption programs. PTF believes that civil society is more efficient in fostering anti-corruption and good governance programs when it is financially independent from government or direct bilateral or multilateral funding.

[www.partnershipfortransparency.info](http://www.partnershipfortransparency.info)



**ANTICORRUPTION AND GOVERNANCE LIBRARY** is a web-based part of the Library of Learning Objects developed and maintained by the Internet Strategy & Applications Team at the World Bank Institute. Many

of the WBI publications and presentations are accessible through the Library, which provides quick access to all of these documents in a user-friendly interface that offers an excellent search function.

[www.worldbank.org/wbi/governance/library.html](http://www.worldbank.org/wbi/governance/library.html)

**TRANSNATIONAL CRIME AND CORRUPTION CENTER—CAUCASUS OFFICE (TRACCC CO)** is the research organization of a group of Georgian scholars, which connects professionals, politicians, academics and representatives of different NGOs, as well as members of international organizations. The Caucasus Office carries out joint projects and exchange of information between scientific, governmental and independent organizations of different countries.

[www.traccc.cdn.ge](http://www.traccc.cdn.ge)

[www.american.edu/traccc](http://www.american.edu/traccc)

## CALENDAR

### SEPTEMBER 2006

- 1-30 UNESCO-WFEO Multi-project and "Workshop on Gender Issues and the Empowerment of Women in Engineering, Science and Technology in Africa and the Middle East." Tunis, Tunisia  
<http://events.unesco.org>
- 10-11 China Business Summit 2006 Sustainable Growth through Innovation: China's Creative Imperative Beijing, China  
[china@weforum.org](mailto:china@weforum.org)  
[www.wefomm.org](http://www.wefomm.org)
- 19-20 Annual Meetings of the International Monetary Fund and the World Bank Group Singapore  
[www.imf.org/external/am/2006/about.htm](http://www.imf.org/external/am/2006/about.htm)
- 25-26 WTO Public Forum 2006 What WTO for the XXI Century? Geneva, Switzerland  
[wtofomm2006@wto.org](mailto:wtofomm2006@wto.org)  
[www.wto.org](http://www.wto.org)
- 29-30 Advancing Health Equity World Institute for Development Economics Research Helsinki, Finland  
Sherry-Anne Ruuskanen, [healtho6@vider.unu.edu](mailto:healtho6@vider.unu.edu)  
[www.wider.unu.edu](http://www.wider.unu.edu)

### OCTOBER 2006

- 1-3 Sub-Regional Workshop on Education for Sustainable Development Seoul, Republic of Korea  
<http://events.unesco.org>
- 2 World Habitat Day Naples, Italy  
[www.unhabitat.org](http://www.unhabitat.org)
- 25-27 World Congress on Communication for Development Rome, Italy  
[wccd@worldbank.org](mailto:wccd@worldbank.org)  
[www.devcomm-congress.org](http://www.devcomm-congress.org)

### NOVEMBER 2006

- 2-3 Inclusion and Integration through Innovation: Learning Environments for Students with Special Needs Antalya, Turkey  
[www.oecd.org](http://www.oecd.org)
- 23-24 World Economic Forum Connecting Regions—Creating New Opportunities Istanbul, Turkey  
[turkey@weforum.org](mailto:turkey@weforum.org)  
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- Money for Nothing, the Dire **Straits** of Medical Practice in **Delhi**  
**Jishnu Das** and **Jeffrey Hammer**
- Why We Need a World **Bank** Research Digest  
**François Bourguignon**
- Bank Supervision and **Corruption** in Lending  
**Thorsten Beck**, **Asli Demirgüç-Kunt**, and **Ross Levine**
- The **Distributional** Incidence of Residential Water and **Electricity**  
**Subsidies**  
**Kristin Komives**, Jonathan **Halpern**, **Vivien Foster**, **Quentin Wodon**
- Child Labor and Agricultural Shocks  
Kathleen **Beegle**, Rajeev Dehejia, and Roberta **Gatti**
- Market Access for Sale  
Hiau Looi Kee, **Marcelo Olarreaga**, and **Peri Silva**
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**Susmita Dasgupta**, Hua **Wang**, and **David Wheeler**

# Doing Business 2007

## How to reform

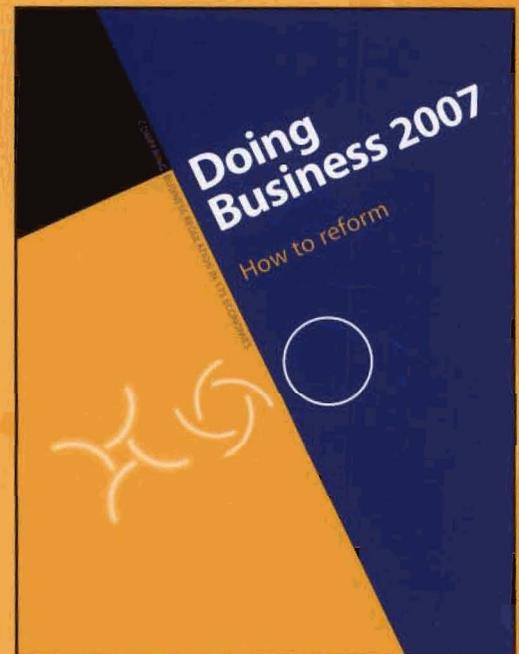
Available on September 6, 2006

The report presents quantitative indicators on business regulations and their enforcement compared across 175 countries—from Afghanistan to Zimbabwe—and over time. Top reformers are identified and best practices in how to reform are highlighted. This year's report focuses on reform strategies, updates indicators developed in the three preceding reports, and **covers 20 additional countries.**

Published annually, Doing Business reports investigate global regulations that enhance business activity and those that constrain it, ranking countries on their "ease of doing business."

Cosponsored by the World Bank and the International Finance Corporation (IFC) - the private sector arm of the World Bank Group - the Doing Business reports give policymakers the ability to **measure regulatory performance in comparison to other countries, learn from global best practices, and prioritize reforms.** The indicators are used to analyze **economic and social outcomes, such as informality, corruption, unemployment, and poverty.**

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