

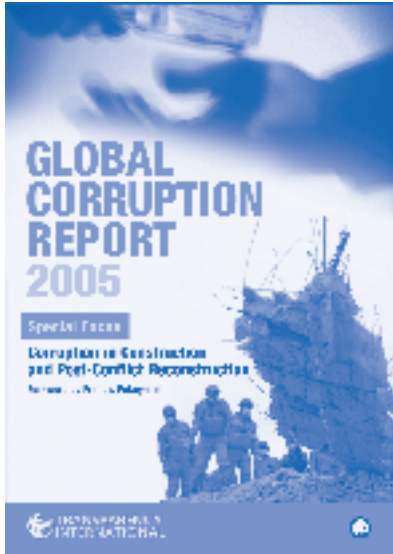
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March 2005



Transparency International's Quarterly Newsletter



*The TI Global Corruption Report 2005, with a special focus on corruption in construction and post-conflict reconstruction, is released this month. See page 16.*

FROM THE CHAIRMAN

## A world built on bribes?

Transparency International's *Global Corruption Report 2005* finds that when the size of a bribe takes precedence over value for money, the results are shoddy construction and poor infrastructure management. Corruption wastes money, bankrupts countries, and costs lives.

Although not confined to any region of the world, the effects of corruption in the construction sector are more onerous in countries that are poor, where a higher proportion of government procurement budgets are targeted for infrastructure. Corrupt contracting processes leave developing countries saddled with sub-standard infrastructure and excessive debt. This is not only because of the money lost to corruption during the bidding or construction of the project, but also because the very motivation for the project is often to attract bribes rather than address a genuine need. The *Global Corruption Report 2005* features many examples of expensive projects that were mothballed as soon as they were completed.

It is important not to merely describe problems, but to come up with solutions. The unfolding scandal surrounding the UN-sponsored oil-for-food programme in Iraq highlights the urgent need for strict conflict-of-interest rules and transparent and open bidding processes. Funds being poured into countries under reconstruction, such as Iraq, must be safeguarded against corruption. Transparency must also be the watchword as donors pledge massive sums to reconstruct the countries affected by the Asian tsunami (see p.7).

Companies and governments both share the responsibility to eliminate corruption in the construction sector. Companies based in OECD countries must fulfil their obligations under the OECD Anti-Bribery Convention and stop paying bribes at home and abroad. With the spread of anti-bribery legislation, corporate governance and anti-corruption compliance codes, there can be no tolerance for managers paying bribes.

When public money is at stake there is an even greater imperative to ensure that it is not squandered by corrupt contractors and officials. TI's Minimum Standards for Public Contracting provide a blueprint for cleaning up the bidding and selection processes for public projects, which governments cannot afford to ignore. Bidding must be competitive and transparent, and preventive mechanisms need to be introduced, including decent pay and supervision for government staff involved in procurement.

Clean, fair and efficient construction is essential in building stable and safe environments for future generations. The *Global Corruption Report 2005* is a call for a world built, not on bribes, but on fairness and honesty.

*Peter Eigen, Chairman, Transparency International*

SPECIAL REPORT

## Corrupting the new Iraq

By Reinoud Leenders and Justin Alexander

*The following is an excerpt from Transparency International's Global Corruption Report 2005 published by Pluto Press on 16 March.*

Wednesday 9 April 2003 was not only the day that most Iraqis rejoiced at the fall of Saddam Hussein's regime. In the eyes of many Iraqis, it was also the day that marked the beginning of a new era of intensified theft of state property, corruption and conflicts of interest. When asked to give their views on the birth of the new Iraq, the probability is high that Iraqis will refer not only to the widespread looting by thieves, but also to the looting by Iraq's new democratic leaders.

Taking advantage of the power vacuum, scores of political factions took possession overnight of numerous public buildings and settled in opulent villas vacated by Saddam's henchmen. The old regime's car park became the scene of the new political elite's gluttony, with hundreds of SUVs that once served as the status symbol of Saddam's secret agents now being driven to the headquarters of the new political parties. Iraq's new politicians found

*Continued on page 10*

SPECIAL REPORT

### Global Corruption Report 2005

TI's latest report with a special focus on corruption in construction and post-conflict reconstruction highlights why transparency is critical for rebuilding post-war Iraq.

*page 10*

FEATURE

### Corruption thrown into relief

Large-scale reconstruction projects can provide golden opportunities for corruption. TI is developing tools to minimise graft in efforts to deliver aid to areas affected by the Asian tsunami.

*page 13*

COUNTRY SPOTLIGHT

### Ecuador

The purging of 27 of Ecuador's 31 Supreme Court Justices in December 2004 marked the beginning of the country's constitutional crisis. In Ecuador, civil society voices its concern.

*page 15*

# In the Headlines

» A sample of corruption reports from around the world

## AFRICA

### • CAMEROON

#### Government begins new drive to eliminate corruption

Cameroon's President Paul Biya recently published in a newspaper the names of 73 top civil servants accused of corruption. All have been ordered to return improperly acquired money and state property and some face criminal charges. In a state where over 50 per cent of the population has admitted to paying a bribe, the government has also begun an initiative involving the wider public - special letter boxes for complaints of corruption.

Poor pay for Cameroon's civil servants, in combination with IMF-led cuts in government spending and the devaluation of the CFA franc are believed to be behind the rampant corruption.

*Reuters, 20 January 2005*

### • KENYA

#### Githongo resignation sparks charges of government corruption

The resignation on 7 February of John Githongo, the anti-corruption adviser to Kenyan president Mwai Kibaki and former head of TI Kenya, is the strongest signal to date that the president's campaign against graft is in doubt. President Mwai Kibaki was elected in 2002 on the platform of eradicating the corruption characteristic of former President Moi's regime. Githongo waited until he was out of the country to resign, presumably to ensure his personal safety, but has not commented except to denounce the president's lack of commitment to the fight against corruption. This comes amid recent allegations of corruption in the administration. The unexpected resignation prompted the United States to suspend funding for anti-corruption projects in Kenya and the EU to warn its assistance to Kenya may also be threatened.

Meanwhile, a Kenyan appeal court has moved the inquiry into the Goldenberg scandal one step closer to resolution by lifting an order to summon former president Daniel arap. Moi and 1,500 others before conclusion of the case.

*Agence France Presse, 9/10 February 2005;*  
*Associated Press, 11 February 2005;*  
*Reuters, 9/15 February 2005;*

## AMERICAS

### • ARGENTINA

#### Legal changes could lead to greater impunity

The Argentine Congress recently modified the Penal Code, shortening the limitation period for criminal cases in the courts. Effective immediately, this change means that many corruption cases presently in the courts will not see a trial. Several federal district attorneys and judges, as well as provincial federal courts, have already expressed their concern over the changes, which could result in greater impunity.

*La Nación, 6 February 2005*

### • CHILE/USA

#### US banks helped Pinochet hide wealth - report

Citigroup, Bank of America and seven other banks enabled former Chilean dictator Augusto Pinochet and members of his family to build a sprawling secret network of accounts to conceal his wealth, Senate investigators charge in a new report.

One of those institutions, Riggs Bank, had a relationship with Pinochet that was far more extensive and long-standing than previously believed, the report finds.

The banks allowed Pinochet to use phony account names, offshore accounts and other deceptions to hide an estimated US\$13 million or more from US examiners and international prosecutors seeking to seize his assets, according to the report by the staff of the Senate Governmental Affairs investigative subcommittee.

Some banks, including Riggs and Citigroup, had a relationship with Pinochet and his family going back 24 or 25 years, the investigators found. The accounts have since been closed. The investigators said all the banks cooperated with their inquiry.

Riggs pleaded guilty in January to a criminal felony charge of failing to report suspicious transactions to authorities, including those in Pinochet's accounts, and has agreed to pay US\$41m in civil and criminal fines to the US government.

*Associated Press, 15 March 2005*

### • GUATEMALA

#### Comcel bribery investigation continues

The investigation into the payment of bribes from cellular phone multinational Comcel to individuals close to ex-President Alfonso Portillo continues. The Guatemalan authorities are also investigating Comcel's financing of Portillo's political party, Frente Republicano Guatemalteco, in an election campaign. Julio Girón, Portillo's personal secretary, and Fernando de Pinal, the brother of the former manager of Guatel (the state company responsible for awarding cellular phone frequencies) are suspected of having received a total of US\$3.4 million between October 1999 and June 2000. Following Portillo's election as President in 2000, Comcel started paying Guatemalan Quetzal 1 million (US\$140,000) instead of the Guatemalan Quetzal 42 million (US\$5.75 million) they were previously paying for using the frequencies. The FRG denies having received any money.

*Prensa Libre, 21 January 2005*

### • PANAMA

#### President Moscoso's immunity lifted

Panama's Electoral Tribunal has lifted former president Mireya Moscoso's immunity from prosecution. Moscoso, who was president from 1999-2004, is under investigation for the misappropriation of public funds. It is charged that she has been using a secret presidential fund for lavish personal expenses as well as diverting Taiwanese aid for the public health care system to a private foundation controlled by members of her inner circle. Moscoso claims her actions were legitimate. The lifting of the immunity paves the way for prosecutors from the Public Ministry to begin questioning.

*The Panama News Vol. 10, No. 22,*  
*21 November - 4 December 2004*

## ASIA

### • INDONESIA

#### Monsanto admits to crop bribes

A criminal complaint has been brought against US agro-chemical company Monsanto by the US Department of Justice for a US\$50,000 bribe paid to a senior Indonesian official to overlook environmental controls on the screening of Monsanto's new genetically modified cotton crop. Monsanto has accepted full responsibility and regrets its involvement. In addition, Monsanto has admitted to paying up to US\$700,000 in bribes to Indonesian officials between 1997 and 2002. The company must now pay a US\$1.5 million penalty and appoint independent business consultants to review its business practices over the next three years.

*Financial Times, 7 January 2005*

### • CHINA

#### Corruption in China in 2004

The Chinese Communist Party (CCP) disciplined more than 160,000 party members for corruption in 2004, at least 15 of which were at the ministerial level. The CCP has also reported over US\$300 million in misused public funds for the same year. Although anti-corruption campaigns are frequent and public officials are often disciplined, corruption, bribery, embezzlement and fraud remain rampant. This is evidenced by two recent embezzlement scandals at Chinese banks. It is suspected that more than CNY1 billion (over US\$120 million) is missing from the Harbin branch of the Bank of China, while 69 government officials and bankers have been arrested and accused of plotting to steal almost US\$900 million from the Industrial and Commercial Bank of China. Many of those under suspicion have fled overseas.

*Dow Jones Newswires, 16 February 2005;*

*Wall Street Journal, 30 January 2005*

### • TAJIKISTAN

#### President fires deputy PM, other officials

In early January 2005, Emomali Rakhmonov, President of Tajikistan, fired a deputy prime minister and over ten other senior officials from government posts in an effort to reduce corruption. The officials came from the state's drug control agency, traffic inspection and law-enforcement, among others. Although Rakhmonov's spokesperson stated that the move was meant to fight bribery, abuse of

office and misuse of state funds, he did not specify the charges against the officials.

*Wall Street Journal, 6 January 2005*

## EUROPE

### • GERMANY

#### Football scandal taints World Cup image

German football referee Robert Hoyzer admitted in January 2005 to fixing matches in the German Cup and lower leagues for a profit of EUR 70,000 (US\$93,198). Hoyzer apologised to the German Football League (DFB), fellow referees and football fans for his involvement in a betting scam connected to a Croatian gambling ring. The DFB has since suspended two other referees in connection with Hoyzer's confession and 24 people remain under investigation, including players who have allegedly received cash incentives to influence a match. Although the DFB has announced some changes, for example an early warning system with bookmakers to detect unusual betting patterns, the scandal has severely tarnished Germany's reputation and preparations for the 2006 World Cup football championships.

*Reuters, 12/15 February 2005;*

*Associated Press, 28 January/9 February 2005;*

*Deutsche Welle, 1 February 2005*

### • GREECE

#### Orthodox Church involved in bribery scandal

A ring of Greek Orthodox Christian priests have been accused of bribing high level judges and lawyers in exchange for favourable court rulings and other favours. Four judges have been charged with disciplinary offences while nine more judges and several lawyers remain under investigation. The scandal is said to involve secret payoffs of money and sexual favours in return for acquitting drug dealers of charges, involvement in prostitution and exerting influence in ecclesiastical elections. Archbishop Christodoulos and Supreme Court president George Kapos have respectively responded with calls to cleanse the church and judiciary.

*The Independent (UK), 4 February 2005*

For the latest global corruption headlines, see TI's Daily Corruption News:

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

## MDGs pick up steam

By David Nussbaum

The United Nations adopted the Millennium Development Goals (MDGs) in 2000 creating specific and ambitious targets for poverty reduction – chiefly to halve world poverty by 2015. Now a third of the way to the deadline, it is clear that unless more action is urgently taken, the MDG targets for poverty reduction will not be reached.

The recent report from the UK-based Commission for Africa confirmed this view. Significantly, the report acknowledges the centrality of corruption in issues of poverty reduction, noting that it arises from the actions of both African leaders and international operators. The report calls for greater aid financing for infrastructure, which highlights the relevance of TI's latest *Global Corruption Report*.

Focused on ensuring that the MDG targets are achieved, the GCAP, or the *Global Call to Action against Poverty*, was created in early 2005. It is a worldwide alliance of organisations increasing the pressure on world leaders to fulfil their poverty reduction commitments, with the objective of making the eradication of global poverty a higher priority. One event that is sure to bring increased attention to the MDGs is the UN Millennium Summit in September 2005 that will evaluate progress on these targets.

Like GCAP, the UN has been increasing its focus on the MDGs in preparation for the Millennium Summit. The Millennium Project, headed by Jeffrey Sachs, recently released a report on ways in which the goals could be achieved. A central recommendation was a large increase in aid, in combination with good governance and anti-corruption measures to ensure its effectiveness. We recently met with Jeffrey Sachs and members of his team, to explore a potential role for TI in facilitating the way governments and donors address the heightened risks of corruption when aid flows rapidly increase. TI also remains in contact with the Millennium Campaign and continues to promote the MDG cause in the NGO community.

TI shares GCAP's concern that more action is urgently needed to tackle poverty, and that unless real strides are taken now, the MDG targets for poverty reduction will not be achieved. However, we know that unless corruption is curbed, other efforts will be ineffective in achieving the goals. The MDGs represent a huge challenge to the world community but also a stimulus to action. I hope that all of us in the TI network will identify how to best engage with the GCAP initiatives, and build on our experience of working in coalitions, drawing attention to the role that corruption plays in creating and perpetuating poverty.

*David Nussbaum is Chief Executive of Transparency International.*

# Global Initiatives

» An overview of work by international organisations

UN

## Progress on the UN Convention

The UN Convention against Corruption has now been signed by 118 countries and ratified by 18. By the time of the upcoming UNODC meeting in Bangkok this April, at least 30 states are expected to have become party to the convention. The region with the largest number of ratifications is Sub-Saharan Africa (nine ratifications). So far there have been three ratifications in the Middle East and Northern Africa, three in the Americas, two in non-EU Europe and Central Asia and one in Asia. Shockingly, there have been no ratifications in any EU countries. TI National Chapters in Canada, Germany and the UK expect their governments to ratify the convention before the end of this year. However, if not enough industrialised countries ratify in time for the Conference of State Parties, the convention risks being jeopardised. To this end, TI has been active in lobbying governments to ratify the convention.

TI/OECD

## OECD anti-bribery convention off to a 'promising start'

A positive start has been made to the enforcement of the OECD Anti-Bribery Convention, notes the TI Progress Report on Enforcement of the OECD Convention. The Progress Report, released by TI on 7 March, surveys 24 of the 35 OECD signatory states. The report finds that enforcement was underway in 15 of the 24 states, including prosecutions in Belgium, Canada, France, Germany, Italy, Norway, South Korea, Spain, Switzerland and the USA. Investigations into foreign bribery have also been noted in Denmark, Finland, Mexico and the UK. To date, no enforcement has been undertaken in Argentina, Australia, the Czech Republic, Greece, Japan, the Netherlands, New Zealand, Poland or the Slovak Republic.

Despite the promising start, governments must step up enforcement efforts to achieve widespread recognition in the business community that foreign bribery does not pay. According to TI Chairman Peter Eigen 'because most major multinational companies have their headquarters in OECD countries, effective enforcement would substantially reduce the supply

side of international corruption'.

The 2005 TI Progress Report is the first in a programme of annual assessments reporting on enforcement of the OECD convention, which will be used as a benchmark to measure future progress. For more information and the full report, please see: [www.transparency.org/building\\_coalitions/oecd/oecd.html](http://www.transparency.org/building_coalitions/oecd/oecd.html)

TI/WEF

## Multinational companies sign up to anti-bribery policy at Davos

A total of 63 multinational companies have signed up to the Partnering Against Corruption Initiative (PACI), supported by Transparency International (TI), the World Economic Forum (WEF) and the Basel Institute on Governance. PACI was announced in Davos in January, where TI Board members Peter Eigen and Jermyn Brooks represented TI. This public anti-corruption commitment is based on principles derived from the Business Principles for Countering Bribery, developed by TI in partnership with Social Accountability International and a multi-stakeholder steering committee including leading international companies. In order to ensure the implementation of the initiative, TI is developing tools to assist companies in monitoring their performance. TI advocates for companies to have clear reporting lines, advisory structures and whistleblower protection. Companies should work to create a culture where employees and business partners know that bribery is not tolerated. They should also include anti-bribery training for staff at all levels and in all locations, but especially in countries with high levels of bribery. Since the 2004 Davos meeting, the PACI Board has been working with three industry sectors, namely energy, engineering and construction, and mining and metals.

UN

## United Nations opens official documents to public

As of 31 December 2004, the United Nations' Official Document System (ODS) has been open for public access. The ODS covers all types of official UN documentation originating from duty stations world-

wide and its regional commissions, as well as access to the resolutions of the General Assembly, Security Council, Economic and Social Council and the Trusteeship Council. This new access to information should increase the transparency with which the UN makes decisions and allocates funds, of special relevance in the current post-tsunami relief and aid effort. This web resource for official documentation is available via: <http://documents.un.org>

TI

## Call for clean-up of political parties and public sector in the Caribbean

The National Integrity Systems TI Caribbean Composite Study 2004 examines the national integrity systems of eight island-states of the 15-member Caribbean Community (CARICOM): Antigua-Barbuda, the Bahamas, Barbados, Dominica, Grenada, St Kitts-Nevis, St Lucia, and St Vincent and the Grenadines. According to the report's author, Professor Trevor Munroe, narcotics-related corruption, arms trafficking, money-laundering, financial crime in addition to ineffective procurement systems and unregulated political parties constitute a growing threat to the quality of democratic governance in the Caribbean. Munroe states that it is the limited resource availability of these micro-states which inhibits their ability to build institutional capacity in areas essential to clean and transparent government. The report recommends legislative reform toward greater transparency and accountability in political parties and in the public sector, the strengthening of political and constitutional checks and balances, the empowerment of civil society, as well as a 'new quality of activism' from the donor community to help reduce the economic vulnerability that may be the source of many of these dangers. For more information see:

[www.transparency.org/activities/nat\\_integ\\_systems/country\\_studies.html](http://www.transparency.org/activities/nat_integ_systems/country_studies.html)

## TILAC/IPYS

**Promoting investigative journalism in Latin America**

The nomination period for the Best Investigative Journalism Report on Corruption in Latin America and the Caribbean Award ended on 31 January 2005, with 196 nominations. The annual award, now in its third year, is worth US\$25,000 and is co-ordinated by Transparency International's network in Latin America and the Caribbean (TILAC) and Instituto Prensa y Sociedad (IPYS) in Peru. Reports were submitted from more than 20 countries in the region, predominantly from Mexico, Argentina, Colombia and Ecuador. Reflecting the politics and events of the region in 2004, many nominations are for investigative reports about ex-presidents and people high in power within the executive branch of government.

The 2004 winner will be announced in Mexico in May, following a meeting of the Award Jury. For additional information on the Best Investigative Journalism Report on Corruption in Latin America and the Caribbean Award, please see: [www.transparency.org/tilac/trabajo\\_en\\_re/d/premio\\_anual/index.html](http://www.transparency.org/tilac/trabajo_en_re/d/premio_anual/index.html) (Spanish) or [www.ipys.org/premio1in.shtml](http://www.ipys.org/premio1in.shtml) (English)

## TI/TIRI/UNDP

**Post-war reconstruction report**

The Lebanese Transparency Association, TI's national chapter in Lebanon, together with Tiri, the London-based governance-access-learning network, and the financial support of UNDP, published a report in January entitled 'Corruption in Post-War Reconstruction: Confronting the vicious circle'. This report includes case studies from Lebanon, Bosnia-Herzegovina, and Sierra Leone among other contributions. It also suggests nine 'Integrity Principles' for post-war reconstruction based largely on emphasising local knowledge and capacity and on controlling and monitoring post-war spending by international donors.

**TI's Minimum Standards for Public Contracting**

To mark the publication of the *Global Corruption Report 2005*, TI launched its Minimum Standards for Public Contracting, setting out a blueprint for transparent public procurement.

Public procurement authorities should:

1. Implement a code of conduct that commits the contracting authority and its employees to a strict anti-corruption policy. The policy should take into account possible conflicts of interest, provide mechanisms for reporting corruption and protect whistleblowers.
2. Allow a company to tender only if it has implemented a code of conduct that commits the company and its employees to a strict anti-corruption policy.
3. Maintain a blacklist of companies for which there is sufficient evidence of their involvement in corrupt activities. Debar blacklisted companies from tendering for the authority's projects for a specified period of time.
4. Ensure that all contracts between the authority and its contractors, suppliers and service providers require the parties to comply with strict anti-corruption policies. This may best be achieved by requiring the use of a project integrity pact committing the authority and bidding companies to refrain from bribery.
5. Ensure that public contracts above a low threshold are subject to open competitive bidding.
6. Provide all bidders, and preferably also the general public, with easy access to information about all phases of the contracting process, including the selection and evaluation processes and the terms and conditions of the contract and any amendments.
7. Ensure that no bidder is given access to privileged information at any stage of the contracting process, especially information relating to the selection process.
8. Allow bidders sufficient time for bid preparation and for pre-qualification requirements when these apply.
9. Ensure that contract 'change' orders that alter the price or description of work beyond a cumulative threshold are monitored at a high level, preferably by the decision-making body that awarded the contract.
10. Ensure that internal and external control and auditing bodies are independent and functioning effectively, and that their reports are accessible to the public. Any unreasonable delays in project execution should trigger additional control activities.
11. Separate key functions to ensure that responsibility for demand assessment, preparation, selection, contracting, supervision and control of a project is assigned to separate bodies.
12. Apply standard office safeguards, such as the use of committees at decision-making points and rotation of staff in sensitive positions. Staff responsible for procurement processes should be well trained and adequately remunerated.
13. Promote the participation of civil society organisations as independent monitors of both the tender and execution of projects.

*This is an edited version of the Standards. The complete text can be found in the Global Corruption Report 2005, pp 4-6.*

# TI Country Work

## » An A to Z of TI chapter activities around the globe

The Anti-Corruption and Governance Research Centre in Tsinghua University (TI's national contact in CHINA) and the Public Affairs Centre in Bangalore, India held a workshop in Beijing in January on 'citizen report cards', a tool that can be used to measure the quality of public services. At the workshop the Public Administration School at Tsinghua University presented their study of the report card methodology, which was funded by the Ford Foundation. The workshop was attended by some 30 people, including representatives of NGOs and government officials.

TI congratulates Rosa Inés Ospina, Vice-President of TI and Executive Director of Transparencia por COLOMBIA (TI Colombia), who was recently named one of the 100 most influential leaders of Colombia by the national magazine *Gerente*. She was recognised for her efforts in fighting corruption through Transparencia por Colombia, and especially for the chapter's Integrity Index of Public Entities (Indice de Integridad de las Entidades Públicas) and the development of corruption prevention mechanisms that have influenced Colombia's procurement practices. For more information on the chapter's work, please visit: [www.transparenciacolombia.org.co](http://www.transparenciacolombia.org.co)

TI has a new national contact in the DOMINICAN REPUBLIC. The group, Participacion Ciudadana, can be contacted through their website at: [www.pciudadana.com](http://www.pciudadana.com)

TI GEORGIA recently launched a project to provide Georgian parliamentarians with tools to make informed and comprehensive decisions about graft laws in progress. Their parliamentary project provides MPs with expert commentary as well as information from focus groups with specialised knowledge of anti-corruption legislation. In parallel, TI Georgia held hearings for the general public to inform them of new legal initiatives. The project aims to provide a general assessment of graft laws, to address their enforceability within Georgia, and to build public ownership of laws and amendments.

TI GERMANY will work with Berlin's Schönefeld Airport to introduce a no-bribes Integrity Pact to prevent corruption and illegal transactions in the course of the extension of the airport. The airport is due



*Panel discussion at the launch of TI Ireland in December. From left to right: Eleanor O'Higgins, London School of Economics; David Nussbaum, CEO of TI; Rodney Rice, RTE; Kevin Murphy, former Irish Ombudsman; David Murray, vice-chair of TI-UK.*

to undergo a major expansion to become the Berlin Brandenburg International Airport in 2010. Investment is estimated at EUR 2 billion between 2005 and 2010, making it the most significant infrastructure project in eastern Germany. The Berlin-Schönefeld Airport company has agreed to follow the TI Integrity Pact, providing clear and binding rules and obligations for business relations. The Integrity Pact binds bidders, contractors and sub-contractors to refuse to pay or accept bribes or to engage in anti-competitive transactions. The Integrity Pact will be applied immediately as a mandatory feature of the tender for selection of suppliers, construction companies, planners, engineering and consultancy services and will apply for the duration of the contracts. The airport company wants the use of the Integrity Pact to send a clear signal of fair competition and a willingness to stamp out bribery. It is the first corporation in Germany to engage independent external monitors to oversee compliance with the TI Integrity Pact.

TI INDONESIA launched a new corruption survey, the Indonesian Corruption Perceptions Index, to determine whether there is a correlation between domestic and foreign perceptions of corruption in the coun-

try. TI Indonesia conducted interviews and solicited questionnaires from 1,305 members of the business community, focusing on the need to pay bribes to public officials for such services as obtaining a business license and procurement contracts. Of the cities surveyed, Jakarta was perceived to be the most corrupt. Perceived corruption in state institutions was highest in the police, followed by the customs office, the military and the courts. In addition, the survey found that corruption is often accepted as part of the business culture, where bribes are regarded as gifts. Perhaps for this reason, local businesspeople tolerated corruption while multinational businesspeople did not.

The survey also revealed that the Indonesian government was not regarded as transparent or accountable and respondents did not believe low salaries were the motivation for corruption, as those with higher salaries were also often involved.

A lively panel discussion, attended by representatives from business, politics, media, marked the launch of TI IRELAND in Dublin on 8 December (see photo). The discussion was chaired by broadcaster Rodney Rice and focussed on corruption and its costs in Ireland and worldwide. TI Ireland is headed by economist Colm

## Teaching Integrity to Youth: Corruption Fighters' Tool Kit special edition

Education is central to preventing corruption as it builds the attitudes and expectations of citizens towards standards of public administration. Through learning it is possible to strengthen young people's demands for accountability, and, ultimately, to build trust in government and the public sector. In order to be credible, anti-corruption teaching to the young must relate to the daily lives of students and address real life ethical dilemmas. Each of the examples in TI's new Teaching Integrity to Youth booklet, published by TI in January 2005, aim to do just that. Whether as leaders or citizens, our children's futures are almost certain to contain ethical dilemmas relating to corruption. The programmes presented in the booklet are aimed to help them choose the path that leads to integrity. The tool kit covers 11 projects in full detail, offering a wealth of effective and innovative youth integrity projects from Argentina, Brazil, Cambodia, Colombia, Georgia, Italy, Macau, Moldova, Uganda, USA and Zambia. Written mainly by TI chapters, the projects engage with a wide range of age groups, youths both inside and outside of official education, and to programmes conducted by civil society and public bodies. The four snapshots below show the enormous creativity that has gone into many youth integrity programmes. The full booklet can be ordered from [ti@transparency.org](mailto:ti@transparency.org) or can be downloaded in pdf format at; [www.transparency.org/toolkits/2004/index.html](http://www.transparency.org/toolkits/2004/index.html)

### Macao: taking on Mr Pig and Superman William

Targeting primary school children, the Honest New Generation programme (designed by the Commission Against Corruption of Macao) uses role-play and discussion to promote integrity awareness. Learning takes place in a special playground area called 'Paradise of Integrity' which has various learning areas dedicated to different activities.

Lotus Village (the lotus flower is a symbol of integrity in Chinese culture and the symbol of Macao) has puppet shows and interactive computer games with such characters as Mr Pig a corrupt businessman, and Superman William, a graft-fighting hero. Paradise of Integrity also contains an exhibition centre and a wishing tree.

Some 10,000 children have visited the Paradise of Integrity in its first six months, and the value of integrity is reinforced through CDs, textbooks, board games and follow-up in regular classes.

### Argentina: competing to be clean

Initiated by TI's chapter in Argentina, Poder Ciudadano, Classrooms without Borders is a countrywide contest for school classes designed to promote collective actions to influence public policies. Students compete to come up with the best ideas for projects to strengthen democracy and promote citizenship.

Since the project's inception in 1997, 2,000 schools, 10,000 teachers and 100,000 pupils have come up with 2,500 projects. Representatives of the shortlisted projects are invited to present their project at a national conference and face questions and answers from adjudicators and the public. Prizes include computers, scholarships, books and funds.

Award winning projects have included a campaign conducted by 83 secondary school students in Rosario, Santa Fe to raise awareness within their community about the issues and candidates in their local elections. Students conducted information gathering on local issues, questionnaires of voters and interviews with candidates. The problems and needs of the neighbourhood were gathered together with proposals to solve these problems and presented to Rosario City Council. Six decrees relating to these proposals were later adopted by the Council.

### Writing wrongs in Uganda

Organised by TI Uganda, the Training Young Journalists project was undertaken to equip junior journalists with skills and techniques for independent investigation and reporting. Through workshops, round table discussions and on-site visits the project aims to strengthen the role of the media so that it is better able to overcome information deficits in Uganda.

Lack of information is held to have a particular influence on corruption in Uganda, where little information is available on anti-cor-

ruption regulations or on public entitlements from the enormous poverty relief programmes handled by the state. This lack of information has contributed to a lack of accountability in the government and widespread acceptance of corruption among the general population.

One of the most interesting aspects of this initiative is its focus on supporting the young journalists after the end of their formal training. For six months after the end of instruction, former instructors provide distance counselling and evaluation of a trainee's performance. Trainees' stories are assessed with regard to their depth and relevance, and impact on local government. Several cases of corruption were revealed by the trainees over the duration of the training.



David Clavijo Marin (16), Nicaragua

### Italy's local heroes

Getting 'local heroes' to stand up to tell their stories at plenary meetings arranged by TI Italy forms the basis of an innovative approach to ethics education in schools and universities. The speakers at these sessions are people who have had to make tough choices about corruption, such as journalists judges, athletes, and journalists, and who have struggled in their lives to adopt and uphold an ethical code.

This approach seeks to confront and stimulate students to reflect on personal responsibility and to encourage independent thinking. Firstly it seeks to do this by presenting 'abstract' ethical issues in the real life contexts in which the speakers had to make difficult life and work decision. Secondly, as the speakers are local citizens, the dilemmas discussed by the heroes are more likely to connect, even if indirectly, to the lives of the students.



Civic group members campaign to eliminate corruption and build a more transparent society in central Seoul in December. Some 146 activists, including TI Korea, called on the government and businesses to sign a social pact on anti-corruption and transparency with civic groups. The signs read: 'Building a transparent and cleaner society'. The pact was signed in March (see below). Photo courtesy of Korea Times.

Continued from page 6

McCarthy and John Devitt, a public relations specialist, and counts former Irish Prime Minister Dr Garret FitzGerald as a member of its board of directors. TI Ireland intends to commission a National Integrity Study and Survey in 2005 to serve as a benchmark for further research on corruption in Ireland.

In 2004 TI KAZAKHSTAN published a textbook entitled 'Basics of Preventing Corruption' in Kazakh, Russian and English. The textbook is a compilation of articles edited by the chairman of the Constitutional Council of Kazakhstan and the head of the Supreme Court. The book was awarded the distinction of best textbook on a legal subject in 2004 by the Ministry of Justice. In addition, it was recommended as a resource for university students of law and economics by the Ministry of Education. In January 2005, six Kazakh universities introduced a special course based on the textbook, a number which is expected to rise to 25 in the second half of the 2005 school year.

TI KENYA simultaneously released a new brochure and documentary film entitled 'A Voice in the Dark' to mark its 10th anniversary. The film and the brochure tell the story of TI Kenya's inception and the challenges it has faced through the voices of the people with the vision and energy to see it through. The idea for a Kenyan chapter of TI came at a time when bribes in the marketplace were common. TI Kenya's greatest achievement so far has been to mobilise public opinion against corruption. To find out more about the chapter, see [www.tikenya.org](http://www.tikenya.org).

March 9 marked the launch of the Social Pact on Anti-Corruption and Transparency (K-PACT), an initiative of TI KOREA designed to curb corruption in the country. K-PACT is a national alliance of representatives from civil society and the public, private and political sectors committed to promoting and improving transparency in Korean society. It is the first time in Korean history that such a diverse coalition has united to fight corruption, indicating the eagerness of Korean society to deal with problems of corruption. The commitments made by this coalition include developing and improving systematic anti-corruption mechanisms, improving transparency in the public, private and political sectors, ratifying the UN Convention against Corruption and the UN Global Compact, strengthening the accountability of civil society organisations, promoting anti-corruption education in schools and eliminating the tolerance of corruption in Korean society.

The Lebanese Transparency Association (LTA), TI's national chapter in LEBANON, participated in the first Forum for the Future conference, in Rabat in December 2004. The conference aimed at building a partnership for reform and democratisation in the Middle East and North Africa (MENA) region. Charles Adwan, LTA's executive director, presented a statement at the ministerial meeting on behalf of civil society organisations. This meeting was chaired by former US Secretary of State Colin Powell and Moroccan Foreign Minister Mohammad Ben Issa, and attended by foreign and finance ministers from the MENA region and the G8 countries.

Meanwhile, in November TI Lebanon, together with the Global Organization of Parliamentarians against Corruption (GOPAC), the Foreign Commonwealth Office in Beirut and the TI-Secretariat, co-organised a regional parliamentarians' conference in Beirut. The event was attended by 40 members of parliament from 11 Arab countries and witnessed the establishment of GOPAC's Arab chapter, with LTA to function as the Arab chapter's secretariat.

Due to a gap in MEXICAN law, funds acquired and spent during pre-campaign periods are not subject to any official control. To address this weakness, Transparencia Mexicana (TI Mexico) has designed a mechanism to monitor income and expenditures for the pre-campaign period of the 2006 presidential elections. Transparencia Mexicana has created a fund (*fideicomiso*) into which all campaign income should be placed and that will report on all expenditures. The fund will be managed by a bank chosen by Transparencia Mexicana, and will be supervised by a technical committee. To date, two presidential candidates have agreed to this system: Jorge G. Castañeda (a former foreign minister) and Felipe Calderón Hinojosa (former energy secretary). TI Mexico intends to post the developments of this programme on their website. For more information, contact [transparencia99@Prodigy.net.mx](mailto:transparencia99@Prodigy.net.mx).



SHVIL/TI Israel's chairman, Joseph Gross (left), meets Israeli president, Moshe Katsav, to present the Global Corruption Barometer 2004.

TI MOROCCO held a series of national events in December to mark the first anniversary of the signing of the UN Convention against Corruption. Topics addressed included the Convention, an analysis of recent anti-corruption initiatives, the role of the private sector in promoting transparency and the adaptation of the *TI Source Book* for the Arab world. The

event culminated in TI Morocco issuing a set of proposals including a press release calling on the government to ratify and implement the UN Convention.

In NIGER, TI's national chapter, the Association Nigérienne de Lutte Contre la Corruption, carried out an opinion poll on the prevalence of corruption in the education sector. The poll consisted of 500 interviews with high school and university teachers, and revealed high levels of perceived petty corruption in the education sector, in both private and public schools. Corrupt practices were found to be highest during admission at the beginning of the year and at final exams. Irregular and delayed payment of teachers' salaries was found to be a major cause of corruption. More information can be found on the TI thematic page on corruption in education: [www.corisweb.org/article/archive/334/](http://www.corisweb.org/article/archive/334/)

TI's national chapter-in-formation in PALESTINE, the Coalition for Integrity and Accountability (AMAN), monitored the Palestinian presidential elections on 9 January. AMAN found that the elections were free, just and fair, but that minor legal violations occurred. AMAN recommends raising public awareness about the dangers associated with the use of public funds in election campaigns, and making sure that all campaigning stops one day before the elections take place in accordance with the law. AMAN further recommends that the Central Election Commission be strengthened and given assured independence and neutrality.

TI VANUATU has issued a press release raising concerns about the current management of Air Vanuatu. Their chief concern, echoed by regional magazine *Island Business*, is the appointment of a 28-member Board of Directors, none of whom are said to have any experience in the airline business. While most international airlines have a Board of 10 members, Vanuatu's inflated management will cost the country an additional US\$ 147,000 a year. Further concern was expressed about the dismissal of the chief executive of the airline, as he was replaced by the son of the Minister of Infrastructure.

Through the TI Secretariat's Education programme, TI chapters in five countries carried out research on corruption in the education sector in 2004. TI Kazakhstan conducted a study to assess corruption levels in higher and post graduate education, while TI Uruguay examined the effectiveness of control mechanisms against academic fraud and corruption in the country's biggest university. The Grupo Civico Etica y Transparencia in Nicaragua moni-



*Workshop on 'citizens report cards' in December in Beijing.*

tored the Education Ministry contracting procedures between September and December 2004, and claim education officials are now more aware of the public's right to be informed and more open to their clients. TI Brazil analysed irregularities found by Brazil's Inspector General in the FUNDEF programme, a special federal education grant to poor municipalities to finance teacher salaries and training.

A TI South Asia regional workshop on National Integrity Systems, held in Karachi, Pakistan in December 2004 emphasised the importance of building political will in the fight against corruption. TI chapters in Bangladesh, India,

Nepal, Pakistan and Sri Lanka identified the judiciary, anti-corruption institutions, political and parliamentary reform and public procurement as priority areas in need of attention in tackling corruption. Civil society should also play a larger role by exerting pressure and monitoring government to ensure transparency in national procurement, participants concluded. Other priorities identified were reforms in political culture, including the depoliticisation of the civil service, mandatory asset declarations by elected officials backed up by codes of conduct, and the reform of election commissions.



*TI Vanuatu has released a collection of social and political cartoons about Vanuatu called 'Kranki Kona' (Bislama For 'Crazy Corner'). It is a compilation of cartoons from 2001-2004 which appeared in the local newspaper, The Daily Post. It is now on sale through TI Vanuatu as a fundraising effort. The following prices include postage: Pacific, Australia & New Zealand - AUS\$25; USA - US\$20; Europe - 20. For more information, contact the chapter at: [tiv@vanuatu.com.vu](mailto:tiv@vanuatu.com.vu).*

# Corrupting the new Iraq

*Continued from page 1*

numerous justifications for this usurpation of state property; some of which could indeed be cited as mitigating circumstances. But in the eyes of dismayed Iraqis, the political parties had managed to ruin their reputation before the business of governance had begun. 'The political parties took everything they could get hold of,' said one Iraqi businessman.<sup>1</sup> 'State property went up for grabs. If they could get away with this, how do they expect ordinary people to behave?'

One year into Iraq's reconstruction programme, opinions are divided over what the Coalition Provisional Authority (CPA) and the now dissolved Interim Governing Council (IGC) have achieved in repairing the damage caused by decades of mismanagement, sanctions and wars. Yet across the board, corruption has been identified as one of the main obstacles to getting Iraq back on its feet. A survey held in early May 2004 revealed that 58 per cent of Iraqi respondents had heard of corruption in the reconstruction process, and 32 per cent believed that such malpractices involved CPA officials.<sup>2</sup>

Almost unanimously, Iraqi businessmen complain about bribery affecting virtually all government operations. Contractors alleged that inspectors checking up on the refurbishment of schools by Iraqi companies in September 2003 were bribed to turn a blind eye to shoddy or unfinished work.<sup>3</sup>

Iraqi protestors amassing in front of the gates of the 'green zone', the CPA headquarters in Baghdad, routinely mentioned corruption on their banners. In

Nasariyya, Sunni Muslim clerics expressed their anger over what they believed was widespread corruption in the CPA and local authorities. Foreign company workers said they witnessed corruption 'everywhere and on all sides'.

None of these allegations should be taken at face value. Accusations of corruption are often made for reasons other than actually having witnessed it. Iraq is no exception. The virtual absence of public works in Basra is cited as 'proof' that the local contracting process is rigged and that the funds have been pocketed. The fact that the governorate had not initiated any works because of a genuine lack of funds did not prevent local businessmen describing in graphic detail the crookedness of tenders that were never held.

Iraqis have felt largely excluded from the political process going on in Baghdad, and the impression that something dishonest is going on behind the scenes understandably makes Iraqis reach out for the c-word to make sense of developments. The weakness of Iraq's political parties also encourages corruption, and allegations directed against opponents can serve as substitutes for party programmes or meaningful political debate. In this context, accusations of malpractice are designed to smear rather than to

contribute to a culture of accountability.

Yet there are plenty of reasons to believe that high levels of corruption have indeed taken hold in the new Iraq. At the Ghazil market in central Baghdad and the suq of old Basra, salesmen and consumers engage in a booming trade in stolen medicines and medical equipment supplied by corrupt public servants. CPA officials, contractors and high-ranking ministry employees have admitted to corruption in their midst. According to a senior official at the ministry for trade corruption between ministry officials and traders permeate the distribution of rationed food and other consumer items at all levels of procurement, storage and allocation.<sup>4</sup> A former trade minister, Ali Allawi, accused officials at his own ministry and the CPA of embezzling US \$40 million in the procurement of wooden doors with funds of the 'Oil-for-Food' (OFF) programme, adding that the case represented 'the tip of the iceberg.'<sup>5</sup>

## A context in which corruption can thrive

Corruption thrives in a context of confusion and change. In Iraq, public institutions are even struggling to find out how many employees they have on their payrolls. Obvious institutional safeguards are yet to be put

in place and ministries and state companies lack proper inventory systems. As one Iraqi director-general pointed out, '[i]t's very easy to turn a three into a 30 for example, since the Arabic zero is a dot.' It is within this climate

**"It was not until the UN sanctions in the 1990s that corruption and facilitation payments became endemic at every level of society."**

that the Iraqi state and US funding organisations are expected to spend nearly US \$14 billion in 2004.

Under Saddam, loyalty to the regime was systematically bought by distributing favours, effectively creating a 'shadow state' in which bureaucratic procedures applied only to the unfortunate and underprivileged. However, it was not until the UN sanctions in the 1990s that corruption and facilitation payments became endemic at every level of society. The OFF programme exacerbated corrupt behaviour among senior Iraqi officials who enriched themselves by striking corrupt deals with foreign companies and politicians at the expense of ordinary Iraqis.<sup>6</sup> For some public servants, corruption was the only way for them to feed their families on salaries as low as US \$5 a month.

The former regime's control of the economy also left a legacy of corruption. Heavy state procurement and subsidies still distort market prices increasing the temptation to sell low-priced goods on the black market or to smuggle goods to neighbouring countries. Reforming these state policies is not only going to hit the poor hardest, it will also generate new opportunities for corruption. There is a danger that rapid privatisation is soon to be enforced by the IMF and the Paris Club of official creditors as a

condition for reducing and rescheduling some US \$120 billion foreign debt accrued under Saddam. Experiences in the former Soviet Union, and other indebted countries that have been forced into rapid privatisation, suggest that the selling off of state-owned enterprises under conditions of opaque governance, combined with a lack of a free market, is almost certain to result in widespread corruption.

Another major factor that risks fuelling corruption is Iraq's dependence on oil. Very few oil-producing countries have established effective mechanisms to prevent the plunder of oil revenue. The transition period in Iraq has focused on power sharing along sectarian and regional lines and very little thought has been given to how the new Iraq can be more effective in managing oil revenues. As one senior Iraqi official put it, 'governance takes place on a day-by-day basis. We will repeat the same mistakes of the past if we don't think this through.'

Ideas have been floated about establishing a transparent oil fund insulated from the daily bickering at cabinet and parliamentary levels, but serious debate on this issue is yet to begin and, as Iraq's own experience in the 1950s established, an oil fund provides no guarantees of freedom from greedy politicians. In the meantime, Iraq's oil revenues have been channelled into the UN-authorized Development Fund for Iraq (DFI) and managed by the CPA's Programme Review Board (PRB). A UN body to audit the Fund, the International Advisory and Monitoring Board (IAMB), found gross irregularities by CPA officials in their management of the DFI, and condemned the United States for 'lack of transparency' and providing the opportunity for 'fraudulent acts'.<sup>7</sup>

## US contracting

The lack of transparency and accountability in the CPA's management of Iraqi oil revenues touches on a wider problem characterising the US's handling of the reconstruction process. In its procurement strategies, the US has been a poor role model in how to keep corrupt practices at bay. Even before the invasion was launched, questions were being asked about the extensive contracts secretly awarded to Bechtel, Halliburton and others.

Critics of the Bush administration have argued that the reconstruction contracts have resulted in three levels of corruption.<sup>8</sup> Firstly, concerns have been expressed over the selection of companies that are close to the Republican Party - either as donors or through high-ranking members of the party serving on the boards of the private companies that were awarded contracts (e.g. Vice-President Dick Cheney, who was CEO of Halliburton prior to taking office in 2000). These concerns were reinforced by the highly secretive nature of the contracting process, especially during the war preparations, and the type of contracts awarded. For instance, according to the US Project on Government Oversight, 'the Orwellian-sounding Indefinite Delivery Indefinite Quantity [contracts] allows the government to award an unspecified amount of future work to approved contractors'.<sup>9</sup> This system restricts the ability of poorly connected and smaller companies from bidding for contracts. In addition, the phenomenon of 'contract bundling',

which joins together two or more separate procurement requirements into a super-sized contract, effectively disqualifies smaller companies because only the very largest contractors are able to compete.

Secondly, many US contractors in Iraq have been wasteful and have taken what many would see as excessive profits, both of which can be attributed to 'cost-plus' contracts in which companies are reimbursed for all costs with an additional percentage added as guaranteed profit. Serious questions also arose about the subcontracting practices of the companies working in Iraq. Ed Kubba, a member of the American-Iraqi Chamber of Commerce, mused, 'If you take US \$10 million from the US government and sub the job out to Iraqi businesses for US \$250,000, is that business, or is it corruption?'<sup>10</sup>

Finally, individual employees of prime US contractors have been accused of being directly involved in bribe taking in the form of kickbacks from other companies seeking subcontracts.<sup>11</sup> Translators, who are seen as holding particular leverage, are alleged to have demanded 10 to 50 per cent of the value of a subcontract in return for facilitating access to the main contractor.<sup>12</sup>

## Tackling corruption

In the past year, some modest initiatives have been taken to tackle corruption in Iraq. Most importantly, the CPA helped establish an independent office of general inspectors, with an inspector attached to each ministry. The office is backed by two other institutions - the Commission on Public Integrity and the revived Supreme Audit Board. Yet both these institutions have yet to do any significant work and a chair of the Public Integrity Commission had to be imposed by the CPA after the now dissolved Iraqi Interim Governing Council failed to agree on an appointment.

Another important development has been the adoption of a National Integrity Law which forces state officials and politicians to declare their wealth prior to assuming office. In addition, in June 2004 the CPA promulgated a law protecting anti-corruption whistleblowers. Contracting partners for USAID, including Bechtel, have announced that they have introduced business ethics into management courses for their subcontractors and Iraqi government officials, although the topic of corruption was lumped together with other issues such as job safety and sexual harassment in courses taking little more than a few hours.

When participating in tenders to US contracting organisations, Iraqi companies have been instructed in conducting transparent bidding processes and business accounting. A common complaint among Iraqis, however, has been that the CPA, among others, has failed to explain why some bidding companies had lost and others won, thereby undermining trust in the process. Nor did the CPA consistently resort to tendering in awarding contracts.<sup>13</sup>

Despite an awareness among some Iraqis about the importance of stringent anti-corruption measures, many Iraqi officials and businessmen have demonstrated a poor understanding of how to deal with the problem. For example, when asked how the governorate of Basra is preparing itself for its procurement tasks to be

*Continued from page 11*

fair and transparent, one of its officials summed up this city's 'anti-corruption policy' by saying that contracts will be granted by 'religious men who are by nature more honest'.<sup>14</sup>

Another misconception is that the elections that are to be held by January 2005 will eradicate corruption for once and for all 'because the electorate will simply vote any corrupt politician out of office'. Elections may be a necessary condition for effectively countering corruption but they are far from a sufficient one. Relatively free elections in Kurdish Iraq in 1992 failed to root out corruption and there have been widespread complaints that collusion between Kurdish political parties and business has been the rule rather than the exception.

The new inclusive style of politics has progressed unevenly, which has tended to cause institutional gridlocks. Politicians have been able to treat ministries and other state bodies as their private fiefdoms. As happened in post-conflict Lebanon, power concentrated in this way, combined with intensive demands from the Iraqi public for government jobs, may lead Iraq to the situation where sectarian leaders distribute public resources and jobs among their constituencies, a phenomenon known as *muhassassa* (apportionment).

## Moving on

It is likely that we have not yet seen the full scale of corruption in Iraq for the simple reason that much of the anticipated expenditure on building contracts and procurement has yet to begin. But with so many factors fostering, and threatening to foster, corruption, the reconstruction process demands a much more aggressive

**"Very little thought has been given to how the new Iraq can be more effective in managing oil revenues."**

approach to corruption than is currently being taken by the new Iraqi government, the coalition forces and foreign donors.

If reconstruction is to generate actual processes of accountability and ownership of the process by local stakeholders, it is essential that these institutions place much greater emphasis on the decentralisation of both governance and aid projects. Supporting local media to serve as an independent and reliable watchdog is another essential step to promote accountability. Foreign governments should apply anti-corruption legislation to companies operating in Iraq and any pressures on Iraq to meet the requirements of a free-market system should take into account that markets need strong institutions to avoid giving way to 'crony capitalism'.

Most importantly, the effective management of Iraq's oil revenue must be put high on the agenda and must learn from the lessons of other oil-producing countries and Iraq's own past. A good

start would be to grant the Iraqi Supreme Audit Board a seat on the International Monitoring and Advisory Board, to familiarise it with international auditing standards and improve Iraq's local expertise.

Concerns over corruption in Iraq should not be a reason for delaying the transfer of funds already committed to reconstruction in Iraq, as many donors now appear to be considering. In the absence of an economic revival the demands on a fragile Iraqi government will be too great to initiate a process of building sound institutions. Nevertheless, strong and immediate measures must be taken to address corruption before the real spending on reconstruction starts. If urgent steps are not taken, Iraq will not become the shining beacon of democracy envisioned by the Bush administration, it will become the biggest corruption scandal in history.

1 Authors' interview in Baghdad, 10 March 2004.

2 Al-Mashriq (Iraq), 4 May 2004.

3 Authors' interviews with Iraqi contractors in Baghdad, April 2004.

4 Authors' interview in Baghdad, 9 March 2004.

5 Cited in The Los Angeles Times (United States), 2 February 2004.

6 The US General Accounting Office estimated that Saddam made US \$4.4 billion from kickbacks during the seven years of the OFF programme. The Iraqi newspaper Al-Mada revealed on 25 January 2004 a controversial list of 270 firms and individuals who were alleged to have received bribes.

7 See [www.iamb.info/dfiaudit.htm](http://www.iamb.info/dfiaudit.htm)

8 See for example [www.warprofiteers.org](http://www.warprofiteers.org) & [www.southernstudies.org/campaign-page.asp](http://www.southernstudies.org/campaign-page.asp) & [www.house.gov/reform/min/inves\\_admin/admin\\_contracts.htm](http://www.house.gov/reform/min/inves_admin/admin_contracts.htm) & [www.publicintegrity.org/wow/](http://www.publicintegrity.org/wow/)

9 [www.pogo.org](http://www.pogo.org)

10 Cited by Naomi Klein, The Nation (United States), 5 January 2004.

11 Authors' interviews with Iraqi and foreign contractors, Baghdad March 2004; Marketplace, Minnesota Public Radio, 23 April 2004 at [marketplace.publicradio.org/features/iraq/](http://marketplace.publicradio.org/features/iraq/)

12 Ibid.

13 One-third of total contract value in 2003 was awarded without any competition. See Office of the Inspector General, CPA, First Quarterly report to Congress, 30 March 2004.

14 Authors' interview with municipal official in Basra, 30 March 2004.

## ABOUT THE AUTHORS

### Reinoud Leenders and Justin Alexander

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*The views expressed in this article are the authors' own and not necessarily those of Transparency International, ICG or Jubilee Iraq.*

# The tsunami disaster: corruption thrown into relief

As the scale of the impact of the Asian tsunami of December 2004 has become clearer, so have the challenges of making sure that the pledged funds reach the affected communities. Sudden flows of aid, the need for speed and flexibility in combination with large-scale reconstruction projects, can provide golden opportunities for the corrupt. Where the affected area is a conflict zone, the task of effectively monitoring aid distribution becomes even more daunting.

By any standards, the sums involved are vast. OCHA, the UN body coordinating the relief efforts, has recorded over US\$6.3 billion in cash and in-kind donations. This is unlikely to be the final total - and more is needed. Preliminary assessments by the World Bank and the Indonesian Government estimate reconstruction costs in Indonesia alone will amount to US\$4.5 billion. In India reconstruction costs are put at US\$1.2 billion. Impact assessments by the World Bank in partnership with the affected governments and other partners reveal the cost of the damage in the Maldives to be around US\$470 million. In Sri Lanka damage is estimated at US \$1 billion and losses at US\$500 million.

Reports of petty corruption and fraud in the delivery end of relief efforts have already surfaced. In Sri Lanka, for example, CNN recently reported that corruption has been hampering aid operations with alleged bribes being taken in exchange for humanitarian aid.<sup>1</sup> In Indonesia too, bureaucrats have been accused of stealing and reselling donated foodstuffs.<sup>2</sup>

So far, fears of high level bribery have yet to surface, perhaps due to the intense media coverage which has been given to the risk of corruption. Following the scandals surrounding the UN Oil for Food programme, the UN has moved to try to keep the tsunami funds clean and are working with PriceWaterhouseCoopers to monitor and track the relief funds which have come in through UN channels. The issue of corruption has been actively addressed by governments and IFI's. Even donors, who typically show little enthusiasm for the topic of corruption within humanitarian missions, have shown a much greater sensitivity to this issue in regard to the tsunami relief effort.

The Asian Development Bank and World Bank have both identified the prevention of corruption in reconstruction efforts as a key issue. The Indonesian government underlined the importance of transparency in the use of relief funds, by announcing that it has hired Ernst & Young to track donations and that it will publish the use of these funds on a monthly basis. Both the Sri Lankan and the Indonesian governments have called for civil society groups to take part in the reconstruction planning process.

In specialist workshops, TI-S has begun to develop key recommendations for the various stakeholders in the reconstruction effort, focusing largely on aid modalities, budget tracking and monitoring and on disaster reconstruction. In cooperation with the ADB/OECD Anti-Corruption Initiative for Asia Pacific, TI will convene a regional expert meeting on corruption prevention in tsunami relief to be held in early April in Jakarta, Indonesia (see page 16). Involving government representatives, donor agencies and civil society organisations, the meeting will produce consensus-based recommendations aimed at reducing corruption and

increasing transparency and accountability in the relief and reconstruction of tsunami affected areas and provide the basis for ensuring probity in other future humanitarian relief operations.

1. <http://edition.cnn.com/2005/WORLD/asiapcf/02/08/Aceh.aid.ap/>

2. <http://www.msnbc.msn.com/id/6790994/>

## On the ground

### TI India

The affiliate of TI India, Lok Sevak Sangh, is organising relief camps at various locations within India. Towards these efforts, it has used its own funds as well as donations from various volunteers and institutions.

### TI Indonesia

TI Indonesia has been instrumental in the emergency operation undertaken by the Coalition of Indonesian NGOs for Humanitarian Operation in Aceh, including establishing a management system for operations in the western coast of Aceh. Most managers of TI Indonesia have been seconded to support the emergency operations on the ground. TI is also working with Indonesian Corruption Watch, which is planning a two-year civil society monitoring programme of relief efforts in Aceh.

### TI Sri Lanka

TI Sri Lanka (TI-SL) has issued a call for unity by government and opposition politicians, and from all Sri Lanka's community groups, to support a "national strategy on relief distribution and reconstruction". This strategy is to be planned and implemented with "the participation of all sectors, and the effort should be properly co-ordinated to achieve optimum benefits to the victims and affected areas". TI-SL has offered the President of Sri Lanka its assistance to ensure transparency and accountability and made a formal proposal to the Task Force for Reconstructing the Nation - to minimise corruption and waste in the rebuilding exercise. A donor forum was organised by TI-SL on 28 January 2005 in partnership with Friedrich Ebert Stiftung Foundation and in collaboration with the two leading community level NGOs in Sri Lanka - Sarvodaya & Consortium of Humanitarian Agencies and with a Policy level NGO, Center for Policy Alternatives. The main aim of this forum was to examine initial measures taken by the donor community towards ensuring accountable aid disbursement and to generate some benchmarks in this regard within civil society in Sri Lanka.

# Recent Reforms

» A global sample of initiatives to increase transparency and accountability

## CHINA

### Bribery blacklists to name and shame

The Chinese Supreme People's Prosecutors (SPP) have launched a pilot scheme in five of the country's regions to blacklist those known to be involved in bribery. This initiative to 'name and shame' convicted public officials and business people is being conducted alongside a public awareness programme. Chinese officials believe prevention, supported by public education and supervision, is the key to establishing an anti-corruption system in the country. If the pilot programme is found to be successful, it could be extended nation-wide.

*China Internet Information Centre, 28 January 2005*

## COSTA RICA

### New anti-corruption law

With the objective of detecting and punishing dishonesty by public servants, a new anticorruption law (*Ley contra la corrupción y el enriquecimiento ilícito*) has come into effect in Costa Rica. Under the new law, a public employee can be immediately dismissed without severance, and face a three to six years prison sentence, for benefiting personally from any contract, agreement or appointment against the common interest or the use of public funds. According to experts, the law still needs some improvement and should include concrete actions to fight corruption.

*Transparency International*

## IRELAND

### New legislation aids in asset recovery

Under the new Proceeds of Crime (Amendment) Act signed into law on 12 February 2005, Ireland's Criminal Assets Bureau (CAB) can now apply for a 'corrupt-enrichment order' in respect of assets it believes to have been accrued through corrupt means. The CAB's cases will be tried under civil law, where guilt need only be made on a balance of probability, rather than beyond reasonable doubt, as in criminal cases. This legislation also places the onus of proof on the person under investigation to explain how he or she has legitimately accrued their wealth. If this cannot be done to the court's satisfaction, the assets will be confiscated by the CAB. The CAB

plans to apply the new legislation to property developers who were found by the planning tribunal to have bribed politicians, but against whom prosecutors were unable to bring criminal charges due to the difficulty in establishing cause and effect of political donations to planning favours.

*Irish Times, 16 February 2005*

## MALAYSIA

### Police double reward to reduce bribery

In early February the Pahang police department introduced a new reward scheme designed to reduce corruption in the police force. This new policy will reward police personnel double the amount offered to them for arresting anyone attempting to bribe them. This policy will apply to bribes of less than RM 200, while the reward for those offered larger sums will be decided on a case-by-case basis.

*New Straights Times, 2 February 2005*

## NIGERIA/SWITZERLAND

### Swiss Court orders return of Abacha funds to Nigeria

In a landmark decision, the Supreme Court of Switzerland has ruled to return US\$458 million from funds deposited by Sani Abacha in Swiss accounts to the government of Nigeria. The ruling upheld the main points of the Federal Office of Justice's decision in August of 2004 that the 'greater part' of Achaba's frozen funds 'were clearly of criminal origin', and rejected the Abacha family's appeal to halt the return of Achaba's assets. This follows the Swiss decision to transfer US\$200 million back to the Nigerian government last April. Nigeria will use the returned money to fund development projects in health, education and infrastructure.

*Financial Times, 17 February 2005*

## PANAMA

### New anti-corruption council

The government of Panama has established a National Council for Transparency and Against Corruption (*Consejo Nacional de Transparencia y contra la corrupción*). The council is composed of ten members from the public and private sectors as well as civil society. Angelica Maytin, Executive Director of Fundación para la Libertad Ciudadana (TI Panama) will act as the rep-

resentative of civil society. The Council aims to promote transparent, effective and efficient public management, by assuring that the administration of the state is done within the legal framework. A capacity building programme on ethics for public officials, and some changes to the public procurement law were announced in parallel with the creation of the new council.

*Agencia Informativa Latinoamericana Prensa Latina, 21 January 2005*

## ROMANIA

### Government amends graft legislation

In response to pressure from the European Commission and the International Monetary Fund, Romania's new government has made changes to the country's anti-corruption legislation. Concerns over the government's political will to tackle corruption have led the EU to threaten postponing Romania's accession to the EU in 2007. Previous legislation has been criticized for protecting former cabinet ministers from prosecution because each investigation had to be approved by parliament, making it a lengthy process. President Traian Basescu has amended the legislation such that ex-dignitaries will be treated 'like ordinary people'. Basescu's government is currently launching some high-profile anti-graft cases and working to toughen sanctions against bribery.

*Reuters, 27 January 2005*

## THAILAND

### More firms join anti-corruption drive

In a country where corruption is seen as 'a way of life' to expedite shipments, the news that customs officials have recruited an additional 84 firms to their anti-corruption drive is welcome news. By signing up to this drive, companies must pledge not to bribe customs officials to facilitate the clearance of their products. The total number of companies currently participating in the initiative is 293. This recent initiative aimed at business, combined with recent initiatives to reduce the discretion of government officials, reductions in tariff rates and a one-day clearance policy are seen to have reduced the potential channels for bribes.

*Financial Times, 4 February 2005*

# Country Spotlight

## TI chapter in Ecuador cries foul



The current constitutional crisis in Ecuador stems from actions taken by the Ecuadorian Congress in early December 2004. At that time, the Ecuadorian Congress violated the principle of judicial independence by purging nearly all of the Supreme Court justices. In a special session called by President Lucio Gutiérrez, 52 members of the 100-seat Congress voted to replace 27 of the 31 justices with their own political allies. Although President Lucio Gutierrez was fairly elected two years ago, he is now carrying out an unconstitutional power play to stack the country's judicial institutions with his supporters. He has claimed that the court was loyal to his political opponents, who recently tried, and failed, to hold impeachment hearings against him. The replacement jus-

tices were selected from the political parties that successfully opposed the president's impeachment.

In addition to the manoeuvres carried out to the Supreme Court, Gutiérrez has also manipulated his party's modest advantage in the legislature - 52 of 100 seats - to replace five of seven members of the Supreme Electoral Council and eight of nine members of the Constitutional Tribunal. The latter is the highest court in the land dealing with constitutional issues. The regime is reportedly preparing to similarly take over the offices of the attorney general, the comptroller general and the ombudsman.

In response to the weakening of the democratic institutions in the country, and the limited independence between the different branches of government, civil society groups from across political and thematic spectrums, including Corporacion Latinoamericana para el Desarrollo, TI's chapter in Ecuador, have joined together to voice their common concern over the situation. Earlier this year the groups came together under the name *Convergencia Democrática* (Democratic Convergence) to advocate for respect of the Constitution, to propose alternatives and to build bridges for dialogue. On 16 February, *Convergencia Democrática* organised a march through the streets of Quito, which attracted 180,000 Ecuadorians who protested the unconstitutional actions of the Gutiérrez government.

# Inside TI

## TI pays a posthumous tribute to Anthony Sampson

It is with great sadness that we report that Anthony Sampson died on 18 December 2004. Anthony had been a member of TI(UK)'s Advisory Council since 2001, and was particularly supportive of TI's work on corruption in the arms trade. He was also a member of the editorial advisory panel for TI's *Global Corruption Report*. He had a prolific record of book writing, and his talk to members in November was based on his new book *Who Runs this Place?*, published in 2004 - forty two years after his first book *Anatomy of Britain*. Much of his personal loyalty lay to Africa, inspired by his editorship of *Drum Magazine* in the 1950s, and culminating in his majestic biography of Nelson Mandela. His wisdom, guidance and commitment to TI's objectives will be greatly missed. We offer condolences to Anthony's family.

## TI leadership search

Founding Chairman of Transparency International, Peter Eigen, will not be standing for a new term at this year's elections. The 2004 Annual Membership Meeting gave a mandate to Kamal Hossain, Chairman of the TI Advisory Council, to form and lead a Chair Search Committee to help ensure that the TI movement can select within existing procedures an outstanding chair with widespread support across TI. The Chair Search Committee is composed of Kamal Hossain (Chairman, Bangladesh), John Githongo (Kenya), Pascal Lamy (France), Jannick Lindbaek (Norway), Carin Norberg (Sweden), Devendra Raj Panday (Nepal), Virginia Tsouderos (Greece), Jose Ugaz (Peru), Frank Vogl (USA) and Inese Voika (Latvia). The Committee advises the voters on important criteria to consider for the profile of the next TI chair; it may encourage individuals to consider running and enable people to become eligible to run. In mid-February, the Committee invited the TI movement to make recommendations of exceptional individuals who would need to be made eligible for nomination to the chair elections. Individuals wishing to be candidates should have fulfilled all conditions to run by 12 August 2005. The elections for chair of the TI Board of Directors will take place on 12 or 13 November 2005 in Berlin, Germany. For more information, contact Stan Cutzach at the TI Secretariat: [scutzach@transparency.org](mailto:scutzach@transparency.org).



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Please send comments and contributions to [jkotalik@transparency.org](mailto:jkotalik@transparency.org).

## TI launches construction initiative

Coinciding with the publication of the *Global Corruption Report 2005*, and ongoing work done by TI(UK), TI has recently published a set of draft discussion documents aimed at preventing corruption on construction projects.

Included in the report are three separate risk assessments and action plans. The first is designed for project owners and developers in the public or private sector;



the second is designed for banks, export credit agencies, guarantors and insurers; and the third for construction and engineering companies and consulting engineering firms. The reports assess the risk to these parties as a result of corruption on construction projects, and propose actions to reduce these risks.

Also included in the discussion documents are examples of corrupt practices on construction projects, reports on how the use of integrity pacts and independent assessments can reduce the risk of corruption as well as model construction integrity pacts and codes of conduct.

TI will use these tools to lobby relevant organisations to take action to prevent corruption on construction projects, including governments, public and private sector project owners, multi-lateral development banks, export credit agencies, commercial banks, insurers, construction and engineering companies, consulting engineering firms, and professional and business associations.

The documents can be accessed on the TI Chapter Zone ([www.tichapterzone.org](http://www.tichapterzone.org)) under the 'Issue Working Papers' section on TI Policies. Please send comments to Neill Stansbury, Project Director for Construction & Engineering at TI-UK, who is leading the initiative, at [neill.stansbury@transparency.org.uk](mailto:neill.stansbury@transparency.org.uk).

# Calendar

## • 7-8 April 2005, Jakarta, Indonesia

Expert meeting on 'Corruption Prevention in Tsunami Relief.

Organised jointly by the ADB/OECD Anti-Corruption Initiative for Asia-Pacific and Transparency International, the meeting will be hosted by the Government of Indonesia. Participants will include representatives from government, the private sector and civil society from six tsunami - affected countries (India, Indonesia, Maldives, Malaysia, Sri Lanka and Thailand) as well as donors and relevant international organisations and experts. The meeting is participatory and aims to identify concrete priority measures to be taken by each stakeholder involved in aid delivery and reconstruction work, to prevent and curb corruption in service delivery and procurement related to the tsunami relief. For more information, write to: [nsandoval@transparency.org](mailto:nsandoval@transparency.org)

## • 18 - 25 April 2005, Bangkok, Thailand

United Nations 11th International Crime Congress.

Conference on 'Synergies and responses: strategic alliances in crime prevention and criminal justice' with a focus on corruption.

See: [www.unodc.org/unodc/en/crime\\_congress\\_11.html](http://www.unodc.org/unodc/en/crime_congress_11.html)

# TI publications

## Global Corruption Report 2005

TI launched its annual *Global Corruption Report 2005: Special Focus on Corruption in Construction and Post-conflict Reconstruction* on 16 March with press conferences in London and Paris, as well as other events organised by TI national chapters around the world. The report includes a foreword by Francis Fukuyama, 40 country reports written by TI chapters and other experts, and a research section with the latest empirical studies of corruption and ways to combat it.

The report is published in London by Pluto Press (ISBN 0 7453 2396 0). The book can be ordered (£19.99 / \$29.95 plus postage and packing) through online booksellers, local bookshops or the publisher ([www.plutobooks.com](http://www.plutobooks.com)). The report is also published in French by Economica (ISBN 2-7178-5025-2). For more details, see [www.globalcorruptionreport.org](http://www.globalcorruptionreport.org) or write to [gcr@transparency.org](mailto:gcr@transparency.org).



## Teaching Integrity to Youth

In January 2005, Transparency International published a Special Edition of the *Corruption Fighters' Tool Kit: Teaching Integrity to Youth*. As the leaders of tomorrow, young people are a particularly important target group for ethics education. The 88 page booklet includes examples of youth education experiences from 11 countries, which contribute to fostering a zero-tolerance approach to corruption and to building demand for accountability. The booklet is written by TI national chapters and other NGOs in Argentina, Brazil, Cambodia, Colombia, Georgia, Italy, Macao, Moldova, Uganda, the United States of America and Zambia. This special toolkit is available in print or in pdf format at [www.transparency.org/toolkits/2004/index.html](http://www.transparency.org/toolkits/2004/index.html). For more information, contact Bettina Meier at the TI Secretariat ([bmeier@transparency.org](mailto:bmeier@transparency.org)).

