PRESS RELEASE

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Highlights from the Transparency International Global Corruption Report 2003

Cash for editorial: Unethical media practices revealed

Taking cash for editorial content and other unethical media practices are prevalent around the world, particularly in Southern and Eastern Europe and Latin America. A survey by the International Public Relations Association (IPRA) concludes that no region is immune. The study, published in July 2002, polled 242 public relations and communications professionals in 54 countries.

Nearly two-thirds (63 per cent) of respondents in Eastern Europe believe that *zakazukha* – a Russian word referring to the acceptance of bribes by journalists in exchange for editorial content – is common in their countries. Only 13 per cent of respondents in Eastern Europe believe that editorial content is 'usually' or 'always' based on editorial judgement rather than bribery. In Southern Europe, Africa and the Middle East, 40 per cent of respondents believe that editorial content is generally influenced by bribes.

Asia is perceived to be home to the world's most transparent media, with 68 per cent of respondents agreeing that editorial control is usually or always based on editorial judgement rather than bribes. North America follows with 65 per cent, Australia with 60 per cent and North/West Europe with 59 per cent.

Do editors and journalists accept bribes not to run a story? In Latin America, 41 per cent of respondents say such bribes are often accepted.

The media's role

Edgar Damalerio, managing editor of the Filipino weekly newspaper *Zamboanga Scrib*e, was shot dead on 13 May 2002. He was known for his critiques of corruption among local politicians and the police. Valery Ivanov, editor of the newspaper *Tolyatinskoye Obozreniye* in Togliatti in south Russia, was killed on 29 April 2002. The newspaper was well known for its reports on organised crime and official corruption.

In Bangladesh, Harunur Rashid, a reporter for the daily newspaper *Dainik Purbanchal*, was killed after writing several stories on official corruption and links between criminal syndicates and outlawed Maoist guerrilla groups. Orlando Sierra Hernández, a columnist for the Colombian newspaper *La Patria*, was shot in the head on 30 January 2002, and died two days later. His columns frequently attacked government corruption.

REGIONAL HIGHLIGHTS from the Global Corruption Report 2003

Western Europe

The importance of prosecuting cases of private-to-private bribery was given great publicity by the passage through the **British** courts of the biggest bribery scandal in two decades. The CEO of Hobsons, a food

manufacturer, was brought to court, accused of stealing £2.4 million (US$3.8 million) from the bank account of a subsidiary company in order to extend a lucrative contract with the Co-operative Wholesale Society (CWS). Two senior CWS officials were convicted of receiving corrupt payments of £1 million each.
In **Germany**, in the wake of the party financing scandal in which the Christian Democratic Union has been embroiled since 1999, the governing Social Democratic Party (SPD) became mired in its own financing scandal in March 2002. SPD officials in Cologne were alleged to have received EUR 260,000 (US$257,000) from corporate donors between 1994 and 1999. Though dating back some years, this scandal led to a breakthrough in public awareness, with municipal corruption now recognised as systemic in Germany.

The **British** government went a step further than other **OECD** countries, when new anti-bribery legislation, intended to bring British law into line with the OECD Anti-Bribery Convention, came into force in February 2002. Unlike other OECD countries' legislation that renders illegal the bribery of foreign government officials, the new law also makes facilitation payments illegal. The Confederation of British Industry criticised the banning of facilitation payments – small payments to 'facilitate' routine government services – on the grounds that it could put British companies at a competitive disadvantage.

Italy's prime minister Silvio Berlusconi and a number of colleagues were facing several charges of corruption and false accounting, but Berlusconi transformed the fight against corruption into a fight against investigative judges. In late 2001 a new law was adopted by parliament that severely impedes their work. Declaring false accounts also ceased to be a criminal offence in Italy, a change that may create a strong incentive for money laundering. Other obstacles were placed in the way of magistrates working on corruption and mafia cases, including the removal of their security escorts. In January 2002 the United Nations special rapporteur on the independence of judges and lawyers made an appeal to Berlusconi, calling on his government to respect the UN basic principles on the independence of the judiciary.

Germany's federal government presented a measure to parliament in April 2002 that would allow for the creation of a Register of Unreliable Companies. The register would list companies that have been caught paying bribes, using illegal employees or otherwise engaging in corrupt activity. Unfortunately, the proposal ran into resistance. The bill was twice held up in the upper house of the German parliament (Bundesrat), where the opposition commanded a majority of votes.

Investigations into corruption at the **Spanish** bank BBVA opened one of the biggest scandals to hit the European banking sector in years. The criminal inquiry, which began in April 2002, related to activities at Banco Bilbao Vizcaya before its merger with the Argentaria bank in 1999. The bank was alleged to have held EUR 225 million (US$223 million) in secret accounts in Jersey, Liechtenstein and Switzerland. The bank's secret accounts were alleged to have allowed fraud, misappropriation and money laundering. Money was also allegedly channelled to fund the election campaign of Venezuela's president Hugo Chávez, as well as that of former Peruvian president Alberto Fujimori.

Several major multinational construction companies, including companies from **Britain**, **France**, **Germany**, **Italy** and **Switzerland**, face prosecution in the ongoing Lesotho Highlands Development Authority case. While the Lesotho case is a rare example of a Western company being prosecuted for bribery under the national law of a developing country, the steady incorporation of the OECD Anti-Bribery Convention into national laws in OECD countries is making bribery abroad increasingly risky. Yet the TI Bribe Payers Index 2002 revealed the deplorably low level of awareness of the OECD convention.

North America

In March 2002, the **United States** Congress implemented its first major campaign finance reform in more than 25 years. The McCain-Feingold law bans 'soft money' contributions to national parties and restricts advertisements for specific candidates by outside groups. Since 1989, the energy giant Enron had contributed soft money totalling US$5.95 million (with 74 per cent going to Republicans) and it enjoyed a close connection with policy-makers in the Bush administration.

Allegations of patronage and favouritism in the awarding of contracts were levelled at the Liberal government of **Canada's** Prime Minister Jean Chrétien. Many of the allegations involved small amounts of money, such as Defence Minister Art Eggleton's untendered grant of CAD $37,000 (US$24,000) to a former lover. Critics pointed out, however, that these small amounts were part of a pattern in which ministers handed out contracts to friends or companies that had donated to the Liberal Party. A disputed CAD $1.6 million (US$1.1 million) in contracts to Groupaction Marketing, which had contributed CAD $70,000 (US$46,000) to the Liberal Party over several years, prompted an investigation by the auditor-general and the Royal Canadian Mounted Police.

Corruption scandals also stirred up local politics in the **United States**. Representative James A. Traficant of Youngstown, Ohio, was found guilty in April 2002 on 10 federal counts of bribery and racketeering, and Vincent Cianci Jr, mayor of Providence, Rhode Island, was convicted of racketeering conspiracy in July. Still popular in their districts, they both intended to run for re-election until the appeals process was exhausted. On 24 July, after a motion by the House Ethics Committee, Traficant was expelled from Congress by a vote of 420 to one and began an eight-year prison term two weeks later.

A corporate whistleblower helped to reveal **Enron's** system of fraudulent accounting, which had relied on private partners and offshore subsidiaries to keep the corporation's debt profile low and drive its stock price up in a financial shell game. Further revelations of misleading accounting emerged from Adelphia Communications, Global Crossing, Halliburton, WorldCom and Xerox, while charges of tax evasion and insider trading were levelled at the CEOs of Tyco International and ImClone Systems. In an attempt to restore confidence, Congress and the White House moved swiftly to pass a corporate fraud bill in July 2002. Praised as a significant overhaul of **United States** business regulations, the Sarbanes-Oxley Act of 2002 creates new penalties for corporate fraud and requires chief executives and boards of directors to take direct responsibility for the accuracy of financial statements.

The Canadian Association of Journalists awarded its second annual 'Code of Silence' prize to the federal ministry of justice for granting itself the power, under Bill C-36, to override the **Access to Information** Act. The prize recognises the most secretive government department in **Canada**. The proposed anti-terrorism act of 15 October 2001 poses threats to the public's access to government information. If passed, the act would authorise the minister of justice to suspend rights granted under the Access to Information Act of 1985 in order to protect international relations, national defence or national security. The Access to Information Act already contains exceptions for these categories of information, although it subjects decisions to independent oversight by the information commissioner and the federal courts. The new legislation proposes to change the content of the act by insulating the justice minister's decisions from independent review.

Central America, Mexico and the Caribbean

The Grupo Oaxaca, a group of scholars, lawyers, journalists and NGO representatives, agreed to form a technical commission that would press for **access-to-information** legislation in **Mexico**. In October 2001, the group presented the Mexican congress with its own draft law, the first time a civil society group had brought a bill to the legislature. The drafting of the law then fell to the government's anti-corruption agency, SECODAM, but leaks revealed that SECODAM's draft was full of exemptions and loopholes. Responsibility was transferred to the government secretariat (Secretaría de Gobernación), and the proposals then became the subject of a month-long dialogue involving congressional representatives. Both houses of the legislature eventually approved a compromise bill unanimously in April 2002.

Transparencia **Costa Rica** launched a programme to monitor campaign finances during the February 2002 presidential elections. In August 2001, the eight presidential candidates were invited to sign a transparency agreement in which they agreed to provide detailed information on their election campaign finances on a regular basis. One candidate refused to sign the agreement and subsequently attempted to discredit the proposed procedures, which included independent monitoring of the candidates' expenses and contributions. The monitoring programme revealed that parties undervalued their expenses and failed to declare the full amount of contributions. It also revealed that one of the leading political parties had made an expense claim that was 22 times higher than the amount of contributions reported in the same period. The party was forced publicly to correct the figures and provide an explanation for the differences. The candidate who had initially refused to sign the transparency agreement readily agreed to cooperate during the second round. Monitoring of the advertising costs during this round found that expenses were significantly reduced as a result.

In **Panama**, a law on transparency in public management was approved in December 2001, granting citizens free access to information on government activities. Only a few days after the legislation was approved, the opposition party denounced the government for refusing to disclose a full copy of the Complementary Arrangement 2002, which was signed with the United States and concerns joint patrolling against drug trafficking. In January 2002, President Mireya Moscoso officially approved and signed the freedom of information act. The law makes provisions for penalising officials who do not comply with its requirements.

Mexico undoubtedly leads the region in the implementation of anti-corruption measures. Legislation passed during the last year broke a considerable degree of banking secrecy. Other laws concerned the execution of precautionary seizures in connection with officials suspected of involvement in corruption networks; provisions were also made for the investigation of accounts or goods registered under the names of relatives or third parties. The new law on the administrative responsibilities of public servants strengthens Mexico's national programme to combat corruption and extends the statute of limitations for punishing acts of corruption. Of equal importance is a new federal law on access to public information and the introduction of the Tramitanet and Declaranet e-government systems. The World Bank holds that corruption costs approximately 9 per cent of Mexico's gross domestic product, exceeding the country's entire spending on education.

In **Honduras**, former president Rafael Callejas faces charges that he transferred US$11 million into the secret account of the presidency during his term of office. Former president Leonel Fernández of the **Dominican Republic** was investigated for corruption during his rule from August 1996 to August 2000. He was questioned about the irregular handling of US$84.3 million from a special account; no charges were brought against him in the end, though a number of his officials appeared in court. In April 2002, a judge filed charges against former **Nicaraguan** president Alemán and officials of his government for fraud, embezzlement and the misuse of public funds in connection with a television deal.

South America

Roseana Sarney, daughter of former **Brazilian** president José Sarney, was a presidential hopeful for the 2002 election. Yet her reputation suffered irreparable damage when her own TV channel showed federal police uncovering 1.3 million reais (US$400,000) in cash in a raid on one of her firms. Her husband and business partner ultimately admitted that the money had been earmarked to finance her campaign, in clear violation of funding regulations. The ensuing scandal forced Sarney to drop out of the presidential race in April 2002.

A World Bank survey released in February 2002 found that bribes are paid in 50 per cent of all state contracts in **Colombia**. Another World Bank report estimates the cost of corruption in Colombia at US$2.6 billion annually, the equivalent of 60 per cent of the country's debt.

Argentina is still being buffeted by news of abuses during the rule of Carlos Menem. He was detained for six months in 2001 on charges of illicit arms smuggling and money laundering, but released after a controversial decision by the high court. Former economy minister Domingo Cavallo was among those arrested in the scandal, which involved selling 6,500 tonnes of weapons to Ecuador and Croatia. Cavallo allegedly signed decrees ordering arms sales to Panama and Venezuela that had ended illegally in Croatia and Ecuador between 1991 and 1995. The latest allegation is that Menem received a US$10 million pay-off from Iran to cover up its role in the July 1994 bombing of a Buenos Aires synagogue.

Seven months before **Brazil** won an unprecedented fifth title in the World Cup in July 2002, a congressional inquiry into suspected mismanagement and corruption published a 1,600-page report accusing Ricardo Teixeira, president of the Brazilian Football Confederation, of money laundering, fraud and general mismanagement. The report recommended that Teixeira, who is also a member of FIFA's executive committee, be prosecuted for his criminal management of the soccer confederation. Under Teixeira's stewardship, the confederation accumulated debts of more than US$10 million between 1995 and

2000, some of which stemmed from 'inadmissible expenses' such as US$2,000-a-day limousine rentals in New York.

A report that Poder Ciudadano issued after seven months of monitoring the **Argentinian** senate described the upper chamber as a 'captured institution', confirming that many of its rules on transparency are not applied in practice. Poder Ciudadano also runs the 'Visible Candidates' project, which provides a complete profile of congressional election candidates and their campaign finances.

Pacific

Evidence emerged to show that Russian organised crime had exploited **Nauru's** Sinex Bank, one of the island's registered offshore banks, to launder a total of US$3 billion through the Bank of New York. Russia's central bank claimed that more than US$70 billion had been channelled through Nauru's 400 offshore banks, all registered to a single mailbox owned by the state-controlled Nauru Agency Corporation. The enormity of the scam is highlighted when compared to Russia's total export earnings of US$74 billion in 2001. The Financial Action Task Force (FATF) on Money Laundering of the Organisation for Economic Co-operation and Development (OECD) announced in December 2001 that, for the first time in its 12-year history, it would take action against a sovereign state, and it issued an ultimatum: the island-state had to make legal changes to regulate its offshore banks, or face sanctions.

A royal commission was established in Western **Australia** in December 2001 to look into allegations of police corruption. The 18-month inquiry opened in March 2002 with an offer of amnesty for any serving and former police officers who made a written tell-all confession about their knowledge of corrupt and criminal police activity before 31 May 2002 and were prepared to give evidence. Police corruption is set to be an issue in the state elections of 2003. Experts say that one of the reasons why police corruption is so widespread is an inherent "police culture" that encourages unsavoury behaviour. Justice James Wood, who led the Wood Royal Commission, says that police are taught from the beginning that loyalty to their colleagues is more important than loyalty to the service.

In the weeks leading up to the June 2002 elections, **Papua New Guinea** newspapers published full-page ads calling on voters to be critical of candidates and to stop selling their votes. Launched in January 2002, the campaign came in response to a wave of corruption scandals, notably one involving bribery, extortion and misappropriation at the National Provident Fund. The Media Council was particularly concerned about ongoing coverage of the savings institution's former chairman, who was charged with misappropriating 2.7 million kina (about US$750,000) from the employee retirement fund. Given that no one else implicated in the scandal has been prosecuted since the inquiry was launched more than two years ago, the group urged the police and the public prosecutor's office to make faster headway with their paperwork. The acting governor-general and speaker of parliament welcomed the media's campaign by calling for new laws to appoint independent prosecutors to tackle corruption cases more thoroughly. Together with Transparency International PNG and the Ombudsman Commission, the Media Council runs a hotline through which members of the public can report suspected cases of corruption directly to the media.

East Asia

Since the Information Disclosure Law came into force in **Japan** in April 2001, citizens are guaranteed the right to access official information held by administrative agencies and the possibility of appeal to an Information Disclosure Review Board when the government decides not to disclose certain information. The provisions have enabled civic groups to expose several cases of corruption. One came to light when the newspaper *Asahi Shimbun* requested the records of *watashikiri* expenses for post offices. The *watashikiri* budget is typically allocated in a lump sum that does not require strict accounting. When details of the use of *watashikiri* expenses were published in December 2001, several examples of fraudulent accounting were discovered. Records from one post office revealed that invoices had been issued by a company that did not exist. In another case, the post offices in Kyusyu district were found to have bought promotional goods from what was effectively a corporation owned by the postmasters themselves – for more than 70 years. The corporation was estimated to have made almost US$9 million each year.

Following these revelations, the post office's internal inspectors launched an investigation that led to the disciplining of several postmasters and officials and the abolition of the system of *watashikiri* expenses.

When Transparency International's Bribe Payers Index was released in May 2002, ranking **Taiwanese** businesses among the most frequent payers of bribes in developing countries, the justice ministry declared its intention of prohibiting the bribing of foreign officials. A bill was drafted accordingly in July 2002.

In January 2002, the prosecutor-general of **South Korea** resigned following the arrest of his brother on suspicion of taking bribes. Hours later, President Kim Dae Jung made a public apology for the corruption in his administration and vowed to make the eradication of corruption one of the priorities of his last year in office. But in May and June 2002 two of the president's sons were arrested for allegedly taking bribes. President Kim resigned from his party in May 2002, once more finding it necessary to apologise for the scandals in his administration. In June 2002, prosecutors alleged that one of the president's sons, Kim Hong-up, had accepted US$820,000 from a construction firm, among other bribes. He was later sentenced to 3.5 years in prison.

The Three Gorges dam project, the largest engineering project in **China** since the construction of the Great Wall, is scheduled for completion in 2009. The project has a budget of about US$24 billion – leaving ample scope for personal enrichment of cadres close to the work. In 2000, Beijing admitted that some US$58 million of the US$2.1 billion allocated to resettlement had already been misappropriated. So far, at least 100 officials have been disciplined by the Communist Party for embezzlement. Officials are allegedly exploiting the multibillion-dollar deal as much as they can. Accusations range from bribe taking, inflating the actual cost of relocation, inventing fake people to be resettled and skimming from the central government's resettlement budget. Local officials are accused of paying those forced to move out of their homes far less than the amount stipulated by government regulations.

The **Chinese** government uses the media as a weapon in its anti-corruption armoury. An anti-corruption TV drama, *Black Hol*e, first aired in December 2001, topped viewing figures in Beijing. In March 2002, a new TV programme, *China's Most Wanted: Corrupt Official*s, went on air on 60 local stations. This daily 15-minute docudrama, produced by the Supreme People's Procurate, the country's main anti-corruption body, names and shames fugitive public officials or employees suspected of corruption. But the Chinese media is not allowed to investigate corruption independently, particularly if the exposés implicate powerful officials. When journalist Jiang Weiping uncovered several corruption scandals involving high-ranking officials, he was charged in September 2001 with 'revealing state secrets' and given a nine-year prison sentence in a secret trial.

South Korea introduced an anti-corruption law in January 2002 that sets stiff penalties for corrupt officials, including jail terms of up to 10 years, fines of up to 50 million won (US$40,000) and a ban on employment by public or private companies lasting five years. The law also established an anti-corruption commission, with a specific mandate to investigate cases involving high-ranking officials. In April 2002, the South Korean government announced that it will work more closely with non-governmental actors in the fight against corruption. The government procurement agency announced the introduction of an ombudsman system and a 'clean procurement committee' in an effort to break ties between the government and its contractors. The new office will appoint members of civil society organisations, professors and technicians as ombudsmen to monitor bidding and contract-awarding processes in order to enhance transparency.

Southeast Asia

In March 2002, **Indonesian** president Megawati Sukarnoputri sanctioned the arrest and trial of the speaker of parliament, Akbar Tanjung, for corruption. The son of former president Suharto, Tommy Suharto, was also found guilty of the murder of a judge who convicted him on corruption charges. Also in March, a Jakarta court found the Central Bank governor, Syahril Sabirin, guilty of corruption, sentencing him to three years in prison.

In **Thailand**, the National Counter-Corruption Commission (NCCC) stunned the government by indicting Prime Minister Thaksin Shinawatra for illegal concealment of assets. However, the constitutional court overturned the NCCC's guilty verdict for undisclosed reasons. While the prime minister's acquittal dismayed many observers, the relatively new NCCC was praised for demonstrating independence in the face of political pressure.

Anti-corruption agencies, which have proven successful in **Singapore** and **Hong Kong**, faced problems elsewhere. Some anti-corruption agencies are themselves seen as corrupt. In February 2002 the **Philippines'** ombudsman faced an unprecedented impeachment motion for corruption. Although the motion was not passed, the incident sowed doubts about the agency's credibility and capacity to control corruption.

A survey by Social Weather Stations, conducted in the last quarter of 2001, found that **Philippine** businessmen were willing to pay 2 per cent of corporate net income to fund an anti-corruption programme. They had calculated that if corruption were controlled, their net income would increase by 5 per cent and they would make a saving of 10 per cent on contracts, while government would save 15–20 per cent.

South Asia

The career of **India's** defence minister George Fernandes, who had briefly resigned in March 2001 after Tehelka.com secretly filmed officials demanding bribes for arms sales, was plunged into further turmoil in December 2001 when the 'Coffin-gate' scandal hit the headlines. The fraud involved officials in his ministry authorising payments of US$2,500 per coffin for Indian casualties of the Kargil War in 1999, when the actual price was US$172 per casket. The Venkataswamy Commission, set up to investigate defence kickbacks in the wake of the Tehelka.com revelations, was scheduled to report within four months, but failed to do so. Tehelka.com's financial backers, meanwhile, were subject to harassment, particularly an attempt to tie them to a broader financial conspiracy to rig prices on the stock exchange.

In **Bangladesh**, the new BNP-led government spared no effort in exposing the misdeeds of its predecessor. A white paper issued in January 2002 presented a total of 40 major cases of alleged corruption against the Awami League, accusing it of plundering US$126 million while in office. The paper also alleged that the former premier Sheikh Hasina pocketed US$123 million from the sale of eight Russian MiG-29s and a further US$3 million through the employment of foreign consultants in an export promotion scam. The BNP-led government reasserted a norm familiar in Bangladeshi politics: no incumbent politician is ever successfully prosecuted for corruption. Cases pending against BNP politicians were abruptly withdrawn. White-paper investigations into corruption conspicuously omitted irregularities committed during the party's last tenure in office.

Political interest was the driving force behind an anti-corruption drive in **Pakistan**, a country dominated by a military elite keen to portray civilian administrators as corrupt and untrustworthy. Yet ex-servicemen, bureaucrats and businessmen prepared to play ball with President General Perez Musharraf's regime were let off lightly, especially if they were rich enough to repay their ill-gotten gains. Admiral Mansur ul-Haq avoided prison by repaying Pakistan's National Accountability Bureau (NAB) the US$7.5 million he was estimated to have obtained in kickbacks from arms purchases.

In the city of Bangalore, southern **India**, an independent survey of the quality of maternity health services for the urban poor conducted by the NGO Public Affairs Centre revealed that the poor pay huge amounts of extortionary money in their interactions with the public maternity hospitals. The average patient in a maternity ward run by the city corporation pays 1,089 rupees (approximately US$22) in bribes to receive adequate medical care. A further 61 per cent of the respondents were forced to pay for medicines, though public policy clearly mandates that they be given free of charge.

In **Pakistan**, President Musharraf gave a clear signal of his determination to fight corruption, launching a number of significant institutional reforms, including a civil service reform, an 'access to justice' programme and the separation of accounting functions from the auditor-general's office. The government also promised to establish an independent anti-corruption agency by October 2002 that would integrate the work currently undertaken by the NAB, the Federal Investigative Agency and the Anti-corruption Establishment. During a series of meetings with the Pakistani government in April 2002, Transparency International called for freedom of information legislation, a code of conduct for civil servants, an overhaul of the public procurement system and for the military and judiciary to be brought within the mandate of the NAB.

Nepal also proposed an array of anti-corruption legislation in 2002, including the Corruption Control Bill, the Commission for the Investigation of Abuses of Authority Bill, the Special Court Bill, the Impeachment/Regulate Working Procedure Bill and the Management of Political Parties Bill. Prominent cases of corruption in the year under review involved false accounting, illegal tendering, bank fraud and the systematic evasion of sales, property and income tax.

Sri Lanka's business-politician network came into focus in November 2001 after it was revealed that payment of 15 million rupees (about US$150,000) in interest charges due on a loan of £500,000 (US$780,000) from the London branch of the state-owned Bank of Ceylon was waived for businessman Ronnie Peiris, a close associate of President Chandrika Kumaratunga.

Commonwealth of Independent States

Kazakhstan's independent weekly *Nachnem s Ponedelnika* is known for its in-depth reporting on state officials' involvement in the oil trade and other sectors. From 1998 to 2001, the weekly was sued 17 times for defamation, chiefly by officials or company executives with close links to government. In three cases, the paper was found guilty of slander and fined a total of 25,935,000 tenge (about US$180,000). Since Kazakh libel law does not recognise truth as a defence, *Nachnem s Ponedelnika* was fined for harming the reputation of public officials, without due consideration of possible evidence of their involvement in bribery.

Although a number of anti-corruption measures have been approved in **Georgia**, including the establishment by presidential decree of an anti-corruption council in July 2001, measures taken so far appear to have lacked substance. After the IMF pointed to issues of 'weak administration and widespread corruption' in a recent report, Georgia established a VAT fraud unit and passed legislation to strengthen the VAT refund system. President Eduard Shevardnadze is also pushing for executive reform, in collaboration with the anti-corruption council; a first phase entails stripping parliamentarians of their immunity from prosecution. In March 2002, the president called for tougher laws against corruption, tax evasion and misappropriation of state property.

In summer 2001, **Turkmenistan's** president Saparmurat Niyazov announced a number of high-profile arrests and dismissals on corruption charges. It was characteristic of Turkmen politics, however, that charges were levelled only when the allegedly corrupt official had defected to the opposition. Former Central Bank chairman and Deputy Prime Minister Khudaiberdy Orazov was charged with embezzling part of a 1997 Credit Suisse and Deutsche Bank loan of US$120 million to agriculture in March 2002 – one month after he formally joined the opposition.

In October 2001, **Ukraine** enacted a decree, 'On Securing Implementation of Citizens' Rights, Principles of Democratic Society, Openness and Transparency of the 2002 Elections Process'. But a law passed at the same time restricted the news coverage by national and foreign press of the March 2002 elections. Voters did not have access to impartial and balanced information owing to the bias of major TV stations against the opposition.

According to a study by the think tank INDEM (Information for Democracy), **Russian** businesspeople pay more than US$30 billion a year in bribes, a sum roughly equivalent to the revenues of the 2002 federal budget and about 12 per cent of the gross domestic product. About 90 per cent of the bribes are paid for 'corruption services' associated with export licensing and quotas, state budget transactions, tax transfers, customs duties, privatisation deals and servicing debts to the federal budget.

The Moscow brokerage firm Troika Dialog estimates that **Russia's** reputation as a place where CEOs routinely violate the rights of minority shareholders wipes about US$45 billion annually off the value of the stock market. Any improvement in corporate governance practices could attract an additional US$10 billion a year in FDI, according to PricewaterhouseCoopers.

Majid Abduraimov, a journalist from southern **Uzbekistan**, faces several years in prison on charges of bribery and extortion after writing a series of reports on corruption and abuse of power among senior officials in Boisun municipality, Surkhandarya region. Human rights activists claim that five reporters are currently behind bars on fabricated charges. **Kyrgyz** journalist and human rights activist Samagan Orozaliev was sentenced to nine years in prison in November 2001 after he was found guilty of blackmail, falsification of documents, illegal possession of arms and resisting the police. Orozaliev was arrested while making a documentary on official corruption.

Central and Eastern Europe and the Baltic states

In 2001, **Hungary** introduced mandatory asset statements for all public sector employees. In July 2001 and March 2002 respectively, **Slovakia** and the **Czech Republic** adopted civil service laws that made property disclosures compulsory for civil servants and envisaged the introduction of codes of conduct. The Hungarian parliament adopted a law on corporate criminal liability in December 2001. The penal code was amended to improve the instruments available to fight corruption and to tighten punishment of corrupt actions, and the prosecutor's investigative powers were strengthened. The Czech Republic and Slovakia adopted new laws on functionally independent intra-governmental audit units in August and October 2001.

Accusations of corruption were levelled at the US energy firm Williams International and Russian competitors Yukos and LUKOIL as they haggled over the privatisation of the **Lithuanian** oil company, Mazeikiu. Shortly before, the mayor of Vilnius accused a member of parliament of cheating the French power company Dalkia, and of demanding protection money.

In February 2002, it was alleged that employees of the Lodz ambulance service in **Poland** not only took payment from undertakers in exchange for information about the death of patients, but also actually killed patients for profit. The allegations were only the tip of the iceberg, and doctors and the owners of funeral parlours have also been charged with taking or paying bribes.

In 2001–02, numerous **Slovak** NGOs established the Alliance – Stop Conflicts of Interest – to amend the existing, largely ineffective law on the prevention of conflicts of interest. The alliance wanted to increase the number of public servants subject to the law; formulate more precise duties and limits concerning additional work contracts and revenues; make asset declarations public and mandatory even for close relatives; and improve the effectiveness of proceedings and sanctions for conflicts of interest.

In a unique partnership between the government and an NGO, the TI chapter in **Latvia**, Delna, was invited to monitor the procedure for a major privatisation tender. Despite the fact that the tender for the Latvian Shipping Company failed, the co-operation between NGO and privatisation agency set a precedent in the prevention of influence-peddling in the decision-making process.

Southeast Europe

The government of the **Federal Republic of Yugoslavia** imposed a tax on businesses that benefited from favours under Milosevic. The commission in charge of investigating the abuses regularly publishes lists of extra profiteers – 271 persons in February 2002 – and ensures that the tax is collected. In September 2001, the FRY also enacted legislation to make money laundering a criminal offence and requires banks and financial institutions to report all transactions in excess of 600,000 dinars (about US$9,500) as of July 2002. **Serbia** also formed 26 anti-corruption fighting units to gather information through hotline numbers. According to the teams' findings, the ministry of internal affairs and customs office are Serbia's most corrupt institutions.

New regulations on political campaign finance and the disclosure of political donations form part of a new government action plan in **Turkey**, which the International Monetary Fund agreed to finance with funds from a US$16.3 billion loan in February 2002. The system of awarding contracts is earmarked for reform from January 2003 under a new public procurement law that was a precondition for the loan. Turkish contractors have traditionally been asked to pay up to 15 per cent of the value of state contracts as 'campaign contributions', according to a 2001 World Bank report.

In **Albania**, anti-corruption units were established in the ministries of public order, finance, justice and in the prosecutor's office with mixed results. In June 2002, the government drafted an anti-corruption bill that will lead to the creation of a special oversight body tasked with investigating the property holdings of some 5,000 high- and medium-ranking officials. Members of the body, who will be elected by parliament, will enjoy broad jurisdiction and have access to data from banks and private enterprises. Officials found to have lied about their property holdings will be subject to prosecution.

In February 2002, **Bosnia and Herzegovina** established a working group to fight corruption and organised crime, comprising ministers and representatives of Interpol, the judiciary and police. One month later, in cooperation with the World Bank and the Office of the High Representative, the Bosnia and Herzegovina Council proposed a national anti-corruption action plan. At the same time, however, a major scandal erupted when the Bosnian Serb minister of finance resigned in a case of customs fraud that deprived the budget of US$15 million.

In **Albania**, where the government has failed to decriminalise libel, journalists investigating corruption face security risks – arbitrary arrest, severe beatings and intimidation – and are denied fair trials in defamation cases. In November 2001, the publisher of the independent Tirana daily *Koha Jone* was assaulted and threatened after the paper published allegations that a Durres hotel had been built illegally. Since compliance with existing freedom of information legislation is poor, journalists must routinely bribe government clerks to obtain official documents.

Corruption costs **Romania** billions of dollars a year, according to a report by PricewaterhouseCoopers which claimed that foreign direct investment of US$1.3 billion in 2001 was one-third of what the country could attract.

Middle East and North Africa

The region's state banks and financial institutions repeatedly fell prey to corruption in 2001–02. In February 2002, a US$150–168 million scam was discovered in **Jordan**'s banking system, allegedly involving 72 prominent businessmen and public officials, including a former agriculture minister, a senator and the son of a former prime minister. In collusion with public officials, businesspeople were alleged to have obtained loans from private banks without collateral on the pretext of providing information technology services for the country's intelligence services.

According to an article in the *Daily Sta*r, **Lebanon**'s largest English-language newspaper, a replacement driving licence requires a US$7 bribe, car registration US$27 and passport renewal almost US$70. The *baksheesh* for a building permit for a residential house can cost more than US$2,000. The Lebanese Transparency Association has now published a booklet that simplifies the procedures necessary to obtain a construction permit and features the documents, fees and average time required.

In **Israel**, the police fraud squad questioned Prime Minister Ariel Sharon and his son, Omri, on whether they had used fictitious companies to transfer US$1.3 million in illegal donations to the Likud Party leadership elections in 1999 and prime ministerial elections two years later. Former prime minister Ehud Barak was cleared of similar accusations in May 2002, though police pressed charges against four of his aides for channelling illegal funds into bogus charities during the 1999 elections.

Moroccan businesspeople surveyed by Transparency Maroc said corruption was the second-most important challenge facing them after high taxes. Entrepreneurs polled by the World Bank in Palestine cited corruption as the second-largest constraint to growth after 'political instability and uncertainty'.

In **Saudi Arabia**, writer Abdul Mohsen Musalam was jailed in March 2002 after he published a poem in the newspaper *Al-Madina* on 10 March 2001. Musalam's poem, 'The Corrupt on Earth', accused several judges of graft. Saudi Interior Minister Prince Nayef ordered the sacking of *Al-Madina*'s editor-in-chief for allowing the poem to be published.

West Africa

Civil society organisations in **Senegal** criticised the fact that President Abdoulaye Wade refused to repeal Decree No. 97-632 in spite of repeated challenges from Forum Civil (Transparency International's national chapter in Senegal) and his own party's condemnation of the decree while in opposition. The 1997 decree allows public construction contracts to be awarded without going to tender; these contracts may have a maximum value of 100 million CFA francs (US$150,000) for consultancies and equipment and 150 million CFA francs (US$225,000) for construction work. The decree was widely seen as a means of developing a political constituency. The media also noted the tendency of higher-value public procurement contracts not to go to tender. A new public procurement code published in July 2002 appeared to override the decree, but there was no official declaration to this effect.

In June 2002, **Sierra Leone**'s deputy anti-corruption commissioner criticised the attorney-general for rendering the anti-corruption commission ineffective by not acting on its recommendations. Of the 57 cases submitted to the attorney-general's office since the commission was established in January 2001, three-quarters had not yet been acted upon. The most prominent was that of former minister of transport and communications Momoh Pujeh, who, following an investigation by the commission, was arrested in November 2001 for illicit mining and the possession of conflict diamonds. Corruption charges were not brought against him until August 2002.

Nigeria's federal anti-corruption commission was criticised for failing to bring a single case against a senior government official since it was founded in September 2000. A major obstacle to the commission's effectiveness was removed in June 2002 when the supreme court overruled objections from several states that the body was unconstitutional. The central government took a number of steps to accelerate its anti-corruption campaign during the year. In August 2001 the Federal Executive Council approved an amendment to civil service rules that allows the president to dismiss corrupt civil servants. In the following month the council approved the establishment of anti-corruption units in all federal ministries with powers to investigate cases and examine all government documents. The anti-corruption commission will take over funding of the new units in 2003.

In **Ghana**, the deputy auditor-general disclosed in March 2002 that more than US$20 million had been paid to about 2,000 ghost names in the previous two years. In response, the finance minister ordered a headcount of civil servants.

In **Burkina Faso**, a corruption survey identified the police as the most corrupt institution in the country, and a survey carried out by Forum Civil in **Senegal** identified the traffic police, customs officials and police as the most corrupt institutions.

Nearly every customs officer in **Benin** has at least one *klébé* working for him. *Klébé*s, or 'banknote rippers' in the swindlers' jargon of southern Benin, help customs officers 'control fraud' – and take a 10 per cent commission on seizures as they do so. They also extort an illegal toll on anyone wanting to move goods through customs, a toll from which the customs officers in turn take their own cut. There are about 400 *klébés* in Kraké, on the border with Nigeria, four times as many as the number of official customs agents. The *klébés* function as middlemen, acting as screens between the givers and takers of bribes, who do not want to be identified. In the port of Cotonou, *klébés* have even replaced customs officers at several points of control.

Central Africa

In **Equatorial Guinea,** the government's poverty reduction strategy calls for the implementation of measures to fight corruption and strengthen governance. In **Chad**, the World Bank continued to make efforts last year to prevent corruption in the Doba Oil Basin project, the largest US investment project in Africa. The US$3.7 billion Chad–Cameroon pipeline project, funded by the World Bank and a consortium of oil companies led by ExxonMobil, has been sharply criticised by environmental groups such as the Washington-based Environmental Defense Fund. There is growing anxiety that President Idriss Déby, whose arbitrary rule is worrying regional allies and foreign investors, is determined to control the revenue from the project, which is expected to generate as much as 250,000 barrels per day after it opens in 2003.

In a radical departure from disclosure policies in the developing word, the World Bank is to audit and make public Chad's annual oil accounts.

The last year witnessed a steady flow of reports of corruption in **Cameroon**'s logging industry. The World Bank and Britain's Department for International Development (DfID) confirmed that British and other international companies felled areas as large as 80,000 hectares (200,000 acres) without permits; inspections carried out by government-appointed observers in late 2001 and early 2002 show that almost every major logging company in Cameroon had acted wholly or partly illegally. In April 2002, the World Bank urged President Paul Biya to prosecute offending logging companies and combat corruption in the industry, or risk losing official aid. Both the World Bank and DfID have been assisting Cameroon in the regulation of international logging companies.

East Africa

A KPMG survey of more than 400 CEOs and chief financial officers, released in June 2002, strongly suggested that fraud and corruption in business are on the rise in East Africa. Fraud was considered a major problem by 61 per cent of respondents and 88 per cent said their companies had suffered from fraud during the previous year. Weak internal controls were seen as a key factor, but respondents also cited the increasing sophistication of criminals and the inefficiencies of the justice system.

The average urban **Kenyan** pays 16 bribes a month, according to the Kenya Urban Bribery Index, a survey carried out by Transparency International Kenya. This amounts to a burden of bribes of KSh 8,185 (US$104) per month – compared with an average monthly income among the survey respondents of only KSH 26,000 (US$331). Public servants are bribed the most, accounting for 99 per cent of the total value of bribes given. The worst offenders were found to be the police: six out of 10 urban residents reported paying bribes to the police.

In **Ethiopia**, the Federal Ethics and Anti-corruption Commission (FEACC), in one of its first major cases, filed charges of corruption against 41 past and present officials of the Ethiopian Commercial Bank. Charges were also brought against 12 former heads of government institutions and businessmen arrested in May 2001. One of the accused was leader of a dissident group within the ruling party.

A new power plant was commissioned in **Tanzania** in January 2002, reigniting allegations that the Malaysian company that constructed it paid off government officials. The controversial contract for a US$40 million air traffic control system between British Aerospace and the government was criticised by World Bank aviation experts.

In **Uganda**, civil society organisations were at the forefront of attempts to pressure the government into making its methods of awarding tenders more transparent. During 2001, they petitioned the World Bank to send a panel of investigators to establish, among other things, whether there was corruption in the Power Purchase Agreement (PPA) between the government and the US multinational AES to construct the US $550 million Bujagali dam. The World Bank did subsequently send an inspection panel; its report criticised numerous aspects of the project, including the World Bank's decision to keep the PPA secret. In June 2002, the World Bank announced it was suspending its loan for the dam because of corruption allegations.

Southern Africa

Corruption is pervasive in **Zimbabwe**, and a recent UN economic report commented that 'many of the problems across sectors in Zimbabwe can be linked to one central difficulty: the crisis of governance'. The Zimbabwean presidential elections in 2002 were widely construed as unfair after the authorities reduced the number of polling stations in the opposition's urban strongholds, forcing voters to queue for 30 hours. In rural areas 400,000 names were allegedly added to the register after the official closure of registration.

The tender for running **Malawi** Telecommunications (MTL) was awarded to a group that included the minister of information and MTL's chairperson, who is also the wife of the minister for presidential affairs.

The Anti-corruption Bureau arrested four senior MTL officials for improprieties in the tendering process, but they subsequently resumed work after being granted bail, rather than being suspended on full pay.

The region's most important corruption trial ended in June 2002 with the conviction of Masupha Ephraim Sole, former CEO of the **Lesotho** Highlands Development Authority, who was sentenced to 18 years in prison on bribery charges. Evidence confirmed that Sole's Swiss bank account had been credited with millions of rand from international consultancy firms involved in the dam construction project. Lesotho set an important regional precedent in the treatment accorded to international companies offering bribes when it convicted officials in the Lesotho Highlands Development Authority (LHDA) of accepting them. Following the conviction of LHDA's CEO in June 2002, companies from **Britain, Canada, France, Germany, Italy, South Africa** and **Switzerland** were due to go on trial. The South African provincial government of Gauteng subsequently announced that, 'if found guilty of bribery', the companies concerned – which included major civil engineering groups in South Africa – would be disqualified from bidding for contracts in a proposed metropolitan railway.

After a joint investigation by the directorate of public prosecutions, the public protector and the auditor-general into arms procurement in **South Africa**, a report was released to parliament in November 2001 that exonerated members of President Thabo Mbeki's cabinet, but expressed serious reservations about the administration of tendering procedures. Officials who had received gifts from bidders were mentioned by name in the report, which also alleged that the defence department's chief of acquisitions had favoured companies in which his brother had a stake. By no means the 'whitewash' that the political opposition claimed, the report was, nonetheless, too charitable in its exoneration of the government.

In **Zimbabwe**, the investment arm of the ruling ZANU PF party, Zidco Holdings, was alleged to be a vehicle for the enrichment of party leadership, according to a TI Zimbabwe report, *New Scramble for Africa*, published in April 2002. Zidco never publishes audited statements or any other financial records, the authors maintain, nor does it use profits to fund party activities. Zidco controls a range of commercial interests in the country, and its subsidiaries are heavily involved in enterprises in the **Democratic Republic of Congo** that are secured through the protection and influence of the Zimbabwean army.