

How Development Banks Can Promote Transparency and Prevent Corruption

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Today*

Tunis, Tunisia
12 December 2011

Introduction – Transparency International & Mohammed Bouazizi

Ladies and gentlemen

Today I would like to talk about how multilateral development banks can act against corruption. But first, let me talk about the nature of the beast itself.

Corruption is often thought of as a purely economic crime. We at Transparency International want to change that. So did Mohammed Bouazizi, the Tunisian fruit-vendor driven to suicide by corruption.

His tragic self-immolation, almost a year ago, will be recorded for eternity as the start of the Arab Spring. Here in Tunisia, we have seen free elections take place, and in other countries the struggle he started continues. But we must never forget what drove him to such a tragic act.

We must fight the lack of social and economic opportunities, the constant harassment by officials, the desperate conditions and grinding poverty that made it impossible for him to support those who depended on him. The final straw was when his cart and goods, bought on borrowed money, were confiscated for want of a bribe. He was beaten up when he protested, and higher authorities refused to hear his complaint.

The story of Mohammed Bouazizi is a perfect example of why, to my mind, corruption is, and will always be, a crime against humanity. I think we are all here today because we want the Mohammed Bouazizis of this world to have opportunities to live a decent life.

1. A crime against humanity - negative Impacts of corruption on development especially in Africa.

When power is abused at the expense of the many, it perpetuates social injustice and the exploitation of the vulnerable: denial of healthcare, education, economic opportunity and justice.

1.a. Corruption's impact on the poor

Time and time again, our research in Africa has revealed the devastating impact corruption has on the most vulnerable people in our society.

- In my country, Cameroon, 72 per cent of educators and parents questioned said embezzlement of education funds ranks in the forefront of the problems in primary education.
- The same survey showed that only 19 per cent of schools have working toilets, and barely 30 per cent have enough tables and benches for students.

If we are to prevent funds for our schools and hospitals being misused or stolen, we need better management capacity, transparency and accountability mechanisms to overcome the poor accounting and diversion of budgeted funds from their intended purposes.

1.b. Corruption in procurement and large projects

What is so sickening about corruption is to see people robbed of the right to play their full civic role in contributing to the decision making process about how public resources should be spent.

- Vast sums of public money are lost when public processes are perverted by public sector greed and private sector bribery.
- This year we watched the nuclear catastrophe in Japan with bated breath. As I watched, I could not help but think of another nuclear power plant that sits on a potential earthquake zone. Built on an active fault line in the 1980s for more than

US \$2 billion, the Bataan nuclear plant in the Philippines has never produced electricity, because it was so unsafe.

- The contract to build it was awarded to a US company who has admitted paying US \$17 million to one of the friends of dictator Ferdinand Marcos. This is one of thousands of examples of big projects gone wrong at catastrophic cost to citizens.

Why is this allowed to happen?

The expression “**white collar crime**” has become a euphemism for companies that pay a bribe to public officials to win a contract or avoid the rules, public officials who extort a citizen trying to access basic public services, or policy-makers who make decisions in favour of one industry, and not in the public interest.

Corruption does not always wear a white collar. However, it is a harmful euphemism that ignores the greater implications of the crime for society and for humanity. Something so simple as the paying of bribes can destroy entire societies, and destroy lives.

And these days the paying of bribes is no longer simple; it is a complex business involving shell companies and tax havens. The corrupt know the damage and suffering they inflict so they hide or attempt to; that is why they must be exposed.

1.c. The opacity of the international financial architecture

The opacity of the **international financial architecture** allows corrupt officials to move ill-gotten gains offshore.

Those who want to offer and accept bribes can now turn to facilitators: accountants, financial agents, and lawyers.

The African Development Bank and the World Bank recognize this as one of the greatest challenges facing anti-corruption efforts today. Last month the World Bank issued a report on these shady practices.

- It noted that out of 150 high-level corruption cases exposed in recent years, the UK and UK overseas territories Bermuda, the British Virgin Islands, the Cayman Islands, the Isle of Man and Jersey hosted 172 companies used in criminal schemes. Those cases used 800 corporate vehicles involving more than US \$50 billion.

This use of subsidiaries is worrying, because one trend we are seeing is for inducements to be offered via agents and subsidiaries, and there is also a practice of offering officials equity in their company or in subsidiaries located in offshore havens.

- More than half of the financial sector's overseas subsidiaries are in tax havens. Christian Aid calculates that this costs the developing world US\$160 billion a year in lost corporate taxes. That is more than one-and-a-half times the combined aid budgets of the whole rich world.
- The FTSE 100 largest groups registered on the London Stock Exchange comprise 34,216 subsidiary companies, joint ventures and associates. 38% of their overseas companies are located in tax havens.
- While we cannot be precise about activities that take place in the dark, if we include corruption, bribery, theft and tax evasion, we can say that illicit financial flows cost developing countries US \$1.3 trillion per year.

This is equivalent to the economies of Switzerland, South Africa and Belgium combined. It is an amount of money that could lift the 1.4 billion people living on less than \$1.25 a day above this threshold for at least six years, according to Oxfam.

So, bribery and other forms of corruption are becoming more sophisticated and harder to track. We should therefore double our efforts in fighting for more transparency and accountability.

Right now, the ill-gotten gains from corruption make the journey from corrupt individuals and entities to foreign banks with little scrutiny. When one route for the money is closed down, another one opens up.

To stop these leakages we need to make a sustainable impact on this practice; this starts by making as much of the real economy as transparent as possible.

2. Role of large multilateral development banks in fighting corruption

Before addressing the main topic of my speech, I felt it was important to take some time to remind us just what we are up against. It is important not to underestimate our enemy - corruption.

If multilateral development banks are to fight corruption they will become catalysts of good governance, but not the good governance we first envisaged back in the 1990s. They must embrace a twenty-first century form of governance and organizational culture that can make them lead by example.

2.a. Sanctions

The effort that they have made to stop working with corrupt businesses is laudable.

- The World Bank has already debarred 400 firms from its contracts.
- One company was barred for 12 years in 2010, for engaging in fraudulent practices in World Bank projects in half a dozen African countries.
- In 2010 the Integrity Vice Presidency of the World Bank received close to 450 complaints related to more than 300 World Bank projects in 91 countries. Half of the allegations related to bid manipulation, almost a quarter to corruption and kickbacks.

- In the case of the AfDB's IACD from its creation to 2010, its reports show an increase of over 100% in investigations.
- The Cross-Debarment Agreement signed in April 2010 between the AfDB and other MDBs is a major step. It has greatly increased potential penalties for firms engaging in fraud and corruption, adding a strong deterrent.

I want to commend the African Development Bank for its role in this important initiative, which builds on the adoption of its own zero tolerance policy.

However, one must always bear in mind the fact that corruption mutates and it is the duty of institutions like the African Development Bank to make sure they evolve with the times. Dr. Kaberuka, from what I seen in your actions, you have you have never departed from the mission and vision of this institution, yet you have never hesitated to defy certain norms, in the interest of the African Development Bank and the continent. That is the spirit that should put the scare in the minds of those investors who continue to consider Africa as a profitable zone for corruption. I believe that we must continuously seek to make our anti-corruption policies more robust. This is what you meant, Dr. Kaberuka, when you write in the foreword to the 2009-2010 IACD Report that “ the AfDB is committed to constantly improve its strategy and operations to become a centre of excellence in the promotion of integrity”.

2.b. Prevention

The recipe for a corruption-free organization starts with political will and an anti-corruption plan, supported by solid communication and training programmes that ensure that codes and values apply throughout every building, every corridor, and every office.

- A detailed anti-corruption plan must include measures for operating in countries where there is a high risk of corruption.
- Risks can also be reduced by applying integrity principles to private sector borrowers and contractors, and enforcing these principles with “know your customer” due diligence.

- It is important for private sector investment departments to be a part of anti-corruption plans. In most OECD countries, for example, export credit agencies only do business with companies that report on their anti-bribery programmes.
- Development banks should take similar steps to make sure their business partners practice the principles of corporate governance that they adhere to. As a bottom line, a company seeking your help should report on its anti-bribery procedures.

With good guidelines and policies, staff should know their duties in terms of disclosure, financial management, monitoring, working with consultants and procurement of goods and services.

- The World Bank for example, provides its staff with a red flag manual as well as a code of conduct.
- The AFDB on its part has been able to elaborate a clear vision on its areas of investigative focus, and processes. After the finalization of the structural arrangements of the Integrity and Anti Corruption Department, it is important that set procedures and protocols are put into place and disseminated in such a manner as to guarantee a buy-in from all the stakeholders.
- In many cases, a lot of information on internal codes is available, but it is poorly disseminated amongst employees. It is important that they know what to do in specific cases or scenarios. What do you do when someone offers you a bribe, for example? How do you say no in a way that does not compromise the organisation? How do you report it?

It is vital that employees know they can report acts of corruption both outside and inside the organisation. Would you report your boss for fraud, if you were not sure that the people right at the top of your organisation are serious about their zero tolerance to corruption? This Bank's policy on whistleblower protection appears to me as a powerful statement towards ensuring the success of the zero tolerance policy promoted by President Kaberuka.

That is why most multilateral development banks have whistleblower programmes and hotlines in place.

There should, also, be incentives for internal reporting to ensure safe reporting and a thorough, speedy, and independent investigation of concerns.

- The burden of proof concerning the need for such disclosures shall lie with the employer.
- For example, it should be up to the employer to establish beyond reasonable doubt that any measures taken to the detriment of a whistleblower were motivated by reasons other than the action of the whistleblower.

2.c. Prevention

These are all important measures. But acting against corruption involves more than detection and sanctions. It also involves promoting transparency so that fraud and corruption become harder to hide. That is why we are seeing a new emphasis on prevention in multilateral development banks.

New technology allows organizations to make huge swathes of their operations easily accessible to public scrutiny.

I am pleased to see multilateral development banks embracing the principle of open data

- Last July, the World Bank gave client governments, NGOs, bloggers, researchers access to its investments, the assets it manages on behalf of global funds, and its own financial statements.
- It now has websites that map aid flows, releasing information on the location of projects and how much development aid is provided and received around the world.
- Many African countries are also taking part in the e-government revolution, although there are challenges to ensure that the man on the street can also take advantage of it.

- On July 8th Kenya, became the first African country to release government data to the public through a single online platform.
- Access to government data has long been demanded by the civil society in Kenya, a country that is receiving \$1.7 billion in foreign development aid, and where corruption remains rampant.

2. d. Transparency and NGO participation

Opening up is one important step, but it does not guarantee scrutiny. Civil society can play a big role in training citizens to take advantages of such online platforms.

NGOs can help the multilateral development banks achieve their anti-corruption goals by monitoring public services, denouncing bribery, raising awareness, and providing oversight functions.

It is because civil society and brave citizens are having such impact by standing up to corruption that the World Bank President, Robert Zoellick, stood up last spring and gave an unprecedented speech saying that his organisation's priority must be to promote more open and accountable governance, and a greater role for civil society. For us at Transparency International, founded in 1993 with an initial goal of making development institutions like the World Bank recognise that corruption even existed, this is gratifying progress.

However, local NGOs in developing countries face major challenges of resources, skills and capacity. If major organisations want to benefit from the support of NGOs in raising awareness of, and support for transparency, as well as doing much of the grass roots work that involves citizens in budget monitoring, they have to help create a space for civil society.

As President Kaberuka wrote in May, the Arab Spring was a revolution not about ideology, but about freedom, social inclusion, political voice, and government accountability.

3. International action against corruption –

The scope for NGO action is vast.

3.a. Stolen assets

Right now, for example, Transparency International France and SHERPA are pursuing legal action in French courts to ensure that abnormally large amounts of money, property and cars belonging to certain foreign leaders are investigated.

What receives less attention are funds that may be invested in property overseas, or laundered through tax havens.

You might ask how so few can comfortably display such opulence in the face of the abject poverty of so many? But more importantly, we must begin to ask, which are these banks that take the money? They are profiting from the embezzlement of funds earmarked for aid projects and this is what we are trying to prevent today.

If we want to put an end to this crime, we have to take away the incentive to corrupt. We have to take away the impunity.

Corruption is a global problem. Corrupt operators do not live next door, they thrive on the open borders and dark corners that globalization has created for the transfer and hiding of ill-gotten gain. We need higher levels of international cooperation to stop the flow of stolen assets, and to bring them home to the people.

3.b. UNCAC

The most far reaching tool for fighting global corruption is the **United Nations Convention against Corruption**.

- The adoption of the UN Convention, eight years ago, was widely hailed as a major breakthrough, establishing a comprehensive global framework for combating corruption.
- UNCAC provides a model for anti-corruption legislation and a framework for the mutual legal assistance and information exchange crucial to countries like Tunisia, that are trying to recover stolen assets.
- When French courts allowed the case of Transparency International France to stand, they cited this treaty, which says civil society should be able to go to court on stolen assets cases.

The African Union Convention on Preventing and Combating Corruption goes actually goes further than the UN Convention in several ways.

- It forbids governments from citing bank secrecy as an excuse for not providing legal assistance for the investigation of suspicious assets. This is often a great barrier to recovering assets.
- Time and time again, a bank will tell a government, “sorry, the assets you want are in our branch in such and such jurisdiction, so we cannot provide you with information about the money there, because of the law of that country.”

Conclusion / 3.c. Escrow accounts – an idea whose time has come

The question I want to ask all of you today is this: Should financial institutions profit from dictators’ money?

Switzerland says it has frozen more than US\$1 billion in assets from Libya, Tunisia and Egypt following the Arab Spring.

- How did the money get there? Aren't banks supposed to carry out enhanced due diligence on politically exposed persons? I spoke of Swiss banks, but the problem is not limited to that country.
- A recent report has shown that many UK banks are failing to meet this responsibility, a third of banks surveyed appeared willing to accept very high levels of money-laundering risk, half failed to apply due diligence. More worrying still, a third “ dismissed serious allegations about their customers without adequate review.”
- The same failures allowed Nigerian dictator Sani Abacha to move around US\$ 1.3 billion through UK based accounts during the 1990s. Nigeria, like Indonesia before it, spent years and years trying to recover this money. Money that could have helped citizens of those countries rehabilitate their social and economic infrastructure after years of plunder, corruption, public sector mismanagement and dictatorship.

Assets found abroad are more commonly called “stolen assets”. As a matter of fact the World Bank actually has put in place what it calls the StAR Initiative.

If these assets are indeed stolen those with whom they are found must be likened to handlers of stolen goods. Recent reports by British and Swiss regulatory authorities contend that most of the major banks surveyed did not carry out the kind of due diligence they should have done in opening the accounts of people who were clearly PEPs or politically exposed persons.

I believe that multilateral banks can play a major role in restoring some morality and correcting the injustice of this situation. When the illicit money is frozen in places like Switzerland, it should not stay in the commercial banks. No, handlers cannot be allowed to benefit from a situation to which they were so clearly complicit. The frozen assets should be placed in escrow accounts run by multilateral development banks like the

World Bank or the African Development Bank, so that the money can start benefitting citizens, and not the accomplices.

Transparency International has made the call for the creation of escrow accounts one of our key recommendations to the Group of 20 leading economies as part of their anti-corruption plan. Let us hope they take it up.

The African Development Bank has tripled its capital. Its investments in Africa are mounting. If in the fight against corruption the buck stops here then we are sure the promoters of this scourge will soon find out they are out of luck.