
Transparency International's Quarterly Newsletter

June 1996

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Editorial

This year's annual general meeting took place in April against the background of unprecedented progress against corruption at the international level. As this issue notes, in the last quarter the OECD has toughened its stance against tax deductibility for bribes, the International Chamber of Commerce has introduced much stronger rules against international corruption by its members, the Development Committee of the OECD has recommended that members introduce anti-corruption provisions into contracts funded under their aid budgets, and the 52-member Commonwealth has come out in support of the OECD efforts to contain international business corruption.

At the regional level, too, the OAS has opened its treaty for signature which will criminalise foreign bribery, and the Council of Europe is preparing a similar convention. TI is making a formal presentation at the European Parliament in support of EU action.

Our movement has been working to secure all of these decisions, and against such a setting our AGM, held in Mweya, Uganda, could not fail to be an exciting occasion, with 32 countries represented by highly-animated and deeply-committed individuals.

However, as we note in this issue, there has now emerged a growing chorus of official complaint against the activities of some NGOs. Not only have some NGOs been abusing the raising of aid in the North, but in the South some seem to have been formed with the sole purpose of securing and abusing donor funds, while others have been defrauding the revenue and undermining the development of local industries by importing duty-free as "humanitarian supplies" such goods as used clothing and then proceeding to market these through profit-making shops and stalls.

A plea from a Tanzanian writer quoted below should be heeded by us all: he asks that the NGO community position itself as an alternative to government and subject itself to the same concepts of democracy, openness and accountability as we all expect from individual governments. He points out that some countries are moving to constrain the activities of NGOs on the grounds that some of them conduct improper activities and warns that continuing malpractices risk inviting even higher levels of government interference.

For our part, TI is prepared to work with reputable members of the NGO community to help develop such standards, to put these into practice and then town priority. The NGO community achieves far too much good, and has too much potential for the betterment of the human condition, for us to be able to afford to have our efforts undermined by mavericks and criminals. NGOs should be - and must become - role models for the type of behaviour our peoples can expect from government, not vehicles for their disenfranchisement and impoverishment.

Peter Eigen, Chairman of the Board



OECD agrees "historic" action to fight bribery

On 22 May, last minute reservations by France were overcome and OECD members agreed to "criminalise the bribery of foreign officials in an effective and coordinated manner", and to re-examine the tax deductibility of bribes where this was still permitted. Ministers agreed to consider proposals for international anti-bribery instruments next year.

The move has been welcomed by TI, whose chairman, Peter Eigen, described it as 'an historic start to a long journey'. He stressed that the recommendation was a beginning, and that difficult though it was to achieve agreement on the broad principles for action, achieving a consensus on active practical implementation would be even more challenging.

'A battle has been won, but the war will go on,' he said, pledging that TI, through its national chapters, will continue to monitor events closely and to make the case for effective and meaningful action.

The Third Page

Compliance Programs and International Corporate Misconduct:

One Solution to Assure International Transparency

by Philip H. Stern

Philip H. Stern is Vice President and Founding member of the International Association of IPSIGs

During the 1970's and 1980's, prosecutors and governmental regulators in the US, particularly the Securities and Exchange Commission, U.S. Department of Justice (anti-trust division) the Federal Judiciary, and numerous state governments, concluded that corporations do not effectively self-regulate and have historically disregarded criminal laws for economic gain.

As a result of this perception, these regulatory bodies, judges and prosecutors fashioned remedies, often on an ad hoc basis, to assure that corporations found "guilty" of deliberate law-breaking conduct or a pattern of corruption by high-ranking personnel or errant lower-level employees do not repeat the offences or proscribed conduct in the future. These remedies have taken the form of imposed trusteeships, court appointed monitors, and involuntary monitors resulting from administrative consent decrees. The principal consequence of these harsh, post-conviction sanctions has been the loss of corporate control by management, substantial financial penalties (civil and criminal), loss of reputation and, in some cases, debarment from conducting business for extended periods of time.

Equally significant has been the newly directed attention paid to corporate ethics by the press (as a result of the insider trading scandals of the 1980's and 1990's), major corporate law firms practising "preventive law" or clients subject to stockholder suits and director liability actions, and business schools teaching the new "corporate behaviour" as a part of the general curriculum.

The United States government's passage of Guidelines on the Sentencing of Organisations in 1991 has embedded the concept of compliance programs and self-regulation in law, and assured that corporations failing to establish an "effective programme to prevent and detect violations of Law" now do so at their peril. However, the guidelines also reward companies which have now been incorporated into the fabric of American corporate conduct, and corporations who are "good citizens" receive some protection (mitigation of liability) against the acts of rogue employees. More importantly, corporations must show that they have a compliance system which detects law breaking at an early stage and that it has dealt with the violation effectively.

Recent scandals in Germany, Japan and France have focused international attention on corporate corruption. As international trade grows, we can predict that international business practices will increasingly be subject to regulation and a new body of transnational anti-corruption laws.

World economies are becoming increasingly interdependent, therefore national governments are or will be forced to interpose uniform commercial regulations, anti-corruption regulations, and ethical standards (similar to those of the United States) for corporations conducting international business. And these same governments may impose equally strict penalties for violation of these new international anti-corruption regulations and standards.

Thus, if an international corporation is to be held criminally and civilly liable for acts of their employees (acting within the scope of his or her authority or apparent authority, and with intent to benefit the corporation), then transnational corporations must seek to protect themselves. Corporations must now develop compliance programs which will satisfy the mandates of domestic and international "guidelines" and their own financial self-interest.

An integral component of any effective compliance or transparency programme, which has been found acceptable to government regulators and prosecutors, is "self-policing", and a corruption prevention "mechanism". One of the most effective mechanisms for achieving this high level of self-regulation is the appointment of the Independent Private Sector Inspector General (IPSIG), a privately financed but officially sanctioned "watchdog". An IPSIG is a private firm with legal, auditing, investigative, and loss prevention skills, engaged to ensure compliance with relevant law and regulations and to deter, prevent, uncover and report unethical conduct by, within and against the organisation.

IPSIGs are required to be certified and licensed by a regulatory, administrative or law enforcement agency relevant to the company's area of business; in criminal

cases, IPSIGs may be appointed by the court.

This concept has relevance to all kinds of business entities seeking to prevent corrupt and fraudulent practices, or those seeking to correct them. An IPSIG can be hired voluntarily by a business, or imposed upon a business by a court or administrative regulation aimed at halting or preventing corrupt activity.

An IPSIG may be required to perform one or more of the following roles:

- Monitoring and investigating the activities of the organisation to detect illegal and unethical conduct, and to report possible violations of the law to relevant regulatory or law enforcement authorities.
- Designing and supervising the implementation of programs and procedures to prevent violations of the law and, related unethical conduct.
- Designing and implementing programs to raise and maintain ethical standards within an organisation.
- Assisting in the design and implementation of policies and procedures to enhance the economy, efficiency and effectiveness of the organisation.

IPSIGs or monitors conduct audits, identify potential fraud and corruption risks, evaluate existing corruption controls, and establish new anti-fraud procedures and programs to guard against employee kickback schemes, purchasing corruption, vendor overcharging and employee conflicts of interest. IPSIGs also conduct employee training programs in specific areas dealing with corruption, corporate ethics, and compliance requirements.

Finally, all companies should ask one simple question: Why appoint an independent private inspector general or monitor? The answer is compelling:

- Compliance with the Federal Guidelines on the Sentencing of Organisations or other similar international laws.
- To protect and promote the corporation's reputation for integrity and fair-dealing.
- To reform the corporation and re-establish its credibility in the marketplace after a criminal or civil investigation and/or criminal or regulatory proceeding.
- To minimise the intrusiveness of government regulation.
- To enhance the corporation's credibility with government agencies in the award of government contracts.
- To cut costs and improve efficiencies by controlling fraudulent or unethical practices amongst its employees.

The development of a working system of interactive compliance is inevitable and practical. All modern transnational businesses must create an appropriate system of compliance with law and ethical expectations.



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Country updates

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Australia

Community attitudes to corruption surveyed

The New South Wales ICAC has published its 1995 community attitude survey report. Questions were asked such as: "A developer gets council permission to build a block of flats on a small public park near your home. You suspect the developer has corruptly paid off someone at the council... What could you do about this situation? Do you think you would ever take this action?". The report is available from the Research Manager, ICAC, GPO Box 500, Sydney NSW 2001, Australia: fax. +61-2-699-8067.

Burma

Sham ruling bars Suu Kyi

British links with Aung San Suu Kyi, the Burmese opposition leader, would disqualify her from becoming her country's president under new guidelines adopted by the Burmese military junta's sham constitutional convention. Her party won the 1990 elections but was prevented from taking power. *Daily Telegraph*, 2 April 1996

Eritrea

Eritrea sets up special corruption court

Corruption, embezzlement and related crimes in Eritrea are to be moved from the criminal courts to a special court whose verdicts will be final. Verdicts will be by a majority of the votes of a jury, and no appeal will be permitted. Implementation has been given to the Ministry of Defence. *The Monitor (Addis Ababa)* 9 April 1996

France

French construction cartels fined US\$ 77 million

The French Competition Council imposed record fines of US\$ 77 million on the 36 construction companies for price fixing and other anti-competitive behaviour in recent public sector projects worth over US\$ 1.5 billion. Projects affected are, among others, the TGV high-speed railway to the new Normandy suspension bridge over the Seine. The fines mark one of the first serious attempts by the council, which was set up in 1987, to act against cartels. The council is investigating a number of other sectors, including telecommunications and electricity, but its work is proceeding slowly, not least of which because it has only 20 full-time investigators. *FT* 14 February 1996

Germany

German minister urges action

At the DAC of the OECD, the German Vice Minister of Cooperation, Klaus-Jürgen Hedrich, urged agreement to fight all forms of corruption, not just in international aid projects. Only joint and determined action against corruption could dispense the fear of competitive disadvantages and ensure the credibility of industrialised nations. *Press release of BMZ*, 7 May 1996

Dresdner client jailed for tax evasion

A German high court sentenced a businessman to three years and nine months in jail and a US\$ 885,000 fine in the midst of a wide-ranging tax evasion investigation centred on clients of The Dresdner Bank. Peter Gelhard admitted to evading US\$ 4 million in taxes by using a separate account at the Dresdner's Luxembourg branch. Gelhard said the bank suggested he run the offshore account under the name of a non-existent Panama-registered company. Dresdner Bank, and other banks that have become subject to raids, persistently denied allegations they helped customers evade taxes. *FT*, 13 February 1996

Steffi Graf's father charged

Peter Graf, father of the tennis star Steffi Graf, has been charged with evading US\$ 13m in taxes by failing to report up to US\$ 28.5m of his daughter's income. The evasion took place between 1989 and 1993, and Graf has been held in investigative custody since August last year to prevent him from fleeing the country. *The Guardian*, 18 April 1996

Hong Kong

Hong Kong holds line against corruption

A chart, traced by Tony Kwok, head of operations at Hong Kong's Independent Commission Against Corruption (ICAC), shows two lines; one reports graft in the private sector, the other in public administration. How these trends evolve through Hong Kong's return to China next year is one of the main concerns of the business community and the public. Opinion polls point to fears that corruption will cross the border after 1997. The Political and Economic Risk Consultancy warns also of the corrupting effects that could result if China seeks to curb the pay of Hong Kong civil servants. Tony Kwok, however, notes that the ICAC's independence is upheld by the Basic Law. Morale is high, he claims, and opinion polls show that public support for the ICAC remains strong. *FT*, 10 April 1996

India

Indian poll chief attacks corruption

An attack on corruption at all levels of Indian political and business life was launched by India's chief election commissioner T.N. Seshan. Speaking to a 1000-strong audience of India's business and industrial elite, he said that crime, criminality and corruption most hampered the general elections. "Corruption is directly proportional to the height of the chair occupied," he said, "The higher you go in administration, the more can be the venality." One of the most outspoken bureaucrats and a self-appointed censor of public morality, Seshan went on saying that much of the responsibility for recent years' electoral corruption "lies in this room". *FT*, 18 April 1996

Activist court fills political gap in India

The Indian Supreme Court, which has blazed a new path of judicial activism, has become the most potent public force in India, in recent months. It has championed the investigation into a massive corruption network involving many of India's most senior politicians, and it has moved to close polluting industries along the Ganges. India's politicians and bureaucrats appear to be reaching new heights of corruption, and as public faith in them erodes, the Supreme Court has become a beacon of hope. But Chief Justice A.M.Ahmedi also tried to calm fears of judicial excess, stating:"By virtue of the fact that the present situation is a corrective measure, the phenomenon of judicial activism in its aggressive role will have to be a temporary one." *Toronto Globe & Mail* 26 March 1996

Indonesia

Indonesia's new poll watchdog

The former editor of Indonesia's banned Tempo magazine, Goenawan Mohammed, knows that his latest initiative to form a new independent civilian committee to monitor fraud and intimidation at next years' national polls can do nothing to influence the outcome of the elections. The "Independent Commission for Election Monitoring" (KIPP), founded in March by more than 50 Indonesian journalists, academics, lawyers and activists, has been warned by the Suharto Government that it will not be permitted to play any official role in overseeing polling. Yet some political analysts consider the formation of KIPP one of the most important developments in modern Indonesian political history. "We are under no illusions," says Goenawan, "our initial goal is just to make people aware of their democratic rights and encourage them to organise themselves." The Sydney Morning Herald, 6 April 1996

Italy

Italy seeks separate EU anti-trust body

Giuliano Amato, former Italian Prime Minister and head of the country's anti-trust authority, supports the German proposals of establishing an independent European anti-trust body. Amato says the creation of a supra-national European structure separate from the Brussels Commission is essential to tackle more efficiently specific cases of anti-competition activity. He adds that such a body would provide the necessary separation of roles between the monitoring of the strict application of EU law in specific instances and that of the Commission. The main need for the new body would be in the areas where the dominant position in the markets was abused and where the preventive monitoring of mergers might lead to monopolies or near monopolies. *FT*, 8 May 1996

Lithuania

Prime Minister sacked

Prime Minister Adolfas Slezevicius, tainted by a banning scandal that outraged Lithuania, was ousted from his job in an overwhelming vote by Parliament. *The Guardian*, 9 February 1996

Malta

Malta opts for Ombudsman

The Mediterranean island state of Malta has become the latest country to adopt the citizen's complaint mechanism of Ombudsman. Its first officeholder, Joseph Sammut, has been sworn in. *Commonwealth Currents*, 1996, No. 1.

Spain

Spain's Banesto inquiry completed

A 17-month inquiry into the near collapse of Banco Español de Crédito in 1993, the most complex financial investigation ever undertaken in Spain, was concluded in April. Banesto's former chairman, Mario Conde, and nine other directors were charged with defrauding the bank. They bought Banesto-owned properties which the bank later repurchased at inflated prices. Banesto was acquired by Banco Santander in April 1994 after a US\$ 6.3bn rescue operation. *FT, 9 April 1996*

Tanzania

President Mkapa gives deadline

Tanzanian president Ben Mkapa has disclosed at a Blantyre press conference that he has given his country's anti-corruption commission nine months to come up with a report on maladministration in his government. He said it had an immense task to investigate all reports of corruption, maladministration, cheating and theft within government. "I want reports on how, for example, licences are given, how court cases are conducted, how promotions are done... I want a thorough job done, because corruption to me is archaic and I want to get rid of it." Flanked by Malawi president, Bakili Muluzi, he said that the first thing he did was to ask all his public officers to declare their assets while he has also introduced a code of conduct to be adhered to. He added that his government was in the process of giving authority to professional bodies, such as engineers, lawyers, doctors and journalists, and others, to ensure that the conduct of their members was proper and professional. *Daily Times (Malawi), 19 April 1996*

Tanzanian CJ looks for greater judicial accountability In a challenging address to a judicial education seminar in Kampala, Uganda, on 26 February, Tanzanian Chief Justice Francis Nyalali stressed the role of the judiciary as trustee of the constitution and the law of the land. "As trustees... (they) are duty bound to act with the utmost diligence in discharging their responsibilities and are accountable to the beneficiaries of the trusteeship - that is, the people. It is partly for this reason that courts must conduct their business in public... [and] that the mass media must report on what is going on in the courts... It is my considered opinion that an internal machinery for self discipline by the Judiciary is not a sufficient safeguard for the interests of the people.... [Internal] machinery is required to avoid frequent intervention by the Executive or Legislature in disciplinary matters of the Judiciary...A public judicial disciplinary machinery by definition is one of which membership includes, in addition to judicial officers, persons from outside the Judiciary, and one which conducts its proceedings in public. Such a body, which should be used as a last resort, is consistent with the standing of the Judiciary as a trustee of the Constitution and the law of the land. This is of vital importance, because.... the judiciary rests ultimately on nothing but public confidence."

Keynote speech available from TI.

United Kingdom

Institutional investors strengthen standards

Two institutional investors with a combined total of more than US\$ 150 billion under management, have written to the UK's largest public companies setting out corporate governance policies to which they expect them to adhere. Schroeder Investment Management and PDFM have both told companies they will vote against them if they fail to meet their corporate governance standards. Institutional investors - who invest money on behalf of pension funds and others - have in the past sought to resolve corporate governance

issues in private. However, pension fund trustees are now asking investment managers to take a stronger line on corporate governance. "After the Cadbury and Greenbury committees, corporate governance is now of increasing concern to trustees," Schroeders said. *FT, 17/18 February 1996*

MPs face tighter rules of conduct... but defy 'disclose earnings' rule

The UK government is considering new anti-corruption laws which would give courts power to hear cases against MPs for taking bribes (long an area of uncertainty). Other legislation would be consolidated and tightened up. *Daily Telegraph, 8 March 1996*

Former PM Edward Heath heads the list of British MPs defying the new rule that they reveal how much they earn from outside sources. Nevertheless, the register reveals that Tory MPs earn some \$3 million a year from conservancies and other work, while Labour Mps earn about \$1 million. Twenty MPs more than double their salaries from outside work. Labour is to press the Parliamentary Ombudsman, Sir Gordon Downey, to take action against those who failed to declare - including its own members. *The Times, 8 May 1996*

United States

US court to seize air miles?

Federal prosecutors are asking an American court in Baltimore to seize the air miles notched up by a courier convicted of drug smuggling. The 117,705 miles logged by Robert Pate were earned during marijuana smuggling trips and so are government property, they claim. *Daily Telegraph, 2 April 1996*

US prosecutor attacks bank secrecy laws

At a conference in Lisbon on money laundering, a US federal prosecutor, Mr. John Moscow, told banks they were no better than prostitutes if they transmitted money without knowing their customers or the purpose of the transaction. In a strong attack on bank secrecy laws, he said: "Bank secrecy statutes in international finance are used by crooks, tax evaders, securities fraudsters, and capital flight fellows; they are used by narcotic dealers. But they are not needed by honest folks engaged in honest transactions". *FT, 24 April 1996*

New York City builds better watchdog

Legal experts claim that the New York City School Construction Authority, led by Thomas Thacher, the inspector general who polices the state-chartered agency's US\$ 4.3 billion construction program, has developed one of the most promising anti-corruption programs in years. Thacher's office pre-screens potential bidders, makes artful use of civil law to enforce its contracts and harnesses the skills of a growing community of private watchdogs called "independent private sector inspectors general" - IPSIGs (see Page Three), - and if a company is found to reveal serious corruption problems it might well be barred from bidding. Where a company has tried to rehabilitate itself, the authority may require an IPSIG, or it may turn to another tool: the certification process. A certification is a legally binding promise to the authority that its specific concerns are groundless. Under this process the authority has the legal leverage to recover all the money paid under the contract if it turns out to have been fraudulent. Although he operates in the public arena, Mr. Thacher believes his approach "is totally exportable to the private sector, because it deals with solutions, not just with exposing scandals." *The New York Times, 14 March 1996*



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Excerpts from the International Press

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Africa

SA: Top cop to face charges

Top policeman Charlie Landman, head of Johannesburg's Brixton Murder and Robbery Squad, is facing charges in what well-placed sources say is "chapter one" of a probe into massive high-level corruption, including involvement of police in organised commercial crime.

Mail & Guardian, 15-21 March 1996

SA: Medical aid scams exposed

With the new Pledge of Transparency to be taken by several South African medical aid societies and private medical practitioners in KwaZulu Natal, ongoing scams which allowed abuse of the system by both patients and providers, will come to an end. One mechanism to be used is the thorough analysis of data being fed through accounts systems. This includes checks - on how many prescriptions doctors issue a month, how many items are

on each, and how many patients each doctor sees and how often - on health records. This will highlight discrepancies between medical practices which will be probed by investigators.

The Mercury, 2 March 1996

Malawi schoolbooks saga continues

A motion of censure against Health Minister Samu Mpasu has failed. Opposition members of parliament sought his removal from office "to pave the way for the law enforcement agencies to freely conduct investigations" into what is known as the Fieldyork notebook scandal. It was claimed that Mpasu, as Minister of Education, failed to follow correct procedures in acquiring school notebooks at a higher cost than was necessary. Meanwhile copies of the Commission of Inquiry report into the affair have been made available to MPs.

The Nation, 28 March 1996

Kenya: District Officer "sold" 300-acre stadium: fighting international graft: \$1.5 million 'lost in drugs deals': Singapore bid to manage Mombasa Port declined

A District Officer, a chief and a clique of tricksters acting as their "agents" have conned poor people out of nearly \$500,000 by selling them plots in land belonging to the Moi International Sports Complex at Kasarani, Nairobi. A bogus surveyor divided the 300 acres behind the sports complex into 8,000 plots which were then advertised for sale in local newspapers. All had been sold before the racket was exposed. The Karasani DO and the chief have both been transferred.

Daily Nation, 7 May 1996

In an editorial, the *Daily Nation* (7 May 1996) applauds TI as a "fledgling international watchdog". It concludes: "The individuals behind TI - who include at least two Kenyans - are people who have held top international or prominent national offices. On that score alone they should be well aware of the tall order they face. Hopefully, they can count on a public that is in many cases not only disillusioned but fleeced by individuals in high places, be it in Africa or in the developed countries."

The Kenyan government lost about \$1.5 million through irregular drug procurement by the Ministry of Health last year, an Opposition MP has claimed. In a memorandum to the Minister of Health he states that Ministry officials allegedly awarded a tender to the highest-bidder foreign company, making the Government incur huge losses. The MP, George Anyona, claimed that he had evidence to show that three World Bank-funded tenders for the supply of drugs and medical equipment had been irregularly awarded. His memorandum has been sent to the Bank and other donor agencies.

Daily Nation, 3 May 1996

The Kenyan government has turned down a \$2 million bid by the Port of Singapore Authority to cleanse the port of Mombasa of corruption and increase its efficiency. Others interested in the contract were dissuaded from preparing bids and were surprised to learn that the Singaporeans had been invited for negotiations. The Kenya Ports Authority stated that the parties were still talking but that no other bids had been received.

East African, 8 April 1996

Tanzania: Journalists to defend their profession by fighting corruption: debate opens on tax amnesty

About 40 participants of the workshop on investigative journalism on corruption resolved to defend the profession against intimidation by their employers, government, individuals and institutions when they champion the crusade against corruption. They agreed to launch an all-out campaign to create public awareness and drum up support at all levels for initiatives against corruption. They pledged to forge media militancy and networking with other civic organisations in the crusade against corruption and work closely with all anti-corruption institutions to root out the malaise. Participants also agreed to mount pressure on the government to dismantle restrictive laws which inhibit

access to information and documents to the media and general public, and to enact a Freedom of Information Act. The workshop was organised by the Association of Journalists and Media Workers in collaboration with the EDI of the World Bank and Transparency International (TI).

The Guardian (Tanzania), 6 May 1996

The government must now draw a line somewhere on past transgressions of income, corporate, and custom tax irregularities and impose an amnesty if it is to improve and expedite tax compliance, says an editorial in the *Business Times* (3 May 1996). A front-page story says that industrialists have asked the government to declare a tax amnesty from past transgressions "if it wishes to create an enabling environment for tax compliance". The Tanzanian government has been under acute pressure to increase the levels of revenue collection and is in the process of instituting a separate Tanzania Revenue Authority with this mission.

Zimbabwean airport tender rigged

The Zimbabwean government stands to lose over US\$ 90 million from Western donors who had planned to help fund the construction of the multi-million dollar Harare International Airport because of alleged wrangling and lack of transparency in the way the tender was awarded. The tender was eventually awarded to Air Harbour Technologies (AHT) from Cyprus, whose local agent is President Mugabe's nephew, chairman of Integrated Engineering Group. Prior to that, the Tender Board had judged the Aeroport de Paris (ADP) design as the best but cabinet immediately undertook to make its own decision and suspended all recommendations by the Tender Board. The AHT design was criticised even by some government departments, such as the Department of Civil Aviation but diplomatic sources said that against this background, it was only logical for AHT to take a back seat and watch from the sidelines.

Financial Gazette, 21 March 1996

Americas

Canada: Attempts to block Swiss banks' probe

Karlheinz Schreiber, a central figure in the Airbus affair (and who is alleged to have channelled secret payments to the former Canadian PM Brian Mulroney) is seeking a court injunction to prevent Justice Department officials from obtaining his banking records. These have been seized in Switzerland by the Swiss authorities in response to a request for mutual legal assistance from Canada. The letter of request has been filed in a Canadian court and has been widely published in Canada. Mr Mulroney denies the allegations levied against him and has issued proceedings against the government of Canada for defamation.

Toronto Globe and Mail, 23 March 1996

Ecuador: Dahik given political asylum

Former Vice-President Alberto Dahik has been formally granted political asylum in Costa Rica after the Supreme Court of Ecuador had charged him with corruption. The Costa Rica authorities said that they considered documents submitted by the government of Ecuador, the Costa Rican embassy in Quito and by Dr Dahik before deciding to grant asylum. Dahik has throughout claimed that the charges are politically-motivated and a consequence of his anti-corruption stance. (Dahik served as first chair of TI's Advisory Council, and has stepped down from the Council until this matter is resolved.)

BBC World Service, 1 April 1996

Ecuadorian rice stocks "disappeared"

The missing 90,000 tonnes of rice, the latest in a series of corruption scandals, that have rocked the government of this South American nation, is particularly symbolic in a country where rice is virtually a staple diet. To add insult to injury, the price of rice has significantly risen, largely as a result of the apparent corruption-linked theft. The rice apparently disappeared from private warehouses where the state-run rice distribution company had deposited the grain. The head of one of the private storage companies is also missing.

The Bangladesh Observer, 24 February 1996

Colombia order arrest of top law official

Orders to arrest on drug corruption charges Colombia's attorney general, whose whereabouts were unknown, have been issued. It is alleged that Attorney General Orlando Vásquez Velásquez received thousands of dollars in payments from drug lords both before and after he was sworn in as Attorney General in 1994.

International Herald Tribune, 4 May 1996

Chilean copper scandal widens

Chile's state-owned metal producer, Codelco, issued a writ alleging bribery against a second London-based commodity trading company as the investigation into the City's lucrative copper market intensified. Allegations suggest that US\$ 1.5m was paid into an account opened by a former Codelco futures operator, Juan Pablo Davila, by Metallgesellschaft, which trades on the London Metal Exchange. At first this was thought to be due simply to adverse market conditions, but the writ refers to "fraud" and names Metallgesellschaft Ltd in London, its German parent company, (Metallgesellschaft AG), and a former broker with the firm, Wolfgang Becker.

The Guardian, 17 April 1996

Asia/Pacific

Waging war against Thai "tea money"

It came as little surprise when the Police Department was voted the most corrupt government agency in a recent Thai opinion poll. The survey showed that politicians and other bureaucrats are considered only marginally less corrupt. The only difference it was said between corrupt politicians and corrupt bureaucrats is that the former come and go and therefore tend to be more greedy and take a bigger gulp at a time, while the latter tend to take lesser amounts over a longer period. The survey only reconfirmed a well-known truth: Corruption is a normal fact of life in Thai society. The secretary general of the Commission to Counter Corruption (CCC) has, of late, pleaded for cooperation from all parties concerned in its desperate fight to stamp out graft in government bureaucracy. But to achieve this, public support and a collective conviction to deal with the problem seriously is needed.

The Bangkok Post, 7 March 1996

Seoul softer towards "chaebol"

A few months ago, South Korea's reformist government and big business appeared to be heading for a clash just, but instead of cracking down on the industrial conglomerates, or chaebol, the civilian administration of President Kim Young-sam is displaying a surprisingly lenient attitude towards them. With the corruption probe of the chaebol apparently concluded, Kim suddenly wants to be friends with big business. The reasons for this are of different nature: First, Kim needs the help of chaebol in the crucial parliamentary elections in April, and second, further punishment of the conglomerates could endanger economic growth, which is already slowing as a result of political instability following the slush fund scandal. In return for the government's peace offer, the Federation of Korean

Industries has adopted a corporate ethics charter to improve its image.

FT, 20 February 1996

Corrupt friends in South Korea

A long-time confidant of President Kim Young Sam has admitted to having received bribes measured in the millions. Chang Hak Ro, who has been arrested on corruption charges, confessed to accepting US\$ 3.5 million since January 1990.

taz, 24 April 1996

Top Japanese bank faces bond dealing probe in US

A US subsidiary of The Long-Term Credit Bank of Japan, one of the country's largest banks, is investigated by the US authorities for false reporting of bond trading at a New York subsidiary. The incident is another big embarrassment for Japanese banks active in the US, after last summer's expulsion of Daiwa Bank from the US and a \$340m fine. A trader at the New York office of LTCB Trust is understood to have infringed the bank's bond trading rules and then misrepresented them in the bank's regular reports to the authorities. The incident raises once again concern about internal management controls at overseas offices of Japanese financial institutions.

FT, 2 April 1996

Kuwait anti-graft drive wants data on commissions

Kuwaiti opposition MPs campaigning against corruption have submitted a bill requiring publication of the identity of anyone paid a commission on state purchase contracts. The draft law which was scheduled for parliamentary debate requires all contracts between the government and its suppliers to include a clause indicating whether a commission or benefit is being offered. The name and occupation of the person to receive the payment, and any intermediary involved in the transaction, must also be published. At present such commissions are not publicly reported, but are believed to be common practice in a wide range of commercial transactions in the oil-rich Gulf state.

Guardian, Dar Es Salaam, 1 March 1996

No Malaysian debate on TI index

Deputy Speaker Juhar Mahiruddin has rejected a motion by Opposition leader Lim Kit Siang to debate the TI corruption index. Juhar said that although the matter was of public importance, MPs could discuss corruption at any time. Lim had said that Malaysia's ranking reflected badly on the country. PM Mahathir said that European countries are much more corrupt than the survey revealed.

New Straits Times, 17 April 1996

India: corruption features in poll

On the eve of the general election's second day, India's ruling Congress (I) Party was dealt another blow when two of his party's key governors were linked to a political corruption scandal. The party had already lost seven ministers in the bribes scandal. The affair centres on a diary owned by an illegal foreign exchange dealer, which carries the names or initials of more than 100 politicians and bureaucrats. Corruption was the biggest grievance Indian voters have against their political leaders, an opinion poll published in *The Times of India* revealed. "Corruption is not viewed by the electorate as exclusively the preserve of the centre, and all major parties are found grievously faulty by the electorate," the Time-Poll concluded.

The Washington Post, 2 May 1996

Philippine Minister fired

President Ramos on 23 March fired Health Secretary Hilarion Ramiro, appointed last July, for allegedly demanding kickbacks from suppliers. Prosecutors charged Ramiro with attempted bribery and two counts of graft. He is the sixth minister forced to resign in the last year.

Far Eastern Economic Review, 4 April 1996

Japan: Aids scandal involving Bayer

Bayer (Germany) and Baxter (USA), as well as three Japanese pharmaceutical companies are accused of having paid a top Japanese expert on haemophilia (blood sickness), Professor Takeshi Abe, over \$400.000 during the 1980s. Mr Abe, who was Chairman of the government Aids research team, was paid to prevent a ban on untreated blood products. By 1983 health ministry documents show that it was already aware of the risk posed by untreated blood products. And yet in the course of a week, the Ministry shifted its position from recommending emergency imports of treated blood products to an insistence that untreated products were safe. 1,800 of Japan's 4,000 haemophiliacs were infected with HIV. About 400 have so far died of Aids.

Nikkei Weekly, 4 March; FAZ, 18 March; taz, 10 April 1996

Europe

German Business association refuses action against international corruption

The powerful German Business association DIHT strictly refuses to consider criminalisation of bribing public officials abroad. It was not the responsibility of the German state to ensure a clean public service in countries abroad, it was said. When considering anti-corruption measures in Germany, however, the DIHT advocated the separation between the development, the tenders and the accounting in public procurement, since stricter sentences alone would not be enough. The DIHT also proposed to set up a certification system with which companies bidding in German tenders would have to comply. However, it opposed the introduction of blacklists for companies which have been involved in corrupt practices.

FAZ, 15 April 1996

Bribes in German naval procurement

Two top managers of the Bremer Vulkan Werft, which is currently in receivership, are under investigation by the Koblenz chief prosecutor. They are accused of having paid over DM 40.000 to a civil servant involved in naval procurement. An unnamed Munich electronics company is accused of having paid a further DM 125.000 to this official.

taz, 20 March 1996

Di Pietro cleared

A court has thrown out a final probe of Antonio Di Pietro, the former star anti-graft magistrate, but has ruled that the brother and an ally of former Prime Minister Silvio Berlusconi should stand trial on charges of extortion. Judge Di Martino also ruled that two justice ministry officials be tried on the same charges plus additional counts of abuse of office.

International Herald Tribune, 30 March 1996

Italy: Archbishop faces EU fraud trial

An Italian archbishop has been indicted on charges including a massive fraud on the EU. Mgr Salvatore Cassisa, Archbishop of Monreale, Sicily's most powerful and wealthy diocese, will go on trial in Palermo in July. One charge concerns an alleged fraud involving \$450,000 in EU agricultural subsidies. Another involves alleged extortion over a contract to restore a cathedral. The successful contractor was allegedly asked for a "donation" which went into the Archbishop's pocket. His private secretary is under investigation after magistrates discovered that a Mafia godfather had used his mobile telephone.

Daily Telegraph, 3 April 1996

UK: Six Conservative local councillors surcharged \$50 million

Dame Shirley Porter, former leader of the Tory flagship Westminster City Council, has been found "guilty of willful misconduct" in the biggest UK local government scandal in a generation. Together with five others, she has been assessed to pay \$50 million of public money which the District Auditor claims was spent on gerrymandering. The "homes for votes" scandal began after Dame Shirley scored a narrow victory in 1986 and eight marginal wards were identified as crucial to her retaining power. Council homes were then sold to persons thought likely to vote Conservative.

The Independent, 10 May 1996

68% of Danish businessmen accept bribes abroad

An inquiry, made by J.B. International, shows that 68% of 342 Danish business leaders asked find it acceptable to bribe in order to get a contract abroad and an increasing number of Danish companies take off bribes from income taxes. This attitude is spreading with the opening of new markets in Eastern Europe and Russia, where bribery can become a necessity. For anything you want to undertake. "Some time ago, you would meet the term bribery mostly in companies doing business in exotic countries, but it is now rapidly opening towards the East," says Mogens Elgaard, from Denmark's Tax Auditing Association. But there is no willingness in Danish Parliament to do anything about the problem. Says Niels Andersen, Vice President of "Told och Skat" (Talk and Taxes), "the small country, we represent cannot possibly influence the world economy, the big nations have to take part in the process."

Politiken (Denmark), 11 April 1996

Systemic corruption in public contracts in the département of Seine-Maritime

Fourteen persons, among them four civil servants, two architects and representatives of computer companies have been charged with fraud and corruption. In the framework of a scandal, which would have enabled them to steal from the assembly of Seine-Maritime. Several tens of million francs, in the period between 1989 and 1993, are believed to have been stolen from the assembly of Seine-Maritime. The four civil servants are suspected to have systematically distorted the normal procedures for the awarding of public contracts in order to favour certain suppliers, who provided them with attractive advantages, in return. Violation of the rules for the invitation for tenders, overbilling and use of fake bills are only some of the offences of which they are suspected. The main beneficiaries of these procedures have been computer firms, and the global direct prejudice caused by this system of corruption and fraud is estimated at 50 million francs, according to the French Department of the Interior.

Le Monde, 19 March 1996

Arrest warrant is issued for Dassault chief in bribes probe

A Belgian magistrate has issued an international arrest warrant for Mr. Serge Dassault, president of the Dassault aviation group, after he refused to go to Belgium to face questioning over the alleged payment of bribes to win a defence contract. The warrant follows a lengthy probe by Belgian investigators into payments by both Dassault and the Italian helicopter company Agusta to the Belgian Socialist party. The Belgian investigation was prompted by the

mysterious murder in July 1991, of Mr. André Cools, a Socialist Party politician. The subsequent scandal has led to the downfall of four senior Belgian politicians, including Mr. Willy Claes, the former Nato secretary-general. A Swiss court has authorised Belgian investigators to examine bank accounts through which they believe \$1.9m was paid in bribes to senior figures in the Belgian Socialist party in 1989.

FT, 10 May 1996; Independent, 10 May 1996

Corruption in the French media

Bouygues, the biggest construction company in France -- or anywhere else -- has invested heavily in other areas: oil exploration, telecommunications, water management, and not least the leading French tv station, TF1. The station's lead news commentator, Patrick Poivre d'Arvor, was recently given a 15-month prison sentence for receiving a disproportionate number of gifts from people he interviewed. In December '95, company head Martin Bouygues was placed under investigation. In 24 separate cases high-ranking employees of the company are being accused of corruption: inflated costs on the Channel Tunnel and in the construction of Mitterand's 'Grands projets,' illicit party-financing, from the right-wing to the Socialists). In other cases former President Houphouët-Boigny of Côte d'Ivoire was treated to a flattering documentary film on TF1, whereupon Bouygues received the licence for all water works in the country. King Hassan received an equally flattering portrayal. A few months later, Bouygues was given the contract for the airport of Agadir.

Nouvel Observateur, 25 January 1996

Leading charity is forced to close

Germans donate a stunning 400.000 tons of second-hand clothes every year. The Denmark-based Humana, registered in a dozen countries as a non-profit charity, collects some 3.000 tons of these clothes in Germany alone. Humana which operates under several names, including DAPP and UFF in Scandinavia, now stands accused of diverting what could amount several hundred million of dollars worth of charitable contributions for the private gain of the handful of Danish founders of the group. In England, they claimed to donate a third of their annual revenues of £1.5m. Instead, it seems the only money Humana used for development projects was funding raised from the EU or the UK Government. In Sweden only 2% of the money raised ever went to development projects. In Denmark the group owns over 31 schools and adult training institutes for which they received over \$150m in state aid over the past 20 years. The founder of the group, Mogens Amdi Petersen, now 57, disappeared in 1979, but still suspected of running this second-hand clothing empire. He might live on one of several giant, profit-driven tropical fruit plantations the group bought in Belize and the Caiman Islands. The second-hand clothing business is worth about DM400 million a year in Germany alone.

Der Spiegel 10/1996.

Former PM Ciller "battles to save career"

Less than a month after stepping down as Turkey's PM, Tansu Ciller is battling to save her career. Allegations centre on an estimated \$10 million of property in the USA believed to have been acquired by her husband while she was in power.

Daily Telegraph, 2 April 1996

Turkish parliament votes for corruption probe into Ciller

The Turkish voted to set up a commission to investigate corruption charges against Tansu Ciller, the former prime minister. There will be an inquiry into alleged links between Ciller and contract irregularities at Tedas, the state-run electricity company, during her 1993-95 premiership. The move involves allegations that Ciller and her tycoon husband headed a "Waterfront Gang" - named for her posh villa on the Bosphorus - that used the government for personal gain. The Islamic fundamentalist party accuses the former prime minister of "misuse of power and privilege and causing losses to the state".

Corruption charges mount against Turkey's Ciller

Turkey's parliament has taken up fresh corruption charges against former prime minister Tansu Ciller, accusing her and her husband of meddling in the sale of state-owned shares in the car maker TOFAS by interfering with the Privatisation Administration and herself opening the sealed tender offers - something she was not authorised to do - without the presence of members of the privatisation commission. The parliamentary motion, which Mrs Ciller has dismissed as being politically motivated, claims that the Privatisation Administration did not award shares to those with the best price but to two separate consortia known to be close associates of the PM and her husband. A commission was set up in April to study whether contracts with the state-owned electricity company TEDAS were manipulated to benefit the Cillers and their associates.

The Independent, 10 May 1996

Internet: Hiding place for fraudsters

Fraudsters and money launderers are colonising the Internet in an attempt to escape the surveillance of police and regulators around the world, it was stated at the "International Conference on Money Laundering and Economic Crime" held in April in Lisbon. "Electronic money laundering will boom, traditional paths are already highly supervised", said Dr. James Backhouse of the London School of Economics. Criminal terrorist and drug related funds could be switched into virtual money or "e-cash", moved around the world and later translated back into conventional money. A critical difference, according to Dr. Backhouse, separates the Internet's financial systems from conventional credit and debit cards. The latter leave an audit trail of transactions for the police but "e-cash removes most of these records".

The Guardian, 24 April 1996

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Transparency International (TI) - Otto-Suhr-Allee 97 - 99 - 10585 Berlin, Germany -
Phone :+49-30-343 8200 - Fax :+49-30-3470 3912 - email: ti@transparency.org

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TI National Chapters

Bangladesh	Belgium	Cambodia
Latin America and the Caribbean		Malawi
Pakistan	United Kingdom	United States

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On March 8, 1996, the formal launch conference for **TI-Bangladesh** took place. It was attended by about 65 people, including a number of high officials of Government and senior donor representatives. At the conference the officers of TI-Bangladesh (as well as Peter Eigen and Michael Wiehen) presented various aspects of TI's work and called for suggestions on how the Bangladesh Chapter could most effectively join and advance the fight against corruption. Many speakers had ideas and recommendations. The Bangladesh Chapter will prepare an Action Programme for its first year. It will also mobilize some donor funding for the setting up of a small office. The officers and members of TI-Bangladesh Chapter are a highly-committed, fearless group of action-oriented persons, fully sensitive to the political dynamics of their country.

A new president for the Advisory Council of **TI-Brussels** was elected on 19 April. Following his election, Baron Jean Godeaux, Gouverneur honoraire of the Banque National de Belgique, said that "international corruption is an obstacle to the development of the poorest countries and creates among companies in industrialized countries very

negative effects on their competitiveness due to the distortions of the market".

Peter Rooke of TI-Oz spoke of TI's work to a conference in **Cambodia** in April, organised by the Center for Social Development. The conference programme largely focused on examining a series of draft anti-corruption laws. It was decided that given the continuing uncertainty in Cambodia at the political level, the time was not yet opportune for the formal establishment of a TI national chapter, and that in the meantime we should continue to support the efforts of the CSD in mobilising public opinion against corruption.

Preceding the Annual Meeting of TI in Uganda, a small brainstorming for the TI chapters in Latin America was organised on 17 - 19 April in London which was designed to find a consensus on how to establish a decentralised model of operation for TI in **Latin America and the Caribbean**. Until recently, efforts in the region (as elsewhere in the world) were directly supported and coordinated from Berlin. However, TI now wants to move to a more decentralised system in order to operate closer to the ground. It was agreed to establish a Regional Chapter "TI-LAC" (Transparency International - Latin America and Caribbean), which will have the following goals: a) decentralised definition of needs, b) to develop regional strategies, c) raising of funds for regional projects, d) support new and existing national chapters, e) connect strong links to regional organisations, such as OAS, IDB, etc., f) share experience and information. TI-LAC will follow strictly the principles of not creating or maintaining a regional bureaucracy, offering open information at all levels, create and reach consensus among the members, and establish a level of autonomy of initiatives balanced by a veto power for some very specific items from the headquarters in Berlin. In compliance with above mentioned principles most of the work will be done from within existing national chapters, with the LAC region being subdivided into three sub-regions: Central America and the Caribbean, Andean countries and the Southern Cone. This pattern will still have to be agreed upon by those chapters which could not participate in the brainstorming, and it is aimed at putting the operative structure into practice in the coming weeks.

The **TI-Malawi** chapter in formation organised a "Formative Workshop" on 9 March in Blantyre, which was generously supported and facilitated by UNDP. There was consensus among the some 25 participants that there was a "desperate" need to establish a Malawi chapter of TI as an NGO and that no time must be lost in this. It was agreed that the mission of the chapter should be: a) to educate the public on anti-corruption measures through seminars, internal company training, religious instruction, etc.; b) to scrutinise and agitate for anti-corruption legislation with parliamentarians and policy makers; c) to supplement government activities by building public support for and providing relevant information to the Anti-Corruption Bureau; d) to act as Watchdog on governmental usage of tax payers and international donor funds, and on private sector malpractices; e) to network with Transparency International to pass on and receive information. It was agreed that the Malawi chapter should have an "Interim Executive Committee" with 3 office bearers and 4 Executive members from diverse fields. This Committee, chaired by Bishop Bvumbwe and with Rafique Hajat as General Secretary, will draft a constitution and take care of registering the NGO officially.

On the invitation of Freidrich Ebert Stiftung (FES) **Pakistan**, Peter Rooke (TI-Oz) addressed a seminar in Lahore on 20 March on "Factors Responsible for High Cost Economy" organised by Lahore Chamber of Commerce & Industry (LCCI), Pakistan Industrial Employers Federation (PIEF) and FES jointly. Although Pakistan is a high cost economy none of the Pakistanis speakers explicitly addressed the issue of corruption, although it was alluded to in many presentations. Several issues which need to be addressed were mentioned, among them: a) the need for leadership with integrity, imagination and communication; b) all discretionary powers should be finished, there should be transparent accountability and wealth statements. The media had an important role. Nothing demoralised a country more than corruption; c) the need for taxes to be distributed in a transparent and equitable manner; d) freedom of information laws and curbing the role of money haven states like Singapore. Following the seminar, an informal roundtable discussion was convened to discuss follow up action. After facilitating its launch through an existing NGO like the Sustainable Development Policy Institute (SDPI), Islamabad, run by Tariq Banuri, TI Pakistan needed to be autonomous. Mian Mumtaz Rafee was appointed convenor. A cooperative approach in a

multi-dimensional sense was discussed, with a view to developing a constructive relationship with government, was needed. Strength would lie in the quality of the people. A national and later a provincial nucleus was needed with a small secretariat.

A series of seven talks and discussions on transnational and domestic corruption sponsored by **TI-UK** began in October 1995 and finished with a talk on 17 April by Daniel Dommel, prominent in the French chapter. This was part of the AGM of TI-UK and was attended by Peter Eigen and the Chairpersons of three Latin American chapters (Argentina, Brazil, Ecuador) and of our Nigerian chapter. Daniel Dommel outlined his proposal for a global "sector of integrity" in which major companies agree to level their own playing field (by forswearing bribes) whilst competing for specific large scale projects. Peter Berry, Managing Director of Crown Agents (and a member of TI's Advisory Council) and Peter Eigen initiated a valuable discussion. TI-UK will convene a half day public conference on 4 July (at Church House, Westminster) to discuss on the TI-Brussels paper "The fight against corruption: what the EU can do". Speakers will include Michael O'Brien (Labour Party Treasury Spokesman) and Dieter Frisch (TI-Brussels).

TI-USA together with the Institute for International Economics organised the conference on "Corruption in World Business" which took place in April in Washington. Representatives from the World Bank, the IMF, Capitol Hill, various state departments, the OECD, the OAS, journalists and corporations joined the TI-USA board at this informative meeting. Fred Bergsten opened the event by commenting on the enormous increase in interest in corruption and credited TI for its part in bringing the issue to the public attention. Susan Rose-Ackermann stated that although corruption is difficult to quantify, it has a significant impact on the efficiency, fairness, and legitimacy of state activities. She refuted the theory that corruption, in some cases appears not to impede high levels of growth. In the long run, illegal markets are inefficient and an absence of the rule of law leaves investment unprotected. Paolo Mauro, from the IMF, also confirmed that there is a direct correlation between high levels of private investment, which stimulates economic growth, and low levels of corruption; or, conversely, that corruption impedes investment and economic growth. Moreover, corruption reduces the effectiveness of aid flows through the diversion of funds and alters the allocation of government expenditures. Moises Naim, Carnegie Endowment for International Peace, and Patrick Glynn, AEI, discussed international reform efforts, including the OECD, the ICC, and Transparency International and concluded that a new global standard may be forming with major implications for institutions, politics and business. There was general consensus that the international financing institutions have a vital role, particularly the World Bank and the IMF.

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Transparency International (TI) - Otto-Suhr-Allee 97 - 99 - 10585 Berlin, Germany -
Phone :+49-30-343 8200 - Fax :+49-30-3470 3912 - email: ti@transparency.org

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Internal News

Internal News

AGM held in Uganda

Members of the TI movement drawn from 32 countries met in Uganda from 21 - 25 April 1996 for their AGM and to discuss the challenges to good governance in Africa and elsewhere posed by the menace of corruption, and ways in which civil society should be empowered to contain it.

The meeting was chaired by Mr. Augustine Ruzindana, Inspector-General of Government, Uganda. Participants included Nobel Laureate, Dr Oscar Arias Sanchez, Mrs Ellen Sirleaf, Regional Director for Africa of the UNDP, Dr Peter Eigen, Chairman of TI, the Hon R. Rukoro, Attorney General of Namibia, the recent head of the Hong Kong Independent Commission Against Corruption, Mr Bertrand de Speville, Herman Cohen of the Global Coalition for Africa, Dieter Frisch, former Director General for Development (EU) and senior Ugandan officials involved in the fight against corruption. Funding was provided by the Government of Uganda and the European Union, whose Delegate, H.D. Dr Marongiu, also attended.

The Meeting determined to mobilise global actions to secure the freedom of General Olusegun Obasanjo, the Chair of Transparency International's Advisory Council, presently imprisoned in Nigeria as a consequence of his raising his voice in support for democracy and transparency.

It expressed its "disgust" with attitudes in industrialised countries, and particularly within Europe, which defend the practice of their exporters bribing in developing countries in order to win business contracts. This form of "grand corruption", generated by greed and not need, is distorting development decision-making and is continuing to contribute to a deepening of poverty in many countries. It was also destroying professionalism in public life, undermining the rule of law, distorting trade, impacting negatively on education and health services, adversely affecting basic human rights, and giving rise to international competitive bribery rather

than competition in terms of quality, price and service. It resulted, too, in firms gaining business that were less efficient and doing so at the expense of responsible and ethical firms.

The participants, drawn from all five continents, reiterated that the misuse of public power for private profit does not form part of any "culture". The criminal laws of all countries reflect their cultural norms in outlawing such conduct. In contrast, the practice of international corruption continued to be officially supported by some governments and business leaders in the north. It was a phenomenon found in trade within the developed world itself, but the effects there were far less devastating than they are in the south.

The democratisation process under way in Africa and other parts of the developing world was a potent weapon for containing corruption more effectively, but at the same time corruption itself posed a grave threat to the democratisation process itself. If good governance was to be deepened and broadened, in Africa as elsewhere, the menace must be confronted with transparency, accountability and enlightened leadership as the principle weapons. Against this background the meeting agreed on an action plan to empower civil society to play much more effective and prominent role in containing corruption than hitherto.

Bangladesh Country Visit

A TI mission with Peter Eigen and Michael Wiehen visited Bangladesh from 4 - 8 March with funding from the Swiss Development Cooperation. The purpose was threefold - (1) to interact with as many officials of the Bangladesh Government and the donor community as possible, with a view to identifying areas of potential active support by TI in the anti-corruption fight in Bangladesh; (2) to participate in the formal launching of the TI-Bangladesh Chapter, which took place on March 8, and (3) to assist the officers of the TI-Bangladesh Chapter in developing a program of action.

The Mission discussed with Prof. Mohammad Yunus, Managing Director and Founder of Grameen Bank the idea of Grameen Bank using the Islands of Integrity concept for the international purchase of some major items of equipment.

The Mission had a long meeting with Mr. Mahbub Kabir, Acting Secretary of the External Resources Division of the Ministry of Finance, the Government office responsible for managing all foreign assistance. Mr. Kabir referred to what he called "donor-driven corruption", meaning the practice of some bilateral givers of tied assistance to go through the charade of competition among the various competitors from within the donor country, when in fact the donor government pre-determines which company will get all contracts in a particular developing country. He also complained bitterly that, while the Government did not have enough resources to pay its civil servants adequate salaries, donors were corrupting the officials and thus "undermining the moral fiber of Bangladesh".

The Mission also had a meeting with the Metropolitan Chamber of Commerce and members of the Center for Policy Dialogue, a serious think and talk tank run by Prof. Rehman Sobhan. All were convinced that corruption needed to be addressed forcefully, and thought TI could be an effective factor in this fight.

The general tenor of all the talks was the need for action against corruption, and the willingness of Government to cooperate with TI. In particular the Finance Minister had recently spoken out publicly against corruption and suggested some transparency measures which are very similar to TI concepts.

Nepal Country Visit

TI was invited to Nepal by the Prime Minister, supported by TI's national chapter, to assist the government and civil society in designing a strategy to contain corruption more effectively. The team (Michael Weihaan and Peter Rooke), who visited in March, found a surprising willingness to admit that far too many activities are now tainted by corruption, and that corruption pervades the whole spectrum, from political levels down through administration to the everyday activities of the society (bulk of the population). Reasons assigned to this included woefully inadequate official salaries, high costs of campaigning for public office, the ineffectiveness of institutions responsible for containing corruption and the brazen activities of foreign businesspeople in their efforts to win contracts. The donor community was also seen as part of the problem, with its insistence on development resources not being funnelled through the budget. This, it was felt, actively played in to the hands of corrupt officials. Donors have also undermined efforts at reform which were aimed

at bringing transparency into the public tendering processes by requiring bidders to disclose all commissions paid. Efforts were made to find a way through donors' objections to a formula that required the appointment of local agents and it was hoped that as a result the World Bank will now withdraw its objection. A further source of complaint was the topping up of some local salaries by donor agencies, which was seen as actively contributing to corruption throughout the civil service. Tied aid was another source of illicit enrichment by officials. Particular criticism was levelled at the operating procedures of many NGOs, which were non-transparent and which failed to comply with government reporting requirements. The team's recommendations include one to the effect that not only should bid openings take place in public but the evaluations should also be made public.

TI Mission to Hungary, Czech Republic, Poland

A TI team visited Hungary, the Czech Republic and Poland from 26 February - 12 March. The missions, consisting of Peter Eigen (only Hungary), Peter Unwin, a member of the British Chapter of TI and a former British Ambassador to Hungary, and Sergey Chereikin, Programme Officer of TI, were financed under the PHARE Democracy Programme of the European Commission, which will also sponsor missions to Rumania, Slovakia and Albania.

The mission's objectives were to establish, a) whether international business corruption particularly in public procurement and the privatisation process, presented major problems in these countries in transition; and b) whether there was an interest in co-operating with TI, particularly by setting up national chapters.

During the visit, the team discussed the issue of corruption with governmental and senior officials in the related ministries, with representatives of the police, customs and tax authorities, audit offices, chambers of commerce; it also met businessmen and scholars, representatives of NGOs, religious leaders and journalists. The missions paid special interest to bribes offered by western companies to ministers or officials in the region. But several of its interlocutors saw this as of lesser importance than corruption linked to other phenomena, such as drug trafficking, other smuggling, the corruption of customs officers, money-laundering, and other smuggling.

There was widespread agreement that the countries of central Europe faced serious problems of corruption. Some people argued, however, that the problem was no more serious than elsewhere, and that attention needed to be focused exclusively on the problems of building a free market. It was claimed that corruption was an inevitable concomitant of transition which might even serve a useful purpose in facilitating it, and that corruption would prove to be a transient phenomenon.

While in Hungary and Poland the TI team enjoyed the full support of the governments, and an agreement in principle was achieved to build TI national chapters. It was decided not to push for the establishment of a national chapter in the Czech Republic during the pre- election period. However, TI has recently received several indications of the interest in launching a national chapter in Prague.

In all three countries there was a vivid interest in the National Integrity Source Book, which is already being translated into Hungarian and Polish.

TI in Turkey

TI was invited to participate in a conference on "The Changing Interface Between Government and Civil Society: The Economic Policy Dimension", organized by the Turkish Economic and Social Studies Foundation with assistance from the World Bank. The conference brought together senior Turkish business managers and academics with representatives of the World Bank, OECD, the German Development Institute and TI (represented by Michael Wiehen (MW)). The Turkish press participated throughout the conference. MW was a member of the first panel addressing the issues of Corporate Responsibility and sparked much interest in TI's work with his presentation on TI activities around the world, with emphasis on the scope for action by the corporate sector including the consultant sector, the recent ICC Recommendations, corporate Codes of Conduct and TI's concept of Islands of Integrity. There was a lively discussion, and the Turkish press reported on this presentation. While in Istanbul, MW also met with two groups of highly influential members of Turkish civil society and discussed the possibility of forming a Turkish National Chapter of TI. Clearly, the fact that the previous Prime Minister of Turkey had just become the subject of a second Parliamentary inquiry on corruption added much to the public interest in the subject.

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Phone :+49-30-343 8200 - Fax :+49-30-3470 3912 - email: ti@transparency.org

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International Organisations

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ADB will shift lending to states in India

The Asian Development Bank is preparing a redirection of its Indian lending priorities, which will shift away from support to projects coordinated with the central government and towards direct assistance to individual provinces (states) that the bank considers willing and able to undertake structural reforms. Present ADB lending is entirely negotiated with the central government or directed through India's central development finance institutions. The shift reflects the Bank's view that for India's four-year old economic reforms to take root and accelerate, change must be encouraged at state level. *FT, 20 March 1996*

European Council initiatives

The 49-member nation Council of Europe has initiated a process which could lead to a European Anti-Corruption Convention within the coming two years. Fredrik Galtung participated in a meeting in April for government agencies specialised in the fight against corruption. In June this year the Draft Convention will be developed further.

EU procurement case goes to court

The European Commission has filed charges against Austria in the European Court alleging illegal procurement practice for government buildings in a new provincial capital. It accuses Austria of violating single market rules by giving preference to local companies bidding for construction orders in St. Poelten, the new capital of Lower Austria. Mario Monti, single market commissioner, said that he was particularly concerned that the illegal practices appeared to have continued into this year, even though Austria promised last year to follow The Union's strict rules. *FT, 10 April 1996*

ICC urges tough action on bribes

The International Chamber of Commerce has approved a series of guidelines which urge its members to adopt enforceable codes designed to counter bribery and ensure transparent accounting of any political contributions. It also calls on governments to toughen legislation on bribery and extortion, and to remove opportunities for companies to write off bribes against tax bills. The chamber is to press for a World Trade Organisation study on the impact of corruption in distorting and hindering international trade flows when trade ministers meet in Singapore in December. The ICC argues that, in the last years, there has been more need than ever to fight against corruption, without which the spread of democratic governments and liberal markets could be significantly threatened. *FT, 31 March 1996*

NGOs "poisonous mushrooms"

NGOs have been abusing their customs privileges by bringing in free of duty goods earmarked for humanitarian purposes (such as used clothing) and then transforming themselves into mitumba (used clothes) shops and stalls - "while the naked remain naked". The writer suggests that NGOs should strive to reach a position where they would be akin to government institutions in terms of accounting, budgeting and auditing procedures. It is for the NGOs to critically evaluate themselves and cleanse themselves accordingly, rather than wait and have outside forces, such as governments, do this for them. "Con-men and corrupt NGOs deserve neither sympathy nor mercy." *The Guardian (Tanzania) 6 May 1996*

OAS Pact against Business Corruption

On 29 March 1996, 21 member states of the Organisation of the American States (OAS) signed the Inter-American Convention against Corruption at an OAS meeting in Caracas, Venezuela. This treaty, which was elaborated by the OAS on the initiative of the Venezuelan government, requires each signatory country to make bribery of foreign officials a crime and an extraditable offence, as well as to strengthen and simplify investigations and legal cooperation between the different countries. Delegates at the meeting admitted that the convention would not eradicate the problem, but that it constituted the first step towards hemispheric harmonisation of concepts to prevent and condemn corrupt practices on a continent where at least six

presidents, two of them from Venezuela, have been accused of corruption. The treaty was welcomed by OAS Secretary General Cesar Gaviria, who has listed "corruption, drug trafficking and terrorism" as threats to Latin American democracies. Newspapers from Mexico to Chile hailed the convention, but they also noted with surprise and disappointment the US failure to sign the accord. The Justice Department had doubts about the enforceability and constitutionality of some of the convention's provisions, US officials said. *Diario Regional Ocho Columnas*, 29 March 1996; *Jornal do Brasil*, 2 April 1996; *The Washington Post*, 7 April 1996

OECD asks for repeal of tax deductions for bribes

The Organisation for Economic Cooperation and Development called on its 27-member nations representing the world's richest countries, to repeal tax deductions for under-the-table payoffs. Bribing government officials to get approval for a project or speed things up is commonplace in much of the world, the OECD says. Some companies even hire middlemen to carry it out. Euphemisms are used on tax returns to disguise the practice. The OECD has been crusading against the practice on ethical grounds. It also "hinders the development of international trade in investment by increasing transaction costs and distorting competitive conditions," the group said. France and Germany had led resistance to the recommendation, on the grounds it would place OECD countries at a commercial disadvantage. They were won over by an OECD commitment to monitor implementation of the recommendation and to encourage matching action by non-OECD governments. *FT*, 12 April 1996; *The Wall Street Journal*, 15 April; *The New York Times*, 16 April 1996

Aid donors agree to new results strategy

Leading aid-donor countries have agreed on a new result-oriented strategy designed to focus less on the monetary level of their development assistance and more on the economic and social impact of that aid on poor countries. OECD and US officials have said that new performance targets are also aimed at increasing the efficiency of development aid and at raising incentives for donors to contribute more. The OECD's Development Assistance Committee (DAC) has also recommended that their governments take action to introduce anti-corruption provisions into contracts funded by their aid budgets. DAC members have also undertaken to urge international development agencies to take the same steps to stamp out bribery in the contracts which they finance. *FT*, 8 May 1996

Commonwealth Law Ministers back OECD

At their triennial meeting in Malaysia in April, Commonwealth Law Ministers from 42 countries issued a special Statement on the Prevention of Corruption. The Ministers noted the adverse economic effects of corruption in international business and foreign aid projects, and expressed approval of the work of the OECD in addressing the issue of foreign bribery and tax deductibility. Ministers committed themselves to working collectively on both the international and domestic front to combat corruption. In addition to other agreed measures, they established an advisory working group to assist the Commonwealth Secretariat in its work to contain corruption. *Communiqué of Meeting*, 20 April 1996

Task Force on Multilateral Development Banks reports:

"Serving a Changing World -- the Report of the Task Force on Multilateral Development Banks," March 15, 1996, says a few things about corruption that are worth noting. The task force was created by the Development Committee of the OECD.

para 20: "But there is a relationship between the attainment of good public sector policy and economic efficiency. Good policy includes the rule of law, protection of legitimate economic activities and interests, a government's accountability to its citizens, effective measures to curb corruption, a participatory approach to development, easy access to important information services, and sound decision-making reflecting actual needs of people."

para 21: "The ultimate purpose of such [public sector] reforms must be to enhance the ability of governments to forge a reliable framework of rules and institutions, to combat corruption, and to ensure the efficient

delivery of essential services."

para 29: "Governments need to create the conditions in which private enterprise can flourish and society as a whole feels it has a positive stake in the outcome. These conditions include an effective public administration, efficient legal systems, clear property rights, a fair and transparent tax regime... and enforceable rules of government and commercial conduct. The shaping of these conditions is a matter for domestic political processes. But, as a core advisory function, the MDBs can provide analysis and technical assistance for improving these framework conditions, often in conjunction with policy-based and other lending."

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Transparency International (TI) - Otto-Suhr-Allee 97 - 99 - 10585 Berlin, Germany -
Phone :+49-30-343 8200 - Fax :+49-30-3470 3912 - email: ti@transparency.org

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