



# The cost of corruption

A discussion paper on corruption,  
development and the poor

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## Executive summary

The focus of this paper is corruption as a major development issue. Frustration that aid has achieved so little has drawn attention to corruption as possibly a principal cause of failure. The departure of corrupt Third World dictators of the Cold War era, the crash in East Asia (which had seemed both corrupt and prosperous), and the growing cost of corruption to business have all helped to focus minds. Yet the effects of corruption may be hard to disentangle from other negative influences such as mismanagement. There is also a danger that the West may seek to use the corruption issue as a means to shift the blame for aid failures and as another tool to reshape developing economies.

There are a number of definitions of corruption. This paper defines it as “the act by which ‘insiders’ profit at the expense of ‘outsiders’ ” (conveying the ideas of abuse of position, offending against relationships, and underhandedness). It may flourish both in over-regulated and deregulated economies, under democracy or dictatorship. Mingling business with politics (particularly ethnic politics) is a sure recipe for corruption. Other clear culprits are secrecy (in government) and poverty.

Corruption takes many forms. It may be incidental (bribes to junior public officials, little macro-economic cost, but hard to curb), systematic (affects whole areas of government and harms revenue, trade and development) or systemic (makes honesty irrational and has a huge developmental impact). Corruption infringes the fundamental human rights to fair treatment, unbiased decision-making, and secure civil and political status. Through corruption the public services on which the poor depend are starved of funds, foreign investors are driven away, and environmental protection measures are flouted.

International action against corruption is being strengthened. It includes the US Foreign Corrupt Practices Act, and conventions under the auspices of the OECD, the Council of Europe, the EU and the OAS. The World Bank is seeking to cooperate with these moves and to root out corruption from projects it funds. At the national level some Western countries are legislating on money laundering, and a number of African states have set up corruption-checking institutions. Transparency International seeks to encourage prevention measures and the reform of systems. There is still much to be done in the areas of civil service, tax and legal reform, decentralisation and the ending of unnecessary secrecy.

Corruption is not just a problem for the developing world. In the UK complacency, and hypocrisy about corruption, make it more dangerous. Areas of particular concern include corrupt acts that are not illegal, reliance on informal and unwritten rules, secrecy, the purchase of intangibles (honours, influence, appointments), tax havens, and the blurring of the boundary between business and politics.

The paper sets out some guiding principles for moves to tackle corruption: corruption is a burning moral and human rights issue; economic and political liberalisation is at best a partial answer and may be no answer at all; corruption cannot be tackled in isolation from other issues such as poverty; it is a joint problem for developed and developing nations; secrecy is

a closely-related problem. A number of recommendations for action are put forward: an alliance of civil society groups, including the churches, has a key role to play in exposing corruption and shaming governments into taking action (e.g. in tightening anti-corruption legislation); they would need to ensure that their own houses were in order; pressure for transparency should lead not only to more effective use of aid money, but also to the empowerment of local people.

## Introduction

In this paper we are concerned with the negative impact of corruption on development, and the consequences for the poor. The impact may be very direct when, for example, aid money is siphoned into private bank accounts, or bribes distort public spending priorities. The poor will also suffer indirectly when bribery damages a whole economy and public services suffer. It is the poor who are most dependent on good public services, for they have few alternatives (they cannot afford private health care or schools, for example).

Until recently corruption was an acknowledged fact of life, but was little talked about. Some responded to the problem with pragmatic acceptance, seeing bribery as little more than a different way of doing business, a way to bypass red tape and to outdo business rivals. Others were complacent about the problem, and others again were “narrowly legalistic”, doing no more than trying not to fall foul of the legislation.

Now it is beginning to be accepted that corruption is not a private matter between corrupted and corruptor, but something that may distort and degrade whole economies and cultures. Officials and executives from developing and post-Communist countries, surveyed by the economist Daniel Kaufman of the Harvard Institute of International Development, cited public sector corruption as the single greatest impediment to development.<sup>1</sup> James Wolfensohn, President of the World Bank, writes: ‘I think it is astonishing that in one year we should have come from being scared to mention the word [corruption] to having it as a central item on the Development Committee agenda.’<sup>2</sup> What has brought about this change of attitude and pushed the question of corruption to the fore?

One obvious factor is the frustration felt at the realisation that, in the last 40 years, so much money has been spent on development aid yet in many countries there is so little to show for it. It is now recognised that poor governance (virtually a synonym for corruption) is a significant cause of the failure. Then we can point to the end of the Cold War. The West no longer feels the need to prop up corrupt, pro-Western dictators in the Third World in order to contain Soviet influence. We can also note the experience of East Asia. Corruption had been very much part of business life there, yet it had not seemed to prevent growth. The financial collapse of 1997/98 changed that perception. And the travails of former Soviet-bloc countries, Russia itself in particular, made it clear that corruption is not a minor issue, nor even one of many important problems, but absolutely key. Moreover, some spectacular scandals in the Western world have brought home the fact that corruption is not confined to the developing world. (There may, in fact, be greater risk of corruption spreading in the

developed world because the complexity of trading relationships, and new technology, have made it more difficult to police the system. There is now an 'enforcement gap.' Lastly, as far as the business world is concerned, the growing cost of corruption ("there is rapid inflation in the currency of bribery"<sup>3</sup>) and its unpredictability, have been key factors in changing attitudes.

Whilst noting this growing move to identify corruption as "the single greatest impediment to development", a word of caution is perhaps appropriate. First, in contrast to some other major Third World issues, there is a serious problem of measurement. Debt, for example, and the cost of servicing it, can be calculated. The devastating impact of arms supplies in areas of conflict is very obvious, even if defence budgets are shrouded in secrecy. Details of the fluctuations in commodity prices and their impact on export figures are readily obtained. Yet who can measure the actual amount of corruption when, almost by definition, the whole business is a secret? Although Transparency International compile an index of corruption, it is a *perception* index, that is, a qualitative index based on people's perception of the level of corruption in different countries.

Secondly, even if some estimates of corrupt payments can be made, how is their impact to be judged? How can the effects of corruption be disentangled from the effects of mismanagement, the gap between rich and poor, natural disasters, and all the other problems that can afflict a Third World economy?

In the following pages we will begin by trying to define corruption, because the disease will not be treated adequately if its nature is not understood. Then we shall look in turn at the context in which corruption flourishes, types of corruption and their costs. After this we will review some of the counter-measures in force or under consideration. Then, after a brief study of corruption in the developed world the paper attempts to draw together some conclusions and recommendations.

## Defining corruption

'Corruption' is a very broad term. It covers fraud (theft through misrepresentation), embezzlement (misappropriation of corporate or public funds) and bribery (payments made in order to gain an advantage or to avoid a disadvantage). The different types of corruption are likely to be closely linked.

It is not easy to define a corrupt deal in a few words because there are a number of elements to the transaction. It is an act of theft (and hence an offence against human relationships), but it is a very particular kind of theft. One definition that has the virtue of simplicity (but which needs unpacking) is "the act by which 'insiders' profit at the expense of 'outsiders' ". This can convey the ideas of abuse of position, offending against relationships, and underhandedness. Let us look at these three areas in turn.

First, we have abuse of position. Human beings are, by nature, interdependent. They must

seek services from one another and supply them in turn, and justice requires that there should be fair recompense for service rendered. However, one party to a transaction may operate from a position of greater strength. He/she is an 'insider'. If this position is misused it makes the transaction corrupt. For example, the strength of one party may arise because they control the supply of a good, have discretion in giving or withholding that good, and are not held properly accountable for the choices they make. This has been expressed in the form of an equation: corruption equals monopoly plus discretion minus accountability ( $C=M+D-A$ ). The party in a position of strength is often a public official, hence the common definition of corruption as "the abuse of public office for private gain".

Secondly, we have the offence against relationships. The weaker party in the transaction is treated as an 'outsider', but there may be others who are even further 'outside'. This happens when both parties to a corrupt transaction come from a position of relative strength, but with a view to excluding others. This may arise, for example, because the individual or company that is made an 'outsider' loses a contract, or is queue-jumped. Or it may be the general public which suffers the consequences of the corrupt transaction. They may pay a higher price for a good such as electricity, or obtain a poorer service - and they may be quite unaware that they are paying.

Thirdly, there is the underhandedness. Because the transaction is illegitimate the parties will usually try to keep it from the public domain.

Even with clear identification of the elements of a corrupt transaction it will not always be possible to rule that a particular transaction is right or wrong. Rather we may be faced with a scale, and at some point on that scale the transaction passes from being legitimate to become illegitimate. The act of giving, for example, is natural to the human psyche, and a gift can be a legitimate expression of thanks for a benefit received. Yet at some point on the 'scale' the size of the gift, or the context in which it is given, may render that gift a bribe. Relationships are another case in point. Stable relationships (as business or political associates, for example, or as members of the same ethnic group) are valuable 'building blocks' of society. Yet at some point these relationships may degenerate into 'cronyism' or mere ethnicity. Another issue is that there may be some extenuating circumstances attached to the corruption. The salary of the corrupt official may be wholly inadequate, or simply unpaid (because of mismanagement or theft by those higher up the government machine.) Thus his search for a bribe may be a rough-and-ready attempt to rectify the theft perpetrated against himself.

We end, then, with a difficulty. One person's perception of corruption may not be shared by another. There are "different lines in the sand in different places". One sees bias (and suspects corruption) while the other denies it (bias works in subtle ways). One sees secrecy and the other confidentiality. Transparency International notes that "this lack of commonality of understanding adds to the difficulty of combating corruption".<sup>4</sup>



## Fertile ground for corruption

If corruption is to be seriously addressed then its causes must be clearly identified.

Those who see the free market as the only really valid economic framework tend to regard **over-regulation** as the major factor in the growth of corruption. (It follows that, for those who hold this view, deregulation is the answer to the problem.) The World Bank is typical of this approach. 'Any policy that creates an artificial gap between demand and supply creates a profitable opportunity for opportunistic middlemen.'<sup>5</sup> Examples of the kind of rules they have in mind are: trade restrictions (quotas, tariffs on imports or exports), subsidies to favoured industries, price controls, multiple exchange rates, foreign exchange allocation schemes, tightly-controlled government provision of credit. With an armoury of rules and regulations behind them public officials can use rigid application requirements to create delays, and then take bribes to bend their own rules.

The point may be allowed, though with two cautions. First, it should be acknowledged that, in the past, industrialised nations used such measures in pursuit of national economic policy and those measures did not, of themselves, create widespread corruption. Secondly, it may be noted that there are other, perfectly legitimate, functions of government which are vulnerable to corruption, such as public procurement, re-zoning of land, revenue collection, government appointments and local government.

The problem with **economic liberalisation** is that it is essentially a long-term strategy based on market forces, and it will not render corrupt public officials honest and accountable overnight. It is more likely simply to displace and/or refine the corruption. Note the following examples:

Competition is fundamental to the market economy, but it is also a factor in bribery. The Control Risks Group (CRG) carried out a survey of US and European business directors. They found that nearly 60 per cent thought that companies which do not pay bribes lose international contracts either regularly or occasionally.

Structural adjustment programmes will alter comparative prices dramatically and lead to new opportunities and incentives for corruption. Many people have lost out through these programmes and they are more likely to engage in corruption.

The push for privatisation which got under way in the 1980s has opened up a whole new field in which bureaucrats can exploit regulations and tendering processes for personal gain.<sup>6</sup> Salvatore Schiavo-Campo, advisor for public sector management and reform at the Asian Development Bank cites the case of one unidentified Asian country where state assets declined by \$50 billion in ten years as a result of corrupt officials undervaluing them for sale to local and foreign investors in return for commissions.

Globalisation is increasing the dangers, diminishing the authority of governments (especially the weaker and poorer ones), and inadvertently giving new openings for the criminal world to globalise as well.

The kind of corruption in society may be governed by the nature of the **political framework**. An authoritarian, unaccountable regime is perhaps more likely to be corrupt because of the absence of any external checks, but democracy brings no in-built deterrent to corrupt behaviour. Political liberalisation may simply decentralise the corruption (as happened in Thailand and the Philippines, for example) or divert the government from reform as it seeks to win an election (this happened in Ghana in the early 1990s). Lack of capacity in government (staff ill-paid and under-resourced) rather than lack of democracy, is probably more significant in fostering corruption.

Mingling politics and business is a sure recipe for corruption. Saudi Arabia (where the ruling family has been described as “a business empire hiding behind the façade of monarchy”<sup>7</sup>) has been quoted as a classic example. Mexico is another. The popular perception of the political system is that the government helps big business which, in turn, acts as a cheque-writing machine during political campaigns.

Mingling politics and ethnicity is another sure recipe. A correlation has been noted between ethnic and extended family ties on the one hand and the pattern of corruption on the other. For example, the corrupt official may have been educated at the expense of the extended family, who then expect favours in return for their investment. A variation of the ethnic network is a hierarchy of patronage links. In India, for example, corrupt civil servants may give their allegiance to high-ranking politicians and, in return, enjoy their protection from prosecution.

**Denial of access to information** (a problem in much of the developed world as well as in developing countries) removes a powerful disincentive to corrupt practice.

The motivation for bribe-seeking is high where there is widespread **poverty** combined with limited risk-spreading. The bribery may be large-scale and highly organised. This is particularly the case when the illegal exploitation of resources (e.g. the felling of tropical timber, unlicensed diamond-mining, cocaine-trafficking) is at stake. In this case the corruption of officialdom becomes the necessary pre-condition for the activity to continue. The corruption may also be at the individual level. If public employees are under-paid and/or unpaid they will seek to supplement their income by exploiting any ‘insider’ status they may have, seeking to ‘sell’ ostensibly-free public services. Unpaid teachers, for example, may seek bribes from parents who want to place children in school. Health workers may do the same with people who come for medical help. People are also likely to fall back on ethnic and extended family ties, in which case ‘outsiders’ will be exposed to bribe-seeking.

## Types of corruption

Riley categorises corruption under three headings. The first is incidental corruption. This is small-scale. It involves junior public officials, such as policemen or customs officers; it

produces profound public alienation; it has little macro-economic cost, but it is often hard to curb.

Secondly, there is systematic corruption. This is corruption that affects, for example, a whole government department or parastatal. It can have a substantial effect on government revenues; it may divert trade and/or development; it can only be dealt with by sustained reform.

Thirdly, there is systemic corruption, that is, kleptocracy or government by theft. In this situation honesty becomes irrational, and there is a huge developmental impact.

South Korea provides an illustration of incidental bribery involving both junior and senior officials taking bribes to help the sons of the wealthy and the influential avoid the military draft. The list includes General Ha Young-po (who is alleged to have 225 bank accounts!)<sup>8</sup>

Examples of systematic corruption are many and varied:

False names on a payroll. In Haiti, for example, Finance Ministry inspectors found that 23 per cent of the names on the government payroll were bogus.<sup>9</sup>

'Around US\$69.6 million or 7.6 per cent of Ugandan government expenditure went missing from public coffers in the year ending June 1997, the latest auditor general's report said.

The funds were lost through unaccounted expenditures, incorrect expenditures and unauthorised cash withdrawals.'<sup>10</sup>

As already noted, privatisation offers scope for embezzlement as state-owned assets may be under-priced and then bought by insiders. In South Africa government officials and politicians have sold state-owned farms to themselves for as little as R7,000 and resold them for as much as R750,000.<sup>11</sup>

The process of public procurement gives wide scope for corruption (through paying bribes to secure contracts, over-priced contracts, insider dealing, claiming payment for goods which have not been delivered, etc.) Tanzania provides an example. It gave a power contract to Malaysia under which the government would have been locked into buying electricity at 2.5 times more than power due to be supplied by another company, Songo Songo. (Under pressure from donors the government subsequently challenged the deal.)<sup>12</sup>

For examples of systemic corruption we turn to Nigeria, South-East Asia, and Colombia:

The Abacha regime in Nigeria made use of a two-tier exchange rate system. Thus, for example, Mohammed Abacha, the son of the former dictator, is alleged to have taken \$100 million from the Central Bank, sold it on the black market at N84 to the dollar, then repaid the CBN at the official rate of N22 to the dollar.<sup>13</sup>

The *Concord* newspaper reported (August 1998) that Abacha had embezzled \$12 million of UN funds given for peace-keeping operations in Liberia and Sierra Leone. The authorities have identified \$1.8 billion placed by Abacha in bank accounts in Brazil, Lebanon, Switzerland and the UK.<sup>14</sup> Saudi Arabia, Egypt and Turkey have also been used (*The Journal* 14/8/98). Altogether, Abacha and his family are said to have stolen \$5 billion from the nation's treasury during his four-year rule.

The exploitation of resources that are either scarce or illegal provides many examples of

bribery. South-East Asia is plagued by illegal felling of timber. On the Thai/Burmese border (to cite one specific case) considerable bribes were paid to officials of the forestry, customs and local administration, as well as the army and police, to allow the removal and transport of 13,000 teak trees to Burma and their return across the border as 'Burmese' trees.<sup>15</sup>

Bribery has facilitated the loss of almost 90 per cent of the Philippines' primary forest, and this in turn has resulted in erosion, local climate change, etc. (Nor did the situation change much after the fall of Marcos. Many of the newly-elected congressmen had direct or indirect interests in the logging industry.) In Indonesia forest destruction is tied in with a patronage system linking an undemocratic government, the military and business leaders.<sup>16</sup> Transparency International asserts that the only solution is the collapse of the entire system, for corruption is a symptom, not the disease itself. The whole context of land use and forestry policy must be looked at.

Colombia's Public Prosecutor's Office is now investigating an estimated 80,000 drugs-related cheques, that is, cheques from bank accounts managed by the Cali cartel and drawn in favour of prominent figures. The latest 37,000 to be found have a total value of over US\$500 million. This confirms yet again the degree to which drug money has permeated Colombian public life.<sup>17</sup>

Systematic and systemic corruption will include political corruption (buying votes, discrimination in the selection of candidates, dubious sources of party funds, jobs for supporters) and corruption of the legal process (buying judges and policemen, malicious prosecutions). Venezuela's anti-narcotics chief has alleged that ten judges accepted bribes in exchange for ruling in favour of the heads of drug rings (though small traffickers are sent to jail without a trial).<sup>18</sup> The prime minister of Albania (ranked by the World Bank as the most corrupt country in Europe) has said that corruption within the police is in some cases "at the centre of organised crime".<sup>19</sup>

## The costs of corruption

Far from being a 'victimless crime' corruption infringes the fundamental human right to fair treatment. All persons are entitled to be treated equally, and when one person bribes a public official he acquires a privileged status in relation to others. He becomes an 'insider' while others are made 'outsiders' (and the more 'outside' they are - the very poor, the landless, women, ethnic minorities - the more they will be hurt). Clare Short, the UK Secretary of State for International Development, notes a report in the Indian magazine *Outlook* to the effect that the bribe for a new water connection was R1,000. This effectively excluded the poor from access to running water, with all the health and time-loss implications that this entails. Corruption is thus profoundly inegalitarian in its effects - it has a 'Robin Hood-in-reverse' character. Hugh Bayley MP, introducing a bill to create offences of international bribery and corruption, went so far as to say that "bribery is a direct transfer of money from the poor to the rich".<sup>20</sup>

Secondly, corruption results in biased decision-making, as considerations of personal enrichment take precedence over the establishment of rights for all. Government

expenditure will be prioritised according to opportunities to extort bribes rather than on the basis of public welfare, and companies will be preferred on the basis of their willingness to pay. The poor may then pay the cost of bribes indirectly through higher prices for essential services. If a company pays a bribe to secure a contract to supply electricity or water, for example, and the poor buy the electricity or water, then they will be paying an artificially-high price for that service. Furthermore, specific goods and services may be bought that would not otherwise have been bought at all. There will almost certainly be over-investment in capital goods ('white elephant' projects, large defence contracts) at the expense of GDP growth.

Thirdly, corruption leads to infringement of civil and political rights, for example, granting timber rights in an area where indigenous tribes gain their living, bribing a judge or court official, interfering with the electoral process. Corruption, and the secretiveness associated with it, may become one of the props of an authoritarian state. Corrupt leaders will be reluctant to relinquish their hold on the national purse and may resort to human rights abuse in order to stay in power. (Burma is a clear case in point.) In other circumstances corruption may so undermine the formal processes and institutions of the state that it becomes almost irrelevant. There are a number of cases (Iran, Nicaragua, Sierra Leone and former Zaïre) where high-level and systemic corruption has been an ingredient in sparking civilian unrest, even revolution. The poor are almost sure to suffer in the ensuing dislocation.

Corruption has further ramifications. When corrupt leaders waste aid money, siphon off national resources and build up foreign debt (so that government revenues are then diverted into debt-servicing), or when the shadow economy flourishes at the expense of the above-board economy, then government revenue is reduced. 'On the basis of timber known to be exported [from Cambodia] in 1995 and 1996, US\$ 400 million should have gone into the state budget, but only 10 million went in.'<sup>21</sup> What is lost to the common purse through this 'grand corruption' is, by definition, not available for the provision of public services. When public services decline it is the poor who suffer. They are the ones most dependent on those services, and they do not have the resources to pursue exit strategies. If, for example, government schools decline because they are under-funded then the poor cannot send their children to private schools.

The ramifications spread yet further. Productive foreign investment may be lost. Before the Asian crisis of 1997/98 there were some who argued that corruption was not harmful, it merely greased the wheels of commerce. It was pointed out that some countries which ranked high in surveys of the level of corruption, also excelled in economic growth. The *World Development Report* notes that the question of predictability (the amount to be paid, the certainty of outcome) throws some light on this apparent paradox. 'For a given level of corruption, countries with more predictable corruption have higher investment rates.'<sup>22</sup> However, the *Report* went on to state that even in these countries corruption had an adverse impact on economic performance, because the higher transaction costs and increased uncertainty put off potential investors. *Time* magazine<sup>23</sup> quotes research by Professor Shang-Jin Wei of Harvard School of Government to the effect that the high level of corruption in Mexico compared with Singapore was the equivalent of a 24 per cent increase in the marginal rate of taxation.

And the ramifications spread yet further again. A conservationist, Lansen Olsen, in a letter to the *Transparency International Newsletter*<sup>24</sup> notes that “political corruption is a major feature of the political habitat in which wildlife conservation efforts sink or swim”. When corruption breaches regulations designed to protect the environment, everyone suffers in the longterm, as the loss of primary forest leads to soil erosion, local climate change etc, but it is the poor who have the smallest resources with which to weather environmental degradation.

Corruption can also have ugly and unpredictable consequences for the (Western) briber. As soon as he pays he begins to lose control. If he does not get what he paid for he is in no position to complain. Having broken the law he is vulnerable to blackmail. If he tries to break the corrupt relationship he may face a variety of threats, including the threat of violence.

## Case study 1: Sierra Leone

Few would quarrel with the assertion that corruption in Africa has damaged development objectives, undermined long-term economic growth, increased poverty, and contributed to the continent’s declining position in world trade. Yet it must also be acknowledged that it is difficult to disentangle the debilitating effects of corruption from other factors, such as maladministration and incompetence, large-scale fraud, organised and disorganised crime, and international theft. The West African state of Sierra Leone is a case in point.

Rich in diamonds and with a relatively-small population, Sierra Leone could be one of the wealthiest countries in Africa. In fact it is one of the poorest, not only in Africa but in the world. Since 1991 it has experienced the ebb and flow of a brutal civil war. Apart from those who have died, many have been maimed (by having their hands cut off) or driven into exile. Precise numbers are hard to come by, but 50,000 are said to have been killed since 1991. The recent (January 1999) rebel attack on Freetown left 5,000 dead and 5,000 amputees, while 5,000 children were abducted and 70,000 people were made homeless. At the beginning of 1998 there were 500,000 refugees in neighbouring countries, and up to one million are said to be internally displaced. The war has involved the rebels of the Revolutionary United Front (RUF), the Sierra Leonean army, a number of civil defence forces (the ‘Kamajors’ being the most significant), troops (mainly Nigerians) of the West African peace-keeping force ECOMOG, and mercenaries from companies with various security and mining interests in Africa, and having roots in South Africa, the UK and the USA.

The RUF do not enjoy widespread support, yet since 1991 the Sierra Leonean army has proved quite incapable of providing a credible response to the threat which they have posed. The fact is that the efficiency of the army has been steadily weakened by successive governments in Freetown, who have made military appointments and promotions on grounds of ethnic and political affiliations. This policy resulted from events in 1967 when a coup and counter-coup opened the eyes of politicians to the potentially-key role of the

military in any power struggle. These upheavals saw the All People's Congress (APC) displace the post-independence administration of the Sierra Leone People's Party (SLPP). The electorate rejected the SLPP in 1967 on account of their corruption, nepotism and fiscal mismanagement, only to find that the APC manifested the same failings. Corruption became systemic, based on "the theft of government revenues and the unusual characteristics of the political economy of Sierra Leone, an economy principally based upon the official and smuggled export trade in alluvial gem diamonds, gold, other minerals and agricultural produce".<sup>25</sup> A huge 'parallel' economy, even a 'shadow state' developed.

Is there any way out for Sierra Leone? The standard recipe urged by the West is a mix of economic and political liberalisation. Yet, as Riley points out <sup>26</sup>, there are problems over the compatibility of the goals of economic and political liberalisation in the abstract and the real world of African political economies. Only authoritarian governments (such as Ghana in the 1980s) have been able to sustain economic liberalisation over time. When democratisation has come first, governments have then had difficulty implementing economic liberalisation. 'Anti-corruption measures are likely to meet with the greatest difficulties in the conditions prevailing in many African societies: a large, peasant-based mainly subsistence sector; a disarticulated and poorly integrated economy; serious primordial divisions; a weak civil society and accordingly high levels of public mistrust.'<sup>27</sup>

## Combating corruption

"Corruption is one of the few disasters which is wholly man-made"<sup>28</sup> and, this being so, there should be remedies at hand. There are in fact a number of anti-corruption initiatives afoot at the moment. These may be divided into:

- international (e.g. OECD, EU, World Bank)
- national (e.g. auditors-general, state funding of parties, police reform)
- local or 'citizen' level (media exposure, complaints and redress, decentralisation, new administrative procedures such as establishing overlapping jurisdictions)
- populist measures (purges of civil servants, 'new citizen' campaigns).

Before looking at international measures we will consider one national measure that has had far-reaching international implications. This is the US **Foreign Corrupt Practices Act of 1977** (FCPA), passed in the aftermath of the Watergate scandal and revised in 1988. It covers payments to public officials *and* their political parties and officials of the parties. Under the Act a US parent company is held responsible for corrupt conduct on the part of its subsidiary when it knew about, controlled, or authorised that conduct. It is not held responsible when the subsidiary acted independently and without the knowledge of the parent company. 'Grease' payments for a limited list of routine governmental actions, such as connecting a telephone, are not deemed unlawful. The Act imposes fines of up to two times the benefit received. There is also the negative publicity factor.

Views differ as to the impact of the Act. The Washington-based Council on Hemispheric Affairs says the US is failing to enforce it. Before the passing of the FCPA the Securities

and Exchange Commission uncovered corrupt payments by over 500 US companies. Since 1977 the Justice Department has brought only 30 to 40 criminal cases and five civil cases. Between 1994 and 1996 (the most recent years for which statistics are available) the Department investigated only 11 cases and did not initiate a single prosecution.<sup>29</sup> In response to these figures it may be acknowledged that it is not easy to draw up a prosecution case without international cooperation. Also, mere prosecution figures are misleading. The significant questions are: has corporate conduct been changed? do the penalties for getting caught outweigh any supposed benefits? To both questions the US Department of Justice, would answer 'yes'. They assert that the FCPA has brought about a sea-change in the way US companies do business. On the whole they police themselves through their internal compliance programmes. If they do slip up the Fraud Section is there, armed with the FCPA and its "substantial and dissuasive punishments".<sup>30</sup>

The USA began to work for an international anti-corruption agreement as long ago as 1989. The **OECD Convention on Combating Bribery of Foreign Public Officials** was signed in December 1997 and came into force on February 15, 1999. It parallels the US FCPA. Under the Convention signatories are required to ensure either that they can extradite their nationals to the country where the offence was committed or prosecute them themselves, and any statute of limitations must allow adequate time for investigation and prosecution. This will mean participants having in place the mechanisms of mutual assistance and cooperation. Enforcement is by mutual evaluation and peer pressure through the OECD Working Group on Bribery in International Business Transactions. Adherence to the Convention is open to non-OECD countries which have been invited to become full members of the Working Group. Taiwan, South Africa, Venezuela, Croatia, Russia, Romania and others have expressed their willingness to sign up.

The Convention has a number of shortcomings:

It aims to achieve equivalence in anti-corruption measures, yet there is no specific provision excluding 'reservation clauses' (clauses which allow a signatory to hold back from committing itself to implementing certain measures under the convention).

It is limited to the bribery of foreign officials, and does not cover payments to political parties. It thus fails to recognise that influence can be bought indirectly.

It tackles 'grand' corruption, but not 'speed' payments.

Despite these shortcomings the Convention would seem to have a good chance, given time, of changing the climate in which international business is conducted.

**The Council of Europe's Criminal Law Convention on Corruption** covers the whole field of corruption (payer/receiver, public/private, home/abroad). It also covers trading in influence, false accounting, corporate liability and the 'laundering' of the proceeds of corruption. Signatories are required to adopt minimum standards in criminalising acts of corruption, and to bring their criminal laws into closer harmony. Both this and the OECD Convention provide for criminal, civil or administrative liability. Sanctions must be "effective, proportionate and dissuasive" and must include forfeiture of the proceeds of corruption ('proceeds' meaning any economic advantage derived from the offence).

Twenty out of the 40 countries represented in the Council signed the convention on January



27, 1999, and it is open to all countries by invitation. Several non-member states (including the USA, Canada, Japan and Mexico) which took an active part in preparation of the Convention will be able to join as of right. Enforcement will be by mutual evaluation and peer pressure through a watchdog body, the Group of States against Corruption (GRECO) established by the Committee of Ministers of the Council of Europe.

The Convention stands a good chance of obtaining the 14 ratifications needed, and it was expected to come into force in mid-1999. Will it be effective? There are some hopeful signs. First, the mutual assistance and cooperation provisions are 'free-standing', that is, they do not depend on mutual assistance arrangements under any other convention. Second, the provision for up to five 'reservation clauses' is time-limited. A reservation will expire after three years unless it is renewed. If a state wishes to renew the reservation, it will have to explain the reasons to the other signatories. Given the wide scope of the Convention and the enforcement mechanisms available, there is much to be said for this measure becoming the global anti-corruption instrument.

The **EU Convention** of May 1997 has a number of significant shortcomings. It is restricted to the 15 members of the EU, and a state may refuse to prosecute in respect of corruption occurring outside its borders. It only tackles public sector corruption, and there is no enforcement mechanism. All members must ratify before the Convention comes into force and so far none has done so. (The European Union clearly has some way to go in tackling corruption. Its own spending watchdog, the Court of Auditors, acknowledges that measures to combat fraud in the EU are still complex, cumbersome and fraught with delays.)<sup>31</sup>

A few points of comparison are pertinent at this point.

Under the OECD Convention bank secrecy is not allowed as a ground for refusing mutual legal assistance. The Council of Europe Convention goes further, requiring states to enact laws allowing bank, financial and commercial records to be inspected and, if necessary, seized. The EU Convention, however, makes no reference to bank secrecy (let alone seizure of records).

None of the conventions refers specifically to blacklisting or debarring from the right to tender for a public contract, though the wording of the OECD and CE Conventions is wide enough to include it. Such a measure would, however, depend upon conviction, or establishing of liability.

Before turning to other international measures we may note here that the European Commission has recently decided to introduce an anti-corruption clause as a standard part of its financing agreements with the Asia, Caribbean, Pacific (ACP) group of countries. The EC now reserves the right to suspend or cancel funding for a project where corruption is found and no steps are being taken to remedy it. The issue also forms part of the renegotiation of the Lomé Convention. All this is somewhat ironic in the light of the EU's own problems with corruption.

When addressing the annual meetings of the **World Bank** and IMF in October 1996 James Wolfensohn, President of the World Bank, spoke of the “cancer of corruption”. This sparked rethinking at the Bank. In 1997 the Bank amended its procurement guidelines to address corruption in Bank projects and in 1998 it established an Oversight Committee on Fraud and Corruption. The Bank’s anti-corruption policy framework envisages action in four areas:

efforts to prevent fraud and corruption in the projects it finances; where corruption is systemic, is affecting projects, and the government is unwilling to act, the Bank now proposes to reduce its lending or stop it altogether, although it will continue to support civil society organisations

assistance to countries that ask for help in fighting corruption (about two dozen countries have asked for help, and the Bank is active in about half of them)

inclusion of corruption in its country analyses (the Bank is working on a broad set of internal and external cross-country indicators)

active participation in international efforts to address corruption.

The Bank has also decided that it cannot campaign against corruption in borrowing countries when there is no absolute certainty that the bank itself maintains the highest standards. It has therefore appointed a team of outside auditors to investigate allegations of Bank corruption.<sup>32</sup>

The fact remains that, in the Bank’s view, the principal way to reduce corruption is through deeper and more thorough economic liberalisation and deregulation (in Bank-speak “eliminating interference with the market”).<sup>33</sup> Thus it seeks to foster moves that will clarify and streamline laws reducing official discretion, introduce market-based schemes that limit the discretion of regulators, make rules transparent and adopt administrative reforms that introduce competitive pressures into government. The Bank seems to be less concerned about strengthening public institutions and increasing public awareness, and cynics might argue (as Riley points out<sup>34</sup>) that the Bank is simply pursuing structural adjustment by another route.

Transparency International have urged that the corruption issue should be put on the agenda of the **World Trade Organisation**.<sup>35</sup> Certainly there is no reason why countries should not be able to complain to the WTO if they feel they have been harmed by improper competition.

In March 1996 a majority of the members of the **Organisation of American States** (OAS) signed up to the Interamerican Convention against Corruption. By September 1998 ten ratifications had been secured.<sup>36</sup> In May 1998 the **Commonwealth** Secretariat announced the formation of a group to examine issues related to good governance and the elimination of corruption. The **Asian Development Bank** (ADB) plans to attack corruption on several fronts. It seeks to strengthen public institutions by making them more efficient and accountable, press for increased market liberalisation to break up monopolies, and help governments that ask for anti-corruption assistance. It also seeks to raise anti-corruption issues in country development discussions with governments and ensure that its own projects and staff adhere to the highest ethical standards. The ADB does not see itself

as a ‘policeman’ (the emphasis is on prevention), but under the new policy there are provisions for suspending or cancelling loans where there is “credible evidence of corruption”.<sup>37</sup>

There are some hopeful developments in the area of **international legal reform**. One truly-positive outcome from the international war against illicit drug-trafficking is the development of legal frameworks which facilitate the investigation and seizure of proceeds no matter which jurisdiction they may be in.

Transparency International has produced a **corruption perception index** annually since 1995. At best such an index can measure only two things: trends, and the positions of the countries concerned relative to one another. It cannot measure the absolute amount of corruption in society, and it takes no account of the role of bribe-givers.<sup>38</sup> However, the index is having some effect. Argentina, for example, is given a ranking that the government finds embarrassing, and Poder Ciudadano (representatives of Transparency International in Argentina) have now been brought in to collaborate with the Public Ethics Office in an initiative to measure the level of corruption in Argentina. Brazil has reacted to its listing at number 40 by preparing a code of conduct for high-ranking officials.<sup>39</sup>

International conventions are a good start, but they will only be effective if they are translated into national measures. We note here some of the moves that are afoot, and then consider areas where reform is urgently needed.

**Switzerland** has long been a haven for funds illegally acquired. New legislation on money-laundering came into force in April 1998. Now not only banks but other financial intermediaries such as trustees, exchange offices etc will be obliged to scrutinise transactions and inform the relevant supervisory authorities if they suspect money-laundering. In the **USA** a new Money Laundering Act is gaining support in Congress. It would enable US officials to seize the US assets of foreign government officials, their relatives and close associates, if their funds originated from bribery, misappropriation or theft.

In the **United Kingdom** there are a number of measures under consideration which are relevant to the subject of corruption. The Home Office has carried out a review of the Prevention of Corruption Acts 1889-1916 as a follow-on to Lord Nolan’s work in the Committee on Standards in Public Life. A UK Law Commission Report ‘Legislating the Criminal Code: Corruption’ recommends four new offences of corruption (in place of the present statutory and common law offences) and the criminalisation of cross-border bribery. A UK government consultation paper was expected by the 1999 summer recess.<sup>40</sup> The long-awaited white paper on freedom of information (crucial in any serious moves to tackle corruption) has now been published. Under the proposals an independent Information Commissioner would oversee implementation of the measures and handle appeals. However, the paper has come in for a lot of criticism on the ground of its sweeping exemptions. It makes provision for exemptions on grounds of personal privacy, commercial confidentiality, national security and law enforcement.<sup>41</sup> As part of its ‘good governance’ programme the Department for International Development (DFID) is funding research into

the causes and control of corruption. The research (which is based at Liverpool John Moores University) aims to combine academic research output with concrete policy recommendations and innovations. Research areas include: the causes and impact of corruption; the political, economic and social environment of corruption in Eastern Europe, Africa and East Asia; the role of the global economy, including the links between corruption, fraud and international illicit capital flows.

NGOs with links to the developing world are also engaged in research on this subject. Tearfund's Research and Policy Team, for example, notes that while work is being done on corruption at government and international level, little is being done on countering the corruption faced by poor communities and those working in development. The Team is therefore commissioning research (probably with a Latin American partner) to examine the issue of corruption from a theological, developmental and cultural perspective. The aim is to provide guidance on how Tearfund staff and partners should respond to the moral complexities raised by corruption.

In **Africa** a number of corruption-checking institutions have been set up. These include the Health Commission in South Africa, the Kenyan National Anti-Corruption Authority, the Ombudsman in Uganda, the Anti-Corruption Bureau in Malawi, the Presidential Commission on Corruption in Tanzania, and the Anti-Corruption Commission of Zambia. A well-resourced agency has the potential to be a powerful tool to expose corruption. If such an agency is to be credible there must be a long-term commitment, and there need to be checks against misuse of the agency for political ends, e.g. using it to harass political opponents.

Among the reforms at national level which need to be considered are the following:  
Civil service reform (reduction in the discretionary powers allowed to bureaucrats and an increase in accountability; abolition of unnecessary procedures and licences; requirements to disclose assets and liabilities, and sources of income and benefits received - a sensitive area, but crucial when public officials become wealthy beyond known sources of income).  
Tax reform (elimination of the tax deductibility of bribes; definition of a bribe as against legitimate broker fees and commissions).

'Subsidiarity': an over-powerful centre is an open invitation to corruption, so decentralising decision-making can reduce the scope for bribery. However, new powers would have to be matched by new accountability (e.g. the oversight and auditing of public procurement) otherwise decentralisation may simply create lower-level corruption.

Freedom of information is a powerful check against corruption, but in too many countries, in the developed as well as the developing world, there is an unhealthy culture of secrecy. The balance needs to be shifted so that those who seek information do not have to explain why they want it, but rather the officials who seek to withhold that information must make a clear case for doing so. The role of the investigative media should be welcomed as a further check on wrong-doing.

Legal reform (criminalisation of the *payment* of bribes; strengthening cross-border cooperation on such matters as extradition; adoption of powers to undo corrupt 'trusts' and 'gifts'; measures to tackle collusion so that individuals become 'constructive trustees', that is, liable for the corrupt gains of the group; measures to strengthen judicial independence).

One notable example of action at local or 'citizen' level is the work of **Transparency International**. TI was formed in 1993. It does not expose or investigate individual cases of corruption. Instead its emphasis is on prevention and on reforming systems. Among the measures it advocates are the following:

The "island of integrity" approach. This means fencing off an area of government activity in order to address corruption in a manner isolated from the cross-pollination of other influences.

The Environmental Management Systems (EMS) being tried in the USA, aiming to strengthen corporate environmental management.

Integrity Systems based on a municipal survey, the integrity workshop and the integrity pact (an agreement among all potential parties to a procurement that they will neither bribe nor be bribed), an elected legislature, with power to hold public officials to account.

TI does have some credibility problems of its own, arising from its links with international institutions and its pro-business bias. Nevertheless it can help political leaders and civil society wishing to do something about corruption.

La Paz Bolivia provides an example of **reform at the city level**. The former mayor Ronald MacLean-Abaroa turned around an impossible situation in his city in a couple of years.<sup>42</sup> His formula was "start in your own house, your own party". He slashed the payroll by half (in order to raise the salaries of the remainder), simplified the regulations, and arrested the chief cashier and repossessed the car acquired by graft. He concludes: 'The key is that corruption is not a crime of passion, it is a crime of calculation.'<sup>43</sup>

Populist measures such as the purge may be dramatic but ultimately ineffective. Riley<sup>44</sup> notes a paradox: 'Extensive high-level corruption can contribute to profound political upheavals, but the problem of corruption does not disappear with the removal of those key officials identified as corrupt.' Some would argue that real change cannot be achieved with a 'top-down' approach. A West African writer, A K Armah, has compared corruption purges to an unusual kind of fishing. The small fish get caught in the net, but the big fish escape.<sup>45</sup> Making an example of senior figures is a better strategy and sets a good precedent though, admittedly, this will involve political difficulties. For example, some African governments have resorted to scapegoats, or have been overtly partisan in their corruption enquiries.

## Corruption in the developed world

The developed world is implicated in Third World corruption, both as the source of the bribes and as the depository for corruptly-acquired funds. Apart from supplying the bribes and recycling the proceeds the West has serious corruption problems of its own. The American national legislature, for example, has been described as "one vast system of lobbying" and corruption in the European Commission hit the headlines in March 1999.

In an, admittedly, imperfect index (based on suspiciously-high levels of trade with dubious

regimes) Transparency International identified Belgium, France and Italy as the three countries most likely to harbour bribe-paying businesses.<sup>46</sup> However, we will concentrate on the situation in the UK.

## Case study 2: the UK

The petty corruption which is such a blight on the lives of ordinary men and women in the developing world is not an issue in the everyday world of people in this country. Heads of primary schools do not demand bribes before enrolling children in the school. The receptionist at the GP surgery does not look for an under-the-counter payment before making a patient appointment. Learner drivers do not expect to get a licence by paying the examiner. This may encourage the perception that corruption is not our problem, but something 'out there'. The fact is that corruption is a very serious problem in the UK, and we are in danger of ignoring it through our complacency and hypocrisy. Ziauddin Sardar comments: 'Any society that remains blasé about its ability to contain and withstand corruption is vulnerable.'<sup>47</sup>

The complacency and hypocrisy are closely related. We can be complacent over the supposed absence of corruption, but only because we are not being honest in our definitions. Here are a few examples:

The presence of corruption may be denied because, although the corruption exists, it is not actually illegal. For example, the UK Government has taken no steps to criminalise the bribing of foreign public officials, as it is required to do under the OECD Convention on Combating Bribery of Foreign Public Officials. It maintains that existing laws are adequate. However, there has never been a prosecution under the laws for bribery of a foreign public official<sup>48</sup> which suggests that these laws are not as adequate as the government maintains. In fact they only cover offences committed in the UK. Again, in many countries it is a criminal offence for the political party in power to appoint to public office a donor to party funds. In the UK, however, it is not an offence.

Another problem is the traditional British preference for informal, largely-unwritten rules. Transparency International comments: 'All the evidence today points to the utter inadequacy of this informal system. Corruption today can only be reduced if it is made a high risk and a low profit undertaking. Informal rules do not work nor do they wash with the public.'<sup>49</sup>

Again, corruption may go unacknowledged, and therefore unpunished, because nobody wants to admit faults in our democratic and legal system. (Here complacency and hypocrisy clearly merge.) A succession of miscarriages of justice in the 1980s illustrate the point. For years distinguished jurists and senior civil servants obstructed efforts to have these convictions reviewed because that would expose the system as fallible.<sup>50</sup>

Corruption may be unacknowledged because what changes hands is not money. Instead it

may be honours, privileges, influence and the social and economic value of these intangibles. Such cashless corruption may be related to the old school tie or to membership of certain clubs. To quote Sardar again: 'Britain, I would say, is more, not less, corrupt than the "third world" ... Moreover, our corruption is less democratic: it is limited to those with privilege and access to the system.'<sup>51</sup>

As a specific example of what may happen in the UK we may note the privatisation programme, making particular reference to the 1996 sell-off of British Rail. A 1998 report submitted by the Public Accounts Committee of the House of Commons found that rolling stock sold for £1.8 billion was resold only ten months later for £2.7 billion. Taxpayers thus lost nearly £1 billion and former British Rail managers became multi-millionaires. The committee found that the then Conservative administration had rushed into privatisation without a proper assessment of the true value of the railways. They also judged that Hambros, the merchant bank which handled the sale 'did not pursue external bidders thoroughly', but rather the transport operator Stagecoach was 'apparently put off from bidding'.<sup>52</sup> Hands are wrung and cynicism is increased, and there, it seems, the matter ends. If this scenario was enacted in a Third World country, what would we call it?

Lest it be thought that corruption, though present, cannot be a serious economic problem, we quote one case researched by the UK Chapter of Transparency International. In 1994 Gordon Foxley, a civil servant at the Ministry of Defence, was sentenced to four years in prison for taking at least £1.46 million in bribes. The research carried out for TI-UK suggested that he had caused up to £130 million in financial damage. Because orders were placed overseas there were job losses at the UK factory (including loss of highly-developed skills) and loss of profits. This, in turn, resulted in lower values for privatisation exercises. On top of this higher prices were paid for the equipment concerned, and there was at least one instance of a fuse that was ineffective in practice manoeuvres.<sup>53</sup>

One area in which the UK bears a particularly-heavy responsibility, on an international scale, is the maintenance of so-called offshore tax havens. According to Transparency International 'grand corruption' would be impossible without these havens. They offer banking, insurance and company formation services, but they are also implicated in money-laundering and tax evasion. It is estimated that as much as a third of the wealth of the world's richest people - an estimated US\$ 6 trillion - is held offshore. Amounts held in Swiss banks on behalf of African leaders alone are said to exceed US\$20 billion.<sup>54</sup> Apart from such well-known destinations for illegal funds as Liechtenstein, Luxembourg, Monaco and Switzerland, the prime havens are the British dependencies of the Bermudas, the Cayman Islands, the Turks and Caicos Islands, the Isle of Man, the Channel Islands and Antigua. Despite occasional adverse exposure in the media the havens remain attractive to host governments. Julius Timothy, Finance Minister of Dominica, announced in January 1998 that the government aimed to make Dominica "the premier offshore jurisdiction in the world".<sup>55</sup> The EU, the USA, the OECD and the G7 are said to want to put an end to competition from these havens, and the UK's 1998 budget proposals included a move to force offshore life insurers to tell the Inland Revenue when UK residents and expatriates cash in their insurance policies. However, the Association of International Life Offices (AILO), which represents 35 insurers in Luxembourg, the Channel Islands, Dublin and the

Isle of Man, claims that the proposals endanger client confidentiality, in breach of Luxembourg's secrecy laws.<sup>56</sup> The government's seriousness about this issue will certainly be tested to the full.

At present the situation in the UK looks set to get worse, not better. More and more parts of the government bureaucracy have been made into businesses. Sardar comments, 'If the government under which this is all happening has already established a culture of centralised power and tight control of information, then there's real trouble ahead. To make matters worse, Tony Blair now relies almost completely on the business community for people to work in the new informal executive branch. The demarcation between business and politics is disappearing.'<sup>57</sup>

We conclude this note by drawing attention to some key areas of concern:

The culture of secrecy in the civil service (highlighted in the Scott Report).

The reluctance to 'come clean' about the sources of political-party funding. So long as donations are kept confidential, it is impossible to know who has given what, and to judge what benefits they may or may not have received in return. While the parties insist on maintaining secrecy the suspicion must remain that there is something discreditable that is being covered up.

The scope for corruption that arises from blind faith in 'the market', for example, privatisation programmes, and the misuse of export credit guarantees. (Transparency International maintains that the current export credit systems in the EU constitute an indirect encouragement to bribe, the value of the bribe being included in the total value of the contract.) So long as 'market forces' are held to be supreme opposition to bribery on ethical grounds can be lightly dismissed as 'naiveté'.<sup>58</sup>

The appointment of political supporters to 'quangos'.

The tangle of MPs' business interests and their relations with professional lobbyists. These can result in conflicts of interest, e.g. consumer and environment groups have pointed to the report of the House of Lords Select Committee on GM foods and the fact that nine of the 12 members of the committee are farmers or otherwise have an interest in the food industry.

<sup>59</sup>

## Conclusions and recommendations

Sadly, it seems that corruption is to be found wherever there are human beings. Archives recovered from the administrative centre of Middle Kingdom Assyria (c 1,400 B C) refer to civil servants taking bribes, with senior officials and a close relative of the head of state implicated.<sup>60</sup> There are also references to bribery in the Old Testament scriptures (see Appendix 2). While these facts must foster realism, they need not persuade us that nothing can be done. We suggest here a number of key principles for a campaign against corruption, and then some suggestions for action.

### Principles

The first principle, we suggest, is that corruption must be exposed for what it is, a form of



organised crime and a serious abuse of human rights. Much of the current anti-corruption activity acknowledges that corruption is an ethical issue, but focuses on it as a practical issue. This will not provide the foundation for a sustained campaign. Drawing a lesson from the last century we may note that practical drawbacks in slave trading may have strengthened the arguments of the anti-slavery campaigners, but it was slaving as a moral issue that stirred public concern and eventually carried abolition through parliament.

Second, the developed world must not be allowed to use the corruption issue as a way to pin the blame for development failures wholly on the developing world. Nor should anti-corruption measures be confused with moves to reshape developing economies to suit the West. To suppose that economic and political liberalisation will resolve the problem of corruption is, quite frankly, simplistic. All the evidence indicates that corruption can flourish in regulated and unregulated markets, under democracies or dictatorships.

Third, the issue of corruption will never be resolved if it is treated as a problem solely, or mainly, of the Third World. The developed world must set an example by addressing its own corruption. Then it needs to acknowledge that it is aiding and abetting the corrupt of the developing world. It is not enough to pursue the burglar and ignore the receiver of stolen goods. Key issues here are the maintenance of offshore havens, and the activities of export credit guarantee agencies.

Fourth, corruption cannot be tackled in isolation, but only in the context of efforts to reduce world poverty. Corrupt individuals and companies may be exposed and punished, but of itself this will only redirect the corruption. (There may be some parallels with the war on the drugs trade. Uprooting coca plants in Bolivia or opium poppies in Afghanistan may give the impression that something is being done, but the peasant farmers who grow them need to be offered a better way to make a living.) Other issues such as the burden of Third World debt and the imbalance of power in world trade need to be addressed at the same time as tackling corruption.

Fifth, action aimed specifically against corruption will have to go hand in hand with action to secure freedom of information.

#### Recommendations for action

Civil society groups (NGOs, the churches, the media etc) have a key role to play in exposing corruption and shaming governments into taking action. And civil society coming together in a popular alliance would have an even stronger voice. Transparency International has the potential to encourage such cooperation between individuals and organisations.

A civil society organisation taking up the corruption issue would have to make sure that its own house was in order. This would mean debating the issue internally, drawing up and implementing codes of conduct to guard against corruption within, and ensuring that the organisation is in no way contributing to corruption elsewhere in society.

Churches, both in the developed and the developing world, are well-placed to make a high-profile stand against corruption. Again, they would have to ensure that their own houses were in order. An appropriate starting point for church action would be teaching, and

discussion of the issue, among congregations.

A key role for civil society would be in the monitoring of government to government aid. Transparency, and access to information, would be prerequisites for such a programme. Donor governments could insist on such transparency/ access as part of the aid package. This should lead not only to more effective use of aid money, but also to the empowering of local people and the strengthening of democracy.

A key issue for civil society to take up in the UK, and in the EU, is the tightening of anti-corruption legislation.

## **APPENDICES**

### **1) A glossary of terms**

<i>bribery</i>	payment for access to a benefit that is scarce or whose supply is restricted by officials, or for services connected with the benefit, such as speedy service or inside information; bribes may also be paid in order to avoid costs (or to impose them on others).
<i>conflict of interest</i>	a conflict of interest arises where professional judgement concerning a primary interest, such as a planning application, is influenced by a secondary interest, such as financial gain.
<i>rent</i>	in the language of economics 'rent' is the extra amount paid for something useful whose supply is limited either by nature or by human ingenuity (i.e. human beings can create artificial limitations).
<i>systematic corruption</i>	corruption affecting a whole area of government
<i>systemic corruption</i>	corruption of the entire government system, sometimes called 'kleptocracy' or government by theft
<i>transaction bribe (or speed money)</i>	a payment made in order to overcome an artificial delay in obtaining a desired service. Theoretically 'speed money' is egalitarian (unlike the variance bribe).
<i>variance bribe</i>	this description highlights the distorting effect of a bribe. It brings about an illegitimate variance in proper decision-making.

### **2) A biblical viewpoint**

There are only a limited number of direct references to bribery in the Bible, and such references as are made reflect the ambiguous nature of certain payments. Hebrew *shochad* is translated 'bribe', but it also means 'reward'. Likewise Hebrew *mattanah* can mean

'bribe', though its primary meaning is 'gift'.

There are several verses in the book of Proverbs where the biblical writer merely makes an observation on bribery, without passing any judgement. Chapter 17:8 notes that in the eyes of the giver his bribe is a "magic stone", a short-cut to prosperity. A bribe opens doors in high places, according to 18:16, and "every one is a friend to a man who gives gifts", says 19:6. Chapter 21:14 refers to the use of a bribe to deflect the wrath of an offended party.

However, there is no question of the Bible's opposition to bribery as an affront to the character of God, the incorruptible one (Deut 10:17). Hence a bribe is an "evil device" (Psalm 26:10, cf Micah 7:3), a "gain of oppressions" (Isaiah 33:15), an "unjust gain" (Proverbs 15:27). Even a small bribe (a piece of bread, a handful of barley) has serious consequences (Prov 28:21; Ezekiel 13:19). A bribe corrupts the mind (Eccles 7:7) and blinds the eyes of officials (Exod 23:8). The Bible is particularly concerned about the perversion of the course of justice through bribery (Deut 16:18-19, 27:25; 1 Sam 8:1-3; 2 Chron 19:7; Prov 17:23; Isaiah 5:23; Amos 5:12). Ezekiel 22:12 includes bribery in a list of the symptoms of serious societal break-down, and Proverbs 29:4 says that when national leaders are implicated in bribery the outcome is national ruin.

There are a number of cases of bribery being used to further disreputable political ends. Note the following examples: Delilah (Judges 16:5), Ben-hadad (1 Kings 15:18-19), Haman (Esther 3:8-9), Shemaiah (Neh 6:10-13), the chief priests - agreeing to pay Judas (Matt 26:15 and parallels) and bribing the guards at the tomb (Matt 28:12-15). Felix (the Roman procurator of Judaea, c AD 52-59) hoped that Paul would bribe him to expedite his release from prison (Acts 24:26).

Apart from direct references to bribery there are important principles laid down in Scripture which are very relevant to the issue. We may note, firstly, the Bible's demand for integrity in all human dealings (in contrast to the underhandedness which is characteristic of bribery). The Bible says "no" to false weights and measures, "no" to the removal of boundary markers, "no" to hoarding and over-charging and manipulation, "no" to advantage-seeking and stealing a march on others. Jesus condemned the misuse of the temple, where the buying and selling of sacrificial animals at exorbitant prices, and the high profit margins associated with money changing, turned the outer court of the temple into a "den of robbers" (Matt 21:13).

Christ's followers are to be focused on the kingdom of God and his righteousness instead of on the world and its wealth. They must be free of covetousness (e.g. Eph 5:3, Col 3:5) for hoarded wealth corrupts. They are to be salt (against the corruption of the world) and light (against underhandedness), Matt 5:13-16. Openness should render oaths unnecessary (Matt 5:33-37). When salvation came to the house of Zacchaeus, the inevitable outcome was that he made restitution for his past fraud, Luke 19:8-9.

Secondly, we have seen that corruption involves the exploitation of one's control over resources. The Bible insists that those who hold office or wealth are to think of their position not in terms of control and ownership, but of stewardship. To be a king, priest or

judge is to hold a position of trust. The king who pursues, and displays, wealth, the priest who fleeces the sheep of God's flock, the judge who allows himself to be bought, will be weighed and found wanting (see Deut 16:16-17; Ezekiel 34; Isaiah 5:23). In the parables Jesus urged the proper stewardship of wealth, for example, Matt 25:14-30; Luke 12:16-21. (In Luke 16:1-8 the activities of the Unjust Steward seem to be condoned. In fact the parable teaches the use of wealth to benefit others and to build relationships.)

Thirdly, we have noted that corruption involves treating other people as 'outsiders'. In contrast the blueprint for human society set out in the Mosaic legislation patterns an inclusive society. Each family is granted an inheritance. This gives it the means to make a living, freedom from dependence, a stake in society. Even so misfortune may push some people to sell-up, and they are left on the margins of society. Provision is made for them too. The gleanings of the harvest, the mislaid sheaf of corn, the harvest of the sabbath year are to be theirs. Furthermore, the sell-up cannot be permanent for the family inheritance is inalienable. (This is the point of the jubilee legislation of Lev 25; Deut 15.) Here is a society with no outsiders, only neighbours. Turning to the New Testament we find that, among those who would follow Jesus Christ, relationships must be characterised by the love which treats others as one would like to be treated oneself, see Matt 7:12, 22:39 (quoting Lev 19:18). The soul of a man shrinks or expands according to whether he grasps wealth or shares it with those in need.

### **3) Transparency International: national chapters**

National chapters of Transparency International have been established in over 80 countries. These are listed below. Details can be obtained from the TI website. (In case of difficulty Tearfund partners may contact Bryan Evans at: Tearfund, 100 Church Road, Teddington, Middlesex TW11 8QE, UK (Tel 020 8977 9144; Fax 020 8943 3594; E-mail bre@tearfund.org)

#### **Africa (Eastern and Southern)**

Botswana	South Africa
Ethiopia	Tanzania
Kenya	Uganda
Malawi	Zambia
Namibia	Zimbabwe

#### **Africa (Western and Central)**

Benin	Mauritius
Burkina Faso	Nigeria
The Gambia	Senegal
Ghana	Sierra Leone
Madagascar	Togo
Mali	

## The Americas

Argentina	Ecuador	Paraguay
Bolivia	El Salvador	Peru
Brazil	Guatemala	Trinidad and Tobago
Canada	Haiti	Uruguay
Chile	Honduras	USA
Colombia	Jamaica	Venezuela
Costa Rica	Mexico	
Dominican Republic	Panama	

## Asia (East, South-East, South)

Bangladesh	Pakistan
Cambodia	Philippines
India	Singapore
Indonesia	Sri Lanka
Malaysia	Thailand
Nepal	

## Europe, Central Asia

Belgium	Hungary	Russia
Bulgaria	Italy	Slovak Republic
Czech Republic	Latvia	Spain
Denmark	Mongolia	Sweden
Estonia	The Netherlands	Switzerland
France	Norway	Ukraine
Germany	Poland	UK
Greece	Portugal	

## North Africa, the Middle East

Algeria	Jordan
Egypt	Morocco
Israel	

## The Pacific

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### **ABBREVIATIONS**

ADB	Asian Development Bank
CRG	Control Risks Group (an international business risk consultancy)
ECGD	Export Credit Guarantees Department
EU	European Union
FCPA	Foreign Corrupt Practices Act (USA, 1977)
GRECO	Council of Europe's 'Group of States against Corruption'
IMF	International Monetary Fund
NGO	Non-government organisation
OAS	Organisation of American States
OECD	Organisation for Economic Cooperation and Development
TI	Transparency International

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<sup>1</sup> *International Herald Tribune* 25/2/99

<sup>2</sup> *Time* June 1998

<sup>3</sup> Hugh Bayley MP in a House of Commons debate, *Hansard* 25/2/98, p.374

<sup>4</sup> Transparency International *Source Book*, Chapter 2

<sup>5</sup> *World Development Report* 1997, p.103

<sup>6</sup> *Financial Times* 6/4/98

<sup>7</sup> Ziauddin Sardar 'A very British sort of bribery', *New Statesman* 25/9/98, p.51

<sup>8</sup> *TI Newsletter* September 1998, p.13, citing Associated Press, June 24 1998

<sup>9</sup> *TI Newsletter* September 1998, p.6, citing *Caribbean Insight* July 1998

<sup>10</sup> *TI Newsletter* September 1998, p.11, citing Reuters 27/6/98

<sup>11</sup> *TI Newsletter*, citing 'Business Day' 25/2/98

<sup>12</sup> *TI Newsletter*, citing the *Financial Times* 20/4/98

<sup>13</sup> *The Journal* 14/8/98

<sup>14</sup> *IHT* 18/8/98

<sup>15</sup> *Bangkok Post* 24/2/98

<sup>16</sup> Transparency International, citing Robin Broad 'The Political Economy of Natural Resources' in  
*Journal of Developing Areas* 29, p.330

<sup>17</sup> *TI Newsletter* September 1998, p.11, citing the *Financial Times* 29/7/98

<sup>18</sup> *Financial Times* 12/3/98

<sup>19</sup> *Transparency International Newsletter* September 1998, p.13

<sup>20</sup> *Hansard* 25/2/98, p.374

<sup>21</sup> Transparency International, citing Barbara Harris White 'Liberalisation and corruption' *IDS Bulletin*  
2/1996, p.30

<sup>22</sup> *World Development Report* 1997, p.103

<sup>23</sup> 22/6/98

<sup>24</sup> *TI Newsletter* March 1999, p.15

<sup>25</sup> Riley, in *Corruption and Development*, p.141

<sup>26</sup> in *Corruption and Development*, p.141

<sup>27</sup> Riley, in *Corruption and Development*, p.149

<sup>28</sup> Baroness Chalker of Wallasey, lecture at Glasgow University, February 19th, 1999

<sup>29</sup> *FT* 24/2/99

<sup>30</sup> Peter Clark, Fraud Section of the US Department of Justice

<sup>31</sup> *TI Newsletter* September 1998, p.4

<sup>32</sup> *TI Newsletter* September 1998, p.5



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- <sup>33</sup> WDR 1997, p.106
- <sup>34</sup> in *Corruption and Development*, p.138
- <sup>35</sup> FT 24/2/99
- <sup>36</sup> TI Newsletter September 1998
- <sup>37</sup> FT 9/7/98
- <sup>38</sup> Riley in *Corruption and Development*, p.107
- <sup>39</sup> TI Newsletter March 1999, p.6
- <sup>40</sup> TI (UK) Newsletter, April 1999
- <sup>41</sup> Contrast the Bolivian Freedom of Information law reported in *TI Newsletter* (September 1998, p.7):  
“Any limitation or reserve to transparency must be specified for each type of information and shall not be general for any entity or their agencies and has to be expressly determined by law.”
- <sup>42</sup> Flora Lewis, *IHT* 11/9/98
- <sup>43</sup> FT 6/4/98
- <sup>44</sup> in, citing Jeffries 1982
- <sup>45</sup> cited in *Corruption and Development*, p.151
- <sup>46</sup> *Time* 22/6/98
- <sup>47</sup> Ziauddin Sardar ‘A very British sort of bribery’, *New Statesman* 25/9/98, p.53
- <sup>48</sup> TI (UK) Newsletter, April 1999
- <sup>49</sup> *Transparency International Source Book*, Chapter 7
- <sup>50</sup> see Ziauddin Sardar, p.52
- <sup>51</sup> Ziauddin Sardar, p.52
- <sup>52</sup> FT 10/8/98
- <sup>53</sup> Transparency International, citing *The Observer*, 16/10/94
- <sup>54</sup> TI Newsletter, June 1998, p.3
- <sup>55</sup> TI Newsletter June 1998, citing *Caribbean Insight* February 1998
- <sup>56</sup> TI Newsletter, citing the *Financial Times*, 27/3/98
- <sup>57</sup> Ziauddin Sardar, p.53
- <sup>58</sup> thus Michael Fabricant MP, opposing a bill designed to criminalise the bribing of foreign officials, see *Hansard* 25/2/98, p.375
- <sup>59</sup> TI Newsletter, March 1999, p.6
- <sup>60</sup> See *Transparency International Newsletter* March 1998, p.9