

Opportunities for UK Government leadership to tackle corruption in 2013

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In Africa alone, the cost of corruption has been estimated at nearly £100 billion a year – or £3,000 a second - representing 25 per cent of the continent's GDP.¹

2013 presents significant opportunities for the UK to show global leadership in the fight against corruption, in particular through its role as chair of the G8, co-chair of the OGP and chair of the High Level Panel on post-Millennium Development Goals. David Cameron has identified combating corruption as part of his “golden thread” of conditions “that enable open economies and open societies to thrive”.² He has also emphasised the role that transparency plays in this, and the UK has set itself the ambitious aim of being the “most transparent and open government in the world”³

Tearfund is an international aid and development agency working through partner organisations and churches in over fifty countries to end poverty and injustice. We have seen firsthand the impact of corruption on the poorest sectors of society,⁴ for example it: reduces access to and quality of essential public services such as education and healthcare; prevents resources reaching their intended destination; undermines trust as people are excluded from participating in political processes; and harms economic growth

We have also seen the benefits that greater transparency and accountability can bring. Tearfund partner, the Christian Council of Tanzania, has worked with local communities to track government spending in many districts. In one village, the money for a school, although included in the education budget for that year was long overdue and was in danger of being used for other purposes. The local budget tracking committee approached the relevant officials to find out what had happened and demand the money was used for its intended purpose. As a result the money was released and three classrooms were built that doubled the size of the school.⁵

Below we highlight areas where we think progress is both vital and possible in 2013, through strong UK as well as international action.

¹ Smith, Pieth and Jorge (2007) The recovery of stolen assets: a fundamental principle of the United Nations Convention Against Corruption, Briefing Paper. Prepared by the Basel Institute on Governance. Norwar: U4 Anti-Corruption Resource Centre.

² <http://online.wsj.com/article/SB10001424052970204712904578090571423009066.html>

³ <http://www.guardian.co.uk/public-leaders-network/2012/apr/19/frances-maude-open-government-partnership>

⁴ Tearfund (2010) Corruption and its discontents: assessing the impact of corruption on people living in poverty.

⁵ <http://justpolicy.co.uk/2012/08/06/a-tale-of-two-villages-where-transparency-is-doing-its-job/>

1. Budget Transparency

Open and transparent budget systems promote development by enabling citizens to assist the government in formulating budgets that reflect public priorities, in reducing money lost due to corruption and in holding the government to account for its spending. It ensures the optimal use of resources gained from tax, aid and investment.⁶ For this to be a reality, governments need to publish key budget documents with a comprehensive breakdown of information, as well as to engage citizens in budget formulation and monitoring.

Yet many governments do not have transparent budgets or allow citizen participation. According to the 2010 Open Budget Index, 74 out of 94 countries surveyed failed to meet even the most basic standards of transparency and accountability. Only seven provided extensive information, of which the UK was one.⁷ Much more needs to be done on an international level.

It is encouraging that progress is being made to improve budget transparency through the **Open Government Partnership**,⁸ which had its first Steering Group Meeting under the UK chairmanship on 3-4 December. 58 Countries are now members and have committed to publish data on government spending in a way that the public can use and to 'deepen public participation in developing, monitoring and evaluating government activities'.⁹

However, the fiscal transparency criteria for the OGP are low as governments are simply required to publish the executive's budget proposal and audit report.¹⁰ The criteria need to be strengthened so that countries show year on year progress and reach the highest standards of budget transparency, and other key G8 and G20 countries need to commit themselves to joining (currently fewer than half are members).

Recommendations

- Encourage all G8 and G20 countries to join the Open Government Partnership during 2013
- Strengthen the fiscal transparency requirements for countries joining the OGP so that all member countries commit to achieving best practice within a set timeframe.
- Work with other donor countries to provide greater support to developing country governments and civil society groups in budget transparency, strengthening and expanding DFID's work in this area.

⁶ McGee, R and Gaventa, J (2011), Shifting Power? Assessing the Impact of Transparency and Accountability Initiatives, IDS.

⁷ http://internationalbudget.org/wp-content/uploads/2011/06/2010_Full_Report-English.pdf;

<http://internationalbudget.org/what-we-do/open-budget-survey/rankings-key-findings/key-findings/>

⁸ <http://www.opengovpartnership.org/news/revealed-top-ten-commitments-open-government-representatives-73-countries-gather-brasilia>

⁹ 'Open Government Declaration', <http://www.opengovpartnership.org/open-government-declaration>

¹⁰ <http://www.opengovpartnership.org/eligibility>

2. Natural resource transparency (additional briefing available upon request)

About 3.5 billion people live in countries rich in oil, gas and minerals. Revenue from these sectors is often one of the greatest sources of wealth generated within developing countries. In 2010 for example, exports of oil and minerals from Africa were estimated at \$333 billion, nearly 7 times the value of international aid (\$48 billion) to the continent.¹¹ However, such wealth often provides little benefit to the people living there, especially the poor. A lack of transparency in the payment and use of these revenues is a key barrier to removing this 'resource curse'.

U.S. legislation requiring listed extractive companies to publish revenues paid to governments (Dodd Frank Act 2010, section 1504) and proposed equivalent EU legislation through modifying the **Accounting and Transparency Directives**, mark a watershed in the creation of global transparency standards. The UK government has shown leadership in the EU process through David Cameron¹² and Business Minister Jo Swinson¹³ offering strong support and working for the proposal to be a success. This must continue.

However, although this legislation will cover all companies listed on the US and EU stock exchanges, including many companies from other G8 and G20 countries such as Australia, Canada, China and Brazil, it will not cover all G8 and G20 companies and is yet to have global reach. For this we need a global standard.

To complement this legislation, the **Extractives Industries Transparency Initiative (EITI)** enables companies to report their payments they make, host governments to report their revenues and for discrepancies to be resolved. This has led to large differences being identified and money recovered, such as in the case of Nigeria, where a discrepancy of \$800 million was identified between what companies said they paid and what the government said it received. The government is working to recover the money.¹⁴ However, as yet only one G20 Country (Indonesia) is a member of the EITI and no G8 countries have joined, although recently the US has agreed to implement the EITI (undertaken as part of its OGP commitments in September 2011) and Australia to pilot the process. It is hard for G8 or G20 countries to show global leadership until they have put their own house in order.

¹¹ WTO, See WTO, 2011, "International Trade Statistics, Merchandise trade by product: http://www.wto.org/english/res_e/statis_e/its2011_e/its11_merch_trade_product_e.htm, OECD, 2011, "Development at a Glance. ODA to Africa", p2 <http://www.oecd.org/dataoecd/40/27/42139250.pdf>

¹² <http://online.wsj.com/article/SB10001424052970204712904578090571423009066.html>

¹³ <http://www.one.org/c/international/pressrelease/4520/>

¹⁴ <http://eiti.org/document/case-study-nigeria>

Recommendations

- Continue to work with EU colleagues to pass strong transparency legislation for oil, gas and mining companies to publish what they pay to host country governments
 - UK government to sign up to the EITI and encourage all G8, G20 and OGP members in resource rich countries to do the same.
 - Encourage all G8 and G20 countries with extractive industry companies listed on their stock exchanges to pass similar transparency laws on revenue payments
- Convene a High Level Meeting as part of the G8 to discuss global standards on natural resource transparency

3. Tackling Bribery (additional briefing available upon request)

According to the World Bank in 2004, it was estimated that \$1 trillion is paid in bribes every year with devastating affects.¹⁵ The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions requires each signatory to make foreign bribery a crime and has a rigorous peer review mechanism. However, only 39 states have ratified this Convention and many of those that have done so have made little progress in enforcing this.¹⁶ Other countries need to ratify the Convention and take active steps to implement it if there is to be global action on this issue.

In many ways the UK is leading the way in combating bribery and the **UK Bribery Act 2010** was implemented last year and is a landmark piece of legislation, which brought the UK into line with its commitments under the OECD Convention. However, further action is still needed to ensure that loopholes do not undermine the effectiveness of the Act.

In particular there are concerns that the Act has not been extended to cover legal persons incorporated in all of the UK's Overseas Territories (OTs) or Crown Dependencies (CDs) meaning that companies registered incorporated in the OTs or CDs but which do not carry on a business in the UK, could be used to commit foreign bribery.¹⁷ This is particularly concerning when such a large number of companies are incorporated in the OTs and CDs – for example, in the British Virgin Islands alone there are currently over 447,801 active companies incorporated.

Additionally effective implementation of the Act requires sufficient resources for enforcement. The Serious Fraud Office has the responsibility to enforce this new piece of

¹⁵ World Bank (2004) The costs of corruption.

¹⁶ According to Transparency International's 2012 progress report '*Exporting corruption – country enforcement of the OECD Anti-Bribery Convention progress report 2012*', active or moderate enforcement is only in place 19 countries and there is little or no enforcement in 18 countries.

¹⁷ As noted in the OECD Anti-Bribery Review published report (2012). See p50:
<http://www.oecd.org/daf/briberyininternationalbusiness/50026751.pdf>

legislation, but has had its budget cut from £52 million in 2008, to approximately £33 million in 2012 and is expected to be further reduced in forthcoming years.

Recommendations

- Encourage all G8 and OGP countries to demonstrate progress in adopting and enforcing strong anti-bribery legislation and to become party to the OECD Convention
- The UK should extend its jurisdiction of the Bribery Act to legal persons incorporated (i.e. companies) in the CDs and OTs, in line with the OECD recommendation earlier this year.
- Ensure sufficient resourcing for enforcement of the Act – both for the Serious Fraud Office as well as the UK's diplomatic posts.

4. Cross-Whitehall leadership and strategy

With at least 11 government departments and public bodies having a remit to tackle corruption, there is the need for cross-department coordination and an overarching anti-corruption strategy. The role would naturally fall to the government's **Anti-Corruption Champion**, who has recently been reconfirmed as Ken Clarke, cabinet minister without portfolio and formerly Secretary of State for Justice.¹⁸ However, there is a lack of clarity as to the remit of anti-Corruption Champion and no overarching government strategy to tackle corruption at home and overseas.

Recommendations

- For the position of Anti-Corruption Champion to stay at Cabinet level and to have a remit to bring leadership and cross-department coordination to tackle corruption both at home and abroad.
- For the Anti-Corruption Champion to be mandated to draft a cross-departmental anti-corruption strategy, which is regularly reviewed and debated in Parliament.

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¹⁸ Question tabled by Mr Ivan Lewis on 30th October *Hansard Column 166W* and question tabled by Mr Tom Clarke on 21st November *Hansard Column 524 W*