

The International Consortium on Governmental Financial Management

Proceedings of:

**FIFTEENTH ANNUAL INTERNATIONAL
FINANCIAL MANAGEMENT CONFERENCE**

Anti-Corruption Summit 2000

**September 21 to September 23, 2000
Hilton Crystal City Hotel
Arlington, Virginia**

Sponsoring Organizations:

International Consortium on Governmental Financial Management

USAID Americas' Accountability/Anti-Corruption Project

*Compendium prepared by
A to Z Business Services—Linthicum, Maryland—410-993-9000*

TABLE OF CONTENTS

Thursday, September 21, 2000

	Page
Opening Remarks	
James B. Durnil, President, ICGFM	
President, National Rural Electric Cooperative Association Int'l LTD.....	1
USAID's Concerns about Corruption's Effect Upon Development	
J. Brady Anderson, Administrator	
United States Agency for International Development.....	3
Mr. Anderson speaks about the efforts of USAID's Office of Inspector General to safeguard and strengthen the accountability of its overseas partners. He also credits USAID's development programs with playing a pivotal role in the fight against corruption.	
Corruption's Challenge	
James D. Wolfensohn, President, The World Bank.....	7
By video, Mr. Wolfensohn discusses the need to look inside your own organization as well as outside to address the issue of corruption. He advocates systemic change and involvement with partners to achieve success in this effort.	
New U.S. Government Anti-Money Laundering Legislation and Policies	
Stuart Eizenstat, Deputy U.S. Secretary of the Treasury.....	9
Mr. Eizenstat, former Chief Domestic Advisor to President Carter, tells of the impressive results of the Financial Action Task Force (FATF) that undertook detailed examinations of 29 jurisdiction's anti-money laundering regimes. He proposes a plan to place restrictions on those who do not make efforts to improve their anti-money laundering programs.	
Hemispheric Action Against Corruption	
Enrique Iglesias, President, Inter-American Development Bank.....	16
Mr. Iglesias was not able to speak due to other commitments but he sent by video a brief message and best wishes for a successful summit.	
The 21st Century Incorruptible State	
Omar Torrijos, Attorney, Panama.....	18

Mr. Torrijos defines the incorruptible state as a political, social and economic structure resulting from the organization of the nation that makes proper use of the state’s resources. In order to attain the incorruptible state, Mr. Torrijos says it is necessary to lay the foundation of values in three essential areas—family, education and communication.

Preventing Corrupt Cities

Robert Klitgaard, Dean and Ford Distinguished Professor of International Development and Security, The Rand Graduate School; Author of *Controlling Corruption, Tropical Gangsters, and Corrupt Cities*.....23

Mr. Klitgaard’s talk is built around four points. First of all, “Why should we worry about corrupt cities?” Secondly, he provides examples. Third, he discusses the challenges of systemic corruption at the local level and fourth, he goes over strategies for moving ahead.

The Fight Against Corruption in Slovakia

Michal Ivantysyn, Coordinator of the National Anti-Corruption Program and Director, Communications Department, Office of the Government of the Republic of Slovakia.....28

Mr. Ivantysyn presents the Slovak national program for fighting corruption. It centers on three main pillars: identification and elimination of potential causes; making corrupt behavior less profitable; and promotion of anti-corruption values.

Unbundling Corruption: New Empirics on ‘State Capture,’ Bribery and Kickbacks and their Implications for Governance Reforms

Daniel Kaufmann, World Bank Institute.....32

To start his presentation, Mr. Kaufmann enumerates eight key propositions for an anti-corruption program and then proceeds to call them either a myth or a quasi-myth. He completes his presentation with the conduct of an interactive survey of the conference audience.

How Combating Corruption Contributes to Development

Miguel Schloss, Executive Director, Transparency International.....40

It takes three to tango says Mr. Schloss—civil society, government and enterprises. He tells what each can do and does do in combating corruption. Transparency International is there, he says, to support and bring together these entities.

Providing Adequate Controls to Prevent Corruption in Procurement

Jaime Sanchez, AAA Project Consultant and Former World Bank Project Consultant.....49

Mr. Sanchez relates his experiences as an individual consultant in the last year and a half in the countries of Bolivia, Argentina, Peru and Ecuador. He delineates controls required to prevent corruption in procurement and expresses his concern for procurement practices in Latin America.

Anti-Corruption Crusades Often Fail to Win Lasting Victories: Why?

Guido Bertucci, Director, Division for Public Economics and Public Administration, Department of Economic and Social Affairs United Nations.....53

To avoid repeating mistakes, Mr. Bertucci offers two major reasons why anti-corruption crusades fail—administrative and political. He recommends a holistic approach to bring about long-lasting reform and change.

Supreme Audit Institutions Panel: Experiences in Auditing Fraud and Corruption

Moderator:

Kenneth Dye, Senior Vice President, Cowater International and Former Auditor General of Canada58

Panelists:

I.P. Singh, Deputy Controller and Auditor General of India.....59

Raits Cernajs, Auditor General of Latvia.....64

Arpad Kovacs, Auditor General of Hungary.....68

Mr Dye in his introductory remarks sees the SAIs in the role of champions against corruption in the developing countries. Mr. Singh details some methods and techniques used by supreme audit institutions in the prevention and detection of fraud, and he outlines a case of fraud detected by SAI India. Mr. Cernajs relates the history of the Latvian State Audit Office, where they had to overcome the initial mistake of destroying the Soviet systems that dealt with accountability, accountants and audit. Mr. Kovacs speaks about the process of privatization in Hungary, its successes and failures.

Experiences of Official Anti-Corruption Commissions and Units

Moderator:

Dr. Ramiro Larrea Santos, President, Ecuador Civic Commission Against Corruption, Consultant.....74

Panelists:

Michal Ivantysyn, Coordinator of the National Anti-Corruption Program of the Slovak Republic75

Mario Vircik, Secretary, Slovak Steering Commission on Anti-Corruption....76

Roberto de Michele, Secretary Anti-Corruption Office, Argentine Ministry of Justice and Human Rights.....78

To open the discussion, the moderator, Dr. Santos, says, “Society is the most important player in the fight against corruption.” Mr. Ivantysyn highlights the

role of non-governmental organizations in this fight, particularly in monitoring and education. Mr. Vircik speaks about the implementation of a national anti-corruption program in Slovakia including the task of raising the perception of the public regarding corrupt behavior after 40 years of Communism. Roberto de Michele introduces us to the Anti-Corruption Office in Argentina and explains its system regarding the financial disclosure forms of public officials. Dr. Santos completes the presentation by sharing the current experiences of the Civic Commission Against Corruption in Ecuador.

Friday, September 22, 2000

Audit, Whistleblowing and Risk Control

Paul van Buitenen, Budget Manager, Former Assistant Internal Auditor, European Commission; Author of *Blowing the Whistle*.....90

As someone who has been in a whistleblower position, Mr. van Buitenen presents a new way of looking at avoiding risks in your organization or in your country. His main message is that responsible whistleblowers act in the interest of the organization for which they work.

Corruption Risks in State Contracting

Lilianna Jaramillo, World Bank Project Consultant, Bogota, Colombia.....103

“Contracts are the main avenue through which corruptive acts are carried out,” says Ms. Jaramillo. She describes many of the potential risks that can occur in any contracting process.

OECD Panel—Role of the Private Sector: Creating Partnerships to Prevent Corruption

Moderator:

Jorge Braga de Macedo, President, OECD Development Center.....109

Panelists:

John A. Zemko, Communications Director and Senior Program Officer for Latin America and the Caribbean Center for International Private Enterprise111

Nancy Zucker Boswell, Managing Director

Transparency International—USA114

Jerry O’Brien, Director of International Programs

Ethics Resource Center.....117

Mr. Braga de Macedo in his introductory remarks talks about the three features necessary for a corruption-free society—political freedom, financial freedom and

the ethical awareness of the population. Mr. Zemko discusses three projects dealing with the prevention of corruption—improving the system of law in Ecuador, policy reform in Bulgaria and a new initiative in Latin America to upgrade the role of journalists as independent watchdogs. Focusing on the OECD Convention against Bribery of Foreign Public Officials, Ms. Boswell cites the need for a multilateral approach against transnational bribery. Mr. O’Brien discusses the role of the private sector in combating corruption, what multinational corporations have already done and what they need to consider doing in the future.

E-Commerce Risk: Perspective from the Washington Summit

Basil Pflumm, Vice President, Practice Center, Institute of Internal Auditors....126

Mr. Pflumm quotes an information security magazine that states that there were \$266 billion in losses last year within the U.S. alone due to cyber-threats and denial-of-services attacks. Mr. Pflumm delineates the objectives of his organization in partnership with the Critical Infrastructure Assurance Office of the U.S. Department of Commerce to stem these losses.

Supreme Audit Institutions Working to Build Accountability Systems

David M. Walker, Comptroller General of the United States.....133

Mr. Walker stresses the importance of working together to face the challenge of corruption. He discusses the role of supreme audit institutions in the effort and relates what the Government Accounting Office has accomplished within U.S. borders.

Experiences of a Corruption Investigator

Jack Blum, Attorney and International Investigative Specialist.....142

Mr. Blum recalls his involvement in the investigation of several well-known figures in the world of corruption. He emphasizes the importance of collecting adequate taxes as a means of solving social ills including corruption, and he advocates an international effort to assist countries in the recovery of monies stolen through fraud.

Anti-Corruption Initiatives in the Former Soviet States: What Went Wrong?

What Needs to be Done?

Vladimir Brovkin, Director of American University Transnational Crime and Corruption Center’s United Research Centers on Organized Crime in Eurasia.....151

Mr. Brovkin explains the causes of the corruption in the Post-Soviet states and why it is worse now than it ever was in Russia in the 20th century. He provides a 14-point

common sense list of measures that need to be taken to start moving in the right direction.

Fraud Awareness Session: Expanding Accountability and Fraud Prevention in The International Environment

Joseph Farinella, Regional Inspector General/Pretoria

United States Agency for International Development.....160

Marvin Burgos, Special Agent, Washington

United States Agency for International Development.....163

By working with SAIs and developing their capabilities, USAID helps to develop an important resource in the fight against fraud, waste and abuse. Mr. Farinella discusses USAID’s very active training and capacity building efforts around the world. Mr. Burgos explains USAID’s mission and speaks about its proactive activities to stop corruption, such as awareness training. He provides in detail the many fraud indicators to be found in the award of contracts.

Saturday, September 23, 2000

Civil Society Panel: Experiences of Professional and Civic and Non-Governmental Organizations in Fighting Corruption

Moderator:

Carlos Morelli, Governance and Transparency International

Consultant and Senior Advisor, AAA Project.....174

Panelists:

Rosa Inez Ospina, President of Transparency International/Colombia.....175

Victor Abreu, Executive Director, Interamerican Accounting Association ...180

Kwasi Abeasi, Director General, Private Enterprise Foundation and

Assistant Governor, Rotary Club International District 9100

Responsible for Ghana.....184

In his introductory remarks, moderator Carlos Morelli points out that corruption has received not only the benevolence of some states but also the complicity of civil society by not acting. Panelist Ms. Ospina delineates five strategic objectives in Transparency International’s mission to fight against corruption in Colombia. She also discusses the merits of integrity pacts. Mr. Abreu describes the changing role of the accounting profession from a defensive stance to an offensive stance. He also provides an interesting and amusing list of the various types of corrupt individuals. Speaking as a private sector representative, Mr. Abeasi talks about the high cost of corruption and its enormous effect on development in Ghana, and offers several suggestions to reward those countries that make a determined effort to fight corruption.

Special Final Participatory Working Session: Conference Participants and World Bank Institute in Interactive Session—A Collective Action Approach to Program and Strategy Formulation to Combat Corruption

Daniel Kaufmann, Senior Manager, Governance, Regulation and Finance Group, World Bank Institute.....194

Maria Gonzalez de Asis, World Bank Institute.....197

Mr. Kaufmann reveals the results of the interactive survey taken earlier by the conference participants. Ms. Gonzales de Asis provides the rules for a problem-solving exercise on corruption. A representative from thirteen groups has three minutes to present the group’s findings as to what they think is the greatest cause of corruption, who benefits from it, who is affected by it, what actions should be taken to solve the problem and what results they expect from the actions.

Closing Remarks

James B. Durnil, President, ICGFM

President, National Rural Electric Cooperative Association Int’l LTD.....210

Opening Remarks

Jim Durnil, President, ICGFM
President, National Rural Electric Cooperative Association International LTD

Good morning and welcome to the International Consortium on Governmental Financial Management's fifteenth fall conference on improving financial management in the public sector. The Consortium tries to promote public good around the world through improving financial management in all countries and at all levels of government, and is striving to do public good. Today the Consortium is proud to do public good and sponsor the Anti-Corruption Summit of 2000.

I was looking at the agenda and I was amazed at the broad coverage of topics that we have on corruption, but I was particularly set back by the one topic called "Unbundling of Corruption." It made me wonder—how far have we gone in corruption? I cannot think of any subject that is not covered in our conference that relates to the detection, prevention and the negative impact that corruption has on our countries and our citizens. There are no positive benefits of corruption. If there are any positive benefits, it only comes to a few.

Our conference organizers and sponsors have done an excellent job on our agenda, and this indeed is a spectacular conference on corruption. However, only you here today will determine the impact, the good that will come from the next two days. And that will happen when you take the knowledge learned over the next two days back to your country and apply these lessons learned.

I would like to recognize briefly the organizers of this conference and thank them for a job well done: Graham Joscelyne of the World Bank, the Auditor General; Bill Taylor of the Inter-American Development Bank, Auditor General; Everett Mosley of USAID, Inspector General; and Jim Wesberry from Casals & Associates, Senior Management Consultant on Corruption. I would also like to thank our primary sponsors: USAID and Casals & Associates, the World Bank, the Inter-American Development Bank and the ICGFM Board of Directors. I would also like to give thanks to the speakers who have come a long way to help our conference to be a success.

On Tuesday the space shuttle returned from space after another successful mission in building a space laboratory or a space station in outer space. You know, this was a dream of President Kennedy when he formed NASA. He said, "We're going to the moon." The U.S. was determined to get a man on the moon and to bring him home safely and it happened. I can't say the same for our fight against corruption. We have some accomplishments, but in some countries we may have even lost ground. How do we clean up corruption here on earth before the space shuttle brings us news of corruption in outer space?

I don't believe it's right to look to the donors for the answer or the cure. It is not right to talk about corruption, to know about instances of corruption and not do anything about it. It is not right to make policy reforms, privatization of government parastatal, when corruption eats up all the good coming from these efforts and eats away at the success of these efforts. It is right to be here today, to exchange ideas and most important to go back home and mobilize your colleagues, your government oversight officials on the lessons learned here today. If you don't do that, we didn't have an Anti-Corruption Summit 2000—you had a pleasant vacation in Washington, D.C.

Like the dream of President Kennedy, let's make the ICGFM dream come true. Let's make the USAID, the World Bank and the development banks' dream come true. And more important, let's make the dreams of your country and your citizens come true. Let's fight corruption and eliminate it. Go back home with the message and let's do something about it.

I thank you for coming. We are pleased to be your host. I look forward to an exciting conference.

USAID's Concerns about Corruption's Effect Upon Development

J. Brady Anderson, Administrator

United States Agency for International Development

Good morning. A special good morning to those of you who traveled long distances to be with us here in the Washington area at this very important anti-corruption conference. It is a pleasure for me to be here with you to talk about something that affects everyone, really, and the countries where my agency works around the world.

Before I begin, let me recognize and thank the conference sponsors: The International Consortium on Governmental Financial Management—which Jim Durnil heads up—and the Americas' Accountability and Anti-Corruption Project, a project sponsored by my agency, the U.S. Agency for International Development. I would like to recognize and thank the Department of State and the World Bank for their broadcast of the opening session of this conference around the world.

I'd also like to thank the conference chairmen for helping put this event together: Graham Joscelyne, Auditor General of The World Bank; William Taylor, Auditor General of the Inter-American Development Bank; and our own Everett Mosley, the Acting Inspector General of USAID.

We are all here today to talk about the foremost development challenge facing us in the 21st century: Corruption.

Governments that are unaccountable to the people they serve are particularly susceptible to putting personal gain before public good. And while the gains in freedom that have occurred in the last decade are impressive, much work remains to be done. In too many countries around the world, corruption thrives.

Let me emphasize first that corruption is not limited to developing countries. Every country in the world—including the United States—has to grapple with how to counter opportunities and incentives for corrupt behavior. But in developing countries, where revenues are already scarce, corruption has even greater potential to deprive people of economic opportunity and political rights.

For this reason among others the Clinton Administration has made fighting official and private corruption a priority all over the world.

Over the past two decades I think we have learned a thing or two, and foremost among these is the fact that corruption is at root a development issue, often caused or at least exacerbated by inadequate or weak institutions.

Fighting corruption is not just about enforcing the law. We must have a comprehensive strategy which strengthens government institutions, particularly those related to the rule of law and those charged with the stewardship of public funds. Just as important, we must engage the people of each country, including the civil society, the media and the private sector.

Our fight against corruption begins with assuring the integrity of our own foreign assistance programs.

One of the U.S. government's most successful efforts to address corruption resulted from steps Congress took in the late 1970s to expand the authority of existing Auditors General and to establish the Offices of Inspectors General. These offices perform audits and investigations of U.S. government agencies' programs and operations. They promote economy and effectiveness, and they help prevent fraud and abuse.

USAID's Office of the Inspector General operates in over 80 countries on four continents. In addition to safeguarding our own foreign assistance programs, the Office of Inspector General has embarked on a number of efforts to strengthen accountability of our overseas partners.

One such effort, a very important one, is our work with Supreme Audit Institutions, several of whom are represented here today. The important work that these institutions perform helps to expand the oversight of United States funds flowing into their countries. Their effectiveness was recently illustrated in Tanzania where an audit report of nearly \$9 million in USAID funds provided to the government questioned over \$160,000 in costs charged to the project.

Another successful effort by the Office of the Inspector General led to the prosecution of two multinational corporations. They were charged with engineering a conspiracy to rig the bidding process on two USAID-funded construction contracts. The investigation which took more than four years and involved seven countries on three continents resulted in two corporations being assessed criminal fines of almost \$35 million.

A new initiative by the USAID Office of the Inspector General provides anti-corruption training that explains the audit role and gives an overview of investigative functions. This training program reaches non-governmental organizations working overseas, USAID employees and contractors and grantees. This training has been conducted in Central America with over 2,000 participants and will soon be provided in other parts of the world.

USAID's development programs also play a pivotal role in the fight against corruption. One thing we have learned over the years is that corruption is very often a crime of opportunity. A solid way of fighting it is by eliminating the opportunity. So we work to reduce the size and scope of the government bureaucracy and to create an open market economy that fosters competition, because competition is the antithesis of corruption and cronyism.

When I was Ambassador to Tanzania, for example, one of the things that USAID did for businessmen seeking to invest in the country was to examine the number of steps they had to take in order to register as a business. We made a flow chart, we got some technical assistance from the States, and we charted all of the steps that a company had to take. It turned out there were over 75 different licenses and regulations, signatures and stamps that a potential investor would have to go through, each unfortunately with a separate opportunity for corruption. We worked with the Tanzanian government over quite a long period of time. They wanted to reduce these steps, and today the steps have been reduced from 75 to only 14.

USAID has also worked to strengthen regulatory bodies in banking, capital markets, energy and other areas, thereby increasing transparency and helping lessen fraud and corruption. Accounting reform has led to much greater transparency in government, business and financial sectors.

In countries where a culture of impunity exists, USAID has made significant investments to promote the rule of law. Rule of law is the cornerstone of democracy; it ensures that all people, regardless of race, gender, religion, class or position in government are equal before the law. USAID has worked to make judicial systems more independent, to update laws and to provide world-class training to judicial personnel.

But perhaps USAID's greatest contribution to the fight against corruption is our ability to engage, promote and foster individuals and organizations to take up the fight against corruption in their own communities. These are the groups that ground our efforts in local reality, the organizations that make our efforts sustainable. Their efforts hold governments accountable.

USAID is particularly proud of our partnership with Transparency International, perhaps the premiere international anti-corruption organization in the world. We also work with local groups. For example, in 1997 USAID helped a group of Philippine non-governmental organizations document corruption in a book called "Pork and Other Perks."

Through this project, local residents learned that roads they'd never heard of were officially listed as having been built. They learned that money that was supposed to make their lives better was instead being siphoned off by corrupt officials. So ordinary citizens came together and began gathering evidence and protesting to the national government in Manila. Sometimes they were ignored. Sometimes they were harassed and threatened. One young lawyer was assassinated. And still they fought on until they saw some of the culprits punished. They discovered they had allies in the government and won national and eventually even international recognition. These are the kinds of people and the kinds of efforts we are proud to say we support.

Without institutional reforms and citizen participation, we will face the danger of pervasive corruption. It diminishes citizens' confidence in their own government. As President Clinton has said, if citizens tire of waiting for democracy and free markets to deliver a better life for them, there is a real risk that democracy and free markets, instead of continuing to thrive in the world, will begin to unravel.

As we enter into the new era of globalization and we see more and more developing societies open up, I do believe that we all have a tremendous responsibility to ensure that everyone is given a fair chance to succeed in the new economy, and a fair chance to exercise their basic human rights. Reducing corruption must be an essential part and parcel of this very worthy goal.

I wish you all the very best in your conference this week. Thank you very much.

Corruption's Challenge

James D. Wolfensohn, President, The World Bank

I'm very happy to be able to participate, even if it is by video, in this conference with our colleagues in the Consortium and to be part of those who welcome not only those in attendance here but those who are watching this program overseas. This Consortium meeting is very important to us because it is being transmitted not only domestically, but also internationally.

We in the Bank recognize that to approach the issue of corruption, the first thing you have to do is look inside your own institution. This was very difficult for us because one always thinks that one doesn't have problems at home. But in fact we set up hotlines of information and new methodologies to explore complaints. We've had some hundreds of these matters which we have considered and we have already created lists of companies that are excluded from doing business with our institution. Sadly we have found some within our own institution who have been subject to corrupt practices. It is crucial that one has the strength to look inside before scrutinizing the outside about the issue of combating corrupt practices.

As to the question of outside, we have given this very great and central attention. We believe that combating corruption is one of the most important if not the most important factor in terms of robbing poor people at the expense of richer people. It is something which distorts the distribution of resources, which stops investments and creates a real uncertainty and malaise of a society.

We have discovered that you can't just say, "Stop corruption." In order to deal with this matter, governments have to be willing to undergo systemic change—improvements in legal systems, in regulatory systems, in justice systems, in financial systems. Governments have to create an environment of certainty under which non-corrupt activities can take place freely, and where corrupt activities can be discovered by monitoring agencies and brought to account.

This is of course a long-term systemic and often culturally difficult issue. But we are at the center of this governance issue and already have been involved in over 600 different projects dealing with this systemic application.

Let me say also that we as an institution recognize that you can't do this alone, and that we must deal with and want to deal with partners in this enterprise. We've been able to cooperate with a very large number of other institutions from the Council in Europe, the Carter Center, the Financial Action Task Force on Money Laundering, the International Federation of Accountants, the Global Coalition for Africa, all the IFIs, bilateral donors, UN agencies and of course with NGOs including the national chapters of Transparency International. We know that we need partnerships for this effort and we are keen to continue them.

We are also keen and have demonstrated that we will back up our advice with resources. It is not possible for countries to change systems without some cost, without some investment. What we've learned is that to bring about change the most important factor is, in fact, information, knowledge and transparency. The people know about corrupt practices, if they are brought to the attention of people in countries that have a free press, where people have lights, you can mobilize actions which can cause changes in patterns and changes in corrupt practices.

We have, as you will hear later, really pioneered a lot of the work on information, on disclosure, on techniques that can bring corrupt activities to the attention of the public. And I would urge you to give careful attention to my colleagues when we recount to you our experience.

For those of you who want to dig deeper, we have a book that will be given to you today or mailed to you called "Helping Countries Combat Corruption." The road ahead stipulates that we are keen to continue.

For us it is central. It is unlikely that we will succeed immediately in every country. But we've had enough success to date to know that the effort to combat corruption is at the center of the development experience, and it is certainly a major contributor to our fight to alleviate poverty throughout the world.

New U.S. Government Anti-Money Laundering Legislation and Policies

Stuart Eizenstat, Deputy U.S. Secretary of the Treasury

I'm very happy to be here this morning, and I want to add my welcome to those who have come from so many countries to attend this conference.

In your own countries you are in the forefront of an effort to protect the workings of your government and the honor of your nation from those who seek to corrupt it. You have my respect for the work you are doing and my best wishes for your success. I hope you will take back from these three days things that will be of practical use.

Until recent decades nations preferred to deal internally with corruption in their government. The funds that were stolen and skimmed off for the most part from their own citizens did not affect their standing abroad. The global economy however works very differently today. There are enormous amounts of international capital around the world searching for safe, attractive places to invest. Multinational firms seek partners in production facilities in countries around the world.

Countries seek financing from the IMF, the World Bank, the IDB and other international institutions to support their currency, develop their infrastructure and to meet urgent social needs. Important contracts for major projects are open to bid by foreign firms.

The global economy also produces international cartels with arms and sometimes armies of their own who seek to corrupt government officials including law enforcement officials to facilitate the distribution of their drugs, arms and other dangerous products. They then seek to launder their dirty money through legitimate financial channels to conceal it from detection and to in a sense reinvest it in their criminal enterprises.

In such a world every government must recognize that corruption is a malignancy on their economies and financial institutions. It creates special difficulties for emerging and transition nations. It can only be combated in any nation by the creation of transparent and accountable economic and political systems firmly grounded in the rule of law. As Vice President Gore said last year when he hosted the first-ever global forum on fighting corruption, corruption accelerates crime, hurts investment, stalls growth, bleeds the national budget and worst of all undermines our faith in freedom. Corruption, he said, is an enemy of democracy for democracy lives on trust and corruption destroys our trust.

It is very important to have strong laws and better enforcement against corruption. In this connection President Clinton officially announced last week that the U.S. had become the twentieth nation to ratify the Inter-American Convention Against Corruption. This convention binds signatory nations to criminalize a wide variety of corrupt acts including bribery of public officials

and was the first multilateral agreement against bribery to be adopted anywhere in the world. As the President said, it is a victory for good government, for competition and open trade throughout our hemisphere.

The convention covers bribery of foreign government officials, a provision our government pressed for as part of our effort to persuade other countries to adopt legislation similar to our own Foreign Corrupt Practices Act which by the way I helped draft in the 1970s when I was President Carter's Chief Domestic Advisor.

In addition, 34 countries have signed and 23 countries including the U.S. have ratified the OECD's Anti-Bribery Convention which also obligates parties to criminalize the bribery of foreign public officials in the conduct of international business. This convention's strong process to monitor government's implementation of their commitments has already caused several signatories to prepare new anti-bribery legislation.

To effectively combat corruption nations must have clear laws and regulations that can be equitably and reliably enforced. This requires independent judges and adequately funded professional law enforcement.

Nations must also end unnecessary controls on their economies and reduce state involvement. For frankly, the more the state is involved without transparent rules, the more opportunities exist for demanding payoffs for licenses, contracts and tax concessions. The financial systems must be well supervised, soundly regulated, competitive and not weakened by credit decisions based on personal or political connections.

The transparency and accountability of the work of government should be increased and nations must create a professional civil service with strict conflict of interest rules, punishment for malfeasance and adequate compensation for its workers. Indeed, the more poorly paid workers are the more incentive there is to take bribes. A key part of strengthening the civil service is to create strong, independent anti-corruption investigative units such as the U.S. government has in its Office of Inspector General in our executive department and in our General Accounting Office for overseeing the operation of federally funded programs. In developing and transitional nations, these measures can help break the culture of corruption.

One of the most important ways by which the U.S. and the international community can combat corruption is by focusing on the financial infrastructure that facilitates the movement of dirty money around the globe. Money laundering, the act of making criminal proceeds appear to be the result of legitimate transactions, provides the financial lifeblood for international drug cartels, criminal organizations, terrorist groups and corrupt government officials. It is not an exaggeration to say that all of our multilateral efforts to combat corruption in the end will be largely ineffective if we don't also work to shut down the financial mechanisms and systems that allow people to hide the profits of their corruption and thereby grow wealthy from their crimes.

In recent years the citizens of such diverse places as Nigeria, Ukraine and Indonesia have all seen the wealth of their nations stolen by corrupt government officials. They can only do so because various banks in the rest of the world accepted their funds as if it were money legitimately

earned. The thread we confirm from international money laundering is unambiguous with respect to its facilitation of crime and corruption. But it has wider and subtler effects as well. Abuses in a global financial system like money laundering are what economists call cases of global public bad. Indeed it is the dark side to international capital mobility and globalization.

Money laundering activities have the potential to cause serious macroeconomic distortions, to misallocate capital and resources, to increase the risks to a nation's financial sector and to hurt the credibility and integrity of the whole international financial system. In many respects, even as we pass international conventions, the money-laundering problem has frankly in recent years grown worse. The reason is technology.

Not too long ago only a few countries in the world could be considered money-laundering havens—places whose banks, secrecy regimes, company incorporation laws, banking regulatory systems and law enforcement practices combined to make them attractive to anyone looking to hide the money of dubious origin.

But even as the international community successfully pressed these places to improve their anti-money laundering regimes, technological advances were undermining these very accomplishments. The same advances in banking and communications technologies that have done so much to power their own prosperity have also resulted in a new proliferation of money laundering havens in just the last few years.

Countries that were once too physically remote to be well integrated into our global financial system are now only the click of a mouse away. Some countries have found that offering no-questions-asked banking services can quickly create an extremely lucrative sector. And sadly, some countries have even made it part of their official development strategy.

Let me give you one example. Only five years ago or so few bankers would likely have even heard of Nauru. It is a small island in the South Pacific. They passed laws to create a strict bank secrecy regime. With today's technology the results came quickly. According to the Russian Central Bank, out of \$74 billion in 1998 that was transferred from Russian banks to offshore jurisdictions, \$70 billion went to accounts in banks chartered in Nauru. Now we have no way of knowing exactly how much of that money found its way back into Russia or indeed how much if any constituted money laundering as opposed to capital flight. But the numbers are certainly surprising and suspicious. These reports also note that allegations of Nauru banks were part of the investigation of the \$7.5 billion that moved from Russia through the Bank of New York.

We are addressing this new money laundering problem in two ways—first, by improving the U.S. anti-money laundering regime here at home. In the last year we've laid out the most comprehensive approach ever on the subject in our national money laundering strategy for 2000. For the first time we've designated areas within the United States for priority anti-money laundering activity and we began a new grant program for state and local enforcement. We have expanded our regime to bring non-depository financial institutions like money service businesses into our effort to combat money laundering. We are also dealing with casinos and other non-depository institutions.

These efforts have set the stage for our second new focus—combating foreign money laundering havens. Let me describe briefly what we've done, the impressive results we've seen so far on the international front and what we'll do in the near future.

This year the Financial Action Task Force, a group dedicated to the fight against money laundering, now has 29 member states from almost every corner of the globe. The group undertook lengthy and detailed examinations of 29 other jurisdiction's anti-money laundering regimes, evaluating them against well-established international standards. The jurisdictions that were examined were given ample opportunity to participate in this review; an opportunity in which almost all took advantage.

In June the FATF, as it's called, publicly announced that 15 of the 29 jurisdictions that were examined were considered non-cooperative with the international fight against money laundering. Places on the FATF list were diverse in size and region, from small islands like Dominica in the Caribbean to Nauru in the South Pacific to sizeable financial centers like the Cayman Islands and Liechtenstein, to trading centers like Panama and the Philippines and to countries of major geopolitical standing like Russia and Israel. As you can see by this diverse list, there is no pluralization to the list. FATF called it like it saw it.

Then in July the G7 finance ministers announced that they were each issuing formal advisories for their domestic financial institutions, urging that enhanced scrutiny be given to transactions involving the 15 countries on the FATF list. The finance ministers also made an unusually strong statement, and that is that if the 15 countries in question didn't move to bring their international money laundering strategies up to international standards, they would consider additional countermeasures including conditioning or even restricting financial transactions with those jurisdictions and conditioning or restricting support from international financial institutions to those jurisdictions. President Clinton and the other G7 heads strongly endorse this remarkable and very strong commitment.

In just over two months since those advisories were issued, the results from FATF's Name and Shame initiative had been very, very encouraging. Indeed it is not an exaggeration to say that in many respects we've witnessed more progress in the last few months than in the prior several years. First there was a marked reaction, for instance, on the day the FATF list was released. Standard and Poors announced that it was downgrading the rating of a top Liechtenstein bank. In the financial world, these actions tend to get peoples' attention.

There was also a diplomatic reaction. Since the advisory, the leaders of Panama, the Bahamas, Russia and the Philippines among others have made public pledges to bring their anti-money laundering regimes up to international standards. For many countries, these were not easy statements to make. For instance, the Prime Minister of the Bahamas has stressed that he plans to end decades of tradition by proposing changes to his country's banking regulations and tax benefit structures.

And now we are again, just in the last few months since the publication of the FATF list and the advisories which followed, seeing real legislative action, not just words. The Cayman Islands, Israel and just this week Liechtenstein have passed new anti-money laundering laws since the

advisories were issued. These are real accomplishments. For the first time, customs identification will be mandatory in the Caymans as it is in other comparable financial centers. For the first time money laundering is a crime in Israel as it is in comparable developed countries. These actions are extremely promising and they validate the international community's tough new approach to cracking down on money laundering havens. But they are just a first step.

Before FATF can consider removing any country from its list it has to confirm that any new laws that are passed fully comply with international standards and don't leave open loopholes for criminals and corrupt officials to abuse. They must also review the implementing regulations that bring the law into effect and define how that law will be implemented and interpreted. And it must be assured that the new regulatory and law enforcement provisions are in fact being implemented. The U.S. will work to ensure that jurisdictions on the FATF list do take the necessary steps to combat money laundering effectively, that the FATF will appropriately act to remove them from the list.

Not every jurisdiction on the FATF list has responded as quickly or constructively as we might like. For instance, we received some time ago a letter from the President of Nauru who noted that because Nauru, in his words, "has been the victim of unfair adverse media publicity based on unsubstantiated allegations of money laundering," business had taken a turn for the worse and they had lost revenues accordingly. He went on to say in his letter that before Nauru could go ahead with the implementation of its resolve to reform this offshore financial regime, it would need money to compensate for its losses. And he asked the United States for financial assistance in the sum of at least \$10 million to make up for Nauru's loss for a period of two years. Needless to say, Nauru should not expect to receive a big check in the mail anytime soon.

But a few countries aside, this effort has thus far been a great success. But we need to do more and there are three concrete steps that we now intend to take. First, we will expand the work of FATF. In two weeks the FATF member countries will meet in Madrid. Among the items on their agenda are two initiatives that are of great interest to the U.S. In Madrid the FATF members will decide which jurisdictions will be included in the second group to be reviewed in the coming months for possible inclusion on the FATF list. FATF will also likely begin the process of reviewing and strengthening the international standards it sets for its own members. That's important because if FATF holds other countries up to international scrutiny, it has to ensure that the standards of FATF countries apply to themselves and that they take into account the latest money laundering trends and techniques.

Second, we'll push for a stronger role for the IMF, the World Bank and regional development banks in fighting financial abuse. Tomorrow Secretary Summers will be leaving for Prague. We will urge the IMF, the World Bank and the regional development banks to intensify their work in combating financial abuses of the global financial system. This new effort would not represent, in our opinion, the expansion of the mandate of these institutions. On the contrary, we believe that the fight against international money laundering is consistent with and indeed integral to the responsibilities of the IMF and the NDBs to protect the credibility and integrity of the financial system internationally.

The IMF and the World Bank already engage in helping countries develop and reform their financial systems to adopt good governance and to fight corruption. We are not asking the Fund or the Bank to be policemen, but we believe that both can play a greater role in fighting abuse and preserving the integrity of the international financial system in areas that are within the scope of their mandates. We'll be asking the Fund and Bank to institutionalize the fight against financial abuse through various avenues including technical assistance, surveillance, financial sector assessments and lending conditionality where appropriate and relevant. The Bank and the Fund are uniquely well placed to perform analytic and diagnostic work on financial abuse issues. We also believe that country programs and loan operations should incorporate appropriate conditions designed to help countries make real and measurable progress in combating money laundering. In Prague, Secretary Summers will also call on both the Fund and Bank to prepare a joint paper on their respective roles in combating financial abuse for final consideration next spring.

And third, after expanding the FATF process and improving the work of the IMF and the World Bank and NDBs, we must stay committed to make good on the pronouncement by the G7 finance ministers to consider restrictions on international lending and on bank transactions to countries on the FATF list that do not make efforts to improve their anti-money laundering regimes. The U.S. has already signaled its own commitment. We have argued strongly that the Philippines, for example, should take measures to strengthen its money laundering regime in the context of an IMF program. That point was not lost on Manila, where the government has told us that they intend to address the shortcomings that the FATF has identified.

I suspect that by next year G7 Summit will be in a position to know which countries on the FATF list will have decided to ignore the will of the international community and which will follow it. At that point we'll have to follow through with strong countermeasures to those who ignore the will. Unfortunately the U.S. at present is frankly hamstrung somewhat in this regard. We have already stated to our own Congress that we do not have adequate legal authority to condition or merely restrict U.S. financial transactions with money laundering havens—even ones that present plain threats to the integrity of the U.S. financial system and that facilitate the movement of dirty money from terrorists, drug cartels, crime groups and corrupt foreign officials.

Early this year we worked successfully with Congress and the banking community to draft bipartisan common sense legislation to give the Secretary of the Treasury the authority he needs to combat this problem in a graduated and targeted manner without unduly impacting industry competitiveness or placing unreasonable new burdens on U.S. banks—and most important, while continuing to ensure America's critical effort to protect financial privacy of its citizens. We have managed to accomplish all this and we are pleased that the ideological diverse House Banking Committee passed the bill overwhelmingly sending it forth by a vote of 31 to 1. But a handful of members of Congress have opposed even this bipartisan bill and, therefore unfortunately, there has been no action to bring the bill to the floor of the House or to even hold a hearing in the Senate.

Let me be very clear. Without the passage of this bill, the U.S. would have a much weaker hand when dealing with recalcitrant money laundering havens. This is not and should not be a partisan issue. There are many Republicans and Democrats on Capitol Hill working alongside the administration in the fight against money laundering, drugs, terrorism and foreign corruption. We urge the leadership to bring this bill up for a vote in the House and to hold hearings in the Senate so

that the next President and Secretary of the Treasury have the tools to continue this bipartisan effort that we've begun this year.

These are the main outlines of the Treasury Department's efforts in this area. Each nation has its own special challenges in the fight against corruption. You are here because you are committed to this effort. You want to learn and you want to share your experiences with delegations from other nations and we applaud you for that. Our government wants to cooperate in this mutual education and I hope that the forthcoming sessions of this Summit will make that clear.

Good luck to all of you in the accomplishment of your very important mission.

GRAHAM JOSCELYN (United States): The first of the audience questions: What incentive does the United States government offer to host countries now involved in money laundering and offshore banks?

STUART EIZENSTAT (United States): Well, I think the incentive is the incentive of helping your own economies and your own financial systems. It is quite clear that investment dollars, really trillions of dollars that float around every week looking for places to invest and to create jobs, are going to land on those countries that have sound, transparent, open and non-corrupt financial systems and that have the rule of law. We are prepared in terms of technical assistance from USAID to provide help and assistance in creating those kinds of transparent systems, in helping you draft internationally acceptable anti-money laundering laws which in turn will help you attract foreign direct investment and to create jobs for your people.

GRAHAM JOSCELYN (United States): The next question has to do with measuring progress. The question is how can we measure progress in fighting money laundering including the costs of such a fight?

STUART EIZENSTAT (United States): One of the things that we're trying to do through a variety of institutions, through FATF, through the OECD study on tax havens, through the Financial Stability Forum, is to create self evaluating mechanisms. For example, with respect to the OECD Anti-Bribery Convention, one of the strongest parts of that convention is the review that the OECD does of its own members' compliance with the OECD conventions. That is, have the countries of the OECD brought their laws into compliance with the requirements? Are they implementing those laws? Do they have an enforcement mechanism?

One of the things that we look for in the international money laundering area that is very measurable and that indeed will be necessary for countries to get off the FATF non-cooperative list, is what legislation have you passed? Does it meet FATF standards? And that is something that we, FATF, will review with you. Have you created a financial intelligence unit that shares information with other financial intelligence units regarding potential criminal activity? That's measurable. Have there been prosecutions and funding for such efforts? That's measurable. We're not talking about subjective judgements. And the important thing is that the FATF members are also willing to hold themselves accountable in terms of making sure that we are acting in accordance with the standards that we're trying to set for others.

Hemispheric Action Against Corruption

Enrique Iglesias, President, Inter-American Development Bank

Good morning ladies and gentlemen. Due to previous commitments, unfortunately, it is not possible for me to be there today. But I want to send my best wishes to the Anti-Corruption Summit 2000 and to each of you attending this meeting which is of extreme urgency and importance.

My sincere thanks to the International Consortium of Governmental Financial Management for giving me the opportunity to say these few words to you at the beginning of this conference. My congratulations also to the three Auditors General who are chairing the conference and who have put together an outstanding program.

The subject of your conference is of particular importance to our institution, the Inter-American Development Bank. We are currently in the midst of revising our Bank policy to strengthen our systematic framework against corruption for all Bank activities. The revised policy will itemize the necessary measures that will enable our bank to strengthen and further integrate its current actions against corruption. The proposed guidelines build on the existing body of policies and regulations that accounts for the Bank's strong record in this field for more than 40 years. They also reflect the Bank's need to address its member countries' rising concern with the limitations to development caused by corruption, this major issue of today's life everywhere.

The Bank's member countries share a deep concern regarding the negative impact of corruption on development efforts, and the risk that corruption poses to the Bank's allocation of resources and to its corporate culture. This is why we are making the fight against corruption the central objective in our policies. It is therefore timely and appropriate for the Bank to articulate a comprehensive and systematic approach to combat corruption on all fronts, taking into account the needs of the Latin American and Caribbean region.

Our policies are looking to a simultaneous effort to, in the first place, ensure that the Bank staff act in accordance with the highest level of integrity and that the institution's internal policies and procedures are committed to this goal. Secondly we want to minimize the risk of corruption in the allocation, commitment and disbursements of Bank resources in our lending program. We want to ensure that the Bank operations are executed with transparency and within the framework of the proper control environment. And finally, we want to implement this policy to support the borrowing member countries in their programs, affirm the rule of law and combat corruption. In other words, we want to introduce the issue in our internal policies fully beginning with our staff and ending with our policies of resource allocation. But also we want very much to give our member countries our special support for their internal policies to improve the quality of their

governments, because this is essential not only for ethical considerations, but for the real, real achievement in the field of development, both economic and social in our region.

This is why I think this conference of yours is so important, and I want to send with this message my best wishes of success. We are waiting for the results of your deliberation. Good luck and thank you very much for your patience.

The 21st Century Incorruptible State

Omar Torrijos, Attorney, Panama

It is an honor to speak here before you. I'd like to open my address, which is entitled the 21st Century Incorruptible State, by citing a verse from the Bible. A just king gives stability to his nation, but those who require bribes will ruin it. Corruption is a kind of injustice that weighs on societies. We may define it as a deviant behavior of men as they perform their duties and responsibilities both in government and private enterprise, with the purpose of obtaining economic, social or political benefits. The result of this in the public sector is lack of credibility, stability and legitimacy of the governments. The lack of ethics in the conduct of public duty and the lack of values such as loyalty, efficiency, integrity, probity, responsibility and impartiality are translated as illegal behavior that seeks personal interest above others. This improper behavior which furthermore leads to traffic of influence and nepotism is an evil that affects our societies and our governments today.

According to the Bible, the blood of Abel cried out to God from the earth for justice. In the same way, the nations of the earth today are crying out for incorruptible, democratic, equitable, fair governments—governments that will lead their people with justice, with moral uprightness, that will be founded in honesty and loyalty, that will have a genuine and ongoing concern for the common welfare.

Unfortunately, political corruption is related to power, whether as a result of the authority conferred in elections, or as part of the development of politics to attain that authority. Corruption is perceived by citizens through different government actions—illegal profiting, kickbacks, bribes, favors or merely the abuse of power by rulers who overstep their own duties, intervening in the different parts of governments and in private enterprise just to achieve their goals.

The incorruptible state can be defined as a political, social and economic structure resulting from the organization of a nation that makes proper use of the state's resources. The incorruptible state is based on the principles of transparency, legality and honesty, and maximizes those resources for the integral benefit of all its associates. The incorruptible state must be constituted by a group of citizens showing genuine concern for their country and for their future generations. These, in turn, should be determined to work together to bring order to the nation. It is with this purpose and with this privilege that we should feel committed to the social and political and economic restructuring of our foundation as free and democratic nations. This will allow us to undertake new dynamics towards the reorientation and the establishment of an incorruptible state based on service, sacrifice, personal disinterest and accountability for the fate of our countries. Future generations must be committed to the challenges and opportunities we face in the 21st century in order to avoid divisions and to promote politics which may build free, prosperous, united nations under democratic governments.

Likewise, we should be aware that the world is changing—fast. And that nations are seeking ways to bring prosperity to their people. They are facing serious problems such as political instability, social injustice, lack of freedom, wars, corruption, among others. We believe that the 21st century offers the necessary conditions and the natural and human resources that we can put to use if we prepare ourselves correctly. We also have raw materials that we can channel as potential. We can offer our services and provide a new direction towards the restoration, prosperity, cooperation and peaceful coexistence of our countries within a frame of mutual respect, consideration and assistance.

Through the centuries, nations have experienced different historical moments that took them from their beginnings to the time when they became free and independent nations. These unlimited potentials and perspectives justified a great hope. In many of these countries the prospects are still bright, but history has recorded wasted resources, missed opportunities, waste, abandoned projects. There has been hope; there have been plans and projects. We have wanted to be an example to other nations; however, we continue to struggle in order to develop our potential. Countries still yearn for a fair government that will give them the chance to express themselves so that their own hopes, plans, projects and resources may be freed from the slavery of corruption regardless of how difficult and desperate a situation may be.

We believe that even now there exists a group of citizens who meet the characteristics or have the necessary characteristics to undertake the task of reducing or eliminating the social and political chaos that has allowed corruption to thrive. This group of citizens has to make a firm decision to develop a new kind of dynamic which will tear down current structures and obstacles which hinder the transparent operation of state institutions.

Within this frame we shall refer to the goals on which any policy should be based. Any politician aspiring to act or serve in a useful capacity must introduce and maintain a new policy based on true social justice, patriotism and conscience so that we may restore the nations to what they used to be and put an end to our tendency to think that politics is just a means to acquire wealth. We need to know that welfare, both material and economic, will be our main objective for government at every level. We need to replace all those structures that are an obstacle to welfare. We need to restructure and provide a new direction for all the institutions of the state. We need to pay serious attention to particular problems of the nation and to the needs of those areas which are disadvantaged.

We need to realize that there is already a new political leadership that has credibility, that has principles and values that can guide nations to unity and trust in their rulers. And this is a sine-qua-non requirement for the development of the sustainable and stable policy for the country. We need to have a commitment to popular and democratic participation in the government, in order to restore economic and political stability based on the following essential elements: Protecting the right to elect and be elected. The determination to overcome ignorance, poverty, need. We need to offer training and education. We need to have respect for laws and the constitution and equality among all of us. We need to have promotion and defense of human rights. We need the creation of a proper political structure and development of a sustained policy of communication in order to generate credibility and trust in the leaders of the nation by their followers. We need to

decentralize political power and authority. We need to have periodic, regular change of power, shift of power.

The executive power and his ministers make up the state cabinet. The ruler must have attained national credibility and must possess political and social leadership. As an official at the service of his country, he must strive for common welfare, reduce poverty and seek the correct place in the community of nations. He must belong to a new political class of honest, altruistic, generous and professional men—moral men who will be committed to making the proper changes and the necessary sacrifices for the sake of the country's development and not their own. The president must create a cabinet committed to generous service, ethics, sacrifice and accountability to the people, with a balanced internal policy aimed at producing for the benefit of all.

We need to have an international relations policy that will strengthen diplomatic, commercial and cultural bonds through respect for commitments. Sovereignty and self-determination of nations must be respected so that their unity will not be weakened. We should honor our contracts and treaties with other nations as well as the rights of ownership of the citizens of other nations. Honoring the reputation of these countries, we shall not accuse them falsely or attempt to take advantage of their situation in ways that will harm them. We must be able to guarantee fundamental rights for our citizens and for foreign citizens. We must strengthen unity among all these groups.

The leaders should respect the law in all their acts. A ruler shall offer equal opportunities to all its citizens regardless of ethnic group, etc. Everybody should have a right to reach his or her goals. We must be accountable to our people at all times. Establishing a transparent government on a spiritual basis is very important for all of us. We need to have leadership that will be an example at an international and national level.

Now, about the legislative power. The legislative power must have as a goal the carrying out of their objectives and priorities as part of a national plan. They should legislate for the benefit of all. Laws must be in accordance with the needs of the citizens. This branch of the state must operate in a way that its actions and its policy are not susceptible. If there is intervention by external elements, this may corrupt the performance of those in charge of the duty of making laws in a country. Among the governing principles of the new legislative example are the following: Commitment with the national constitution, respecting main goals and the governing principles of the state. Performance of objectives and programs through appropriate strategies. A commitment to a national agenda for proposing bills in a way that does not discriminate against political parties. And we need to establish a committee with investigating powers within the legislative branch.

The judicial power is the one that exercises its powers through the court. Among its objectives within an incorruptible state we have the following: The strengthening of the independence of the judicial power, making it self-sufficient. Incorruptibility of judges. They should not be manipulated or influenced by government authorities or any other authorities. Judges should be knowledgeable of the law but they also should be honest. They should refuse bribes and be impartial in their judgements. The judge must show respect to due process and to procedural principles regardless of social, racial, religious affiliation. The courts must be watchful that the legislative and executive powers fully comply with all constitutional rules and regulations in a

country. Judges shall not issue unfair sentences or decisions against political opponents based on political, economic, personal or family benefits strategies. As a result, the state should strive to create and maintain an environment of stability and independence which will allow for the administering of justice under the constitution and the laws. They shall strengthen its jurisdiction in order to improve the total efficiency, and adopt a strategy of non-interference in the exercise of the judicial power. We need to train officials in all categories so that they may develop the necessary experience to carry out their judicial duties with efficiency and uprightness.

We can say that division of the powers of the state is a safeguard against the tyranny of centralization, the abuse of authority, of officials overstepping their duties. The traffic of influence, high-handedness by authorities to the detriment of citizens' rights and freedom and other acts of administrative corruption exist due to the centralization of power. No part of the government must encroach upon the jurisdiction of others. Most of the authority must rest on the local government. The powers of the state must be clearly defined in the constitution and involve all those aspects affecting the country as a whole, such as defense, foreign policy, national and international economic development, education, health, among others. The structure of the state must establish functions in local and regional governments so that decentralization may directly benefit all sectors of the country. In a decentralized government, the constitution has preeminence and supremacy, not the party in power.

Economic commitment demands people with vigorous work ethics. They should work arduously and be productive in order to achieve economic growth. It calls for people to save and invest in order to obtain great income in the future. The rulers must be citizens concerned with their posterity. They should seek to leave a better country than the one they received. Economic freedom is a result of personal and governmental freedom. And therefore the economic policy of the state must provide and protect the economic freedom to avoid slavery of debt at a personal level and avoid slavery of external debt at a national level. The state shall set forth a transparent economic system without macroeconomic distortions and dislocations such as our spiraling inflation, unemployment, leakage of foreign currency and protectionism in tax policy. In order to face these problems, the government must diversify the national economy considering resources such as fish, mining, manufacturing and tourism, and it must make transparent the handling of all matters relative to public finances. It must take measures to reduce external debt, public expense and waste, and to create jobs and increase economic growth through open markets.

The state of the 21st century shall have as its main economic goal the reappearance and transformation of the national economy by means of the establishment of appropriate policies which will allow a favorable environment for sustained growth and development. It should also recognize that in order for nations to overcome their economic depression, they should apply fundamental principles of administration and national economy and be committed to development. We deem it necessary that the states provide an ethical, transparent and foreseeable environment in the economic sphere. To reduce the incidence of poor administration, controls should be increased both in the public and private sectors. There should be reports on the failures and the use of resources, detailing the risks or the failures of the administration at an institutional level with their prescribed sanctions.

Likewise, modern administration techniques usually placed into practice in the private sector should be promoted within the public sector. Such is total quality. We should also emphasize ethics at a management and enterprise level, both in the public and private sector, in order to influence people involved in the domestic economic sphere.

An incorruptible state is born from honest, able and courageous men who decide to disassociate with a lack of ethics and with social injustice—men who would dare to rise and cut the umbilical cords that feed and contribute to corruption.

An incorruptible state must have as a fundamental basis a governing class which would dare to arrange an agreement between God the ruler and the people. That political class of men will face challenges of the future with legitimate, transparent actions that benefit all with a vision to achieve prosperous, well-educated, healthy citizens shaped with principles based on the truth. That in turn will sow a seed which shall remain as a heritage for future generations, governments with social justice, economic prosperity, an economy that is the enemy of starvation, unemployment, ignorance, slavery, malnutrition and illnesses. All this with an awareness that after many years of the existence of this democracy there is an outcry to perfect it—to improve it—to amend it. The world believes in democracy as the best style of government, so in this new century all of the countries should have achieved the necessary political, social and economic maturity necessary to live in democracy.

In each continent the world over there are multitudes stating their longing to live under a fair government and crying for free incorruptible government. Where there is no democracy there cannot be freedom and where there is no freedom there is slavery and corruption. There is no present or future. And there is little appreciation for life unless the rulers are committed to governing for the benefit of all.

In order to attain the incorruptible state it is necessary to lay the foundation of values in three essential areas—family, education and communication. Family is the first social institution in charge of the integral development of man. We shall be strengthened with moral ethic principles based on those values which will build solid foundation for the future man. Education shall be inspired with the same principles so that the roots of the individuals are nourished to produce able, honest men that will face their duties with truth, respect, honesty and the wish to serve society and humanity. Communication plays a key role in the present and future generations and therefore we need concerted efforts in this direction to exert a positive influence in the formation of the individuals. Thus we can become countries and nations with a vocation of service based upon equality and solidarity with others and the wish to live an honorable, free and fair life.

Preventing Corrupt Cities

Robert Klitgaard, Dean and Ford Distinguished Professor of International Development and Security, The Rand Graduate School; Author of *Controlling Corruption, Tropical Gangsters and Corrupt Cities*

We've heard already from Deputy Secretary Eizenstat about one of the two big global trends that's occurring right now that affects our work in fighting corruption—that is globalization and the opportunities to move money for good and bad reasons around the world. Globalization of organized crime is another trend which will affect all of us and which makes the job of fighting corruption much more difficult.

A second trend that's occurring around the world will be the subject of my talk this morning, which is that of decentralization. In many of our countries, political power, social services, economic activity, even development challenges are being increasingly put out to the local level. States, counties and cities have new responsibilities which are making them more and more susceptible to corruption. This morning I want to talk about what we can learn from some of the recent efforts in this area and discuss the possible lines of attack in the future.

My talk will be built around four points. First of all, why should we worry about corrupt cities? Secondly, I'll provide some examples. Third, we'll discuss the challenges of systematic corruption at the local level—the challenges that that presents to us. And fourth, we'll go over some strategies for moving ahead.

So let me begin with, "Why worry?" I mentioned already the trend toward decentralization. I'm sure your country experiences it as much as mine does, where money and opportunities are being moved out to the local areas under the idea that local people know best what they need and local government should be best to respond. But local governments are also characterized by lower pay scales compared to federal governments, by less trained officials, by work systems of control and information and accountability. Local settings are also characterized on the private sector side by thinner markets which means more market power for a few industries or a few landowners or a few companies. Also I think in many cities around the world there are very close connections between the economic elite and the political elite, which invites friendly behavior which may exceed the bounds of probity.

So for all these reasons, the city governments are now facing challenges they never faced before of promoting economic development, involving the people in the community in government, improving the weaker systems of pay, personnel, performance measurement and accountability that were present at the city level and loosening the tight relations among the elites. For all these reasons there is a tremendous susceptibility to corruption. I think in the next five or

ten years in all of our countries we will see a major focus of the anti-corruption effort moving from the national level down to the local level.

Now let me give you a few examples. I live in Santa Monica. I'm not appearing before you today by electronic means but in person, and in Los Angeles, a nearby city, we have some major scandals. You may have heard about the Los Angeles Police Department where systematic corruption within the Department involved planting of evidence, selling of cocaine that was seized, using criminal connections to get women and cars and so forth. Last Wednesday I met with the Los Angeles Police Chief, Bernard Parks, to talk with him about his own strategy to deal with systematic corruption within his own police force. In the Los Angeles school district we have corruption involving mismanagement and corruption in the building of schools. In particular, a huge sort of ideal school located in a very unusual area turned out to have been built based on poor analysis, poor construction, and now is a project that has to be abandoned at the cost of millions of dollars to taxpayers. So Los Angeles, where I live, is one example of a city threatened with corruption.

Another example is La Paz, Bolivia. La Paz was a showcase city in the mid-1980s when it actually reduced corruption significantly. Now it is a showcase city for corruption. There are two former mayors in jail; others probably should be in jail. I believe at least one of the mayors that is in jail should not be in jail. But in any case, there are accusations of corruption and activities of corruption flying as never before in a city that has had a pretty good track record for being among the most corrupt in the region.

Another example is from Japan where studies have shown that the amount of corruption that is found at the very local level is more than at the national level, and that this amount is increasing.

So this is not the problem of a few very poor countries or so-called backward countries. It is a tendency we see in some of the richest countries as well.

Now, I'd like to distinguish the challenge in the following way: by talking about various stages in the fight against corruption—stages that you live through. The first stage we might call consciousness raising. President Wolfensohn of the World Bank mentioned this this morning, that five years ago it was not easy to speak within the World Bank about corruption, that the consciousness of this as an issue has been raised. Certainly the flourishing of Transparency International to over 70 countries around the world since its founding in the early 1990s is an indication that this issue is on the table.

My own view is that it is a result of free market reforms and democratic reforms which make it possible to talk about things that were not possible to talk about before. And so in the first stage we have a *convenio nazionale*, we have a conference, we have workshops, we start talking about the issue, we have codes of conducts, we have some surveys about whether or not it is a serious problem or perceived to be a serious problem. We have a Corruption Perception Index at stage one, where we take the bold step of trying to say whether one country might be perceived to be more corrupt than another. Those are all Phase I activities.

Then we move to Phase II, which is: how do we prevent corruption? How do we fortify the systems of the state and the market of private governance as well as public governance to reduce the possibility that corruption may infect us? And here the steps are also beginning to be implemented. I think we're about halfway through Phase II. We have techniques now to do vulnerability assessments, to go through an organization systematically and ask: where are the combinations of monopoly power plus excessive discretion and the lack of accountability which may create the temptation if not the reality of corruption? Where are those vulnerabilities? We have some techniques now—the Independent Commission Against Corruption in Hong Kong pioneered many of them. The U.S. General Accounting Office has others, and several of your countries have developed techniques for doing maps of risks or vulnerability assessments.

And then the second step is to fortify systems. We're only about halfway through this one because we're still stuck in the past. Many people think that means more of the same. How do we improve our office? Well, we need more file cabinets, more computers, more experts, more staff, more budget. More careful analysis shows that the underlying problem is not more of the same but a problem of poor information and poor incentives. There is very little information about the results of what public and private officials are obtaining, and therefore it is very difficult to see whether we're doing better. And the incentive systems that face those workers in the public and the private sectors are not linked to results. The penalties for corrupt activities are often, in many of our countries, modest—tiny. You lose your job; maybe that's all. And the rewards for doing a great job may be minimal. And so to fortify our systems, again I'm talking about businesses as well as governments, I'm talking about universities as well as NGOs, to fortify our systems against corruption we need to do better in the future in both information and incentives.

But now we reach Phase III in some of our countries, in some of our cities, such as the Los Angeles Police Department, such as La Paz, such as some of the places you know very well, where we've reached the point where the corruption is not just a random event, but is part of an informal parallel system of governance.

What do we do now if in fact the political leadership and the business leadership are collaborating in corrupt schemes? Think of a mayor, think of important contractors and campaign financiers at the local level. What do we do if the internal and external control systems are themselves infected by corruption? We can't count on them to be clean. Now what do we do? What do we do if incentive systems not only aren't strong, but are actually very weak, where government officials or city officials are being paid salaries on which they cannot support a family and therefore they must steal to survive? And what do we do in a case that has all of these things at once—a lack of political will, poor external and internal control systems, collapsed incentives? What do we do then?

I'd like to use an analogy this morning, a suggestive analogy, of sexually transmitted diseases, such as AIDS. Phase I about sexually transmitted diseases is to consider this as a moral problem that results from immoral behavior by individuals, and that the act, the thing we have to do as a society, is get this out in the open and discuss it. So we discuss sexually transmitted diseases and we tell people you must protect yourselves. You must behave better. Abstinence is best, but if you can't do that then we go to Phase II and we take preventive measures so that sexually transmitted diseases do not occur. But what if somebody already has a sexually transmitted disease? What if

the mother is in the hospital, pregnant and infected with HIV or AIDs? We cannot tell her at this point to take preventive measures, raise your consciousness. Just as with any disease, we can take preventive measures, but once we have the disease we have to look for cures. What we have to do then is analyze the disease—how does it work, what is its systematic functioning, what are its points of weakness, where can we attack it, where can we make the body immune to it?

All those are questions that people who study diseases and pathology try to analyze, and that's the analogy I want to bring to you for the third phase of the fight against corruption. We must now move to the point where we try to understand corrupt systems and how they work.

Diagnosing corrupt systems is the first step. In many of our countries there are official systems, as there is in the Los Angeles Police Department, for making arrests, taking care of evidence and dealing with drugs that are confiscated in a search. And there is, alas, a parallel system, which not everyone but some people follow that is systematically protected. Think of procurement systems in many of our countries, especially at the local level. There is an ostensible process on the legal books and yet at each stage of that process there is something else happening. There are bribes being paid, extortion, collusion, partnerships that are illicit that are going on in that process.

Who knows about how that process works? Is that a secret process? No. The people who participate in that process, both the public sector workers and the private sector people who participate know how those corrupt systems work. If we ask them confidentially to tell us how they work, not in public, not raising their hands, not making a denunciation, but in private, they will tell us. We're not looking for a particular corrupt individual; we're looking for how its system operates incorrectly.

We've seen this kind of diagnostic tool used in court systems, in police forces, in bidding and procurement systems, in customs agencies and in tax systems. And I'm sure it's valuable for many other areas as well. Once we understand and have a diagnostic of these corrupt systems, then we can ask: where are they vulnerable? Even organized crime is vulnerable. And here I use my second analogy. One is to disease and the second is to organized crime.

Remember I said there had been three phases in the fight against corruption, where the second phase was prevention. Here we drew analogies from good business management. We looked for cases where businesses had good procurement processes. How do they get good audit trails? How do they do proper accountability systems? And we learned in the public sector from some of the lessons of business.

In Phase III we have to learn from the successful areas of the fight against organized crime. How has the Mafia been crippled in New York and in Italy—not eliminated, but certainly reduced in their scope and power? How are people recruited into the system, how do they enforce the codes of silence, how do they keep their contracts credible? When a Mafia person promises you something, how does he make sure that you know it is a credible contract and that you can enforce it? When you promise her or him something how does she or he know that you will in fact fulfill it? How do they keep their ill-gotten gains secret? In many of our countries impunity is rampant to such a degree that those who are members of corrupt Mafias are happy with extravagant cars,

extra houses, apartment buildings that they own. They participate fully in the life of a person way beyond their financial status. Is this a secret? No, it's well known. You just have to figure out ways to get this information to us and out to other people so we can use that information about ill-gotten gains, about corrupt systems, and infiltrate that information in various places.

Now who cares? If it is a system, is everybody involved? No. Not everyone is involved, thank God. We're not at that point yet. There are many people who wish to reduce corruption. For example, if there is a cartel providing certain kinds of goods to complicit government officials, there are many other actual and potential business interests, domestic and international, that wish to break that cartel and will be very happy to have information about how that cartel works. In many of our countries, thank goodness, there are freer and freer media—newspapers, radio and television—who welcome exposés of how things work. They are fearless in going after people who can be shown to be corrupt. And they welcome the idea of publicizing information. The Internet is another example, through outlets such as Respondacon.net, that we're using today. Many others including Transparency International have ways to get information out and share information about illicit practices.

In all these ways, each of us in civil society, in academia, in government, in the private sector, have ways that we can work separately and together to subvert corrupt systems. We need not sit on the sidelines and say, well that's just the way it is here in this country, a kind of systematic corruption that can't be dented.

Now let's bring this back down to our local levels, to the corrupt cities with which we must deal. The fact is that in our countries over the next five or ten years, cities and local governments will be asked to do more—to be more powerful in infrastructure, social services, economic development. They will also be asked to build partnerships with local businesses to help move their economy ahead, to attract investment, to make the business climate good. These are welcome steps, but they carry with them the problems of systematic weakness—that cities are not prepared for these challenges as well as they might be. And they carry with them particularly the prospect of local cabals, systems, Mafias of corruption involving the public and private sectors.

The scale of this problem makes solutions very difficult because we have many cities in our countries. So how might we move ahead? I have two suggestions very briefly and then I'll stop. One is, within our countries we have cities that are doing well, others maybe not doing so well. My suggestion is we do case studies of the cities that are doing well with the same macroeconomic environment, the same civil service rules, more or less the same constraints on pay and information. We know that some of our cities are managed nicely. Let's figure out how they're doing that and let's copy them.

Second, we have to take the challenge up now, on the part of international financial institutions, the part of bilateral aid agencies and the part of national governments. We must think more in terms of subverting corrupt systems instead of capacity building and simply fortifying government systems as they now exist.

In that fight ahead I wish you well, and I thank you for your attention this morning.

The Fight Against Corruption in Slovakia

**Michal Ivantysyn, Coordinator of the National Anti-Corruption Program and
Director, Communications Department, Office of the Government of the
Republic of Slovakia**

Ladies and gentlemen, I'm honored today to join the conference and to present the Slovak experience in the fight against corruption. There is no question that corrupt practices undermine growth and also political stability. Corruption and bribery are the black spots on the economical and political practices of many democratic governments. But nowhere are the consequences of corruption more evident than in emerging and developing countries.

I find this conference extremely important because we can exchange experiences. I hope that the experience of the Slovak government's fight against corruption might enrich general knowledge of these problems and help to find better and more effective means for stopping corruption.

Therefore, with your indulgence, I would like to present to you the Slovak national program for fighting corruption. After elections in late 1998 the new government of the Slovak Republic recognized the harmful effect of corruption and placed anti-corruption high on the official agenda. The first version of the national program for fighting corruption was made public in March 2000. The initiative was submitted for public discussion in order to be commented upon by the broadest segments of society—citizens, non-governmental organizations, media and also civil servants. After obtaining their comments and suggestions and incorporating them into the document, the national program for fighting corruption was approved by the government in June 2000.

The national program outlines a strategy of combating corruption. It will be implemented by an action plan. The action plan consists of specific commitments that categorizes the responsibilities and assigns them to the individual entities. The action plan is now under construction and is scheduled to be developed by October 2000.

The national program of fighting corruption is a governmental program of the highest priority. Let me briefly familiarize you with its structure and features and explain to you the situation of the Slovak Republic with regard to other countries. I will guide you through the political and moral history of this program from its starting point and present you with the results and first positive feedback of this program.

Fighting corruption became one of the most important priorities in the year 1998. At this time a number of signs had informed us that corruption had become massive in the Slovak Republic. The basic source of information came most often from public opinion polls. People in Slovakia in

the year 1998 believed that corruption in Slovakia was pervasive and approximately two-thirds of the adult population had had some kind of personal experience with corruption.

Also in the year 1998, for the first time the Corruption Perception Index was published in Slovakia. Thanks to that, we had a notion of the international position of Slovakia compared to other countries. In Central Europe the Slovak Republic is usually compared mainly to its border countries which have a similar history and similar social problems. The countries—Poland, Hungary, Czech Republic and Slovakia—cooperate very closely. Comparing the Corruption Perception Index in this group we find that Slovakia has by far the worst result.

It is evident now why combating corruption has become the most important political priority of our government. Corruption in Slovakia seems to be a serious obstacle on the path of our economic development and it has started to destabilize the political system. Many expert studies refer to the interdependence between the influx of foreign investment and the level of corruption in the country. It is no surprise then that the foreign investment influx to Slovakia is the lowest of all its border countries. Of course corruption is not the only barrier preventing the flow of foreign investment, but it is a very important comparative disadvantage.

Again, combating corruption and economical crime, that is white-collar crime, became a priority in 1998, and not without some achievements.

Experts agree that an increase of registered criminal acts does not mean increasing white-collar criminality, but a rise in police activity. There is evident progress in law enforcement in Slovakia since 1998. However, despite evident success, the year 1999 brought a change to the strategy of fighting corruption.

Stress on repression appeared to be ineffective. In spite of some good results, the overall level of corruption in society climbed as the Corruption Perception Index showed in that year. Slovakia's position got worse. In 1998 the Slovak Republic occupied 47th place, but in 1999 it was lower, 54th place. This result was the reason for a fundamental review of the strategy.

It started to become obvious that the fight must be systematic and general. It had to address the very core of corruption. So this was the reason for developing a national program for fighting corruption.

The aim of this program is to combat corruption in public life and publicly owned firms. The aim is to build the concept of the fight against corruption and create a climate for combating corruption. The national program for fighting corruption was completed in spring 2000. The government implemented this program after nationwide public debate in June 2000. So, ladies and gentleman, let's take a look at the program's items.

The program is organized into three parts. First is the introduction, the prerequisites to successfully combat corruption. The second is the identification of causes of corruption. Third is the promotion of anti-corruption values.

The first prerequisite of the program necessary to successfully fight corruption is political view. Political view is the first and most important prerequisite. The strategy in the fight against corruption requires fundamental reforms. Without real acceptance of these reforms there is no possibility for success. At this time feelings in Slovakia are running very high.

The second most important prerequisite is enactment of ready access to relevant information. This act has already been passed in Slovakia. Members of non-governmental organizations participated in the drafting of the law for free access to information. So thanks to their effort, the Slovak Free Access to Information Act is a tool for combating corruption.

The third prerequisite is the quality of the project, and fourth, last but not least, favoring removal of the cases rather than punishment.

The main causes of corruption, according to this program are the following: failure of conventional market mechanisms, ineffective legal measures, insufficient law enforcement and inconsistent anti-corruption values.

The most attention is paid of course to the solution. The solution proposed by the national program of fighting corruption stands on three main pillars. First is the identification and elimination of potential causes generating corruption. The second is making corrupt behavior less profitable. And the third is promotion of anti-corruption values.

Let me dwell on these pillars in some detail. Identification and elimination of potential causes of corruption covers a complexity of different tasks. The object is to remove potential sources of corruption. The basic idea is to eliminate state interference into the market as well as to provide transparency of work of the state system. The main tasks are the following: of course, application of diagnostic surveys, provision of ready access to information, elimination of administrative barriers and so on.

The second pillar, making corrupt behavior less profitable, attempts to create an environment where information about cases of corruption can be very easily reached by investigation authorities. The third pillar is the promotion of anti-corruption values.

The Slovak government approved this program in June 2000. This was just a few weeks ago. Every state department has created an action plan of implementation. The action plans of all state departments were sent to the government and they are now being judged by independent experts. At the same time, the action plans were published to start a new public debate. In the middle of October 2000, the complete state action plan is supposed to be ready for the government's approval.

This brief outline makes evident that the whole program is only at the beginning. It is not possible to expect any significant results sooner than the year 2001. Anyway, at this time we can already present a few successes. Above all, the Free Information Access Act has become an important component of this effort. As I have already mentioned, action plans have been developed. Also a nationwide anti-corruption front has been formed. For more than half a year, fighting corruption is one of the most important political issues in Slovakia. Last but not least, the

Slovak government has launched a simultaneous program towards removing administrative barriers to free enterprise.

Of course it is too soon to evaluate the program. The whole program is at the beginning, but we have already received some positive feedback. According to the Corruption Perception Index, the corruption figures for the year 2000 show the upward trend in corrupt behavior in Slovakia has stopped. Secondly, increasingly more respondents point out that the time period between 1998 and 2000 has been that of rescinding corruption.

I hope, along with the architects of this program, that this decrease is partly due to the national program of fighting corruption. Thank you for your attention.

Unbundling Corruption: New Empirics on ‘State Capture,’ Bribery and Kickbacks and their Implications for Government Reforms

Daniel Kaufmann, World Bank Institute

While the technology is being set up, let me say a few words about what we are going to do in the next 20-25 minutes. We’ll go relatively quickly through a set of slides. You’ll have to bear with us because we will just suggest to you a number of issues that have come up from the new evidence we have. We will get back to these issues both through an interactive survey we’re going to do after this talk as well as through further sessions throughout this conference, particularly Saturday morning. I say that so that you bear with us in terms of the speed with which we’re going to move. I’m sure that some of you would like to spend more time on some of the slides than on others. I would want to do the same, but it has been a long morning for all of you, so we’ll move quickly.

I come from Latin America. I am painfully aware that the challenge before us today is not only conscribed to some regions of some countries, but it is a challenge faced by many, many countries in the world. In fact, often they ask me whether we can calculate the cost of corruption worldwide. Typically my answer is that it is very, very difficult. The best estimate may be one we get from a joke we have in Latin America which basically says that if only corruption could shine we wouldn’t need electricity.

Without further ado let’s go to eight key issues I want to put before you. We’ll start the session with number one, it is of paramount importance that the government is in the driver’s seat in an anti-corruption program. Number two, focus on a very focused anti-corruption plan. Number three, use worldwide data for action programming, particularly all these international comparisons that we have. Number four, utilize a very technocratic approach to fighting corruption. Number five, focus on the anti-corruption of autonomous agencies or commissions. Six, provide higher pay to public servants. Seven, focus on eliminating bureaucratic corruption and discretion. Eight, apply strict enforcement within the civil service of all the civil service rules—the enforcement of those rules being absolutely critical.

For the sake of argument and debate throughout this conference, I’d like to put before you that these eight propositions are either a myth or a quasi-myth. And legends have spread in the past few years in this major field but when one discusses and analyzes the issues in depth, serious questions arise.

I understand that Bob Klitgaard did not present his famous formula that explains corruption. But we did ask the question and we have developed the answer with the Latin American Chapter of Transparency International. We asked this question, what are the key components in the process to help combat corruption and to help improve governments? In summary, there are major elements.

The first is the power of knowledge. The second is information data integrated with leadership which includes internal political leadership within the country as well as leadership within international organizations. You saw it earlier, Mr. Wolfensohn, Iglesias and others.

A third, of equal importance, is consensus building and collective action in civil society, NGOs, private sector, parliament. Very much like you are organized here today, different countries organize themselves and work for a number of weeks on an action program to improve governments and to fight corruption.

We started with an interactive survey, a bit like what we are going to do next in a more compressed fashion. One of the questions we asked in that survey I want to put to you hypothetically. It is a sensitive question, so you can answer it only to yourself. Let's say that you are leaving your job, very late at night. You are the last one to leave the office, and yours is the only car left in the parking lot. You approach your car. There is no one around. There is no supervisor, no guard, nothing. No cameras. Next to your car on the ground there is an envelope you find that contains 20 \$100 bills. There is \$2,000. Question: What do you do with it? What is your first instinct?

Well, one possibility is say, "Tough luck. Someone lost it and I can use it for the education of my kids," and you quietly take it home. Second approach is to say, "I'm immediately going back to the building, look for the security officer, make an official report, return it." The third one is to say, "I'm going to take it home overnight to think about it, and tomorrow I will decide." And fourth is to say, "I really don't know what to do." We posed the question in many, many of these forums and many of our training programs throughout the world. What answers do we get? In a traffic light approach we get something like this. Basically about 20 percent decide just to keep it. One-third of the respondees immediately, instinctively will go back and return it. Half sit on the fence.

Then we asked a follow-up question. What if there is a 30 percent chance of a hidden camera somewhere? You don't know what is being done with that information. With the probability of some information on a monitor, same exercise, what would be your answer? Oops! Major change. All of the sudden most people turn honest.

What this illustrates is there is nothing cultural about the problem at hand. It is not genetic. It is not circumscribed to a particular type of people. It is a question of incentives, of information, of monitoring, of transparency which is absolutely crucial. We find that within all organizations and in any organization we study. So it is a powerful reminder of how important it is to discuss these issues very openly.

When we work with countries we deal with an enormous amount of data. We have a large database. It's all in the Web site and you can interact with it. We use it to assist countries that request help. One database is on governments. It has many dimensions; one of them is on controlling corruption. We see from data that there is enormous variation across countries. For this illustration, I chose mostly countries in Latin America. But as you can see, even with this region, it is incorrect to say that any one region is corrupt or not corrupt. There is enormous

variation within regions from countries like Chile and Costa Rica that are doing quite well on the one hand, to many others that are not.

But then we find that it is absolutely and incredibly important, and that addresses another part of the myth, to move beyond corruption and broaden the scope. Because corruption is after all a symptom of underlying weaknesses of the state, which we base on other correlates for corruption, we've divided this into six categories. One can divide it into others too, but basically control of corruption requires these six: rule of law, the regulatory framework; the effectiveness of the government bureaucracy; voice and accountability is another extremely important dimension which includes civil liberties; freedom of the press; political stability and absence of crime.

All our data have a margin of error. But this margin of error has been measured, so we know with a degree of precision how imprecise the data is and what can be interpreted, what can be useful and what cannot be useful. So that is part also of the technical exercise.

Let's move very quickly to the cost of corruption. This is a very powerful reminder of how costly corruption can be. There are others too, but to illustrate here, one of the investment rating agencies provides services to foreign investors. They provide you as a foreign investor going to country X with the probability factors for losing your investment within five years. One of those factors is corruption. For some countries they are telling them that there is an 80-85-90 percent probability that you will lose your investment. No wonder.

When we discussed these issues for the first time with the President of Georgia, Eduard Shevardnadze, he said, after two hours of discussion, "No more discussion. We could stay until midnight and discuss whether these numbers are correct or not. But if you are saying that for Georgia there is an 85 percent probability of losing investment [that was two years ago, it's improved somewhat] I don't need more discussion. We need to start a program." So this is a powerful reminder of how costly this can be.

One key area emerges as extremely important to controlling corruption, and that's civil liberty. Countries that are free in terms of civil liberties do much, much better than others. Related to that is freedom of the press, another component of civil liberties.

We have been working in a collaborative effort within the World Bank, that is different areas of the Bank which is a huge institution. This one is a particular collaboration with a region of transition economies—former Soviet Union and Eastern Europe. What we have done there is move beyond helping them measure administrative, bureaucratic and petty forms of corruption which is a normal thing that one has to measure to measure corruption. We have moved beyond to one very important aspect which we label state capture. It is the capture of the state policies or the state laws or state regulations by very influential firms, by the elite firms. In some of those countries, mostly in oligarchies, but in others too, these firms are purchasing the laws. They are basically shaping the state laws, policies and regulations.

In countries like Russia and Azerbaijan, we see the legal purchase of presidential decrees, and of central bank influence through bribes of parliamentary legislation. There are incidences in terms

of the decisions of the courts, in terms of party financing. It is in those areas that it is difficult to produce technocratic measurements. So that is the next stage in terms of this diagnostic.

Now, don't think that anybody is being left off the hook. National labor misgovernance and national corruption are not just from the state. It comes also from the corporate sector. It is an important responsibility. Furthermore, the foreign investment community plays a very important role here. We find that in countries with low levels of government, many of the foreign direct investors, many of the transnationals are engaging in the same type of practices and sometimes even worse. In this slide we see the percentage of firms with foreign direct investments that are engaged in the purchase of legislation and decrees in transition economies. Not a pretty picture. So it is a reminder again—collective action. So there is mutual responsibility. It is the same with public procurement kickbacks. We are helping measure the extent to which this is occurring in these countries and who is engaging in it.

Domestic firms are engaging in this also, whether their headquarters is abroad or their headquarters is in the country. So this is very sobering. And when we break it down, although there are margins of error, we see that there are not many angel countries in terms of the source of this investment. Even for countries like the U.S., the data from the Foreign Corrupt Practices Act, at least for transition economies, does not suggest that they are behaving with a much higher level of government and absence of bribery than other countries. So it raises questions about monitoring, about enforcement, about sharing information beyond just passing laws.

What do we find from this study? We find that this corruption, and it is not a secret to any of you, creates enormous social and economic costs for the whole economy. Countries which are the victims of captured economy have very significant concerns. And it is not only transition. About half of them have very high levels of capture. Those countries with high levels of capture by the oligarchs have much, much lower rates of growth, of output and of investment in the economy. So that is one very, very clear cost. They are also much more insecure property-wise, but that is another real cost of this entire problem.

What we find in terms of the causes of this grant corruption is that countries that have only partial liberalization in the political and civil liberty sense are not doing very well in that context as opposed to countries with much fuller degrees of civil liberties, involvement of civil society and a much more competitive private sector. They manage to live in societies with much lower degrees of grant corruption and this by only a few elite firms. So, again, the issue of the nexus with civil society is important. So also is the security of property rights. So there are real legal, economic aspects which are very important.

Another aspect we find in this in-depth diagnostic within the countries is how much the private sector, the firms, are prepared to pay additional taxes, very explicitly, in order to reduce corruption, in order to improve regulation, in order to improve government. So it is a major reminder of how costly it must be for those who are prepared to come forward and say, "We will pay more taxes if all those costs or that burden would be reduced." It is also a powerful reminder to ministers of finance, to heads of customs, of how much more revenue they could collect if there was a concerted effort to improve governance on corruption.

We find also enormous costs, social costs of corruption for households. How much it is to the poor as a regressive tax compared to others? They pay this proportional amount in order to get public services they should be getting for free.

The other aspect of this diagnostic is that we ask in-depth questions of public officials who respond anonymously and provide enormous data about the vulnerability of their own institution. For example, what is the probability of purchasing a job illegally in order to be a customs agent? This tells us which are the most vulnerable agencies. So determining which public sector jobs are sold and understanding why that happens is an important aspect of our work.

Then what we do with the groups working with the action program is analyze with them this data to see not only what the data shows in the first cut, but what factors may be the cause behind the malfunction of an institution. In one Latin American country we found that the absence of meritocracy in hiring and promotion was a crucial factor. In fact, that relates to all the agencies. Meritocracy in hiring and promotion is very important in explaining absence of corruption.

But then one finds other things that can't be explained. In another country, it was found that those with higher salaries had a higher frequency of corrupt practices. They had a higher share of their income being derived from corrupt practices. So this whole notion that it is only the poor or the lowest paid civil servant who is corrupt is not true. That's why it is so important to do these types of diagnostics.

In another country, at first look it appears that low wage satisfaction is related to higher bribery. But if one looks at all the factors as a whole to make sure there isn't another variable that is the reason, and to see how one factor relates to another, the statistics change. This just illustrates how important it is to do this work in a very rigorous and responsible way. It cannot be done overnight on the basis of an impressionistic public poll. It takes time and the efforts of experts within the country.

What are the important issues no matter how one does the analysis? There is the issue of transparency within an institution, information flows, and so on. Second, there is issue of external voice, giving the civil society, the users, a voice to provide feedback to the institutions. This is absolutely crucial. And the absence of politicization within the institutions is also crucial. No matter what, those factors come out very, very important.

We are helping many countries with many different programs. Each program has a different focus and different dimensions. Here we list only five countries, but the World Bank is involved in about 40 countries in different types of public sector and other reforms related to improving governments and controlling corruption. There are over 500 different types of projects and programs related to that. There is a book that was mentioned before that lists them all. There are different dimensions or priorities in different countries depending on the results of the diagnostic.

It is certainly not the case that corruption is totally historically determined. Changes occur in a relatively short period of time. Not in one year, but in five to ten years. Russia and Indonesia are going in the right direction. El Salvador is an example of major economic institutional reforms, and beyond mid-1990s one sees an improvement. Poland is another good example.

So let me emphasize again how crucial it is to focus on grant corruptions, state captural issues as well as misgovernance. It is not enough to look only at petty administrative corruption, although that in many countries does remain as an important problem.

I'd like to complement that with a political type of corruption analysis. It is very important to have a broader governance framework and not focus totally on corruption which is a very different symptom, but a symptom. Collective responsibility, corrective action and civil society involvement are key components. The whole issue of addressing the link between corporate responsibility and corporate ethics, including international community and national governments, is also very crucial. So these are the keys.

Now you're probably wondering what we are going to do with those keypads. We are going to take a survey. You can go to our Web site on the Internet and do the same survey that we are going to do here with keypads.

For those of you who have a keypad, the keypad has keys or numbers from one to ten. There is a list of ten questions and each one is multiple choice. The choices are going to be anywhere from two to ten choices depending on the question. You will push the appropriate button of your own choice. The keypad is programmed so you cannot vote twice. So for each question you can vote just once. The idea of this, the biggest corruption finder, is to get immediate feedback on essentials and participation from the audience. When there is a very large group unfortunately there isn't that much time for questions and answers, but you will be able to see the perception of the audience immediately when the whole group is responding to a few questions.

What we will do is combine this data with the data collected through the Internet. The same questions are being asked wherever this is videostreamed. We'll collect the data this afternoon and work with it tomorrow, so we will be ready for the session on Saturday. Saturday's session will be very much an interactive session where we will be working on the preparation of an action program for your countries. We'll be working in groups and this survey will very much help us in that context.

We will begin with question number one. The first question is basically where you work—which choice best describes the nature of your work. The last thing that we pretend to be is perfect, so I'm sure some of you are thinking that your precise job is not there. Try then to select the one choice that best approximates where you work. If you totally disagree with all of them you can choose to not vote.

At the right, what is going up is the rate at which people are voting. We're going to give you ten more seconds to vote. Unfortunately we have only about 140 keypads, so the other half of you here that do not have a keypad have a handout. Please circle your answer in the handout. We'll collect all those handouts and all the data will be tabulated together. So each mode of vote counts exactly the same.

Okay, let's move on. So basically, the composition of this audience is very much from government. A very clear message. You are from the judiciary, some from international organizations, consultants. Interesting. The media is not here.

We'll move to the second question—the nature of your job. What do you do? You can choose from the ten choices. They are auditor/inspector general, judge/prosecutor, economist, civil servant, entrepreneur, finance, academic professor, journalist, politician, and lawyer. Let's move fast. Half of you are from auditors general offices. The other half of you are spread across the other professions.

Where do you work? In most cases it is where you come from, but not necessarily. Some of us live here but where we work is something else. And for the results: Latin America, half. The other half is basically from Asia, the U.S.

Now your opinions from your knowledge of the problem, and this is very important. And by the way, everything is anonymous. Your name doesn't go into the keypad. From your knowledge of the problem, how many of the public procurement contracts are tainted by corruption? None of them? Choose among 1-10 percent, 11-20 percent and so on, whichever approximates in your view the reality within your country. This was a bit tougher question. The results: very interesting distribution throughout. There are 5 percent of you who think there is absolutely no problem in your country. The rest of the votes are distributed among 5-35 percent. So there is quite a divergence of opinion.

Almost everybody answered that some public procurement contracts are corrupt. For those that are corrupt, what is the percentage that is required in order to be awarded the contract? That varies sometimes from country to country. Is it 1-10 percent, or 10-20 percent, or more? So what is the expectation when there has been a corrupt contract? I see that you are voting very, very fast, so the question is at least clear. The vast majority of you are between 1 and 20 percent, but then some higher too. The plurality is between 11 and 20 percent, and some are between 1 and 10 percent. So here it is less divergent.

The next questions are very simple. In your view, what is the most costly aspect of corruption in the country with which you work? Is it that it reduces economic growth and investment? Is it that it increases the poverty and reduces the access to public services to the poor? Or is it a real moral problem? Or the political instability dimension? The results? You voted highest for increasing poverty.

What is the institution most affected by corruption in your region of expertise? I know it is very difficult to just choose one. You may have many in mind, but please for this exercise select only one. Your collective first choice is executive, then the police, then judiciary courts. Very interesting. And civil servant bureaucracy is not so important.

What is the most important obstacle to an impartial and transparent judicial process in your country or your region of expertise? What is the most important constraint—obstacle? Are they powerful economic interests, or the influence of the elite or is it the lack of political independence? Is it inadequate salaries? Is it the absence of job security? Inadequate training? Or lack of

meritocracy in selecting judges? Okay. You chose political interest first and a close second was economic interests. But there is a very clear message here. You made these choices over low salaries or job security or trading or unjust meritocracy. So it is a very powerful message about economic and political independence.

Now we wrap up. In your view what is the best group to formulate the national action program to control corruption? Is it the press? The enforcement agency? An anti-corruption commission or agency? An executive group from the various ministries, an interagency from the government? Government agencies and government officials? The parliament—legislative? NGOs with expertise in the area? A broader civil society coalition with the private sector? Coalition of civil society with the government, with the legislative and with the judiciary? Or none of the above because the national anti-corruption programs are not helpful. Your answers: Anti-corruption agencies come out very high, and the big broad coalition. So very clearly there are two groups here with very different types of thinking. This is also very important food for discussion on Saturday.

You have four choices in terms of participation and action program formulation. Those of you that plan to participate on Saturday, choose between answers one and two. One, if you have already contributed to an action program in your country, and you plan to participate on Saturday that is number one. Number two, you have not participated in the past but you plan to participate on Saturday. Now if you cannot participate on Saturday, you choose three or four. Number three, you have participated in the past but you cannot come on Saturday. Number four, you have never participated in the past and you cannot participate on Saturday. The results? This is very encouraging. We will see 83 percent of you on Saturday, and it is split half-and-half—people who have done it before and people who have not. This is very important information for the continuation of this conference.

Thank you very much.

How Combating Corruption Contributes to Development

Miguel Schloss, Executive Director, Transparency International

Corruption is a complex phenomenon and in many cases it is the consequence of more deep-seated problems of policy distortion, institutional incentives and governance. Therefore, it cannot be addressed by simple legal acts proscribing corruption. In fact, in virtually all countries local laws forbid corrupt behavior. And yet, in more cases than is readily admitted, effective efforts to combat corruption have been limited. The reason is that, by definition, in many developing and transition economies, the judiciary, legal enforcement institutions, police and such other legal bodies are unreliable because the rule of law is often fragile, and therefore can be captured by corrupt interests.

But corruption is not limited to these economies. In developed countries, tax incentives, standards of conduct and general attitudes often lend themselves to providing the resources for corruption. Indeed, “the abuse of public office for private gain,” as corruption is generally defined, takes place in rich and poor countries, and must be tackled as much in the places where payments originate as where they are received.

To assist governments, the business community and other interested parties in the debate on the issue, Transparency International has been publishing an increasingly comprehensive Corruption Perception Index. This index is a “poll of polls” drawing upon numerous distinct surveys of expert and general public views of the extent of corruption in countries around the world. Recent data shows that the bulk of countries, including those in the Latin America region, have poor scores, thereby strongly suggesting that corruption is a serious issue, deserving much higher attention in the policy agenda of this region.

In the final analysis, corruption is as much a moral as a development issue. It can distort entire decision-making processes on investment projects and other commercial transactions and the very social fabric of societies. Some fairly robust statistical evidence shows that higher corruption is associated with a) higher and more costly public investment, b) lower government revenues, c) lower expenditures on operations and maintenance, and d) ensuing lower quality of public infrastructure. The evidence also shows that corruption increases public investment by making it more expensive while reducing its productivity—not to mention the loss of resources to the countries resulting from poor investments.

By the same token, not only the size, but the composition and associated quality of public investment programs are affected by levels of corruption. By and large, corrupt administrations tend to spend less on education and other social expenditures because expensive infrastructure outlays crowd out spending on education and other investments in people. This suggests that

corruption tends to mortgage future generations, since economic growth over the long haul is directly related to educational attainment.

The secondary effects of policy distortions can be equally staggering. For instance, a survey undertaken by the World Bank in petroleum procurement and distribution in sub-Saharan Africa five years ago showed that existing practices generated resource outflows in excess of \$1.5 billion—significantly more than yearly net disbursements of World Bank loans and credits to all this region combined. This is particularly serious when generation of savings and surpluses is already far short of the investment requirements in that continent.

In all, these are the vehicles through which corruption lowers economic growth. An implication is that economists should be more restrained in their praise of high public sector investment, and stress the importance of placing much greater attention on corruption as well as on the quality and composition of public expenditures. The issue of corruption, and its attendant effects of efficient and effective resource use, needs accordingly a much higher place in the policy debate and action in the region.

By the late 1980s and early 1990s, most countries in Latin America adopted structural adjustment, economic liberalization and “modernization” policies aimed at coping with and preventing economic crises and developing building blocks to improve the agility and effectiveness of public sector management. A mixed reform record has brought about recognition that the problems were more fundamental than they were thought of originally and that a “second generation” of reform is needed.

In light of a growing recognition of the complexities of the reform processes, an increasing number of countries are beginning to tackle broader and deeper institutional issues, such as decentralization/sub-national government reform, judicial reform and anti-corruption efforts. Some countries are going beyond these issues and are tackling issues such as “voice”/participation, “exit”/competition, restructuring of enforcement mechanisms of internal rules and regulations. Work in these new areas requires stronger, broader and deeper commitments for sustainable implementation and, with it, increasing demands on Transparency International Chapters (such as is occurring in Colombia, Argentina, Chile and Paraguay).

Clearly, a more comprehensive approach is needed than the popular road of issuing declarations, policy statements or even legislation. More importantly, to assure better results, a greater focus is needed on the underlying causes of corruption and on mutually supporting mechanisms between governments, business practices in the private sector and civil society.

In this regard, it should be understood that bribery encompasses payoffs for a wide variety of illicit activities: a) getting around licenses, permits and signatures; b) acquiring monopolistic power, i.e., entry barriers to competitors; c) access to public goods, including legal and/or uneconomic awards of public procurement contracts; d) access to the use of public physical assets or their outright stripping and appropriation; e) access to preferential financial assets (credit); f) illegal trade in goods banned for security and health considerations, such as drugs and nuclear materials; g) illicit financial transactions, such as money laundering and illegal exercise by officials

of insider information for financial sector activities; h) influencing administrative or legislative actions; and i) influencing judicial decisions.

In all these cases, corruption occurs when economic opportunities for it prevail and political will to combat it is lacking. In a way, corruption is a symptom of fundamental economic and political problems. Addressing them effectively therefore requires dealing with the underlying economic, political and institutional causes. At the root of many of the problems oftentimes one can find excessive discretionary powers.

Conversely, it stands to reason that the higher the professional levels in civil service the lower are the perceived levels of corruption. Quite apart from the wastefulness of corruption expenditures and associated misallocation of resources, valuable management time gets siphoned off through time spent with public officials.

What does all this mean? It means that we need to take action. The actions can be taken in basically three areas. One can classify them differently—at the level of prevention, at the level of enforcement and at the level of the institutional interface between the private sector on the one hand, civil society and governments on the other.

We saw this morning this table, these graph fields, which gives me some satisfaction. It means that issues need to be tackled in various areas. It has to do with economic policies. It means acting on the civil service pay, meritocracy, etc. It means that there are areas that need to be acted on in financial controls, in the public oversight. The issue we are facing here is that action is needed in so many areas that one of the most crucial problems or issues we have to face when we move from words to deeds is that you cannot act on them all, that you shouldn't act on all. Each situation is different from the other and nothing, nothing serves better than having a good diagnosis of the particular country's situation in order to address which ones of those which are in this menu of actions need to be addressed.

It takes three to tango, not two—civil society, government and enterprises—and let me go very quickly through what each one of them can do and does. On the enterprises level, there is a growing number of institutions that have started internally to establish some codes of conduct, some rules that basically permit or establish that you cannot involve yourself in corruptive activities. They define what these activities are. They set up control mechanisms so that there are ways of monitoring and detecting when that happens. Mainly, when corruptive activities are discovered, corrective actions are taken, people are fired and so on, so that the behavior of the enterprise is in line with the policy that has been established in the institution.

Civil society, which includes organizations such as Chambers of Commerce and professional associations, do a number of activities that are listed there, but in essence, if I have to say in a few words what they do, they are there to demand accountable administrations. If the societies don't demand accountable administrations, you cannot expect administrations to be responsive to the people. So civil society organizations have a very important role to play, namely to demand that each one in their areas, trade associations, institutions like Transparency International, have a role to play. Transparency International does not resolve the problem, not at all. We are there to help. We are there to catalyze. We are there to support and bring together, and if I have to say in a few

words what Transparency International is, it is a grouping of various interest groups and associations that deal with this matter.

Transparency International has been working with other organizations throughout Latin America and I am going to mention two examples so that you get a feel about the kinds of things that have been done.

In Argentina, for the contracting of the works for the metro in Buenos Aires, a system of public hearings was established during the key stages of the bidding process, that is, at the stage of the preparation of the project, at the stage of pre-qualification and at the stage of the award of the contracts. It was amazing. There were specialists brought in who could speak on behalf of civil society about what they thought about what was being proposed. The issues that were raised were very interesting. For instance, the pre-qualification documents had been designed in such a way that only one firm could win. Obviously, when issues like that are brought up, it is very difficult for the authorities to simply turn a blind eye on them. They have the ultimate responsibility to accept or reject those cases. The responses provided at such public hearings helped them ensure that the process was correctly followed.

In Chile, there was a study done with the Controller General's Office, with the Auditor General's Office of the entire public sector. What are your expenditures, what procedure did you follow, where were the areas of vulnerability, did things occur that were not supposed to happen, which ones of those were systemic? In other words, we needed corrective actions throughout the public sector.

These examples have one thing in common. Whether it is monitoring, whether it is public review of procurement, whether it is in education, whether it is in public information, the common thread is greater transparency. Transparency makes it more difficult to negotiate something between just two parties. It follows the old proverb that "Sun is the best disinfectant." The more you see, the less are the chances that corruption can take place.

Among the instruments that have been put in place in a number of countries are integrity pacts which, again, is a system of open, mutual monitoring among the key parties to a contract, bidders, government and civil society. These integrity pacts ensure that as you enter a contract it is very difficult, hopefully impossible, to make special deals.

Now, let me just bring out a few general conclusions. What we have learned in these debates and in trying to deal with the issues throughout various countries, is that it is extremely important to level the playing field among the key parties in a society. That is the civil society, the government and the private sector. This is very important. There is nothing that can corrode more than when you have too much concentration of power in the hands of enterprises and they hijack governments. Excessive control lends itself to corrupt activities. So it is extremely important to look for manners whereby the three parties can be equal parties to the process. It is very important to establish coalitions. This is an enormous job. Nobody, nobody can do it alone. And it requires a way of working on this. It is also an area that needs research, that needs going away from pet ideas because it will be a serious mistake to bark at the wrong tree, to come up with some preconceived idea only to find out that it doesn't work because you were dealing with the wrong

problem or you were dealing with something that you thought was a problem and it turned out not to be one. So analysis and understanding about what the problem is that you are facing and how big is it and what you need to do is very crucial.

Important also is the need to monitor. We have to learn as we go along. It is good to establish some corrective measures but you also need to pace yourself, pace what is happening in order to see whether there are improvements and, if so, listen to feedback and make corrections as you go along.

Obviously there are a number of countries that have started to take measures. I am highly optimistic despite the seriousness of the problem. I happen to believe, and now I am talking about my own personal opinion, that with the globalization, with this world becoming smaller and smaller, with the pressures to become more and more competitive, it will be less and less possible, over time, to sell a product through bribery. More and more it will depend upon whether you have a product that has a lower price or a better service or a better product. And therefore, if you want to be competitive in the world to come, in the world that is already here, you had better deal with the issue of corruption.

The issue is complex. You have to have patience. You have to know where you go. But if you have clarity about the issues you are trying to address, how to address them, the ability to monitor what is happening, chances are pretty good that you can improve.

Thank you very much.

VICTOR ORDOÑEZ (Mexico): I am a financial management specialist working for the World Bank in the Latin American region. There have been some developments such as the electronic bidding process or systems and so on. What is your experience on the use of this technology fighting corruption?

MIGUEL SCHLOSS (United States): That's a very good question. It is one of those things that is starting to happen in some places more than in others. Clearly when you have bidding processes on the Internet, there are better ones and worse ones. But let's take a good example. Essentially what they do, if you take all the complicated vocabulary and technical jargon away, is they let anybody know what is being bid, by whom, and the stages of the bidding process. In some cases, they even provide mechanisms through the Internet to appeal the bid if you have lost on grounds that you don't feel satisfied. You have a method of appealing to a separate, independent authority which has to rule within a given period of time, etc.

What these methods do is increase transparency enormously. You are bidding on something or buying this or that equipment by such and such time and you have to do it in a manner that follows certain rules which are known to everybody. It certainly reduces corruption immensely. There have been some price comparisons made, to the best of my knowledge, with the electronic method, but the electronic part is just a gadget. More accurate are the price comparisons made through systems similar to the integrity pacts, and what those figures seem to indicate is that in fact it reduces prices. Obviously, you are increasing the competitiveness. So on the whole I would say,

from partial evidence, these are good methods to increase transparency, increase corrective actions and level the playing field among competitive contractors vis-a-vis government. This technology also makes it very open to civil society in the sense that nobody wants to be caught, as you saw in the statistics about the guy who finds the wallet next to the car. It has the same effect as the video camera. If behind the video camera you have a control mechanism, it certainly reduces the possibility of getting away with murder.

JOSE LUIS COINDREAU GARCIA (Mexico): I have heard many good recipes for a good anti-corruption program. But could you list the programs that have failed? Could you list the main issues that have been overlooked, that have caused failure of anti-corruption programs in other countries?

MIGUEL SCHLOSS (United States): Good question, but I'm afraid I'm not going to satisfy you. We are only starting seriously the fight against corruption. I am hard-pressed to give you the one-two-threes of that. But if I have to, if you really force my hand, and people in Monterrey are good at that, I would say that the single largest problem is going into this without knowing exactly what you are fighting just because you have a preconception. This is a little bit like touching the elephant from different sides. Each one describes their side of the problem. And what I found interesting in the discussion this morning was that unless you have a CAT scan, namely, a review from various angles, you really don't know where the problems are, where they are the greatest, etc. I can assure you, and you know it far better than I, the situation in Monterrey is probably very different from Mexico City and from other cities in Mexico. And if you want a national program in a country of the proportions of Mexico, chances are that you will have to nuance it quite a bit to reflect the different conditions in different areas. Clearly the level of development and the type of relationship that exists in the societies in the north and in the middle of the country are quite different.

So, if you press me, I would say do your homework very well, be sure of the areas that you are attacking. Make sure that they are the really important ones. Make sure that you understand the underlying causes so that you really address them. It is like a doctor who can misdiagnose an illness and give the wrong prescription. The diagnosis is very critical.

DAVID ALONE SELEMANE (Mozambique): What is the role of the judicial system in the fight against corruption?

MIGUEL SCHLOSS (United States): I have been in Mozambique, and I wouldn't dare to tell you from my very short stay there the role of the judicial system in the country. What I have seen in statistics, however, is that a very, very, very small proportion of judges in Mozambique have had legal education of a level that permits it to operate well. There are institutional weaknesses in the judicial system of a significant nature and it is very hard to determine how one can go about solving the issue of Mozambique. It is very complex. In fact, it is so complex that I wonder whether that is even the best avenue to follow because, number one, the institutional mechanism of the judicial system and in general the public sector is extremely weak. Number two, you passed about a year ago, if my memory serves me right, a law which opens up the possibilities of getting resolution outside the legal system, because the legal system is very clogged. That might be a good alternative avenue.

The legal systems worldwide are based on a very anachronistic concept. I don't know if there are any lawyers here, but it is based on a confrontational method which is good to resolve individual cases, but it becomes very problematic when you start accumulating cases, many cases. It becomes unmanageable to deal with the cases in a wholesale way. Therefore, alternative methods such as arbitration, such as conciliation, such as negotiation, have been set up in some countries and have helped to de-clog the legal systems in those countries. And maybe in Mozambique it might be a good idea to experiment with some of those.

And last but not least, when I was in Mozambique I got a bit of a shock. As a practice, and you can see that I am slightly extrovert, I have an open meeting where anybody can come. In the case of Mozambique, it was organized by some people in the press. I gave them a summary of the discussions I'd had with the private sector, with the government, with some people that I met. And the response that I got from the people that attended was: that's all very interesting, but let me tell you, those are the big problems. My problem in Mozambique, in my day-to-day life, has to do with sending my kid to school and having to pay somebody to get him in school, having to get some kind of an authorization to set up my little shop. I have to pay there or life is unbearable. So don't think about big problems, they told me, think about our day-to-day problems. So this is a convoluted way of telling you that the issue in Mozambique is certainly very complex. For the three or four days I was there I couldn't begin to give you a good answer for Mozambique. I don't think getting the judicial system right will help everything in Mozambique. I have grave doubts.

CORNELIO MARCHAN CARRASCO (Ecuador): I represent the Esquel Foundation from Ecuador. We met in Ecuador. Which are the factors that you take into account when you define a Corruption Perception Index in a country? I think all of us who are here today would like to know more about this. We understand that you conduct some polls. Who does this? Because sometimes the results or the conclusions that come out of these polls, sometimes these indices go up and down and they don't always correspond to the people's perception in the country. This might be due to the fact that we don't know the criteria on which it is based. Could you tell us a little about this and how often are these polls conducted?

MIGUEL SCHLOSS (United States): This is a question that comes up very often in Latin America, where our Corruption Perception Index has been seen as a topic of much debate. The Index basically is a compilation of polls conducted by other institutions. We don't conduct them ourselves. These are surveys conducted by other reputable institutions. We summarize the results. We put them into this one-to-ten format that you have seen. This is done once a year according to year-to-year statistics in order to avoid a situation where certain idiosyncrasies can change a situation in a country. For example, some event or some scandal may happen in the country and perhaps the perception could shoot up just for a while. What we do is take an average of three years for the statistics to prevent undue influence by these isolated events.

We must be clear about the fact that these surveys have been carried out by organizations that compare countries or the opinions of the citizens themselves in the countries, and I would be the first to say that this is not necessarily the most accurate representation on the subject. And for this reason this year we are showing the diversity of opinions that we have for each of the indices that we use.

I would also like to emphasize another important point. I would be very careful in comparing figures from one year to another. We try to improve this Index every year, so it is not always the same sources. It is a mistake to say that the Corruption Perception Index went up in a country for a certain year. Perhaps there were new sources of opinions that we had not used before which caused the Index to go up or down for that country. So it is a very general indicator but we might as well have a vague idea than to just be completely wrong. What we are trying to show is, in a very general way, what is going on in each country. In a very general way we can see that there are certain correlations. If what we're showing for a country is that corruption is at a high level, then there must be a reason for that, and there probably is a lot of truth in that. I wouldn't like to talk about specific figures, but the range of opinions is quite a good indicator.

We are aware of the limitations of using indicators that only show the corruption perception, and so we inaugurated a measure last year that indicates the supply of money and the source of the money. We also rank the factors by industry and so on. We are planning for next year to have a detailed list of countries with other factors beyond the perception of the state of corruption in the world and in the different countries to further our analyses, because we are aware that a figure may not give us the whole picture.

LUCY GWANMESIA (Cameroon): Thank you so much for giving me the opportunity to ask a question that has been worrying me for years. I am from the Ministry of Supreme State Control of Cameroon, and therefore being of the judiciary. In the speeches that were delivered this morning and from the experiences we've had so far in all the conferences and meetings that we have been attending, we are all called upon, everybody in the world, to help stop corruption. May I ask this question? Countries are presumed to be poor, and yet the World Bank knows full well that people take money out of their countries and bank it outside their countries. Why don't they report this to the respective government when they know full well that somebody has taken millions and that person is not capable of earning even one-tenth of what he is banking outside his country? Why doesn't the World Bank report to the respective countries?

MIGUEL SCHLOSS (United States): I suppose that this question is both a question and a statement. And it's a good one. In fact, from what we were discussing this morning about money laundering and the role of banks, clearly there is quite some effort needed in this area. No question about it. In fact, I would add one element to that question and to the comments that were made this morning. The issue is even more serious than just reporting. The issue is even knowing what the hell we can report.

Talking about sub-Saharan Africa, some years ago we did a very careful survey of petroleum trade. Why petroleum? Because it is by far the single largest item in the balance of payments of all sub-Saharan countries there, either on the import or the export side, and it is either the first or the second fiscal revenue of all the countries in the region. And if one looked there at what was happening from the point of production to the point of refinery, transportation, distribution, at each of the stations, each of the countries, one could see how much money is going out of the region. At that time and it was about six-seven years ago, the amount was about \$1.5 billion. That was more than all the World Bank group disbursements to sub-Saharan Africa put together. In other words, what the World Bank was disbursing was immediately going out because of higher prices. This

was the way it was being traded in Africa. I wouldn't say that all of it is corruption. Some of it is inefficiency, but these are things that can be corrected.

Let me tell you one lesson I learned from that experience. It took us a year and a half just to get the figures. First we sat down with the oil industry. They agreed to give us access to their data. We compared it with free-traded data and tracked all the steps that were happening. So, number one, one needs some basic information. Number two, one needs proper legislation and enforcement that forces banks to behave in a certain way. I can assure you that banks in different countries have different standards. It is unbelievable how more serious are the standards here in the United States than in Europe. Knowing who is banking the monies and therefore even starting to track is very difficult. Clearly this is an area that needs attention. Having said that, this doesn't mean that the problem is an international problem alone. The countries themselves can do something about it within their confines. Some countries have taken action to correct the situation at least within their own boundaries.

GRAHAM JOCELYNE (United States): I'd like to respond to this question because I think that it is an important question which the Bank is seeking to resolve. I'd answer it in two ways. First of all, the Bank stands willing to help those countries that wish to help themselves. We at no stage can go in as an organization and prescribe to a country how they may conduct themselves even in regard to corruption. So we stand ready and willing to deal with any country and to assist any country in any way we can if they show a serious willingness to deal with the issue of corruption. That's the first thing—an offer extended to Cameroon and beyond.

Second of all, where Bank money or Bank staff is involved in anything which looks like corrupt practice, if anybody here or if you know of anyone who has information which could lead us to investigate that issue, I can assure you we will look at it. We have hotlines, we have Web sites, and we have people available. You can speak to me if you need to speak to me. I've got colleagues around the room to whom you can speak. I would urge you, just to get a sense of what is going on, to have a look at our Web site. The Web site will give you a list of companies that are being disbarred. You heard our President speak about that earlier today. Disbarred from doing business forever with our organization because we discovered they were doing corrupt things. And so I think the question is a valid one and if the message has not been strongly heard by everyone here, our organization at least, I can assure you the Bank is willing to put resources behind any kind of allegation of corruption involving our staff or our money.

Providing Adequate Controls to Prevent Corruption in Procurement

Jaime Sanchez, AAA Project Consultant and Former World Bank Project Consultant

Thank you very much for this opportunity. I think that thirty minutes for the topic of procurement is too short a time, because we only need one second to become corrupt. But I will make the best possible use of the time I have.

I would like to focus mainly on those fundamental issues which lead to corruption in public procurement. For this purpose I would like to use the first three or four minutes to talk about my experiences during this last year and a half in different countries—Bolivia, Argentina, Peru and Ecuador.

I will talk about Peru first, as this was the country where I worked first, the least recent experience. Peru has a new law, a fairly recent law, a sound law which should continue to be tested. It has more advantages than defects. I would like to talk about one of its defects first. This law allows the Controller General of the Peruvian government to have a small part in the previous or pre-control stage. I don't believe in previous or pre-controls in auditing processes. This kind of process leads these institutions towards corruption.

In Bolivia I was hired as an individual consultant. I am not a public servant; I am an individual consultant. Sometimes I'm hired by the World Bank, the Inter-American Development Bank or other institutions. In Bolivia last year we had an important experience. I only needed a short time to come to an agreement with an expert official at the World Bank to introduce the concepts of transparency to basic regulations for the administration of public monies in Bolivia. We had very interesting discussions and we were able to introduce these concepts rather easily. Unfortunately, one year and three months have gone by since our efforts and that law has not been passed.

Unfortunately it has gone through many hands. I have been working in Bolivia for these last seven months, not on that law, but I have received information that of the concepts that we agreed upon last year, a lot of them have already been modified, distorted. Perhaps it would be better for that law not to be passed. The new law could now be more harmful than the laws they currently have.

In Argentina I was also hired by the World Bank. Again I only needed a short time to reach an agreement with the expert from the World Bank, this time in introducing transparency concepts into what would be a government hiring law for Argentina. Argentina, according to a study that we conducted, is one of the countries that has very little legislation in terms of public hiring or government hiring. Argentina went through a very valuable and important structural change, a

very deep change. The accounting law became a law for financial control and administration. The only chapter that I remember is the fifth section of this accounting law. It is 50 years old; it has three articles. The last article of the law for financial administration and control indicates that the president of the republic, in a period of 90 days, will submit this law for government hiring. Within a period of 90 days this has not happened.

Since the year 1981, Argentina has had a consulting law. The law was issued, but no regulations were issued. Thus, there is excess freedom for the executive power as well as for other agencies under the executive power to issue their own standards which gives rise to excessive power. Argentina has a significant list of goods and services. It has a registry of 30,000 items on this list. This creates a cost reference which is very important, but it needs to be regulated.

During the month of November, I finished my report on Argentina and I turned it in here in Washington for review. Then in December I had a videoconference with an official of the World Bank, taking advantage of the fact that the World Bank is represented in Ecuador. We talked for about an hour about certain aspects that had been noted in my report. These points specifically referred to the introduction of transparency concepts. I was left with terrible doubt and concern because this official of the World Bank expressed to me that all of these concepts of transparency that I recommended were not necessary. These concepts had been very significant in Bolivia. The question was why would they not be important for Argentina? These concepts for government hiring are applicable in every country. This official told me that they caused delays—no integrity pacts, no hearings, some additional concepts. I said that it was my personal responsibility to gather these criteria that were universally accepted, and that I could not change my report. It would stay the way it was. This report contained those recommendations and this was the way it was sent to Argentina in December of last year.

Now, one last point that I wanted to make since time is brief, in my own country, Ecuador. During the last few months of last year I received a very unpleasant surprise. I was working with some construction chambers and some unions of civil engineers. And I was almost considered persona non grata because I had recommended the introduction of transparency concepts into our government hiring law. This is a law that is reasonably good but it could be improved just as any other law in the world. I attended a congress where I had the opportunity to chat with at least three legislators who had been involved in the Ecuadorian hiring law and they expressed their full agreement with transparency concepts. But my friends in the private sector were rejecting these concepts absolutely. Very curious. Very interesting.

Now I will make use of some audio visual aids. The first is universal concepts for government hiring. There must always be regulations or standards, legal standards and regulations. All countries have hiring regulations. Some may have better regulations than others may. Others have already gone through certain experiences. In my opinion every regulation, every standard can be improved. But the main problem with corruption in public hiring is not in the regulations or the standards; it is in the conduct of those who apply these standards. This is why I always say that in order to conduct an evaluation of government hiring, one does not need to be a lawyer. We don't need to interpret the law. We need to know whether this law is being followed or not, whether this process is in compliance. Sometimes this is not the most advantageous thing if regulations are not good. Thus, we have a conflict that is a fundamental conflict. We need to see whether laws are

being complied with or not, adhered to or not, and we need to see whether these laws are good. We need to have knowledge about this because public biddings are a very specialized topic. What we really need is to train people in the practical aspects of these bidding processes so that they can conduct evaluations that will actually help the state, that will be useful to the state.

Another element that we look for is solarity. In the Latin American countries I have visited, I have never seen one process being concluded in a timely fashion. So therefore we have to strive continuously to avoid delays in our processes. Even in urgent processes, emergency processes, there are always delays.

Now the transparency objectives are very significant issues. I will draw some conclusions later on as to how far we can go with these transparency concepts in ways other than through the standards that we have been following.

Standards are a governance tool, but government hiring can be a synonym for state corruption. This is true, unfortunately, if we start reflecting on the situation in our Latin American countries. Almost all of them have budgets that go beyond their means. We leave very little for investment—5 or maybe rarely 10 percent. How are these works carried out in our government? How are these projects carried forth? Through credit, through loans. There are huge investments, and this will help us to come to a conclusion at the end of my speech about something that we can do that is very easy.

From what we've seen in the last few years, government hiring is a very significant topic. In most of the Latin American countries we have new activities, new investments, capitalization or privatization of companies. We know what has happened in Argentina, in Bolivia, with capitalization. In Ecuador we are working on the last section of the law that will lead to the capitalization of state-run companies. We need to take advantage of other people's experiences and learn from them a way to carry out our processes in an honest and open way. We need standards, but what we really need is to take care of people's behavior, people's conduct, so they make good use of these regulations and standards.

Something we are doing in Bolivia and that I would recommend is with respect to the delegation of processes vis-a-vis responsibility. Normally the bidding authority is the one that will make the decision to adjudicate the bid. But there is an alternative. The top authority in that institution can delegate that responsibility fully to a second line authority so that the top authority will remain completely independent from the process and the revocation and the impeachment will become an alternative. Revocation, especially for the tenders and technical specs, because that will provide an opportunity for the civilian personnel to participate and observe. If the tenders need to be reviewed they can be reviewed before the process continues on. And for the legal impeachment in terms of qualifying the corporations and also in terms of the adjudication, there should be an administrative process that can be applied. The top authority's recommendation should be completely independent and a group of people can take charge of these processes to resolve them expeditiously. If the top authority is entrusted with the full responsibility of adjudication, however, we need to find a way so that the processes are not taken care of by the institution per se, because the lack of independence by the officials does not and will not guarantee successful revocation and impeachment.

One of the main features or difficulties is the lack of training or skills by the staff. Bids are a very special matter and those who know the law because they learned it by heart may not be able to do a final evaluation. We need to become familiar with the intricacies of the legal and administrative aspects that may be observed so that errors may be uncovered.

Additionally, there may be a lack of prior controls. The process of control is the summation of a series of administrative actions in public bids. The tenders have to be prepared when a group of officials take part. The specs also have to be prepared, the project design as well; the contract documents have to be drafted; the processes have to be disseminated; the companies have to be pre-qualified and the contract adjudicated and written down. So many officials take part in the process that the responsibility becomes diluted and no one is responsible for anything. So we need to come up with a system of self-control to perform successfully.

Fiscal control. The auditing authorities should not become part of the contracting process. This institution should not do prior control. The auditing authorities do not appoint public officials. Top auditing authorities in control of bidding processes sometimes take part in the corruption and so the purpose of external control is therefore lost in the process.

I would like to wrap it up. What is occurring in Latin America in terms of public contracts is quite painful. I have spent seven months in Bolivia. The first four months I worked for one of the best institutions in the nation, the Controller General's Office, and I have been privy to contracting processes and the implementation of several projects. One of those projects is now being co-managed by the IDB. It escapes me how an international organization can co-manage a contract. It is true that according to the IDB some aspects cannot be included, but some aspects of decision such as approval of design and granting the approval to some corporations is included. To that extent one of the companies that is withdrawing from Bolivia has filed for arbitration and there is a claim in the order of \$8 million to \$10 million being decided. The co-management, when it comes to the delay in decisions, is due to the involvement of the IDB. This is serious.

I reiterate that in the countries of Latin America investment in roads and sanitation is being carried out with funds of the World Bank and the IDB. Right now our laws provide that when there is investment through the international organizations, the treaties in effect govern what rules will be applied. We need for these standards in the treaties to be more demanding and more exacting. And if need be, administrative procedures must be corrected so that corruption is avoided.

My last conclusion is that public bids are administrative acts of a very specialized nature. However, public administrations do not have the economic ability to pay commensurate salaries to their officials, so the officials are not skilled enough. They may be honest, but they need to be trained. So the controllers or the courts have to train. In Bolivia, the Controller General needs to train only four officials in order to perform the assessment on contracting procedures. If we know that corruption can occur, why isn't one of our objectives to hire and pay adequately skilled officials to do the control?

I thank you for your attention.

Anti-Corruption Crusades Often Fail to Win Lasting Victories: Why?

**Guido Bertucci, Director, Division for Public Economics and Public Administration,
Department of Economic and Social Affairs, United Nations**

I want to thank the International Consortium on Governmental Financial Management for giving us the opportunity to make a presentation. As you recall, two years ago we made a presentation on the normative side of our work, namely the work that we do in setting standards, conventions relating to anti-corruption, the code of conduct for public officials, etc.

This time I will concentrate on some of our experiences in advising governments in the establishment of preventive measures against corruption. I will concentrate on the reasons why anti-corruption crusades often fail. Not because we want to be negative, but because we want to identify the reasons for these failures and then learn some lessons which will help us avoid repeating the same mistakes.

First of all I would like to explain what we mean by anti-corruption crusades. They are announcements, campaigns which an organization makes to take very specific, forceful action to fight corruption. These campaigns are sometimes started at the national level, sometimes at the state level, local level, or at the ministry or agency level. To give some examples, in Nigeria the current anti-corruption campaign and the effort to recover assets which were embezzled by previous public officials is headed by the head of state. So we have a very high level of sponsorship in this crusade. In Australia several state-level governments set up commissions to investigate allegations of corruption and sought to publicize their findings. The president-elect of Mexico, for example, has announced this summer that the federal police and the public prosecutors would be completely reorganized to deal with entrenched corruption in their current organizations. You will see campaigns or crusades focused on a specific department or a specific area of work.

However, anti-corruption crusades do not only belong to the sphere of governments. They can also be initiated by private sector organizations such as a group of businesses, or by civil society organizations such as religious institutions or non-governmental advocacy groups. In fact, many government crusades are a result of pressure which is put upon government officials and politicians on the part of these types of watchdog groups that demand accountability in the face of a scandal or corrupt acts. In South Africa an organization called Business Against Crime not only monitors organized crime but also corruption in the public sector. In Bulgaria, the Coalition 2000 Anti-Corruption Initiative was started and is run by a non-governmental organization, the Center for the Study of Democracy, in cooperation with government institutions and a number of NGOs. The founding of Transparency International with its country chapters can be seen as a very good example of civil society involvement in anti-corruption crusades.

Now I would like to look at two major reasons why crusades fail—on the one hand, political aspects and on the other administrative aspects. A government normally launches anti-corruption crusades with a lot of fanfare and pronouncements, and this generates a lot of hope. And when the hope is not met, then cynicism starts coming in. And that's why many crusades or campaigns fail because the hopes are not met. Therefore people don't believe in these campaigns. An expectation is created that change will come about to punish those who have carried out gross corrupt acts in the past, and this will prevent others from doing so in the future. Sometimes these crusades do result in a prominent, highly placed official being punished, but the high-level examples are not necessarily a good tool to prevent corruption from occurring in the future. For example, we have seen recently in China very high-level officials being executed for corrupt acts—the former mayor of Beijing. There must be more than show. Beyond this show there should be a very solid and concrete intention. If the intention is there, then the campaign is credible.

We will go now to the political reasons why campaigns or crusades fail. First of all, sometimes measures are taken in reaction to a scandal, and it is a one-time shot. The government wants to respond to public opinion, and therefore announces a major campaign without sufficient preparation.

A second reason why a crusade will fail is when it is only a reaction to external pressure from donors. It is not internalized. Officials really do not believe in it, but there is pressure from the World Bank, from financial institutions to get our house in order. Let's do a little bit just to camouflage so that at least the money keeps flowing.

Third, lip service. The politician really does not intend to go ahead full force. There is a country in Europe where the Parliament began investigating allegations of corruption by two former prime ministers. It looked like a very serious beginning of a serious anti-corruption crusade, but then everything was watered down. We describe that as a lip service crusade.

A third reason is that many times anti-corruption crusades are instrumentalized for political goals and they become witch-hunts and that way they lose credibility. And people really do not know the real motives for this exercise. Sometimes even innocent people are being framed just for political purposes under the guise of anti-corruption measures. We have seen in a number of countries, even very recently one in Asia and one in Africa, the military take over in a coup under the agenda of anti-corruption crusades. So the population believes that this cannot be a serious attempt. It is nothing but an excuse.

Fifth, the government may be very serious about fighting corruption, but it goes alone. It doesn't take the time and effort to consult and make the social partners buy in. And therefore crusades driven by a government may be misconstrued or not supported by the rest of society. For example, in Bolivia when an anti-corruption plan was drawn up recently, there had not been wide consultations, and a number of church groups did not support the anti-corruption campaign.

Sixth, a government may start a partisan anti-corruption campaign, a campaign which is one of the objectives of a political party, and then when the party goes out of power, the whole effort loses steam. However, in Japan recently, the opposition proposed a bill to prevent political corruption

through banning lawmakers from receiving goods in return for political favors and it mobilized some members of the ruling party. So both opposition and majority are involved.

The administrative reasons are less glamorous. Obviously it is very easy to make pronouncements and launch campaigns, but it is on the ground that you win the wars. It is not by the statement of the general, but by the day-to-day fighting of the soldiers. So even if the political wheel puts it in place, it carries down or trickles down to the administrative level.

One of the causes for failure which we identified is the application of wholesale solutions or some kind of stereotypes which worked out for other countries and may not be applicable to the specific conditions. When this happens we have to take the blame also as an international agency. We find it very easy to go to a formula to resolve the problem. We apply it without any adaptation and we hope that it will work but in many cases it does not.

Second, when we have technical assistance projects which tackle one particular aspect of corruption, for example, introduction of computerized accounting procedures or procurement procedures, we introduce corrective measures without looking at the raw environment, without carrying out training, without changing the regulatory framework. These innovations, technology etc., do not produce the results.

This points out the most important factor for the success of the anti-corruption campaign. It is really a lot of serious, serious, legwork whereby every single aspect of the rules and the processes of the administration are reviewed, evaluated and modified to create the necessary conditions for the corrupt act not to take place.

Another very important drawback is an inadequate monitoring mechanism. Administratively we see that many anti-corruption campaigns start, but there is no money built in so that there is continuity, enforcement, and follow-up.

And lastly, administratively we see that sometimes micro-level anti-corruption prescriptions may have unintended consequences—they are not thought out properly. For example, the introduction of user fees for certain services in order to avoid bribery may result in a service termination for certain population groups because of income.

What are the lessons that we can learn from these failures? As I mentioned before, we are looking at failure as an opportunity to fine-tune or to modify our approach so we can bring the campaigns from failure to success. First of all, at a political level, the crusades must have genuine commitment from the leaders. They have to be protected from being politicized and be inclusive of and participatory for all. It means that countries must devote adequate resources and time to appoint the right people to mount a successful crusade.

Secondly, and it was actually brought up as factor number eight in the government survey which was discussed before lunch, is the policy dialogue. For example, in 1998, two years of intense consultation around the country culminated in a national consultative conference in which government, politicians, parliamentarians, private sector, civil society and media, you name it, were all present. A manifesto, which encompassed the agreements of all these forces on how we

should proceed, and a plan of action were drawn up. I think this constitutes a very important basis for the further action of government.

At the administrative level anti-corruption campaigns must take into account the unique conditions of countries before introducing solutions tried elsewhere. The solutions, once adapted, should be applied and implemented carefully, over a long term, in a consistent way, with monitoring mechanisms. If unforeseen consequences result, careful reassessment and adjustments have to be made.

These observations are a part of what we consider a holistic approach to the fight against corruption. An anti-corruption crusade that only pays lip service may address the symptoms of corruption, but not the underlying forces. The key to successfully tackling corruption is the complementarity and synergy of both preventive and enforcement approaches. In addition to the political and administrative dimensions that I mentioned before, we could also include three important aspects: legal, social and economic.

Under legal, obviously we do need clear and enforceable provisions in the criminal code. The civil service legislation and the administrative procedural laws should spell out exactly what constitutes corruption and the accompanying punishments. These provisions should not only be there but should be enforced with adequate resources both at the level of the judiciary and the executive.

From the social aspect, both those within and outside government should follow and should try to acquire a culture of non-tolerance of corruption through clarification of values and of standards. We see how difficult it is even for public officials to know: is this correct or not correct? Can you imagine the difficulty for people who do not have access to information? Such a culture will come about over time and does not change overnight. Training is necessary obviously for public officials, as well as training and awareness also for the private sector. This implies a more transparent society where the media is free and independent to investigate and report on government performance and demand accountability.

Finally, from the economic aspect, a system of incentives which rewards good conduct and penalizes corrupt and unethical behavior will contribute to reducing not only petty bureaucratic corruption, but also larger-scale corruption. And this includes, obviously, a minimum living standard for the workers in the public sector, access to employment and the absence of a need to permit the corrupt act for survival, which, obviously, in many cases still exists.

Before I conclude I would like to explain the role of the United Nations. Obviously, I mentioned before it has a global or normative role to help countries reach common understanding, common agreement on certain standards of conduct and on what type of conduct should be punished. On the other hand, we provide advice on how to avoid certain errors and to launch anti-corruption campaigns which start on the right foot.

There are two quick examples which I want to mention, one on the normative side. The normative side sponsored an African Public Service Charter. It should be adopted soon in Namibia by the Minister of Public Service. This will basically create a term of reference against which

national legislation can mirror. It also includes a code of conduct for public officials for the African country.

Another initiative is a survey which was carried out in cooperation with our United Nations Development Program regarding the situation of ethics in the public sector in Africa. It focused on a number of countries—Cameroon, Gabon, Ghana, Kenya, Madagascar, Namibia, Nigeria, Senegal, South Africa and Uganda. Its aim was to take a snapshot of the state of public sector ethics policies and programs in the region. It identified gaps in the legislation and helped government themselves to take the action where it was required. We hope we can help donor agencies and donor countries to identify where there is a need for assistance and intervention.

So, in conclusion, I'd like to emphasize that anti-corruption crusades alone do not work. However, they should not be abandoned just because many of them do not have a lasting effect. Rather, I think my message is that such crusades have to be part of a comprehensive strategy that takes a long-term view and brings about long-lasting reform and change. Such a strategy should seek the buy-in of all segments of society in order to have a lasting effect. And in these endeavors, intergovernmental organizations can have a role through brokering information about what other countries are doing and through direct policy and program advice. We believe that the non-governmental sector, the private sector, and all the civil society should be a major actor in all these endeavors.

Thank you.

Supreme Audit Institutions Panel: Experiences in Auditing Fraud and Corruption

Moderator:

**Kenneth Dye, Senior Vice President, Cowater International and
Former Auditor General of Canada**

Panelists:

**I.P. Singh, Deputy Controller and Auditor General of India
Raits Cernajs, Auditor General of Latvia
Arpad Kovacs, Auditor General of Hungary**

Kenneth Dye, Senior Vice President, Cowater International and Former Auditor General of Canada

Good afternoon everyone. Before I get into my very short introductory remarks, I want to say how impressed I am with this conference. I've been coming since they started. I missed a few, but I've spoken at many of them. I think this is the largest. Today I've had a very worthwhile time and I hope you too are enjoying sharing this as much as I am. I'd like to congratulate the Consortium and also Casals and USAID and Jim Wesberry in particular.

My enjoyable task this afternoon is to moderate an interesting discussion by supreme audit institution representatives. I have the pleasure of introducing Mr. I. P. Singh, Deputy Controller and Auditor General of India; Mr. Raits Cernajs, Auditor General of Latvia; and Mr. Arpad Kovacs, Auditor General of Hungary. All of them are senior auditors with a wealth of experience and ideas to share with us.

INTOSAI, at its last INKOSAI in Montevideo, had as one of its major themes, "Fighting Fraud and Corruption." So this is a topic much on the minds of supreme audit institutions everywhere today, and I think that's reflected in the number of SAI representatives who are sharing this conference with us. I think it is a very good thing that the state auditors are focusing on this important problem because of the damage it causes to economy and more so because of the benefits that are taken away from the impoverished and the deserving.

I think this problem of corruption will probably continue until we find a way where the cost to the corruptor is greater than the benefit. I don't know how to achieve that, but I think that's the solution. We have to raise the bar so it's not worth being corrupt. From an audit point of view I think that means we can strengthen our control systems and make the penalties for corruption painful. You heard about China, the very senior politician who was executed. Well, over in Vietnam I understand they have a rule now—it used to be if you're caught in public corruption for

over \$28,000, they shot you. They've reduced that, I'm told, from \$28,000 to \$7,000. So maybe it is getting expensive to be corrupt in Vietnam.

But at the end of the day I really do believe that combating corruption is much more effective than prosecuting it. I think we have the World Bank and Transparency International to thank for really getting corruption on the audit agenda. Of course it was always there, but the "C" word is out of the box and the auditors, anti-corruption agencies and the justice systems are taking action. I don't think anybody believes this problem is going to go away. I see it really as an intergenerational issue that takes time to embed changed attitudes in societies.

I spend much of my time now in developing countries doing mostly institutional strengthening of supreme audit institutions and strengthening internal audit agencies. And I think there is a great opportunity there for the auditors to be combating corruption and encouraging strong systems of internal control and sound financial management systems—and then auditing against those standards.

One of the things I've noticed is that often audit recommendations are not followed up upon. I often wonder if this resistance is in part because the people who are supposed to be following up are themselves corrupt. So if audit recommendations are not taken seriously, then I think something has to be done about that.

What most of my colleagues in developing countries need is a champion—champions against corruption—and we're seeing these people emerge now. I really see the SAIs in that role. The SAIs themselves can be the champions.

Well, you didn't come here to hear me talk today. We have much better speakers than me. They are eminently qualified to share their views with us. I'm going to ask Mr. Singh to lead off since he represents audit history going back several millennia. Mr. Cernajs will follow Mr. Singh and then I'm going to give the floor to Mr. Kovacs. Since he just arrived this morning, he's just flown 3,500 kilometers, he's a little tired so we'll let him rest for a while. At the end we'll encourage questions from you.

I.P. Singh, Deputy Controller and Auditor General of India

Since the problem of fraud and corruption has been a phenomenon confronting governments throughout history, it can be found in all times and virtually in all political systems. It is universally accepted that corruption has several negative effects on economic development. The damage caused is not restricted to financial losses or resources squandered, but also extends to the loss of confidence in the government. One of the principal causes of bad governance is the existence of corruption. If corruption is not checked, our experience is that it spreads very fast.

Supreme audit institutions generally agree that the primary responsibility for the prevention and detection of corruption rests with the administrative authorities, the police or the other investigating agencies. But when fraud and corruption are detected in any organization, one of the questions asked by the public and the media is where were the auditors? How did it escape them?

The expectations from the SAIs are high in the public sector because SAIs are expected to report all improprieties where actions do not meet the generally accepted standards.

The question has often been raised on the effectiveness of the anti-corruption setup. Questions specifically focus on the efficacy of the system for action against elected public representatives, lack of independence of the special police establishments, insufficient or delayed or no action by government even when prosecution is recommended, protection given by political godfathers to the guilty, etc.

Despite these constraints, India does have the benefit of an effective and independent supreme audit institution which is perceived as a key player in the fight against corruption. The Indian SAI is an independent constitutional authority with wide audit jurisdiction. It enjoys an image of impartiality and effectiveness in the public mind. As such it is ideally placed to be a prime agency to address issues of corruption and fraud. The mandate of the SAI covers compliance and propriety audits, important instruments for prevention and detection of fraud.

In one of the famous books written in India more than 2,000 years ago, that is around 300 BC, no less than 40 ways are enumerated of corrupt practices. The corruption used to be recognized even 2,000 years back. In the last 2,000 years, the number of ways must have multiplied many times. According to the author, the ways can be so subtle that it is as difficult to detect an officer misappropriating funds as it is to detect a fish drinking water. However, some of the examples of the common corrupt practices which we come across in the SAIs are as follows. It is generally abuse of public or private office for private gain. It is misutilization of grants given for specific purposes. We have all heard about the procurement frauds and the frauds in contracting. There is under- and over-invoicing of exports and imports in an attempt to get export incentives or to evade customs duties. There are cases of embezzlement of money or government property; evasion of taxes and collusion with the revenue collection authorities; under-evaluation of state assets while transferring or selling them to private or international organizations; lack of integrity in sanctioning bank loans to parties of doubtful background with the result that many such loans become bad debts; the design or selection of uneconomical projects because of opportunities for financial kickbacks and political patronage and likewise there are many examples of elicited payments of speed money for services or to prevent the application of rules and regulations in an unfair and inconsistent manner, etc., etc.

We have heard in the morning lectures about the cost of corruption. It is very difficult to quantify with any amount of certainty cost of corruption and fraud in the public sector. An Asian Development Bank study has estimated that as much as \$30 billion in aid for Africa has ended up in foreign bank accounts. Over the last 20 years one East Asian country has lost \$48 billion due to corruption. In another South Asian country it is estimated that \$50 million is misappropriated daily due to mismanagement and corruption at all levels. Some governments have paid from 20 to 100 percent more for goods and services than they would have otherwise paid. In most of the developing countries, 30 to 40 percent of project costs are swindled away by contractors, engineers, bureaucrats or politicians.

This raises a very interesting question for the auditors. Do our accounts really reflect the true picture if 30 percent or 40 percent of the capital cost has been pocketed and has not really gone into

asset formation? The auditors are expected to certify that the accounts reflect the true picture. And if they know in the country the corruption level is even 10 percent or 20 percent, and they say the accounts do reflect the true picture, how should we reflect the cost of corruption in such capital asset formations?

In the private sector we know that corruption increases the cost of business and leads to loss. In an increasingly complicated and globalized economic scenario, high incidence of corruption is likely to deter foreign and other investments.

Now I will turn my attention to some of the methods and the techniques for the SAIs in preventing and detecting fraud and corruption.

Experts agree, and this is what many of the speakers in the earlier sessions have said, it is easier to prevent than to detect fraud. SAIs can, through their audit and oversight responsibilities, contribute to prevention by focusing on some of the following important areas. If SAIs really do a good job, corrupt practices will really become very difficult.

Recurring financial and regularity audits or compliance audits are themselves a deterrent against fraud and corruption. Fraudulent and corrupt practices are generally in defiance of laid down rules and procedures. Any major violation can be an immediate indicator of a corrupt or a likely corrupt practice. Secondly, SAIs can advise entities on how to safeguard their accounting system against unlawful manipulations. They can review financial management systems and highlight weak and risk areas that the management needs to address; evaluate internal controls to identify control weakness and make recommendations to strengthen the weaknesses identified; provide advice on strengthening management information and control systems or expenditure monitoring; and ensure maximum transparency and accountability. Transparency is built on the free flow of information that is enough information to determine responsibility for failure, incompetence or deceit. How accountability is enforced at different levels should also be examined.

SAIs should look for fraud indicators—for example, missing or altered documentation, misrepresentation of the facts or concealment of important facts, questionable documents which raise suspicion, not following rules or laid-down procedures, etc. These indicators vary from case to case. Normally in audit you only hit on the tip of the iceberg. It needs intelligent probing thereafter.

SAIs should provide opportunity to the public to report fraud and other suspicious, unethical or illegal behavior without fear. The public should not show undue tolerance to corruption. They should be encouraged to come forward. Value for money studies of programs, projects, contracts, etc., can throw up suspicious areas. Corruption always results in non-optimum value for money. Several development programs have failed to realize their goals due to corruption.

It is very important to create public awareness. Many auditors realize that their reports are not read directly. Only the media messages are absorbed quickly. If the audit findings are properly reported and appropriate quick action is initiated by the authorities, an environment is created that does not favor fraud or corruption.

And the most important is to enhance skills of the audit staff in the area of forensic auditing. This will involve conducting a high-level assessment of risks facing audited bodies with a view to identify areas most vulnerable to fraud and corruption, and to assess if internal controls and checks and balances are adequate. The full potential of the SAI to address corruption must be exploited.

Now I would like to mention some of the handicaps which are faced by SAIs, like audit methodology relies entirely on scrutiny of reports made available by the auditee. They have no power of search and seizure, no power to interrogate and no access to private reports. Audit has to rely on documentary and hard evidence, no circumstantial or preponderance of probability is accepted. Audit can only point out fraud but has no powers to prosecute.

To conclude, when we talk of corruption, the focus is on the public official who abuses his office for private gain. Those who pay bribes are sometimes depicted as innocent parties who are forced to pay bribes in return for a service or business. The reality is that both parties conspire to defraud the public, to waste resources and undermine fair practices. The most successful practices are those where the corruptor and the corruptee both gain sufficient advantage. So both are equally guilty of corrupt practice.

Efforts have been made to strengthen the effectiveness of the SAIs, create honest and accountable revenue collection services, have a more open public procurement and contract process and undertake other institutional reforms to make laws tough and risky for corrupt officials. In this process the role of free press, public awareness, independence of investigating agencies, strong judiciary and a commitment from the top as well as exemplary behavior of political leaders and high-ranking officials is very important.

Now I'll detail very briefly one case of fraud which was detected by SAI India and for which a report was produced. Though the report is quite lengthy, it can perhaps be summed up very briefly in three or four pages. In this case nearly seven billion rupees were fraudulently drawn from the treasuries by the officials of a provincial government department. SAI India conducted an investigation into the fraudulent transactions. During the investigations, conventional fraud auditing techniques were supported by extensive use of a computerized database.

The facts were as follows. Officers of the Animal Husbandry Department, who are authorized to draw funds from the government treasury for budgeted activities, withdrew large amounts of public funds from several treasuries on the basis of claims for a fictitious supply of medicines, animal feed and fodder, medical equipment, etc. Treasury officers did not check budget provisions or the authenticity of the bills before payment. The budget controlling officer of the Department provided cover to the fraudulent withdrawals by not checking the outgo of funds against his budget. He also under-reported and misrepresented the volume of expenditure to the Finance Department. The head of the Department also facilitated the illegal withdrawals of funds by a few officers by persistently overlooking the huge excess draws inconsistent with the approved program of the Department. It was a syndicated type of corruption.

The treasuries used various pretexts like shortage of manpower to avoid sending the paid vouchers to the Office of the Accountant General who was to compile the accounts of the state

government. As a result, the transactions of the Department were not included in the detailed government accounts. Disbursing officers also did not provide documents to the auditors. They took the plea that these documents had been sent to the Public Accounts Committee on their requisition. It was later discovered that the Chairman of Public Accounts Committee, who was a political figure, was also in league with the corrupt officers. He had issued this requisition just to give cover, and had also directed that since this case is being looked into by the Public Accounts Committee, intervention by any other agency would be irregular. He thought that he could sit there with the documents for a few years and then nobody would come to know about this scandal.

Eventually, when the paid vouchers were obtained from the treasuries with a lot of pressure from the Auditor General (he had to speak to the chief minister and all the top officials), it was discovered that significant withdrawals in excess of the budget provision of the Department had been made by a number of officers. That was the first indicator of likely fraud.

Preliminary scrutiny suggested that various levels of political executives and officials in the government had facilitated the illegal withdrawal of funds. The treasury officers overlooked all prescribed checks and concealed information from the accounting and audit offices.

Audit investigation had to focus on the subversion of the financial and administration controls and systems at several levels of government, in the Finance Department, Animal Husbandry Department and treasuries. This called for detailed scrutiny of transactions in several treasuries located at district headquarters covering a few years.

The audit thrust included a) how the suppliers obtained payments without actually supplying goods and what was the total amount of such payments against fake invoices, b) how the false certificates of goods received were recorded, c) subversion in the system of checking/approval of suppliers' bills before making payments in the treasuries, d) how departmental accounts and budgetary control and reporting systems were manipulated to conceal the fraudulent transactions, and e) how the controlling officer compiled his departmental accounts to send to the finance department.

The Comptroller and Auditor General of India decided to create a computerized database by capturing all relevant information contained in the vouchers and suppliers' invoices. These numbered approximately 350,000, each with 22 fields. It was a huge task.

The analysis of the database provided dramatic results. It yielded specific information about who had drawn the bills, the amounts of withdrawal, allotment of funds, mode of payment, classification of the expenditure as per the accounts and the budget head, treasury where it was paid, the date of payment. This also helped in pinpointing officer-wise information of withdrawals, period and quantum of withdrawals. The database further revealed that small offices drew large amounts against the small programs and purchased disproportionate quantities of fodder and medicines for the animals. We later on discovered that as per an approved scale, estimated requirements of feed for the animals in the government farms for three years was approximately 105 million rupees. Against this, the department spent 2,790 million rupees. That is 25 times more on the purchase of feed and fodder. The information was further crosschecked with the manufacturers of medicines, veterinary hospitals and the government animal farms. Our audit

people did a lot of fieldwork. The manufacturers had not supplied the huge quantities of medicines, the hospitals never received the medicines and the number of animals in the farms could never have consumed so much fodder which was shown to have been purchased.

It was also found that an alarmingly large and frequent withdrawal of funds took place in certain months. The finance department completely overlooked the flouting of the limits laid down on the flow of funds from the treasuries. They ignored clear signals coming from the monthly cash outflow reports of the central bank and allowed unacceptable levels of cash outgo for this particular department.

It was also discovered that the appointment of the Director of the Animal Husbandry Department was highly controversial. He was deeply involved in this fraud. He was made Acting Director without a proper selection process even though some vigilance cases of corruption and misuse of position were already pending against him. All this happened because he had a strong political patronage.

The database also helped in establishing the relationship between particular officers and suppliers. For the check of income tax and sales tax records of the suppliers, we had to go to the tax department. Those suppliers who were paid large amounts for fictitious supplies had not shown these transactions in their tax returns and had cheated the tax department also.

Summing up, this fraud is a case of blatant subversion of established systems and controls through a network of top-level politicians, senior bureaucrats and suppliers. The money involved was very huge, almost \$7 billion rupees. They plundered large amounts of public funds through a syndicated operation and kept the entire operation under wraps for two to three years. Criminal investigating agencies have now launched prosecution and scores of public leaders, bureaucrats and suppliers involved in this case are in jail. Cases of money laundering have also been detected. This money was being invested in real estate and jewelry and other expensive goods. The persons in this business suffered a big setback and many of them closed their establishments after this fraud was detected. Properties in some cases have been attached by the tax authorities. The cases are pending before judicial court.

We had to do a lot of investigation and field work before we could uncover all the facts that were deliberately being shielded. So SAIs can play a very important role in detecting frauds and cases of corruption.

Thank you.

Raits Cernajs, Auditor General of Latvia

I would like to thank the organizing committee for giving me the floor for this event and allowing me to provide a view of the work of the supreme audit institution of Latvia, especially on issues of corruption.

As you know, in 1997 in Peru, the SAI of Latvia together with delegates from 93 countries accepted the Lima Declaration to “call upon governments, international and regional agencies and citizens around the world to mobilize their efforts and energies to fight corruption.” And of course the prevention and detection of corruption is a responsibility of the governments. But also one of the primary objectives of the supreme audit institutions is to assist the government in the prevention and detection of corruption.

I am here not only as the Auditor General of Latvia, I am also a member of the Governmental Steering Anti-Corruption Committee. Of course it is a bit of a confusing situation in my position because the State Audit Office should be independent. But this Governmental Anti-Corruption Committee is comprised not only of governmental representatives, but also the Auditor General, President of National Bank, Prosecutor General and other officials of government who have to deal with this important issue. Our State Revenue Service director, police department director and all this committee works under the leadership of the Ministry of Justice.

We started to work in this Committee a couple of years ago. Of course we cannot show you very good results, but I think that the anti-corruption program, anti-corruption laws and other issues are very significant in our countries.

I would like to point out also the special importance of public opinion and attitude towards corruption. In July of this year an inquiry was made about the attitude of the public towards corruption. It was conducted by a social study company. It shows that 80 percent of the respondents are against corruption. Our society thinks that corruption is found mostly in political circles (political parties, government, parliament). This is the opinion of 74 percent of the respondents. Sixty-six percent said that corruption is the strongest in state administration, next comes the business sphere, local government, medicine and mass media. I think this is very dangerous. It means that there is very big distance between government and the public. And in this distance is free space for this hidden economy, for black economy or shadow economy. I think it is not only an economical danger but also a political one.

I will spend a couple of minutes on the history of the Latvian State Audit Office. We are very young. We were established only seven years ago as a result of the new independence of the Republic of Latvia. If I look back in history it was a very big mistake after the renewal of the independence of Latvia that we destroyed a lot of Soviet systems which dealt with accountability, accountants and audit. It was dangerous that we left an empty space for a couple of years, but accountability, accountancy and auditing were not the priority of government for a couple of years. And that had very bad results.

Like most state audit offices, we are not very big. We have approximately 170 staff members. With that we audit approximately 30 central governmental bodies, a big number of state-owned or partly state-owned enterprises and close to 600 local governments. That means municipalities, villages, etc. It is of course a very big task. The total amount of public money which should be audited by our State Audit Office is approximately \$2 billion annually. Of course there is also privatization, also investments, foreign loans and etc. It is a very big mandate for the supreme audit institution in Latvia.

Our first task was to establish a mandate for success. A lot of the criteria is based on international audit standards, after collaboration with our consultants in the INTOSAI of the European audit community. Of course, the first criterion says that independence of the supreme audit institution is most important in our audit work.

The supreme audit institution in Latvia is protected constitutionally and we have the Law on the State Audit Office, and State Audit Office regulations, which set up our independence. That means the appointment and removal of the auditor general can occur only in accordance with the laws of the constitution. Unfortunately, we have one big problem, and I think it is also in other supreme audit institutions, and that is that Latvian State Audit Office does not present a budget proposal directly to parliament. That means our budget proposals are examined by government, and that means we go through all the budget procedures as other line ministries. First it is the Ministry of Finance, then governmental meetings, then meetings in parliament. And parliament deals only with these governmentally corrected figures, not our demands. Right now we are discussing changes in our budget procedures. We are working on some proposals in the Law on the State Audit Office to correct this situation.

The second criterion is that the supreme audit institution's mandate should be wide and cover all public bodies. That means not only the central government structures such as line ministries and subordinate institutions, but also local governments, state-owned enterprises, companies with state-owned shares, public organizations with some state money and also private companies, public organizations, etc., who deal with state governments.

To do this work properly we will follow the internationally established audit standards. That means we should carry out regularity audits, compliance audits and performance audits as well. In this year we made some amendments to our budget and financial management. Our parliament law demands the State Audit Office to certify all central government annual reports and all local government annual financial reports. Of course it is very difficult to carry this out in a very short time. But on the other hand it is very necessary because the public has to be assured that public money has been spent in a proper, efficient and legal way. That's why our parliament makes such amendments. We will start next year to do these financial audits according to international audit standards.

The next criterion is independent establishment of audit programs. As I mentioned before, according to our audit regulations only the audit official of the State Audit Office can set up our audit programs. Nobody has the right to influence our audit activities. Of course we are not operating in a vacuum. We see a lot of suggestions, letters, information in the media and also from citizens. And that means we can correct our audit programs if it is necessary and if such a demand requires it. That means if it appears in the newspapers, if it is discussed by government, if we have some replies from the public, we can make amendments in our audit programs and include new audit investigations if it is necessary and the public demands.

Of course it is very dangerous when politicians sometimes use our audit findings as a political tool. However, all our audit findings are published in governmental newspapers. They are available on our Web site. We also do public relations work and inform the media. Interested parties have a right to get information from our audit findings.

Another criterion is that we have a right to perform onsite inspections. There was one interesting case this year in a government chancellery. Some money, not a very big amount, was spent not according to the budget. It was spent for building some recreational thing in a government office. Of course the director of the governmental chancellery was dismissed but he was not the only guilty person. It was lack of internal control and that is why it was discovered only by the audit office and not by internal audit. If there had been proper internal audit, it would not have been possible to build such a construction in the office. For approximately five years the State Audit Office has been demanding that the government establish internal audit units in all governmental structures. Last year it was done.

Right now we have such internal audit structures in line ministries. We cooperate with the Ministry of Finance and we participate in a coordination committee in an advisory capacity. I think things are improved because during the last year there were internal audits. There is an improved management control system in governmental structures. Also it is easier to carry out our audit programs and audit works as well because right now we can do some proper risk analysis based on internal audit findings. A couple of years ago we had nothing on which to base our audits, only some figures, some information from newspapers or some announcement in government.

Right now I think things are improved with the establishment of internal audit structures, but I think it is a bit too late. But I think in the future the collaboration with our structures will be good.

The next question is State Audit Office involvement in public procurement. Public procurement is a very significant issue involving approximately half a billion dollars annually in Latvia. Of course we are not able to audit all procurement activities but we set up our audit programs according to procurement procedures. Right now we participate in all big contract committees, not in an advisory capacity but as a supervisor. We can mention irregularities during the process, not only after the work has been done. We are unable to collect back the money. We can only show that the money was spent inefficiently.

But as I mentioned before, if we can set up all these regulations according to procurement, my suggestion to government is to establish a central procurement unit. Our country is very small and it is less expensive for a central procurement unit to order a transport and car system for all government than to have each ministry do it separately. It is only one example. This is also true for construction, repair work, some equipment and supplying goods and services.

I think it is very necessary to work in cooperation with the Prosecutor General's Office. We of course are not fraud, corruption and bribery investigators, but we see a lot of indicators that would be of interest to them. And in such a case we immediately inform the Prosecutor General's Office. They consult with our auditors. Of course we submit our papers to the Prosecutor General's Office and do our audit works. In my opinion it is a very successful collaboration. Together we investigated the spending of \$55 million for G24 loans and it brought to court seven governmental officers and a former Minister of Agriculture as well.

And the last criterion in our mandate is the audit of the process of privatization. I think it is a very significant one because it is not only economically but also politically sensitive. What I call the small privatization was no problem. The small company has no competition, no public scandals. But now it is time to privatize the big state-owned companies such as shipping companies, Latvian Electricity Supply Company, gas companies. This means a natural monopoly and it involves very significant and serious discussions in parliament. It involves some moments in the political area and that is why we should audit and evaluate the financial activity of all the state companies undergoing privatization. We should also evaluate the legality of the privatization process of state companies and the legal compliance of all the privatization projects.

The interest in such privatization is on a very high level and it will create some instability in our government. That is why I strongly believe we should carry out our audit activities very precisely.

Of course we also need theoretical background for this audit area and a strategic development plan for the next five years and an implementation plan.

Our mandate requires the use of international audit standards and staff training in cooperation with other institutions such as the corruption issues of the state revenue service, the Prosecutor General's office, etc. Of course at this time we will optimize our employment, our resources to adequately fulfill all of this task, especially against corruption.

Thank you.

Arpad Kovacs, Auditor General of Hungary

My intention is to present the typical Hungarian characteristic of corruption and the possibilities of fighting it. By way of introduction I wish to demonstrate through some macroeconomic indices the increasing lack of equilibrium that the Hungarian economy had to face in the past decade of the transition period and how it was controlled. Our feeling was the situation in the early part of the past decade was a bottomless pit.

First I would like to speak on the role of the State Audit Office in the anti-corruption fight. The publication of the overall findings, recommendations and experiences of the SAO has a primary role in promotion of the transparent operation of the state organization. These include indications also which, based on the findings of the audits, are most probably relating to corruption practices. By controlling the utilization of public money the SAO also examines what abuses and corruption practices may generally and specifically be implied in the explored infringements of law and regulation.

I am not able to avoid speaking about our heritage. In the decades of the so-called socialist era, the political and economic system offered great possibilities in distributing and acquiring public money for the enforcement of the interest of individuals and certain groups in ways not in line with the official norms and involving corruption elements. Political office was assured from

the very beginning and the mechanism of mutual favors operated at the different levels of the state in all parts of government.

In common knowledge of the people of the street, however, the concept of corruption meant no more than bribery and cheating. The mingling of the political and economic elite was considered a natural phenomenon in the operation of the state and the economy.

The operational framework of the so-called “socialist market economy” developed by the reforms in the 1980s opened new ways for the expansion of the black economy and corruption. For the sake of maintaining the system and preserving the social peace of that time, the governance tolerated the evasion of rules and increasing manifestations of the peculiar ways of “private management” of the public goods.

The macroeconomic figures show us what it means for the first decade in Hungary. In the transition period starting by 1990 certain sources of corruption like shortage of goods have gradually disappeared, but at the same time new situations emerged offering even wider opportunities for misconduct. This was motivated by the fact that the development of the governing and administrative institution system required for operating the private economy was lagging behind the changes of the structure of ownership. But the deficiencies of the legal compliance and the intermingling of organizations, persons and entities were also related to the restructuring of income processes. The origins of earnings and of the changes of the financial position of individuals or businesses could not be controlled in the old ways and the new solutions that were adjusted to the changes were evolving slowly, hindered by the resistance of groups that were highly capable of enforcing their own special interests. In the first years of transition, the legal framework regulating the state budget and the economy as well as other legal norms nearly totally had to be recreated.

Regarding the legislative activity of the Parliament in the first half of the 1990s, the intermittance has inevitably led to loopholes in the law and sometimes to controversial regulation. Because of the everyday troubles of learning the legal application, at the beginning the new rules were not taken seriously even by the management that was supposed to enforce them.

The previous system of state control has collapsed, so the audit institution as Mr. Dye has mentioned was established in 1999, parallel with the development of the new system of government internal control which has now lasted for years. However, the jurisdiction has made little progress in adaptation to the new situation. These were the circumstances when breaking down of the state property, the privatization, was put on the agenda. In this process a relatively large group had a personal interest and goal in acquiring property to which special techniques of procedure has developed.

The black economy (curtailing state revenues, tax evasion, etc.) has expanded, indications of corruption have proliferated, but public disclosures didn't happen. In the early 1990s the rate of the black economy was estimated at 30 percent. Today it is about 20 percent.

The real dimensions of corruption and the damage caused to the state economy, like anywhere else in the world, is unknown. The main feature of this activity in Hungary is that mostly it was

not and is not accompanied by a broad movement of money. It is rather manifested in the form of a moral crime—perhaps giving “checks of favor,” exchangeable years later—where the disclosure of facts, the clarification of cause and effect connection and the demonstration of criminal law is nearly impossible. Its social risks are implied, first of all, in the reservation of attitudes that impair the self-esteem and mobility of the society.

I would like to speak about our findings. I would like to show you the annual average of the mean directions and proportions of the controls of SAO. The SAO in the first half of the past decade found violations of laws and regulations, improper financial management and hasty decisions in almost all areas of the management of public funds. Due to the changes of a large number of rules and the difficulties in adapting the novelties it was often difficult to decide whether the violations of law were the result of lack of expertise and experience, persistence of old reflexes, deficiencies of legal regulations, carelessness, breach of responsibilities or pursuit of hidden personal financial interests. The Hungarian Supreme Audit Institution filed criminal reports for suspicion of committing economic crimes in the case of 25 audit reports against 48 persons. Most of them proved to be well established.

I would like to show you the classification of the criminal reports filed by the SAO. The most critical areas of violation of law were the following: financial management of local governments, the operation and decision making mechanism of the organization implementing the privatization, the operation of the so-called extra-budgetary funds and the support of different foundations from public money. The main source of the problem was the slowness of the legal framework—the regulation of the procedural and decision-making regime in imposing proper restrictions on efforts aimed to enforce partial interest.

Let me speak some words about these areas. The legal regulation of the budgetary support and the financial management of the local governments that constitute the second largest subtitle of the state budget were very complicated and underdeveloped. It was not in harmony with the different personnel and organizational capacities of the different local governments.

The lack of expertise of the civil servants working in the local governments led to mass violation of law. Because of their low income, they became exposed to corruption from both the business and financial sectors.

The legal regulation, the institutional system as well as the personnel and technical facilities of privatization were developed slowly and gradually. Fortunately we did not select distribution of property through different coupon techniques. The mainstream of the process was an organized sale of state enterprises managed rather as a business undertaking. We sold 2,000 enterprises during ten years. I was for a short time leader of the Hungarian Privatization Agency. In one week we usually decided 40 or 50 cases. It's true that, between 1990 and 1995, approximately 500 state-owned enterprises went bankrupt. It is a question mark yet, even today, how many of these were inevitable due to the dramatically changed economic circumstances, and how many were intentionally ruined by the management. It was a very funny competition. By using the means of management by corruption, they could acquire more of them with money taken out of those privatized enterprises.

By Hungarian standards and comparing the size our country, huge assets were involved in the privatization process. The actual market cannot even be estimated, nor can we demonstrate the magnitude. But ladies and gentlemen I can present the state revenues coming from privatization.

Our revenue was well over 1,000 billion Hungarian forints. The magnitude of revenues coming from the sale of state property is obviously determined also by other than market factors. The capital market and its valuation system were missing at the time we started with privatization. The decision-makers had no solid ground under their soles and they became both defenseless and easily influenced. The situation was fraught with possibilities for corruption and was aggravated by senior officials and politicians who sometimes transgressed their sphere of authority.

In the early years of transition, for the purpose of rounding out the decreasing state resources and mobilization of the resources of business life and the social solidarity, lots of so-called extra-budgetary funds and public foundations were established.

The mobilization of the extra-budgetary resources didn't meet the expectations. Both the mentioned funds and the public foundations were handling monies allocated from the central budget while the regulation of their activity was far from required. Their excessive freedom of deliberation gave rise to further corruption phenomena or the suspicion thereof.

Speaking about corruption in the former decade, I must mention the most significant bankruptcy of the past decade, the case of Postabank. This bank in the early 1990s was established basically on private money with the contribution in kind of the facilities of the branch offices of the Hungarian Post. It worked for years without any external control. Thus, the mistakes that management had made for years remained hidden. This was aggravated by inadmissible favors granted by the bank to politicians, senior officers and other prominent persons of the media and public life. This bank went through a serious bankruptcy period and the loss to the Hungarian state was over 150 billion Hungarian forints.

I would like to speak on the utilization of the findings of the SAO examinations. The indications of the SAO did not go without a response. After a while they were realized in the measures of the Parliament and the government. A number of steps were taken for the modernization of the legal framework, development of the institutional system and for the improvement of the operations. The laws hastily created in the early years of transition have been adjusted. The transparent legal regulation and the effective institution system of privatization had been established by the mid-1990s. More new laws have been passed to attain more economical and more controllable utilization of public monies. I would like to mention among others the laws on the establishment of a State Treasury, the regulation of public procurements and the prevention of money laundering. Actions were taken to improve working conditions and to harmonize the activity of the criminal investigation and the administration—bank and money market, insurance supervision, consumer protection, board of customs and excise and the tax authority.

The regulation of the activity of the local governments has already been adjusted to the circumstances. The number of extra-budgetary funds has been significantly reduced and the regulation of running public foundations and their budgetary support as well as a more strict internal control has been realized. The effect today is that the significant rate of increase of the

black economy and the corruption in the first half of the decade has declined. While there are disputes on the magnitude, in Hungary the extent of corruption is at a medium or lower level. Although there are certain delays in Hungary, like in other developed countries, the institution system has gradually been built up to keep the black economy and corruption under certain limits.

I would like after all to mention the possibilities of fighting corruption, all possibilities. It was proved in the past decade that democracy and constitutionality by its open character and transparent institutions—if it works well—may be the main obstacle to the expansion of corruption and a determinant means of fighting it. However, declaring is not enough. It must be built up from the very roots and made to function. This process has not finished yet.

The first and most important task in fighting corruption in Hungary is to adjust the legal and institutional framework of socio-economic life to the requirements of the times. We have to meet the basic demand, at an ever-increasing level, that the role of the state shall be consistent and calculable in connection with the citizens, the participants and events of the economic and social life. The state should manifest rationality and practical common sense in its laws and measures, competence and discipline in the work of institutions, consistency and determination in reckoning responsibilities.

At home the most important task today is to further improve the quality, the harmonization and the practicability of laws and other legal regulations, the unanimity of sphere of authority of the institutions and the cooperation among them and modernization of the state control system.

The stability of the administration, implementing the will of the state and representing the public interest, the accountability on the professional and ethical requirements must be ensured. The public control must be strengthened through the state policy regarding professional and civil organizations and mass communication and by more coordinated measures. In this connection I should mention that a well functioning government control office has recently started to work in Hungary.

In fighting corruption it is not criminal investigation and justice that rank first but prevention, namely the repression of opportunities, interests, inducements as well as the reestablishment and reinforcement of the respect of honesty.

Ladies and gentlemen, my feeling is that after all our situation is not a bottomless pit. I believe that the international experiences of the fight against corruption will help us to repress the epidemic of corruption and limit it to the extent that can be handled by the means of control and sanctions.

Thank you very much for your kind attention.

PIOTR DOBROLOSKI (Poland): Without a doubt it is much easier to prevent than detect fraud and corruption. If the fight against fraud and corruption is to be successful, there must exist a specific environment that does not favor fraud and abuse. In my opinion, to create such an environment, generally accepted government accounting and auditing standards can be a useful

tool, especially in creating effective cooperation between the institution and other audit institutions, also internal auditors. What is your experience in developing and implementing such tools as the generally accepted governmental auditing standards?

RAITS CERNAJS (Latvia): As you mentioned, it is a very important issue to establish governmental audit standards, and as I mentioned in my presentation, this is what we are doing in cooperation with internal government audit institutions. Two years ago we established internal audit standards based on an international adopted code of standards. Also we are implementing international audit standards in the State Audit Office according to our strategic development plan. Yes, I totally agree that only a common audit approach to significant issues such as fraud and corruption can be successful. Bribery of course is easier to prevent or detect, but on the other hand it appears that the public is more interested in punishing the guilty person who has stolen \$10, not in establishing a system to prevent stolen millions. It is a problem sometimes, but it is a problem for public relations.

KEN DYE (United States): For those of you who may not be aware, INTOSAI has its audit standards on the Web and they also have internal control guidance. And if you look at the International Federation of Accountants, their Public Sector Committee has pronounced quite widely on appropriate standards in both auditing and accounting in the public sector.

Experiences of Official Anti-Corruption Commissions and Units

Moderator:

**Dr. Ramiro Larrea Santos, President, Ecuador Civic Commission
Against Corruption, Consultant**

Panelists:

**Michal Ivantysyn, Coordinator of the National Anti-Corruption Program
of the Slovak Republic**

Mario Vircik, Secretary, Slovak Steering Commission on Anti-Corruption

**Roberto de Michele, Secretary Anti-Corruption Office, Argentine
Ministry of Justice and Human Rights**

Dr. Ramiro Larrea Santos, President, Ecuador Civic Commission Against Corruption, Consultant

I thank the organizers of this significant event. Corruption reveals the persistence of actions that conflict with the civic culture of legality. It comes into play when there are breakdowns in the normative boundary between the public sphere and self-interest. Corruption can be considered as the abuse of public power for one's own benefit. A phrase is often mentioned in Latin America: *corrupti-optimi-pesimo*, which means that the worst corruption comes from the "best persons," the "VIP's." And that is why we must apply the maxim that one cleans a stairway from the top down. And, as Gregorio Marañón said some time ago, the triumph of what is not right always produces a depressing effect on society. If the corrupt person, the dishonest person, the scoundrel, ends up as someone of renown, then people will ask themselves why they should follow the straight and difficult path.

This morning we have seen the theoretical context and the basic outlines for confronting this systemic scourge that is corruption. Professor Robert Klitgaard talked about the stages in the fight against corruption and he referred especially to awareness building. He said something that was very objective: "Corruption can turn into a parallel system of government." And this is why awareness is important. We need to change this corrupt system. Daniel Kaufmann talked about mechanisms for overcoming corruption, and the need not to be fatalistic when faced with this challenge. When we have knowledge, when we have information about the problem and we integrate action with corrective action, we can meet the challenge.

Society is the most important player in the fight against corruption. This afternoon we have listened to the experiences and practical actions that have been taken in this struggle and we should, as somebody was saying this morning, call them a great crusade against corruption.

In the previous panel, someone referred to experiences in auditing fraud and corruption. Now we should refer to the experiences of anti-corruption offices—very unique, particular experience, no doubt. We will listen to the following speakers: Mr. Michael Ivantysyn from the National Anti-Corruption Program of the Slovakian Republic; Mr. Mario Vircik, Secretary for that same program; and Roberto de Michele, Secretary at the Anti-Corruption Office of the Ministry of Justice and Human Rights of Argentina.

To conclude, I will talk about the experiences in my country, Ecuador, and then we will ask you to pose your questions. We have heard a lot of theory today, many practical references as well, but now we need to have a dialogue, a discussion, questions and answers to efficiently and effectively face this huge problem of corruption.

Michal Ivantysyn, Coordinator of the National Anti-Corruption Program of the Slovak Republic

Thank you ladies and gentlemen. I was honored this morning to present to you the Slovak national program of fighting corruption.

With your indulgence, I would like to highlight very briefly one crucial lesson learned. And that is that the success of combating corruption depends on a well-functioning nationwide anti-corruption alliance—an anti-corruption front built in a partnership with government and non-governmental organizations and the corporate sector. Combating corruption is a nationwide project and, as such, it calls for this broad cooperation.

The main tasks of non-governmental organizations include monitoring of the situation in the area of combating corruption; contributing to the general allocation for combating corruption; participating in and preparing of analyses and independent expert assessment; and last but not least, supporting the government. Because non-governmental organizations, independent associations, have their independent position, the monitoring of corruption in the country is a substantive factor in evaluating the effectiveness of anti-corruption measures. Also, analysis and independent expert assessments represent the basis for mapping out the situation in the anti-corruption effort. The participation of non-governmental organizations in their preparation ensures that the results obtained are objective.

Another role for independent organizations is the educational function. Our experience is that NGOs are much more effective in such education than governmental agencies. Taking this into consideration, I would like to thank all representatives of NGOs who participate in combating corruption. The role of independent representatives in combating corruption is substantial.

Thank you very much.

**Dr. Ramiro Larrea Santos, President, Ecuador Civic Commission
Against Corruption, Consultant**

Mr. Michal Ivantysyn referred to the comments that he made this morning and he has been very specific in saying that monitoring is very important in combating this terrible problem of corruption. We need to make society aware of the problem and we need independent assessments on the part of all the agencies that are involved in any way in this phenomenon. Mr. Ivantysyn also highlighted the role of the non-governmental organizations. Because of the span of their scope they can guarantee an objective view of corruption. Civil society, as he was saying, is the main actor and we need to incorporate it into our struggle against this systemic evil.

Now we will listen to the comments of Mr. Mario Vircik, Secretary of the Slovakian Commission on Anti-Corruption.

Mario Vircik, Secretary, Slovak Steering Commission on Anti-Corruption

Good afternoon ladies and gentlemen. I would like to express my great thanks for this opportunity to present our experience at the Anti-Corruption Summit 2000.

As you heard from the morning presentation, the fight against corruption in Slovakia is a big issue. I would like to touch on the implementation of the National Anti-Corruption Program in Slovakia and what we have achieved so far.

As a bit of history, the crucial point was when the government changed in 1998. Between 1994 and 1998 we had one sort of national anti-corruption program, so-called "Clean Hands," but this ended up in no action. No action means no improvement. In August 1999 the Prime Minister met representatives of Transparency International, Slovak Branch, and they agreed on preparation of the first draft of an anti-corruption program.

Consequently, the Steering Committee was created in November 1999 on an initiative based within the Office of Deputy Prime Minister for Economic Affairs. The Steering Committee consists of government officials, NGO and donor organization representatives throughout the world. In February 2000 the Prime Minister presented the first official draft of the National Anti-Corruption Program for the public commentary process. As a result, in June 2000 the government adopted the National Program and approved further steps. The steps: 1) official creation of the Steering Committee as an implementing and advisory body to the government, 2) preparation of the National Anti-Corruption Action Plan and its submission to the Government Session in the middle of October, and 3) preparation of immediate steps to improve the existing situation.

Fighting corruption in Slovakia has two major perspectives. The first is adoption of a good legislative framework together with building up the institutional support. The second one, after 40 years of Communism, is to raise the perception of the public towards corrupt behavior.

The Steering Committee, as mentioned earlier, was officially established in June 2000 and is divided into three thematic groups. The first one focuses on the repression side of the anti-corruption fight and is represented by law enforcement agencies (such as Ministry of Justice,

Ministry of Interior, General Prosecutor's Office, Police Corps Headquarters including Financial Police, etc.) as well as donors (like American Bar Association, Central and Eastern European Law Institute) and NGO sector representatives (especially those deeply involved in adoption of the Freedom of Information Act in Slovakia, which will take effect in January 2001).

The second thematic group is focused on the prevention of corruption and areas that are not covered by the first group, such as corruption within the health care system, education and the ongoing privatization process. Even the National Property Fund that has responsibility for privatization activities in Slovakia will have its individual action plan of disclosing existing information and procedures.

The third group is represented mainly by Transparency International, Slovak Branch, and concentrates its effort on cross-ministerial issues that are not included within the previous two mentioned groups or, better said, do not belong to any individual ministries. They are Freedom of Information Act implementation; foreign aid transparency; immunity of members of Parliament; conflict of interest issues and disclosure policy; media; corruption at the local government level; ethics in public services; ethics and transparency in the state-owned enterprises; financing of political parties; the fight against corruption within NGOs themselves; education on ethics and corruption prevention; licensing, subsidies and permission granting; and lobbying regulations.

The Steering Committee represents a creation of whole society alliance, which is crucial in effectively fighting corruption. All society representatives must cooperate on the common aim—not only NGOs, not only donors or government itself. We do appreciate involvement also from the World Bank since its results of the very thorough diagnostic survey on corruption in Slovakia has been utilized in the preparation of both the National Program and Action Plan on Anti-Corruption.

As I mentioned earlier, where there is no action there is no improvement. Consequently, after adoption of the National Program in June, the individual ministries were charged to develop their own action plan on how to fight corrupt behavior and practices. Since we wanted to avoid excessive paperwork, we requested they submit action plans in accordance with the methodical order of the Deputy Prime Minister for Economic Affairs. This methodical order is clearly defined by a four-column chart. The first column indicates the possible areas where corruption can occur within the individual ministry. The second focuses on the possible solutions, how to deal with the prescribed problem area. The third delegates responsibility for realization to various units or people within the ministry itself. Finally, the last column comprises the deadline data, when the solution must be carried out.

More than 25 individual action plans were received at the beginning of September, and we now have five or six weeks to review them and prepare the National Anti-Corruption Action Plan. This is supposed to be submitted to the Government Session in the middle of October or at the end of October. The Steering Committee role, together with the public and media, will be to monitor and evaluate implementation of the Action Plan.

Considering the fight against corruption, you have to be as transparent as you can. In order to be transparent we have created our anti-corruption Web site, www.government.gov.sk, where you can find all the relevant information (e.g. National Program and Action Plan in both the Slovak and

English languages). Obviously we will be glad if any one of you can make any comments on the National Action Plan that is still under preparation. Please do so soon, before it is submitted to the Government Session.

In conclusion, I thank you for this opportunity and for your attention and will be glad to answer any of your questions.

**Dr. Ramiro Larrea Santos, President, Ecuador Civic Commission
Against Corruption, Consultant**

Thank you Mr. Mario Vircik. From a context that he defines very specifically as something that is vital, if there is no action there will be no improvement. So based on these words, a steering committee was created in 1999 and this committee created the plan about which they have been talking. He has explained to us the importance of public participation.

Now we will listen to Mr. Roberto de Michele, Secretary of the Anti-Corruption Office of the Argentine Ministry of Justice and Human Rights. Mr. Roberto de Michele has a long record of public service as well as participation in these conferences for transparency in public affairs. So please let us welcome him.

**Roberto de Michele, Secretary Anti-Corruption Office, Argentine Ministry of Justice
and Human Rights**

I would like to thank Jim Wesberry and Casals & Associates for organizing, once again, an extraordinary conference, and I hope everyone will benefit from this.

I would like to focus on two issues. The first one is a general introduction to the duties of the Anti-Corruption Office in Argentina. The second one is a very specific action that this agency has brought about regarding the administration of the system of financial disclosure forms. To make this point easier to understand, I will show you a practical case.

Before entering into the matter, I would like to mention that I am glad to notice that after some years we are moving away from an approach of corruption that identifies the problem with certain features of people or with particular cultures or with specific groups. There is an increasing awareness on the advantages of analyzing the problem of corruption under a systemic approach.

That is to say, we are not only concerned with the moral attitudes of people or the so-called cultural values of a given society as the cause of corruption. Now we tend to focus on the systems that promote or deter corruption, and how to define, design and implement such systems in terms of their contribution to the improvement of our administrations, the access to information, transparency and good governance. I really appreciate that those kinds of ideas and thoughts are present in this conference.

The first topic of my presentation is the Anti-Corruption Office of Argentina. This agency was recently created by law. Its mission is to implement the mandate of the Inter-American

Convention Against Corruption. The Convention consists basically of two main areas. One area is dedicated to issues of criminal law and corruption as defined by codes and statutes, as in the case of a series of definitions in terms of public officials, bribes, and actions and situations which should be deemed or considered to be corrupt.

The other significant section of the Convention refers to preventive measures. This section covers actions, decisions, procedures and systems to prevent corruption and introduce incentives and measures that reduce the opportunities for particular cases. The structure of the Anti-Corruption Office of Argentina reflects this very significant division. It is divided into an investigation area, namely the Department of Investigation, and another one that works on transparency policies called, in fact, the Department for Transparency Policies. The area for transparency policies is responsible for the unit in charge of financial disclosure forms for the public officials system.

The Department of Investigation has substantial powers to fulfill its mandate in terms of what can be done within the sphere of public administration, meaning not the legislative branch nor the judiciary, but the executive branch. The area of investigation has the authority to request information from any public agency, particularly agencies related to tax collection or revenues. They can call upon public officials and private parties to testify. They are capable of preserving the confidentiality of information that is received in case the person submitting such information requires some level of protection.

Perhaps the most significant difference with other areas of the Argentine administration and other agencies of enforcement and control is that the Anti-Corruption Office can select the cases to investigate based on three selection criteria. These criteria are based on the economic, institutional and social significance of the case. The fact that many investigation agencies end up being overloaded is that they are required to take every case, whether important or not.

Once an investigation reaches a certain point, the head of the agency, the Fiscal de Control Administrativo, can decide basically on three courses of action: a) that the case is important but not significant enough to be carried out by the Office and therefore will be submitted to another investigative agency or sent to a District Attorney, b) that the Office itself will present the case before a criminal judge; or c) the Office will present the case before courts and act as co-claimant along with the District Attorney. The latter action means that the Office is empowered to ask the District Attorney or the judge to find and produce additional evidence to the one that has already been presented, call for witnesses and take actions like search and seizures or other measures that require the intervention of the judiciary.

Concerning the area of transparency policies, an appropriate metaphor is the anti-virus system of a computer. Whenever the investigations area opens a case it probably means that something went wrong with the system. The Department for Transparency Policies is in charge of helping understand the defects in the system that allowed the case to take place. It tries to find out whether it was a legal problem, a failure in the structure or in the design of that particular agency; if it was an incentive (check and balance) issue; if the irregularity occurred due to a deficient level of access to information; and finally it attempts to recommend changes or reforms to remove the causes as a way of introducing preventive measures.

Generally speaking, the Department for Transparency Policies is very active in promoting access to information using, amongst other policies, public hearings to debate and discuss substantial decisions within the public administration. It recently elaborated a proposal for the President to sign a decree to regulate public hearings within the executive branch, introducing as well notice and comment and rulemaking as a mechanism to increase participation of interested parties in the administrative procedure, increasing the access to information.

The Office is staffed with a group of 35 people. All of them were selected on the basis of their academic or professional background. The average age is around 30 years old. Some of the people working in the Office have an outstanding academic background and professional expertise. Not all of them are lawyers. Engineers, accountants, sociologists, political scientists, and economists are part of the staff. Since the problem of corruption is not always a legal problem, there is a need for the assistance of people from backgrounds other than the legal one.

The Anti-Corruption Office is also active in pursuing expertise interchange with other agencies and in fact it recently has signed a very important and significant agreement with the Office of Inspector General of the State Department and with the Office of Ethics in Government of the United States to exchange information and technical assistance.

The next issue I want to tackle is related to the system of financial disclosure forms for public officials. Why is it necessary to have such a system? One of the causes of corruption is the lack of a distinction between the public interest and the private interest. In countries with lesser institutional development it is often the case that such a distinction appears to be blurred. Generally speaking, the public interest ought to be above the private interest of the people at large and particularly of those who work for the government.

A financial disclosure system already existed when the Office was put into operation, a system that was basically copied from the American legislation with some additions; it required some 25,000 public officials to complete such forms with the executive branch.

The information was collected on paper forms. Separate forms for public and private data were needed since the law requires that information such as your bank accounts and credit card numbers be kept under strict secrecy. Therefore different types of forms which increased the amount of work were prepared. Needless to say, the system needed a significant number of people just to control the formal compliance of these forms.

I will give you an example. In my case, I have to fill one form for myself and for my wife. I had to fill an original form of around 35 pages for both of us, including the form containing data with restricted access (credit card numbers, etc.). Multiply my case for 25,000 public employees (and imagine those who have children or large families) and you will get a fair idea of the amount of paper produced by the old system. It was an enormous workload with relative results. This system also implied an addition to the workload of the associated agencies.

The forms were lengthy and complex. It was not possible to fully control the consistency and integrity of the data collected. There was a significant level of error in completing these forms. Close to 90 percent of all forms submitted had some sort of error.

At the same time, such a large number of documents need storage space. Just for the financial disclosure forms of 1999, and the ones of the public officials entering into office at the end of last year and this year, the vault of a bank was needed to keep them safe. If we insisted with the same system, we would need a larger storage space, with the additional costs that such decision implies.

There were also bureaucratic consequences of the old system. When a form has a mistake or error, the law determines that the Office has to elaborate a formal request to the public official in order to amend it. In practical terms, it means sending the form back and consequently a general increase in bureaucratic activity with no added value in terms of detection or prevention of potential wrong doing.

How did we face these problems? The new system requires officials to electronically fill the form and to use the Internet to deliver the main portion of the information. Because of legal restraints the paper forms will not be eliminated completely. However, a typical form is now reduced to an average of five pages. Most of these pages are printed because they contain sensitive information (numbers of bank accounts, etc.) that will not travel via the Internet for security reasons.

The benefits of the new system include an improvement in the Office capacity to control as well as a dramatic reduction of the rejected forms or data entry errors that were pointed out before. The Financial Disclosure Unit will have more capacity to analyze in qualitative terms the content of the information. Fewer people will be needed for clerical work so the existing human resources will have more time to analyze the contents of those forms. There will also be less workload for the associated agencies.

The cost per form has been estimated at around \$70 for the old system. This is the cost in terms of hours spent by personnel organizing and asking for corrections and the time needed to complete the form. The new system will be reduced to a cost close to \$6. The system will allow the automatic identification of mistakes and errors and therefore reject them automatically and send them back to the issuer. The database that will be constructed after this will allow a better tracking of the evolution of the financial situation of public officials and there will be a drastic reduction in paperwork.

The new system is also designed to guarantee the confidentiality and integrity of the information that is transmitted via the Internet. More time will be spent on in-depth control of the available information and also in the provision of assistance to public offices and related agencies to implement the new system.

The last point and perhaps the most important one, is that the cheapest and most effective way of monitoring and controlling the government officials is via citizen participation. The forms are available to the media and people at large, who can look at these forms and see if what public officials are doing or saying is consistent with the way in which they are living and acting.

It is also important to point out that the new system allows following the evolution of the professional and private interests of public officials in order to avoid situations of conflicts of interest. The system also requires the input of the number that the IRS in Argentina uses to identify taxpayers. That is extremely important because it makes it possible to crosscheck the information in the tax system and verify its consistency.

Comparing both systems, the previous one required up to two to three hours to complete the forms. With the new system, and this was tested with a sample of heterogeneous public officials at different levels and in different situations, it did not take more than 40 minutes. Hence it is also more efficient for the person who has to complete the form.

Besides reducing cost and increasing efficiency, the purpose of the new system is primarily to reconstruct or to put back into its appropriate dimension the problem of the public interest versus the private interest. One of the main duties of the Department for Transparency Policies is to deliver a pronouncement regarding situations of conflicts of interest of public officials. Unless there is a highly efficient and fully operational information system, that cannot be done. It would depend on people coming forth and saying, “I think that person has a conflicting private activity.” So the increase of information availability is always useful for other activities to perform to achieve a higher level of transparency.

Finally, I am extremely interested in receiving comments from any of you who might give us suggestions on how to improve this system. Also, anyone who feels that they would like to take advantage of this system, the Anti-Corruption Office is willing to share it with whomever is interested. Thank you very much.

**Dr. Ramiro Larrea Santos, President, Ecuador Civic Commission
Against Corruption, Consultant**

Thank you very much Mr. de Michele. In his intervention he discusses two subjects—what the Anti-Corruption Office of Argentina is doing, and also what it is doing to control and systematize the procedure. This is linked to what all countries are suffering. The more complicated the procedures, the more opportunities for corruption to occur.

Corruption is not a problem about individual people or organizations. It is a systemic problem rooted in the many countries of the world. And so it is essential to create a system in order to create transparency of action. After an in-depth analysis of procedures, a thought remains. Mr. de Michele is asking himself why do we need a system like that? And his answer is because of the lack of differentiation between public and private interests. This is the basis or the foundation of corruption.

I will now take a few minutes to address the situation in Ecuador. From the outset I will say that it is an honor for me to share the current experiences of the Civic Commission Against Corruption in Ecuador. The panelists and you who have participated in this conference from its beginning are a very distinguished group of citizens who have attended this Anti-Corruption

Summit in order to deal with this macroeconomic problem. Your experiences in the fight against corruption will be invaluable for our Commission. What you say to us will be a great contribution and so I am asking you to exchange ideas in the conference or outside as you may see fit.

I will be very brief in the discussion of our Commission. At the outset I need to say that the Commission is three years old. We have been working along three lines of action. It was started on March 4, 1997, by means of Executive Decree 107-A. Acting President Alarcon empowered the Commission to conduct an investigation of corruption in Ecuador.

The Commission does not report to any of the three branches of government. We work within the framework of the Constitution and the law that is based on an explicit declaration of political, economic and social independence for the members of the Committee. It is the civil society that will appoint its members. So my emphasis from the beginning of my intervention is to say that the protagonist of this fight is the civil society and that the universities will be appointing the delegates, the workers, the campesinos and the labor delegates. The professional organizations have delegates as well as do the business sectors and the Commissions for Human Rights.

There are seven members to the Committee with absolute independence from the three branches of government. We aspire to have economic independence to guarantee our independence. We have our own budget. We want to become completely independent on economic terms.

How do we do that? We have two lines—one is research of the reports we receive. We receive in excess of 1,600 reports per year. We go over them to see whether there is probable cause for administrative or criminal corruption. And we send them to the control entities to analyze them. We send the results of our investigations to the Controller General, to the prosecution, to the judiciary. Those functions are not completely exempt from influences and our aspirations become truncated sometimes. We, however, do report to the civil society which expects to see the outcome of our work. We don't have the ability to sanction or to sentence. We are not judges. We arrange meetings to coordinate the efforts of the controlling agencies. Sometimes we have a quick outcome. Other times it is delayed. And the citizen at large is anxious to bring this to closure.

Corruption occurs the world over, and we will not eradicate it at once. We are determined to fight against impunity. We basically believe that corruption is an ethical problem that has to do with values. And so we have prevention efforts that may be defined along three lines. One is the awareness of the citizenry. We work with community organizations and we define modules of youngster networks. Also we visit with professional organizations and we review their code of ethics. This has to do with prevention. It has to do with social control.

Then there are systems of monitoring for the society at large. When we discuss public bids from the time that tenders are written through the adjudication of the same, who has an interest in the process? The society at large does. So the citizenry of Ecuador participates in the monitoring of public works.

And then lastly we have public opinion or the creation of social networks. That is, we are implementing mechanisms to disseminate our information to the general public. There is a constitutional statute and a legal rule that is contributing to this effort. President Alarcon, I must say, has been tried and convicted and imprisoned. We have requested that President Mahuad be tried because he has broken the law. So you see, this shows that we are independent, both socially and economically. Again, we would like to see better results.

From the 1,600 reports that we received, 24 percent were prosecuted. The Council of the Judicature, other agencies and the Commission issued 300 reports for collective action to be adopted. Twenty-three percent of the reports, or 395, were dismissed. Many reports by the citizenry reach the Commission for investigation but our jurisdiction is limited. So we need and have proposed legal reform that will authorize us to request of a judge the enactment of preventive measures to avoid such questionable circumstances.

When we look at the financial crisis, those officials that are enjoying the proceeds abroad, we feel that we cannot betray the interest of the population at large. We have asked the national government to approve extraditions. We signed a convention with the U.S. last century, so we need to implement a new and more efficient mechanism. We cannot turn our back on the people and on the community.

Financial institutions are subject to control, such as the bank superintendency. The controlling agencies for these institutions are appointed but there is no guarantee that they are independent in their actions. Loans are given to companies that do not have enough guarantees.

Customs, we have already mentioned this morning, traditionally has kept the booty for the administration in power. Also million dollar campaigns are invested in policies that benefit their own personal interests. This is smuggling through tunnels—not physical tunnels, but rather through groups of people who allow containers to come in without paying taxes. These are false documents and false customs declarations, unethical public hiring, which we have mentioned already. Thank you for all those guidelines and suggestions that were given to us to face this problem in the procurement of goods and services.

Oil deals—we are an oil producing country but we are one of the poorest countries in Latin America. A politician was asking, “Where is the money?” It is in their own pockets. This has to end. We have terrible problems in negotiating our foreign debt. We can’t pay it off. How is it that you have debt if you have gold and silver mines and you have oil? The benefits, the revenue, is in the pockets of the politicians. We need to discuss this problem together. We need to analyze it together.

I would like to conclude on this note by making a very important request—presenting a proposal to the audience at this Summit. The investigation of these crimes, these corruption problems, is hindered by some people. We cannot do this alone. We must all work together. The organizers of this Summit and the representatives of the agencies that combat this problem, please receive this proposal: “Participants of this Summit, declare as an unpostponable action to promote during the following 12 months the promulgation of national and international juridical norms to efficiently struggle unlawful enrichment, as well as develop appropriate methodologies to be

applied, fulfilling what is stipulated in Article XV of the Inter-American Convention Against Corruption subscribed in Caracas in March 1996.”

Why this illegal profiting? We are in a vicious cycle. Corruption is where it starts. From corruption we go to impunity. Why impunity? There is impunity because laws are too permissive. There is a weakness in the control and enforcement agencies. If there is corruption and that kind of impunity exists, then illegal profiting is generated. And who benefits from this? It is the minorities in power that discredit democratic institutions, impoverish and exclude the majority. We are all part of these democracies.

We have been visiting all these fabulous monuments you have in this capital city and we think about Abraham Lincoln who in his Gettysburg Address redefined or defined that democracy is for the people, by the people. In some countries it is a government for the people, by the people, but without the people, because where are the people? It is the groups that are in power that degenerate democracy and the degeneration of democracy is this populism demagoguery with populism on one side and oligarchies on the other. When are we going to support democracy? All day long we have been talking about fighting for society, for our collective interests for democracy, for governance. We need to be fully aware that there will be no democracy, no consensus, no agreement, and no legitimacy of our institutions unless we put an end to this scourge which is illegal profiting by groups that monopolize the power. This illicit profiting funds political campaigns and, from one group to another, each takes turns in power. And when will we overcome the poverty of the majority? This is not rhetoric because Latin Americans and also other countries, other peoples in the world, have suffered personally the consequences of this impunity—those who come to power through illegal profiting.

President Mahuad gave a banker \$3 million to receive his help in the campaign. This happens in almost every country. Forgive me for being so grotesque in my analysis, so crude, but this is a Summit that is incredibly important. We have to appreciate what its organizers have done, but we need to go beyond rhetoric and come to practical solutions. One of these solutions would be this law, otherwise the same demagogues, oligarchies, populists, will keep doing what they’re doing. There will be corruption, impunity. This problem of illicit profiting discredits our democratic institutions. When will this vicious cycle end? When will we have a virtuous cycle where human beings, citizens, can have their needs satisfied? We can say, “Well, we already have our laws on illicit profiting.” Yes, I know we all do, but we have different scopes here.

If there is an Inter-American Convention Against Corruption, if some countries have legislation against illicit profiting, let us establish a common denominator of legal standards, what experts called double typology for a crime. One country’s legislation for illicit profiting should be the same as another country’s legislation. Otherwise we will have the same situation as with extradition. We have a law for extradition, but some other country does not have an agreement for extradition. Therefore this legal framework is frustrated.

This is what I ask this audience to work on. I beg you to keep in mind the clamor of the majority of our citizens who do not see the most basic needs satisfied.

SUSANA CIRIGLANO (Argentina): I am a specialist on financial management with the World Bank. I work for Argentina, Chile and Uruguay. It is truly a pleasure to be here. It is an honor to share this room with so many distinguished people. I would like to thank the authorities that organized this conference. I would also like to thank the panelists for their speeches.

Based on this debate, I would like to go back to something that I think has been very positive and it is Roberto de Michele's speech. When we talk about illegal profiting, we are conducting a diagnosis. We are asking where the problems are. What Roberto did was to diagnose the problem and apply a solution. It was a very practical solution that is already in place in the system. I think that the difficulty is not in finding the problems but in diagnosing them—finding a solution and applying it. Roberto, how long have you been in your position and how long did it take to develop the system that is in place?

ROBERTO DE MICHELE (Argentina): I've been in my position for nine months. The Office has been working for nine months and I have been working on this system for eight months. We have fallen a bit behind schedule.

There are two very important points that I would like to mention. In the first place, we used the existing personnel to develop the new system; we also used the technical resources we had available. In the second place, most of the people who worked on the project are career public servants except for two or three people responsible for coordinating the project. The people who designed the software are public servants who are also experts on computer systems at the Ministry of Justice. The people who designed the forms are public officials who are specialized in these kinds of proceedings. I come from the private sector.

NELSON REYES RIOS (Peru): I direct the Magistrate Control Office in Peru. I am very happy to see that we have shared ideas and intentions today to fight against corruption. I think that is the main goal that we all share. That is what we can take back with us to our countries. We need to mention that prevention must be undertaken. We are trying to resolve problems of corruption that have taken place. We look for the causes of corruption that has already happened. I ask myself what can be done to avoid these problems in the future. Is it enough to implement standards to avoid both the law of the jungle and a jungle of laws? What will we do with these standards if the citizens are not receptive to them? What can we do to avoid this problem? I would like to contribute to your experiences, exchange ideas with you and tell you that we should start generating a culture of honesty, and this is developed basically during childhood, in the family.

I would like for this Summit to be aimed toward this idea, to give children the education that they need in this respect—not only in implementing the standards that we have proposed, but also in an educational program with a wide scope that will reach families and children. I think, as a Peruvian colleague mentioned this morning, sometimes we ourselves are the ones who allow and even encourage this unethical behavior. We think that childhood is the time to introduce the concept of honesty.

JORGE RODRIGUEZ TORRES (Ecuador): I work with professionals in the Ecuadorian Anti-Corruption Commission. A few days ago Ecuador was considered by Transparency International as the most corrupt country in Latin America including South America and Central America. This

is because last year we had a financial crisis in which our bankers took 26 percent of our GDP. This is about \$29 billion. This score was earned because of some specific events that we've had in the past years, and we still continue with this corruption. But in order to lower our score for next year we will need the help of the United States, including the World Bank. We have signed an extradition agreement with the United States. We've had it since 1874 and it was confirmed in 1943. In addition to that, in this crisis it wasn't only Mr. Mahuad who participated, it was also his finance minister at that time. With that extradition agreement and all these financial crises that our country has been going through, we would like to ask you to please allow us to extradite those bankers, Mr. Mahuad and his minister of finance. We need your support to carry out all the arrangements, all the legal arrangements, and set a precedent that will be very important for the Anti-Corruption Commission. It will be to show the Ecuadorian people that we can work together with you and we can fight corruption.

ENRIQUE EDGAR MONTENEGRO DIVIAZO (Panama): I am Secretary General of the Fight Against Corruption. I would like to ask Mr. Roberto de Michele, Secretary of the Anti-Corruption Office of the Ministry of Justice and Human Rights of Argentina, to clarify a doubt that I have, something that is being debated at this time. A few days ago 14 Senators of Argentina were accused as participants in an act of corruption. What impact has your office had in this report, in this accusation, and do you think that these Senators could be dismissed? What actions should the President take?

ROBERTO DE MICHELE (Argentina): We knew about these events just before the information reached the press. A group within the Department of Investigations had been examining the case. When all the available information was collected, it was submitted to the judge who has authority in this case. All the information is part of the case opened to determine the responsibility of a group of senators. In my personal opinion, as a private citizen, and this is not necessarily the government's opinion, I think this is a very serious issue. I think one of the causes of this case is the lack of legislation. We don't have any lobbying laws and it is very difficult to distinguish between a legitimate and an illegitimate contribution. I'm not saying that this was an illegitimate contribution, but a first step to establish that criterion is to have a statute, and we do not have one.

In the second place, I think that the social impact of the case is very negative. If we look at the Gallup polls on the credibility of the branches of government in Argentina, we see that the legislative power since the restoration of democracy never had a good image. Now it has a totally negative image. In 1983 the executive had a positive image. Now it also shares a relatively negative image. A young democracy—perhaps no democracy—can afford losing its legitimacy. It will be very difficult to prove this case because the institutional damage has already occurred.

CARLOS MORELLI (Peru): In Latin America, in Argentina, the Senators are popular but we are also popular for different reasons. I would like to say something about three specific situations that we're going through in our countries. Sometimes it is cause for desperation and sometimes it is cause for hope. For example, we have countries where we have established that there should be confidentiality about a person's finances unless a judge gives authority to talk about them. In some countries people are asking to put the finances on the Internet. On the one hand the law requires

that this confidentiality be maintained for public officials, and on the other hand you need to give access to this information to the public and to the media. How will this be done?

Another question for you, Roberto, and for Ramiro, is the topic of bank secrecy. We are failing in many countries because we cannot eliminate this. I am asking for your opinion on this topic because I know you are struggling with specific cases. In Peru we have not been very successful in dealing with bank secrecy in our banks outside the country. I know it could not be done in Switzerland in the IBM case. I don't know how this can be done. In the case of trying to do this for tax havens, there was an initiative that I think we could support that goes along with what Ramiro was saying. We are trying to give a score to all these tax havens, and if there is one that does not comply with some requirement it will be excluded from our future banking systems. So these two concerns are related to the problem of illicit profiting.

There is no illicit profiting law in the United States, as you know. This has been discussed several times and it is considered inadvisable. I would like to relate this to something else. Nelson Reyes was the person who just spoke and he is the person who is in charge of monitoring the activities of judges. He is almost like a James Bond, if you would believe it, because to prove that a judge has profited in an illegal way, he has created a very sophisticated technological system. The only way to uncover these judges is to actually videotape them when they are accepting these funds. So I think this is something that needs to be done because the law is not enough. We have a law against illicit profiting but we need to do more than that.

ROBERTO DE MICHELE (Argentina): Regarding the confidentiality issue, Carlos is right in what he is saying. It depends, to a certain degree, on internal legislation. In Argentina this information must be public, but only the information that is contained in the financial disclosure forms. For example, the bank account number, the credit card number, is not available. All other information is public. I agree there is a balance between privacy and publicity. But often, as I believe is our case, there is a fair treatment of both principles.

Now, let's deal with banking secrecy. Carlos, you are right again. I would like to cite an idea being developed at the OECD. Since we cannot go into the tax havens where there is banking secrecy, we need to set a "sanitary ring" around these areas and thus modify the incentives for people to actually send money to these places. As to how the Argentine judges got the banking securities to be removed in the case of Uruguay, I think these were cases where the judges were able to show that those funds were clearly linked to illicit activities. Thus they were able to get the authorities to request this information from the banks.

RAMIRO LARREA SANTOS (Ecuador): Now regarding what Carlos Morelli said, in our country we also have banking secrecy. We call it by a different name. The Anti-Corruption Committee was able to remove it for those specific purposes of our investigation. We have had access to details and information and this lets us know that sometimes the legislation is passed not in the interest of collective good, but in the interest of private good.

In terms of the Anti-Corruption Convention, the U.S. Convention has a series of extraordinary measures that I believe Latin America should duplicate such as extradition measures and other cautionary tools in order to guarantee full performance. Taking into consideration the provisions

of several articles of the U.S. Convention we could incorporate them into our legislation and have a system that may allow justice to be rendered for the population at large.

ROBERTO DE MICHELE (Argentina): In terms of illicit profiting, I'm not sure what it is you say has to be videotaped. We did not have any cases of illicit profiting, so anything, even mistakes could be an improvement. But we needed a simple formula to be applied to the public officials and their families so that it would become difficult to conceal their wealth. But we need to become more sophisticated.

Audit, Whistleblowing and Risk Control

**Paul Van Buitenen, Budget Manager, Former Assistant Internal Auditor,
European Commission; Author of *Blowing the Whistle***

Good morning everybody. I will not go through my own experiences in detail. If you are interested in that, perhaps you can ask some questions afterwards. But I think at a certain point you have to leave behind your personal experiences and start drawing some lessons from that. And that is the reason why I'm here.

This presentation will be different from the other presentations today. When I browsed through the program of this conference, I noticed that most of the other speakers are highly esteemed and well-established persons in a senior position. They present you theories and models on control, audit, screening and other corruption-busting techniques. They speak a language that you expect to hear at such a conference. That, however, is not my role. As someone who has been in a whistleblower position, I would like to use this opportunity standing before an audience of experienced auditors, directors, advisors and government officials, to present you another side of administration and risk control.

Of course I am colored by my experiences and I do not claim to present a better story than my fellow presenters. I just hope this presentation will show you new ways of looking at avoiding risks in your organization or your country.

In the next 30 minutes I will discuss some whistleblowing experiences, the reaction of the organizations concerned and the notion of true integrity at work, not the integrity that we usually see around us. I will arrive at a conclusion on the role of auditing and whistleblowing for risk control in the administration. Finally, I will say something about responsible whistleblowing and legislation. After that there is of course room for questions.

I come from a traditional, very protective environment. My parents taught me to believe in law and order. My whole belief system was based on the rules and regulations in our Western society. I have always worked on a moderate level. I'm not bothered by university degrees. I've worked close to the administrative ground floor. During my professional life I have been assistant chartered accountant in public and private companies, head of a calculation department in a production company, budget planner in a university, and I've had my career in the Commission. In this period of 22 years I gradually became aware that the image of things during my education was not complete. A system, however good it may be, with its laws, conventions, rules and regulations is of course necessary, but also insufficient to make our world turn in the right direction. As part of this I must say that administrative organizations and auditing do have their limitations.

I work as an official in the European Commission, which is the executive body of the European Union, the EU. Some of the other EU institutions are the Council of Ministers that holds most decisive powers, and the directly elected EU Parliament that has very limited powers. The EU is not a federal government like here in the United States, but a union of independent states based on the principle that many problems and challenges can be better met on a larger, international scale.

As some of you might know, I blew the whistle in the European institutions. I was of the opinion that the European Commission did not deal properly with its internal irregularities and fraud, and I decided to go to the European Parliament with my observations. I didn't do this secretly or anonymously. I did it openly with a signed note of 34 pages and 600 pages of source material attached. I did it just before the annual vote of the European Parliament on the budget discharge. One of the few powers that the European Parliament has is that they can give discharge to the annual budget of the European Commission. And I did it not long before the European elections, because even I know that then politicians are interested.

After my report to the Parliament in December 1998, a committee of five independent experts was created to investigate the situation that I had indicated to the Parliament. These experts were nominated by the EU Parliament in agreement with the EU Commission. The expert committee consisted of a Dutch and French former president of the EU Court of Auditors, a Belgian and Spanish professor of EU law, and a Swedish Auditor General. So there were no schoolboys.

In March 1999 they brought out their first report and, for your information, if you compare their report with my report that I brought to the Parliament, even the chapters have the same titles. As a result of this report, the entire EU Commission decided to step down. In September 1999 experts confirmed in the final, in the second report, and here I quote literally, "The events leading up to the resignation of the former Commission demonstrated the value of officials whose conscience persuades them of the need to expose wrongdoings encountered in the course of their everyday duties." They also reported on how the reaction of superiors failed to live up to their legitimate expectations. Instead of offering ethical guidance, the hierarchy put additional pressure on one such official.

I will not go into further detail now. Let me just be clear about one thing. Whistleblowing is not my hobby. Like everyone else I was scared. I often deliberated on whether to step back in line before I actually blew the whistle. Whistleblowing should be an act of loyalty to the organization, a final resort.

It is not my experience that counts. Such an experience changes your perspective but it cannot be an objective basis on its own. Other whistleblowers notably in the Benelux countries, Germany, France and the U.K., changed my opinion for good on the use and limitations of administrative organizations and the existing risks of irregularities, fraud and corruption. To let you understand my change of opinion, I will present very briefly a few cases of whistleblowing. This will give you an idea of what I'm talking about.

The first case is that of a social worker in the Dutch Ministry of Defense. The facts date back to the end of the 1980s and the whistleblowers were proven to be right by court verdict. The

authorities involved still refuse today to recognize the full impact of the irregularities. The whistleblower has not been vindicated and the case is still in court today. At a certain point the whistleblower received an order from his hierarchy to tell the widow of a military mine expert that her husband had died on the job through a mistake of his own. The social worker knew that in reality these mines had caused other unexpected killings in the past. He told the widow of his suspicions and he helped her to find the truth. When the usual denials of the Ministry didn't work, they tried to have him declared insane by falsifying a psychiatric report. At a certain point, an international Geneva-based NGO even had to monitor him. The Dutch State Security Service were worried about the risks for him and planted, without him knowing it, a so-called social worker next to him to protect him. As a social worker, the whistleblower had knowledge of many interesting inside details of the Defense Ministry. He lost his job and is in very poor financial status even as we speak.

The second case is a well-known one in the U.S. It is the case of a Swiss pharmaceutical giant. The facts date from 1974 and onwards. A whistleblower informed the European Commission and the U.S. government that a company was breaching the competition rules. In fact, the dominance of this pharmaceutical giant in certain areas of the bulk vitamin market was so great that they could temporarily raise the price of their products when needed in times of influenza epidemics in the third world. After many years of legal fight, the whistleblower has been proved right to every extent. Only last year the Anti-Trust Division of the U.S. Department of Justice fined the company half a billion dollars for conspiring to fix the price of vitamins over a period of nine years. In reality, this conspiracy had been going on since 1964.

For his actions, the whistleblower has paid an awful lot. Unfortunately his name was divulged to the Swiss company. As a result of this, he was arrested in Switzerland, put into solitary confinement and eventually tried for industrial espionage in prison. His wife, unable to communicate with him, interrogated by the Swiss authorities and being told that her husband faced up to 20 years in prison if convicted, committed suicide. He was denied the right to attend her funeral. He was financially ruined and has not been able to find a suitable job anywhere, despite the fact that the European Parliament unanimously adopted a motion of support and that he was vindicated by a decision of the European Court of Justice in Luxembourg. Some of you know this case and I know that this whistleblower has also done some things after this story that will not be supported by some of you, but this doesn't change the case itself.

The third case is that of an official of a local government authority in London. The facts date back to the early 1990s. The whistle was blown on fraud committed with the EU Social Fund. The whistleblower has been proven so clearly right that the Swedish EU Commissioner, Anita Gradin, who was responsible for fraud busting, wrote a letter in 1998 to the British government suggesting criminal investigations against British officials as well as suggesting ex-gratia payments to the whistleblower because of everything he had to endure. Although the British authorities denied it officially, the whistleblower has been ruined professionally, financially and mentally; he lost his wife as a result of his role. At this very moment he is still being pursued legally by his former employer. I am in touch with him and I am in correspondence with one of the Commissioners in the European Commission to do something for him. And I can tell you that's not easy.

The fourth case is that of a member of a board in a British bank. He pointed out to his colleagues that one of the bank's representatives abroad had too much freedom with his buying and selling operations. He suggested there should be more control over the dealings of this foreign representative. As the representative abroad appeared to be doing very good business for the bank, the remarks of the internal whistleblower were put aside. And later it was even decided to sidetrack him because his internal signals were too annoying. As it turned out the representative abroad went so seriously wrong that the whole bank was threatened with bankruptcy. Later on a UK supervisory body, and this is the interesting part of the story, carried out the investigations. As I was informed, one of the conclusions they reached was that the internal whistleblower who had been sidetracked because of his annoying advice was to blame for the financial disaster. They reasoned that if he had tried harder the problem could have been tackled earlier.

The fifth example is not a case of whistleblowing, but is a story of former East German citizens who, after the fall of the wall, managed to get access to European Commission aid. This aid was granted in the form of favorable loans for starting up small businesses. These people were new to our economic system and they thought only of the seemingly endless possibilities. Appropriate information in the German language was not immediately available and the banks supplied the EU loans to these people in pursuit of commercial gain without taking into consideration the interest of these clients. Many of these people got into financial trouble. After initial interest, lawyers and investigators withdrew quickly from the case. They didn't want to burn their fingers because of the involvement of many major German banks. As a result, these people from former East Germany saw their dream slowly turning into a nightmare. They felt abused and demolished and did not manage to get across to the relevant management level with their problems. Some of them committed suicide. I came into contact with these people after they had seen me on television. After having been turned down everywhere else, they dug up their files and drove almost 1,000 kilometers straight to Brussels to ask my assistance.

If I may give an interim summary, I could mention many other examples of citizens, whistleblowers who have acted responsibly, raised issues where they should raise them. These whistleblowers first acted responsibly internally, didn't pursue personal gain, and were proved totally right, but were destroyed as their message was not welcomed by the responsible management levels.

I do not think this image needs further explanation. It is the picture of a bureaucracy where alarm signals from the work floor are not taken into account when presenting the marvelous performance of the organization to the outside world. Not only is this against the interest of the organization, it burdens your conscience and sooner or later the truth will come out anyway.

Why do respected organizations in our democratic society react so negatively faced with responsible whistleblowing? Sometimes techniques are applied against whistleblowers that you would only expect to be used in the former Soviet Union. Why is justice not the "Leitmotiv" in these cases? The obvious explanation for these negative reactions would be of course the preference of the management of an organization to keep the dirty linen inside. However, there is more to it.

It is too simple to attribute the negative reactions only to the management in an organization. The resistance to whistleblowing goes deeper than that. Very often the tackling of whistleblowers is not organized at all on the top level. It starts on much lower levels in the organization without the top management being aware of it. To indicate this mechanism briefly, I would like to refer to a speech of Professor William Kingston of the School of Business Studies, Trinity College in Dublin. His description of this problem is magnificent. I quote, "In any bureaucracy, be it in a private or a public organization, there will always be many who will take the line of least resistance, especially since this will do the least damage to promotion prospects. Only a minority of bureaucrats would act in the public interest. The importance of cover to bureaucrats from any persisting damage to their careers, of any errors on their record, means," and this is very important to remember, "a significant proportion of the energy in any bureaucracy," and for this word bureaucracy you can read the World Bank, or the United Nations, or the European Commission or whatever you want, "is devoted to pretending that errors have not happened. This also explains the venom which a bureaucracy turns on an individual who threatens to destroy this pretense. The great preponderance of the evidence about such whistleblowers is that their bureaucracy succeeds in wrecking not just their careers but their lives. The fear of this is the most powerful deterrent to whistleblowing."

This brings me to the next question that is of importance. What is integrity, really? How would a typical official with integrity behave at work? In general, we relate integrity at work to notions like formality, straight-forwardness, and sometimes even rigidity. The employee is not corruptible, not to be manipulated. But what does integrity mean in the day-to-day world of a civil servant or a financial officer in a company? What kind of integrity do we need to minimize as much as possible the risk of losses through a regular process? Is integrity at work the same thing as sticking strictly to the rules? I often notice that behind the attitude of sticking strictly to the rules is a different motivation other than that of righteousness. Sometimes the motivation of a so-called official with integrity lies with avoiding responsibility or even elimination of his conscience. Let me illustrate this by a few examples.

Let's say as financial official I suspect some serious irregularities in my working environment. What shall I do? If I stick to the staff regulations I have two possibilities. The first possibility is to indicate my suspicions to my hierarchy. If I do this in writing I am relieved of any further responsibility in this case. And I can tell you that in my personal case at a certain point, and that was more than a half a year before I blew the whistle, I indicated to my hierarchy in a note of 22 pages with 40 attachments my worries about irregularities and how the organization dealt with fraud. I received in writing a note which said, "Mr. van Buitenan, you have done your job and you are relieved from your responsibility to inform us any further on this case." They were hoping that I was a nice bureaucrat, that I was glad that I was relieved of my responsibility and that I could show this note to anyone in the future who would speak to me about the irregularities. It had become the responsibility of my superior to whom I reported.

The second possibility is to report my suspicions directly to the Internal Anti-Fraud Service. In both cases I have behaved correctly. I have followed the rules, and it is no longer my responsibility whether or not my indicators of irregularities are followed up on or not. But where is the guarantee that the irregularity will be dealt with? In other words, this person acted in his own interest and not in the interest of the organization.

The second example: Again, as financial official, let's suppose that I now know of the involvement of a very high-ranking official in irregularities taking place. I am in the possession of confidential documents that substantiate my knowledge, but I received also specific instructions that these documents may not leave the department for which I am working. What can I do? As you will understand, reporting to the hierarchy is not an available alternative in this case. So I report directly, behind the back of my hierarchy, to the Internal Anti-Fraud Service. I do this in detail, but only verbally, as I suspect that any written proof of my action could be used against me and would jeopardize my career. I also do not want to breach the specific instruction given that the confidential documents may not leave the department. The Anti-Fraud Service listens to me politely, tells me that my story is interesting but that they need real evidence before an investigation can be started. And I'm talking from life experience here.

Let's suppose that some time later one of the officials I spoke to in the Anti-Fraud Service passes by my office and informs me off the record that he is willing to go for it, but that he needs at least some written indications on which to start. I decide to go further and to indicate to him what kind of documents I have in my possession. I open my drawer and I show him a document in which he can find the necessary written indications. Then I put the document back in my drawer. I tell him that I have to go to lunch and that I will be back at such and such an hour. After that I close the meeting and he leaves. I know that if this auditor enters my office during lunch he does so at his own risk. I think of myself as a smart guy. I did nothing against the letter of the law. Again, what we see here is a person who acts in his own interest and not in the interest of the organization.

Third example: A whistleblower goes to his senior colleague for advice on some procedural problems. When he arrives he says hello to the secretary that he knows very well and she says to go on in. He enters the office of his colleague and the senior official looks up. Instead of saying, "Hello, how are you," he freezes in his chair when recognizing the whistleblower. He jumps up from behind his desk and after mumbling something of an excuse, virtually runs out of his office. Twenty seconds later he returns to his office with one of his collaborators by the hand. He sits down behind his desk and asks what he can do for his colleague, the whistleblower. This person is known as an utmost reliable person with integrity. But this person also acted to protect his own interests and not the interests of the organization.

What do we see from this? These three examples show the usual integrity which is worthless. It is not just sticking to the rules that matters. It is much more important to follow your conscience. You are not paid to secure your career. You are paid to defend the interests of the organization. That's what you are paid for. At least if you really intend to limit the risk of irregularities taking place, real integrity can never be achieved by a set of rules that we must follow as closely as possible. Integrity does not stop after reporting. True integrity is always there with you. If you combine this conscience with a certain degree of backbone, you are already pretty close to whistleblowing.

The concept of a perfect administrative organization does not exist. No matter how well you try to keep your risks within acceptable limits by applying sophisticated control techniques, applying the newest codes of conduct, maintaining modern financial regulations and conducting a

thorough screening of your staff, you will never be sure what the risk of irregularities is in your organization. More specifically, I recognize that internal and external audit is necessary and useful for the functioning of an organization. However, it is an illusion to think that such tools, however perfect they may be, would be enough to keep the risk of serious irregularities happening within acceptable limits.

In any major administrative organization you have a few people wanting to commit irregularities. That's normal. That is not a problem. You can never rule it out. In the same organizations you also have a small minority of staff who is willing to cooperate with this. This is also very normal and it happens everywhere. But, much more seriously, you have the majority of the staff, and you are part of that majority, that is looking the other way or just doing the absolute minimum required according to the regulations. That is the real problem that should be tackled. You should be tackling.

As the auditors among you will know, it is statistically very likely that irregularities will stay unnoticed during a routine audit. Even a special audit often does not offer certainty under those circumstances, especially if a sufficient number of staff tolerate or cooperate with the irregularities. Very often suspicions of irregularities taking place are aroused by whistleblowing. Moreover, even if you already suspect that irregularities are taking place, responsible whistleblowing can be of tremendous support. I have observed on many occasions, and not only in the European Commission in Brussels, but also elsewhere, that major breakthroughs in ongoing investigations could only be achieved with the assistance of responsible whistleblowing.

As I said, in any bureaucracy the majority will always take the line of the least resistance. However the minority of bureaucrats who would act in the public interest should have a substantial measure of independence from politicians or the top management. The most evident way of providing this independence to those bureaucrats who need and deserve it is practical endorsement of whistleblowing. This is only possible with protective legislation.

In some countries new legislation is developed to offer some protection to whistleblowers. In my opinion, most of these proposals do not aim to offer real protection or compensation to whistleblowers, but they only aim to contain whistleblowers. An example of that is what they are preparing now in the European Commission. Often extra procedures or committees are invented which seem to give the whistleblower more possibilities, but the reality envisages keeping the whistleblower under control. You could call these devices that are developed to "help" whistleblowers, Trojan horses.

Very recently in the Netherlands a promising initiative has been launched by a large worker's union. I'm curious to see how far this initiative will get because they have invited known whistleblowers, me and some others, to input to this legislation and this is legislation with which we can do something.

In the United Kingdom we have the Public Interest Disclosure Act that came into effect in July 1999. It is a step in the right direction. The first case brought under it concerns the dismissal of an employee for reporting fraud in a subsidiary firm to its U.S. parent. When the damages have been assessed and awarded, they will give the whistleblowers an idea of what value they can expect

from this legislation in terms of protection. Although this Public Interest Disclosure Act looks very promising, its effectiveness depends on its application and the jurisprudence that will evolve around it.

You may correct me if I'm wrong, but in the U.S. there is very diverse legislation which is sometimes effective and sometimes not effective. There is also the more effective federal False Claims Act. Anyone who becomes aware of false claims fraud against the U.S. government and initiates successful action against the perpetrator is entitled to up to, I think, 25 or even 35 percent of the proceeds. However, this solution has two important disadvantages. The risks for the whistleblower remain high and the motivation of the whistleblower can be put into question.

Some time ago on the Internet I ran into advertisements of an American lawyer who encouraged people to become whistleblowers. This lawyer was of course willing to defend a promising case in exchange for a part of this 25 percent pie.

Very interesting and way ahead of most other countries is the situation in Sweden. There the openness principle is embedded in law. It is not a fake openness principle, it is a real openness principle. You can ask me about it. I will give you some examples. There the openness principle really means something. A whistleblower can go directly to the press without informing people inside the organization. Furthermore, it is even considered a criminal act if an organization makes inquiries on the journalist's source. I could give you many examples, but it is beyond the scope of my presentation. I can answer questions at the end of my speech.

I am talking about whistleblowing. Whistleblowing has a connotation with many people of people who are not loyal to the organization, who are backstabbing, and that's why I want to say something about responsible whistleblowing. When I say whistleblowing I mean responsible whistleblowing. Good legislation that deals with whistleblowing in a fair way should determine whether a whistleblower acted responsibly, and in principle leave the whistleblower to make the choice where he wants to go with his complaints. He should not be obliged to go to a specially created committee. He should have the option to go to the police, the union, the court of auditors, to Parliament, the President, the press or even the hairdresser around the corner. It will then be up to justice to determine whether the whistleblower acted responsibly.

The criteria to determine responsible actions are these: When reasonably possible the whistleblower should first address the issue inside the organization on all appropriate levels. So I am not talking about a loose bullet, I'm talking about someone who takes his duty seriously and first goes to all the levels in the organization. But, in circumstances of extreme urgency for the public health or involvement of the management in irregularities, this cannot be expected from the whistleblower. Also, when you have seen that in the past such internal reporting didn't help on similar irregularities, it is of course a waste of time to report it again internally.

Secondly, he must act in good faith. It should not appear afterwards that he knew that his action was not necessary or based on wrong indications.

Thirdly, he may not pursue any personal gain. I can refer here to the dangers that exist under the American False Claims Act.

Fourthly, the choice of the person that the whistleblower turns to should be reasonable and in proportion with the importance of the case.

And fifthly, when blowing the whistle outside the organization, the public interest should be relevant or big enough to justify such an action.

When the whistleblower matches the above criteria to a sufficient degree this means that he has acted responsibly and that he should be entitled to a full job or salary protection. And if necessary, there should be ex-gratia payments or similar actions to compensate for possible damages incurred by the whistleblower. Using the above criteria, it is up to justice to determine whether the whistleblower acted responsibly considering the circumstances he was under.

Especially for public administrations but also for private administrations, there should be serious consideration given to changing a policy of secrecy into a policy of true openness and transparency. Only in this way will the general public have confidence in what the organization is doing with its resources. A good image can no longer be preserved through secrecy. Transparency is the only way to achieve a good public image and, at the same time, it is an additional guarantee to avoid the risk of hidden processes. As a part of such a policy, serious consideration should be given to replace the rule to remain silent, which is often embedded in the Civil Servant Secrets Act and the staff regulations of public organizations. Instead we should have the right to speak for all government officials. Often it seems that government employees and officials are the last species without the right of freedom to speak. Recent jurisprudence of the highest European courts seems to lean towards more freedom of speech for government officials.

Whistleblowing is not a crime. It ought to be thought of as an important tool in a modern and open administrative culture. Open and transparent organizations have nothing to fear from a whistleblower. Whistleblowing is not a necessary evil; it is a guarantee against the persistence of structurally endemic fraud and irregularities. It is an illusion to think that stricter regulations and a perfect audit policy can wipe out all major irregularities. I have worked on many audit teams on a low level, as a ground worker. I was the one who had to buzz through the files. I was the one who had to do the frustrating work in audits. Believe me, without whistleblowers you are nowhere, and you are lucky if you can scratch the surface.

I do not see how operational risk management, auditing and the fight against fraud and corruption can be effective without practical endorsement of whistleblowing. With practical endorsement of responsible whistleblowing, you have a very powerful tool that supplements the auditing tool with its inevitable shortcomings. A transparent organization has nothing to fear from responsible whistleblowing. You can only gain from it.

On request of the organization, I left a lot of time for questions. I can tell you many other things, but this is my main message. I want to bring whistleblowing out in the open. Whistleblowers are not criminals. Responsible whistleblowers act in the interest of the organizations for which they work.

Thank you for your attention and I'm sorry that I was sometimes a bit negative or aggressive in my speech, but the main part of the problem is sitting here in front of me and not with the people who commit the irregularities.

BILL TAYLOR (United States): Paul, you mentioned that a couple of times in the process you were thinking about maybe going back to the group and stopping the whistleblowing, if you will. Talk a little bit about the impact that it had on your family, who you talked to—you must have had some colleagues. Talk a bit about the personal stress and physical and mental stress that you went through. I'm sure it must have been tremendous.

PAUL VAN BUITENEN (The Netherlands): I didn't know the word whistleblowing when I started this process. I didn't know such a phenomenon existed. Each time I went, luckily for me afterwards, nicely through the organization, each time a level higher. I have been at the department level, I've been at the direction level, director general level, etc. Each time I thought that I was taken seriously. I was a very naive and faithful person. Each time when the hierarchy told me that matters would be dealt with, I was happy that I did it and I stepped back into line.

But each time the situation became more stressful. Each time I was running more risks. I was sweating when I took the next step. When I brought my files forward, when I went to the court of auditors with all my supporting documents, I had the help of others. We went to Luxembourg to the court of auditors at night through a hidden route. I didn't come here to talk about my personal experiences, but I can guarantee you that it was a very stressful experience. Many people who were in my situation would have been without a wife at this moment, and I'm very thankful that my wife stayed with me.

I am also a very uncertain person. I'm not someone who thinks that only his opinion counts. So I took every guarantee possible before I finally decided to go outside the organization. Before I went to the Parliament and the court of auditors I spoke to the staff union. I spoke to a lawyer, I spoke to many colleagues and I even went to my priest in the Anglican Church in Brussels. This was not just a chitchat talk. If a priest takes his job seriously, he puts you through the rough stuff. He wants to know your situation, your motives, your circumstances, if the staff regulations allow it, etc., etc. I went through a very difficult process.

After I blew the whistle, I was suspended and I was put on half pay and these measures were not in line with the staff regulations. I can tell you that I had something to explain to my wife, because I was surprised, but she was really taken by surprise. And it was not a very nice situation. And because of that, I decided after a few weeks of silence, after a few weeks in which the situation deteriorated, to go to the press.

I was very happy that the European press in the Northern countries, the Scandinavian, the German, the English, the Dutch, the Belgium press, the Swiss press, Austrian press, came to me and the articles appeared. There are so many elements that I could mention from my own story.

For instance, the Swedish Prime Minister was the only top politician who defended me in public. He immediately got a letter from the President of the European Commission telling him to

mind his own business. The Swedish Prime Minister wrote back to the President of the European Commission, but what the President didn't know was that the transparency principle embedded in Swedish law allowed the press access to this correspondence because there was a register in which every ingoing and outgoing letter to the Prime Minister and all the other members of the government is listed. This is transparency, ladies and gentlemen.

JAMES DURNIL (United States): I have several years of experience in the audit community. I've seen in the past that once the whistleblower lays it out or wants somebody charged with a particular crime, it is a long period of time before the end result appears. I read in your book where people in these situations go into a lot of physical and mental strain. There is nobody that these people can go to for advice or help. In most cases they are put on administrative leave, and that's kind of a negative position to be in. Don't you think that there ought to be a support group for these people?

PAUL VAN BUITENEN (The Netherlands): I don't think that's the solution. Then you become a pariah; you become someone who is abnormal, someone who has to go to a health group. What I am telling you, what I am suggesting here is that there should be good legislation that accepts whistleblowing as a useful tool in society. A big organization like the World Bank or the United Nations or the European Commission or a commercial company should accept whistleblowing and if the whistleblower is responsible and acts according to the right procedures, he will first address the issue inside the organization. An open and transparent organization can only gain with officials who have a conscience.

But to answer a bit more specifically, I was very positively surprised two days ago when I went to the Government Accountability Project here in the United States. These people do a very good job. I don't think they are a high profile organization, but as soon as a whistleblower goes there he is relieved of a lot of worry. These people examine his case and when they see that he is a responsible whistleblower and that he has a case which is worth defending, they will do a lot of things for him. They will act on many different areas. They will put you back in touch with people who understand your problems. They will look for legal defense; they will try to raise any other support that is necessary. If you address an issue, for instance, in the environmental area, they will contact Greenpeace or any other organization that can help you, that has an interest in your action. They will put pressure on the organization to take action. So I think if the GAP project that exists in the United States would also exist in other countries, we would be a bit further in our effort.

JAMES DURNIL (United States): I couldn't agree with you more, but when will we get to that point and have that level of assurance? That's many years away. And in the meantime I know there are a lot of people that would probably blow the whistle or speak out if they were not in fear of retaliation. I know right now two senior officials in the U.S. accountability community that have been on administrative leave for five months, have not been contacted, are getting full pay, and they don't know what's going to happen. The investigative authorities just don't move fast and they just sit. So I guess the point is maybe as an intermeasure there ought to be a support group forum. Like you, they had to pay their own legal fees.

PAUL VAN BUITENEN (The Netherlands): A support group only helps them mentally. I think more quick and more efficient help would come from his colleagues waking up. In the

immediate environment everyone knows what is happening and they also have a very good opinion of whether you are right or whether you are wrong. That's one of the things I think the Government Accountability Project does. If a whistleblower goes to them they immediately try to broaden the basis of the complaint so that it cannot be denied anymore, and as the case gets a little bit stronger, the whistleblower is not left in a vacuum. But I think there are many promising initiatives that are emerging now that can no longer be ignored.

Recently, and I'm talking about two days ago, I accompanied another whistleblower who was working for one of the biggest banks in Europe. He discovered serious irregularities and corruption in the buying and selling of shares and options. The bank had a lot to lose with this. This guy had been robbed of his job, was already out of action for one and a half years. With whistleblowing becoming more in the public interest, I went with him to negotiate with the top manager of the bank. This manager soon realized that it would be much better to settle the case than to continue to fight. And as part of the settlement, a written promise was made to reimburse all the people that suffered from the irregularities that were committed.

If you can reach such a settlement this is a sign that times are getting better because in the past such a settlement could never have been reached. In fact, the biggest staff union in the Netherlands, and it is a union which combines a lot of other unions from all kinds of production areas, is preparing legislation and they are consulting whistleblowers. So I think the times are changing, and I am very hopeful that in the next ten years, at least in our country, we will have a much-improved situation.

JAMES DURNIL (United States): Thank you very much. I have a great amount of respect for what you did and thanks for laying it out in the book.

PAUL VAN BUITENEN (The Netherlands): If I may say something else, I realized when doing my speech that my speech is in fact aimed at people working and living in a democratic state, in Western society. I know that the situation in many other countries is much more difficult and that you risk your lives if you become a serious whistleblower. I never encourage that risk. For those people I realize that it is easy for me to stand here and to talk because the only thing that I risked was my career. I didn't risk my life.

VICTOR MANUEL TALAVERA H. (Nicaragua): Given your experience in countries such as Holland or Sweden, how would you apply the lessons that you've learned to other contexts such as Latin America where corruption is widespread, where audit institutions are weak and where political interference is pronounced?

PAUL VAN BUITENEN (The Netherlands): I can only answer as an individual because I have no experience whatsoever in this area. But what I could imagine is that the World Bank, the United Nations and donor countries make it clear to regimes that they do not support these objectives. They should do something about the situation in that country, about the transparency and about the fact that people should have freedom to follow their conscience instead of being obedient to what the regime wants to happen in that country. And I think that there, the Western society, sorry if I generalize too much, has a specific responsibility to deny aid and refrain from

selling products to these countries. They also have a moral obligation towards parts of the world where these responsibilities are not being taken seriously.

KUNZANG WANGDI (Bhutan): I am the Auditor General of Bhutan. I'm not sure whether most of you know where Bhutan is. It is a small country sandwiched between two giants, the Peoples Republic of China and the Republic of India.

I'm happy for my recently discovered colleague Paul van Buitenen. Yesterday morning I passed a table and there was a gentleman sitting alone. I sat down with him and we talked about what would be the subject discussed today. I soon found out I was sitting with Paul. I was looking forward to this session today and I would like to congratulate him for his big contribution to the community.

I think quite a lot of us sit at tables in the meeting halls and talk about a lot of things. But I don't know whether we really mean it or not. I think Paul is one person who means every word he says; he sacrificed for it. I wish there were more people like Paul.

In Bhutan, we have a king who is liberal, who is committed to the welfare of people. I am personally involved at the moment in drafting the Auditors General Act. So I am very much encouraged by the example that Paul has shown and I go back with additional encouragement that we can improve our system. His book is going to be a big help to me. Thanks so much.

JORGE BRAGA DE MACEDO (France): We are aware of your case also in South Europe and the case was very much followed. Could you give one or two examples of irresponsible whistleblowing? I think it would be very important, because it's difficult to determine which is which.

PAUL VAN BUITENEN (The Netherlands): In fact every whistleblower is now being treated as an irresponsible whistleblower. What I'm saying is that sometimes there are responsible whistleblowers who should be treated with respect and who should be heeded. If you act irresponsibly this means that you are pursuing a personal gain, that you have a hidden agenda, that you do not address the interest of your organization but that you address your own interest, that you are pulling the feet out from under the chair of your colleagues, that you do not like the president of your organizations, that you are spreading rubbish about them in the press. I can cite many examples of irresponsible whistleblowing. In fact, I wouldn't even call them a whistleblower.

Corruption Risks in State Contracting

Lilianna Jaramillo, World Bank Project Consultant, Bogota, Columbia

Good morning. Today I have the honor of talking about risks in government contracts. For those of you who do not know, a risk map is a quick analysis which is easy to understand for somebody who is not familiar with the topic. Maybe this person is in charge of hiring and contracts and the risk map would help that person to see where the major risks are.

Colombia has been considered for many years to be one of the countries with the highest or high corruption. Two national surveys have recently been carried out. The first, sponsored by Universidad Rosario, revealed that contractors for the state were ready to pay bribes frequently to obtain contracts. According to this survey, the state loses \$2.6 billion per year which is equivalent to 60 percent of its fiscal deficit. The second survey was carried out by the Coronado 2000 Foundation, which found that business owners agreed to pay 12.4 percent in deals in order to be awarded the contracts. This was done for the World Bank.

Two organizations were taken as an example. INVIAS was one of them selected because it is in charge of public works, has one of the largest budgets of any organization in the country, any agency in the country, and because these kinds of contracts are very technical and very expensive and therefore lend themselves to corrupt acts. Another organization is CAPRECOM. It is a health agency in the communications sector. This agency was in a scandal last year because the president was accused of receiving funds from drug traffickers in order to fund his campaign. The president appointed a cousin of a member of congress as the president of CAPRECOM and other corruptive acts followed this. I will explain later.

First of all, the greatest risk we can find in Latin America is that we share the same problems with reference to contracting. Contracts are the main avenue through which corruptive acts are carried out. Within this government hiring there has always been privileges for people who want to engage in corruption. There are new modes of corruption too such as investment and privatization, but we will limit ourselves to talking about contracts today.

We have established formulas and requirements for bidders and for public bidding and for direct hiring. There are usually objective clauses included which allow us to have a profile of the bidder. This can later be used in awarding the contract.

In the World Bank's paper we have a clause that I will read aloud to you because I think it should be included in any document in any specification sheet for Latin America and in any country. It is a clause that has the aim of being objective. "The most harmonious proposal gets certain emphasis so that when bidders have the same conditions and have an equal score, this is the clause that will determine which of these bidders will be awarded the contract by the public

servant. This criteria takes into account the convenience, harmony and timeline of the job. The bid should be in line with our program and the use of our equipment. When these qualities or these features are not in compliance, the score will be zero.” However, there is room for interpretation and therefore it is actually subjective. Under certain circumstances, we favor certain companies or people. The principle of equality is not respected. There is a legal lack of security and the contract can be awarded to less competent bidders.

Another risk of corruption that we have is in addenda or clarifications to the tender. In this case, particular interests may be favored. For example, if the public servant knows the weaknesses and strengths of each bidder, he can change the conditions in such a way that a certain person is favored. This does not allow the state to select the best bidder and leads to poor quality in the work.

We have a lack of serious convenience and viability studies. This is a practice that has become generalized. People believe that the public treasury is for their use and for their discretion as long as the law allows it. These studies don't really respond to the needs of the agencies but rather to the desire for works that are perhaps not necessary or duplicative. Those who are in charge of the studies do not go to the place where the work would be done and determine whether the work is really necessary. They do not take into account the principle of objective decision making in terms of awarding contracts.

There is also a division of contracts that takes place. A poll was conducted in public hospitals in Colombia two months ago and it was determined that every time there is a direct contract, prices are higher. There were no exceptions to this in the survey. In no case was a direct contract less expensive than a contract through a bidding process. What happens is that the price is divided and this would be an open price in a bidding process and it is subject to budget constraints. But direct hiring is a shorter process, a more direct process. It is a closed process which allows the agency to make the arrangements as they see fit.

We studied hiring throughout four years and found the following: Some bidding processes which could have perfectly well been public were divided into 25 contracts with the same goal, the same objective. It was \$100,000 for each one, so you can imagine how much this would have been in the public bidding process. The sad thing is that after these 25 contracts were revised they were ultimately given to one contractor and the same person ended up doing all the work. This is why we wonder where our control agencies are, what they are doing, why did they not detect this situation and take corrective action and measures. Through this division of contracts there is a chaos that takes place. The costs are much higher than they should be and some processes are generated which makes the whole agency less efficient and also the quality is not as it could have been.

In terms of addenda, again we've always thought that usually the lowest price will win. But there can be an addition of up to 50 percent of the lowest bid provided to the successful bidder. But in Colombia this 50 percent has generated a very high risk of corruption since the bidders always go below the price because they feel that they have this 50 percent that they can count on. So the bids are offered at a price much lower than the final price and this is very cumbersome for the agencies because if we increase the price by 50 percent then we will be getting these contracts

at the highest price in the market and the agencies don't take into account the additional work generated by this procedure.

We have a monopoly of contractors. There are groups of companies that come up from nowhere. Perhaps they only have a telephone number as a contact. Unfortunately they can offer anything from pencils to sophisticated technology for an agency. They can offer anything. So this monopoly of contractors was generated because of the types of contracts that were awarded for software. Only a certain percentage of the contractors that are receiving awards are registered in the Chamber of Commerce. This has created a situation where there is no control on the part of the state. Nobody knows who is really being hired and what responsibilities these bidders can be entrusted with in the future.

So the door is closed on new bidders. It is always the same bidders. They determine the price in violation of the principle of equality. Everybody knows which contractor will be awarded the contract, and this is detrimental to the citizens, to our professionals. We need to hear from the citizenry so they can contribute to the contract specifications since they can provide a more independent and impartial point of view. Then we can put an end to this contractor's monopoly.

Then there is the situation of price fixing. It is alarming and shocking to see the situation we have with prices within government hiring. People are saying that whenever the government hires or gives a contract, the price is higher because of the bribes and also because the government takes a long time to pay. There is also a price difference between different agencies in the government itself and even within the same agency in the government. This price disparity has not been controlled and has led to very high levels of corruption. A computer that one agency bought in a certain week can go up 200 percent for another purchase during the same week. In Argentina a law was passed that will be very useful in this regard.

After the specification sheet, emergency situations are the second factor that allows for corruption in the state. In our work with the World Bank we found even the painting of a bridge considered as an emergency. Our control agencies have been ignoring these situations completely even though the law says that within two months of the contract these emergencies should be reported in order to determine whether they fall under the law or not. There are only certain specific cases where the agency is allowed to directly hire contractors. The contract is executed without any type of ceremony or resolution by the government in order to take care of an emergency. This emergency clause has been abused. Unjustified commitments are made by the states, political favors are paid very easily, objective selection and transparency are not respected, more goods or services than are needed are acquired and this is made even worse because not all these contractors are registered in the Chamber of Commerce. So this is a very tempting opportunity with emergency situations because, as we say, the official can handpick the contractor without even needing to have the budget for the project. We are very lenient sometimes in managing our budgets.

We have cooperatives. Unfortunately the coops generated a very serious level of corruption in the governments. The idea came up that government agencies could form cooperatives which would be subject to private law and not government law or Statute 80 of 1993 for government contracts. So these cooperatives used state resources to hire contractors on their own without going

through public bidding processes. The Attorney General of the country spoke about this topic and said that they had to abide by contract statutes; however, this statement did not have much power and these cooperatives are still being formed and are still a significant source of corruption. At the time this statement was made, agencies that had become cooperatives were asked to return these resources to the treasury. However, when they were returned, 20 percent of these funds were missing and were never returned. Those who are knowledgeable about this topic, especially coops, have concluded that that 20 percent supposedly was a bribe that the state had to give out due to the creation of these cooperatives.

There is another danger that these cooperatives represent for the treasury. There are no requirements for their expenses. They can evade these bidding processes. There are no guarantees. There are no assurances. There are no viability studies conducted. So you can imagine the state budget being managed by these cooperatives—irregular contracts, unnecessary contracts, unnecessary expenditures, and this affects all of us, all the citizens. It affects you too in your countries because although it is true that many of these problems are not a factor in your countries, still they are a warning signal, a red flag, if you see that your situation is beginning to resemble ours. You can take advantage of our experience and see that this type of cooperative is just a way to carry out corrupt actions.

The excessive use of certain kinds of power and authorities generates corruption. Fortunately the law says that agencies can hire contractors when said agency requires a very specific knowledge about the subject matter. In these circumstances the state can hire contractors without an open bidding process. However, these are people who have no accountability. There are no requirements for their hiring and their compensation can be double or triple that which a full-time employee would be paid.

Our judicial system has allowed this to happen and has not made it a requirement to hire government employees. This has turned into a very expensive hiring of an excessive number of contractors and we realize or we confirm that within these agencies there were actually employees who were qualified for the jobs.

Fictitious companies are also a result of contractor monopolies; these are ghost companies that do not really exist. Perhaps they are in a garage and they offer cutting-edge technology. This happened in CAPRECOM. We conducted a study on hiring and saw that certain contractors did not exist. They were actually restaurants or beauty salons and they were supposedly offering high technology. Given the fact that legislation is very lax or nonexistent and the Chamber of Commerce still has its hands tied, we do not have the necessary tools to have a greater influence or control over these companies. This happens more often than we might think. These are people who have no specific training or ability to provide the services for which the state is hiring, so there is a loss of quality, excessive costs and the law is not followed.

I know that some of you coming from other countries are very familiar with contracts for public works. You're very insightful in this because we know from our experience that this kind of contract makes it very easy for acts of corruption to take place because the budgets are very large and because these are very technical contracts. Sometimes the lawyers or economists who are

analyzing the contracts or these kinds of specifications are not familiar with the conditions and do not understand them.

So within this process and these risks, auditing the process is sometimes even more expensive than the contract itself. Sometimes there is even an alliance between the auditor and the contractor. And the auditor may be the person ultimately who makes the decision on whether the contractor has the necessary requirements in a specification sheet. So the agency is harmed by this and is sometimes not even consulted. I talked directly to the Secretary General of some of these agencies and in some cases they did not even know that the project had been finished or that the Controller had authorized the project. They did not know what criteria the Controller had followed. It was only later when there was nothing that could be done that they realized what was going on. The Controller is not an employee of the agency and could not be held accountable.

There is a relationship sometimes between the Controller and the contractor. Given the topography of our country, sometimes it is very difficult to get to these places. These are remote areas. Thus, the Controller has a difficult time getting to the site and will only say that the contract does comply with the specifications when he has not even visited the site.

There is an anecdote regarding some of the contracts that I was studying within a viable and convenience study. We determined that there was a situation where we needed to have a bridge built on an urgent basis. The contract was awarded. The Controller approved it. When the site was finally visited, there was a bridge but there was no river under the bridge. The Controller had never visited the site and because the river changed its course, there was no river under the bridge. There was no water under the bridge. It was absurd. It was a completely useless bridge. So this was the Controller's responsibility. He did not take the time to visit the site and confirm whether this contract would serve its purpose under the specification sheet and the viability and convenience study.

Regional transfers during elections is another issue and I think other countries are in similar situations. When there are no elections, transfers from the central government to other departments do not go over 20 percent. But when elections are imminent, these can go up to 50 or 60 percent. Six months before an election we studied hiring and regional transfers and our question was why is it that every four years these transfers go up to 60 percent? The answer is that this is the easiest way to gain commitments from senators and it is a way to guarantee better or favorable results in the election. There was a risk map conducted for the pharmaceutical sector and it was determined that in the last four months in the health sector, the director of INVEMA, our previous health minister and the superintendent of a family had to quit their jobs because they had political ties to the funding of their campaigns and because they received kickbacks for contracts. So this discredits government hiring, and contractors are hired only in order to gain votes.

This is not a result of an ideological analysis. This is all based on evidence. This was a study that was conducted during four years and all the risks that we identified were based on real risks. In the two agencies hiring was delegated. Everybody was doing it. The only people who were not aware of what was going on were the budget department and the legal department. This is ironic of course and very detrimental to the administration because of the excessive costs and the administrative chaos that results. There is someone in an office that is purchasing a good or service

and in another office within the same agency there is someone purchasing the same good or services. There should be a unit that takes care of all of this. This would mean significant savings for the state.

Later administrations when they realized what was going on, the absurd hiring practices, took control again and assumed responsibility for delegation contracting. However, there is still duplication of goods and services. Lower level officials have access to more funds than they should because they also have a certain degree of responsibility and power in hiring.

Administrative contracts carried out among different state agencies have also generated corruption. In varying degrees they are used as a way to get around objective selection. There is no supervision, rather, no monitoring. This is very detrimental. All of the problems would not have been found if there hadn't been an administrative chaos. That there was so much confusion is further grounds for acts of corruption. I will give you some examples of how this was confirmed.

I went to the legal office. This is the first office one should visit when studying a contract, and they had no list of contractors or contracts, no record. If the state were to be sued they have nothing to say that these contracts actually existed or that payments were made. There is a lack of records. There is no accountability and no control and a lack of support.

Conflicts are solved in a way that is not favorable to state. There is a scandal about a settlement which cost the state a very high sum of money. I am not against settlements. This can be a very useful system for the state and can save the state legal costs and procedures later on but it is dangerous to utilize this system if it is not utilized wisely. There should be a certain degree of monitoring and control and continual oversight on the part of the state because it is not the assets of the contractor that are being placed in jeopardy; it is the state's assets.

A survey, as I said, that was conducted a month ago concluded that without exception direct hiring costs are always higher than when the contract is awarded through a public bidding process. For those who are wondering how we came to this conclusion, in the first place we looked at hiring and cross-referenced all the information that could be interesting from a contract point of view. We looked for bidders' amounts, processes, objectives. This is how we arrived at some of the information I am presenting.

Also we conducted interviews with employees at all levels in both agencies, former officials and officials who were involved throughout these four years. We also interviewed almost all the contractors who were not awarded a contract—those who ended up in second place for example—because those are the people who are truly familiar with what happened. They speculated on why the winner got the contract, and what they would have changed on their specification sheet once they were familiar with the scoring. Other contractors who ended up in third and fourth place also had very valuable information to contribute—information that is more valuable than that contributed by the officials themselves. So this was the methodological process for anybody who is interested.

I have talked about some of the potential risks that can come up in any state agency. I hope this has been useful to you. Thank you very much for your time.

OECD Panel—Role of the Private Sector: Creating Partnerships to Prevent Corruption

Moderator:

Jorge Braga de Macedo, President, OECD Development Center

Panelists:

Nancy Zucker Boswell, Managing Director, Transparency International—USA

Jerry O'Brien, Director of International Programs, Ethics Resource Center

John A. Zemko, Communications Director and Senior Program Officer for

Latin America and the Caribbean Center for International Private Enterprise

Jorge Braga de Macedo, President, OECD Development Center

I want to welcome especially those that speak in Portuguese or Spanish from the other side of the sea. And I want to tell you that at the OECD there is a little corner where participants from non-member countries, Argentina, Brazil and Chile, and participants from an OECD member country, Mexico, worked on and promoted some months ago a booklet, “The Washington Conference on Corruption Final Report,” mentioning the role of the private sector in fighting corruption in developing countries and emerging economies. This is in your packet. If you go to the last page of the list of speakers you will also find the Web site of both the OECD Development Center and our partners in this endeavor, some of whom are sitting on this panel.

What we want to do is tell you what we have done, very quickly, and then go into what we want to do together. What can civil society, what can NGOs, in partnership and in cooperation with intergovernmental organizations, do to fight corruption in a way that is sustainable, in a way that is not just a big flurry one day and then, the next day, business as usual. That’s not the fight against corruption that we want, that this group wants. What we want is something that is sustainable, that changes the way in which society looks at itself and at its role in the global society. That is our objective.

It was our objective as we planned for this conference together with our partners and it was also our objective as we prepared this panel for discussion today. We have agreed that it is essential to obtain feedback from the people in this room who have their own specific experiences. We’ve learned that fighting against corruption, quite aside from being a moral imperative, and we heard something about that in the previous sessions, is also a social problem that has to be tackled in the specific social, economic and political situation of the country itself.

I have worked in Eastern Europe and you don’t like to give names of countries, you can’t do the “name and shame” business here, but there is a country, Belarus, that I visited regularly on

exchange rate and macroeconomic issues, so it was not on corruption. They had a big corruption campaign. And who were the people suspect of corruption? Just about any entrepreneur. Any entrepreneur in Belarus knew that he was going to have these “corruption policemen” after him or her saying, “Well, you know, we think you’re corrupt.” “Gee, I’m trying to run this shop here.” “No, no, I think you’re corrupt. By the way, we know that you criticized the president.” Now that is the kind of fighting against corruption that we don’t want to be a part of.

That’s why we think the private sector, business enterprises and associations of businesses have a crucial role to play together with other segments of civil society and of course governmental and intergovernmental organizations to create a coalition that will indeed sustain the fight against corruption. Not a “one-night stand” in the fight against corruption, we want sustained social change where the costs of corruption, not just the moral costs, but the economic costs of corruption are factored in. And this is why we have the slogan that remains a uniting slogan in our activities which is, “Corruption is Bad for Business.”

Many people think, perhaps through some mythology, that corruption is a business problem. No, it is actually bad for business. It may be good for an individual businessman or another. He’s a distant relative of somebody in power. And that’s the crucial link. For business, corruption is very bad. Stu Eizenstat was here yesterday. He was also at our Washington conference some months ago and conveyed the same message. If it’s true that corruption is bad for business, it is also true that business is bad for corruption. This is really the message that I want to convey. I think there is an intellectual battle here. I believe we are in the process of winning it, knock on wood, but then there is an application side to it—the specifics of each country, how we build the coalition between NGOs, business associations and governmental and intergovernmental organizations to make it stick.

We are now working on one specific country whose government is a member of the Development Center, Argentina. Let me tell you very quickly the way in which we are thinking about extracting lessons from the specifics of the Argentine case.

It could be called, if one were pedantic, a theory of the sequence of fights against corruption. First point, and I already alluded to it—civil rights, political freedom. If you are in a dictatorship, the chances are that corruption has one meaning for the authorities and a completely different meaning for the population. So very often, and in Argentina this was the case, the reference of fights against corruption starts as a fight against state terrorism and violation of civil rights.

Then there is a second stage, and that second stage is less understood. And that is the issue of financial stability and financial freedom. If inflation is running at 1,000 percent a year, if you are in cessation of payments, debt crisis, the exchange rate is going through the roof, can you really talk about corruption issues? Is it corruption? Is it arbitrage to survive on the face of excessive government regulation? You tell me. Not easy. So this is yet another case, and there is evidence in Argentina, where the population only started being aware of corruption and taking chances in fighting against corruption once the macro-economy was stabilized, that is to say after the convertibility law of 1991.

But these three features—political freedom, financial freedom and an ethical awareness of the population—are there all along. They just cannot manifest themselves immediately. That’s why we want to know more about the specific cases of each country. Each country is its own case, each local community is its own case, and you will find the three elements together—the political freedom element, the economic or financial freedom element and then the social ethics dimension. Let’s not use criteria of transparency that are inappropriate to the economic or political situation of the country. Let’s not forget common sense.

We have a distinguished group of panelists here. We have three of our partners. Transparency International—USA is represented by Nancy Zucker Boswell, Ethics Resource Center is represented by Jerry O’Brien and the Center for International Private Enterprise is represented by John Zemko. They were of course very essential in the preparation of this activity and we have continued to collaborate with them. Given the emphasis we want to bring, we wanted to focus on more than the OECD experience. I’m certainly not going to spend time telling you what the OECD is, but it has been very active in this area. It is a normative organization but it thinks mostly about its own members even though some non-members such as Argentina, Brazil and Chile are very involved in some of its activities.

We thought we would take a case-by-case approach and give you some examples of what the OECD is doing in Latin America. We agreed that perhaps John Zemko should start, and then Nancy Zucker Boswell would go on with the cases in developing countries and we would conclude with the Ethics Resource Center as, in a way, ethics is the main point. The expositions will be very short to leave ample time for discussion. Thank you all for being here, and without further ado, let me give the floor to John Zemko.

**John A. Zemko, Communications Director and Senior Program Officer for
Latin America and the Caribbean Center for International Private Enterprise**

Thank you very much. It is a pleasure to be here today. In my office, when we talk about the topic of corruption, we often remember a quote by a famous American writer from the 19th century, Mark Twain. Perhaps you know him. He made this quote about the weather. He said, “Everybody talks about the weather, but nobody does anything about it.” So that in fact is why I’m really pleased to be here today because it gives me an opportunity to talk about some of the very concrete partnerships that we’ve formed around the world to alleviate the problem of corruption.

Let me begin with a brief word about my organization, the Center for International Private Enterprise. We were formed in 1983 as an affiliate of the U.S. Chamber of Commerce. We are what we call a core institute of the National Endowment for Democracy which is a fund that is designed to promote democratic institutions in civil society around the world. That in fact is exactly what we do. We are at that nexus between the promotion of democratic reform and development in transitional countries, and the promotion of market-oriented enterprise within that system. And we work in the area of the connection between the two.

Since 1983 we’ve conducted about 600 projects in over 70 countries around the world. Last year CIPE was very proud to be a co-sponsor with the OECD on the Washington Conference on

Corruption that Mr. de Maceno was talking about earlier. John Bohn, Chairman of CIPE, was pleased to be a keynote speaker at this event as well as was Chairman of the National Endowment for Democracy, John Brademas.

What was important to us especially was that a number of our partner organizations around the world were able to attend this conference, from Ukraine, Colombia, Ecuador, India and a number of other countries. They reported back to us on how important this conference was to them in terms of a venue for discussing their experience in trying to combat corruption. These partner organizations have long formed the framework of CIPE's programmatic efforts around the world and have formed an important network for us to find ways to effectively fight corruption.

So what I'm going to do today is just talk to you about three different projects that we've been involved in to give you an illustration of what is happening in some developing and transitional countries since the OECD conference. We've actually worked in many more and have partnerships going in many other countries, but I'll point you in the direction of our Web site so I don't inundate you with information today.

At the start, I want to give credit to one of our partner organizations in Bulgaria, the Center for the Study of Democracy, because some of the concepts they developed in corporate governance in Central and Eastern Europe have helped me to formulate my remarks today.

It is helpful in presenting these case studies to divide the issue of corruption and dealing with corruption into two different groups, one of which should be initiatives that work to eradicate corruption on the demand side of the equation and the other on the supply side. Nancy is also going to discuss this and may develop it in a slightly different way than I do today.

As you probably know, in the lucrative world of public-private sector transactions, these types of initiatives are instrumental in steering private sector companies towards honest and sound business practices. On the supply side it is very important to reform those government policies that might allow corruption to breed in the marketplace.

Some of the policy initiatives that are important to address on the demand side are sound procurement codes, particularly for large government procurement processes; third-party monitoring on these sorts of large procurements; independent audits; the rationalization of tax schedule and collection systems; paying civil servants a living wage so they don't seek corrupt monies and finally—the simplification of systems of law and the elimination of duplicative regulations that provide opportunities for corruption.

On this last theme, and as an illustration for you, we have formed a partnership with the National Association of Entrepreneurs in Ecuador, or ANDE as we call it, that will improve the system of law in that country. ANDE has been the recipient of great praise in Ecuador for its all-encompassing approach to eradicating corruption. They have issued recommendations on new legal reforms through a series of sessions with government officials, leaders of the business and NGO communities and even the Catholic Church. The focus is not to blame past corruption on any particular group, but rather to initiate reforms that will change the direction of business and institute clean practices.

Their studies have found that since the Republic of Ecuador was founded 168 years ago, some 92,250 legal norms have been created, of which 52,774 were in force in 1997. The sheer number of overlapping and contradictory laws has created an environment of legal chaos that leaves the application and enforcement of laws to the discretion of bureaucrats. Several recommendations to clarify the system put forward by ANDE have been included in Ecuador's new constitution that went into effect last year.

Specifically ANDE targeted six priority areas where corruption was the most pervasive including the administration of justice, public procurement and contracting, customs practices, privatization, social security and transparency and financial management of the public budget. For example, ANDE recommended several policy reforms within the administration of justice including the elimination of the susceptibility of judicial system to outside influences, installing a commission of distinguished jurors to codify standards and laws and amending subsidiary and procedural codes to eliminate double standards being used by public officials. These recommendations were included in the new constitution which also established an independent seven-member commission under the authority of the National Congress that is supposed to codify and publish laws. The committee will also compile and systematically organize those 53,000 laws that I spoke about before to eliminate duplication and contradictions and lessen the discretionary authority of public officials.

Let me turn now to policy initiatives on the supply side of the equation and some of the work that we've done in that area. The OECD Anti-Bribery Convention, which others will be discussing here later, is surely one of the most important international efforts in curtailing that pipeline of funds that move from multi-national corporations into the hands of public officials. We can also cite the institution of internationally accepted accounting standards as another fundamental reform that is key in this area.

Teaching the importance of sound corporate governance has been one of our cornerstone initiatives on the supply side of the equation and I'd like to speak again about the group in Bulgaria, the Center for the Study of Democracy, with whom we worked. The CSD introduced shareholder registries to the government of Bulgaria as a fundamental policy reform initiative and was responsible for getting legislation passed that required their use. These shareholder registries decipher the ownership of companies and protect minority shareholders by ensuring that their shares are registered as a matter of public record, thus eliminating one of the leading causes of corruption in Central and Eastern Europe.

CSD has also spearheaded a corporate governance education program aimed at the key players in the privatization process as well as interested members of the general public. The program consists of study visits to transition economies, workshops for key private sector representatives, town hall meetings for the general public and public education campaigns through articles and radio and TV presentations.

Finally, let me talk to you about a brand new initiative that we have in Latin America, and that is working with journalists to upgrade their role as independent watchdogs for corruption. One of our most recent efforts in this regard is the partnership that we've formed with the Trust for the

Americas to train journalists throughout Latin America on how to uncover and report on corrupt practices. Last April we sponsored the first of three regional conferences on this topic in San Jose, Costa Rica. We are now planning the second one which will take place in Cartagena, Colombia in November, and the third which is scheduled to take place in Buenos Aires at the beginning of next year before the Summit of the Americas.

At each of these conferences some 50 young journalists are brought to a training program that teaches them the fundamentals of investigative journalism. A second key component of this program that we have with the press is the creation of an electronic network of journalists. We are doing this in partnership with an El Salvador-based non-profit group that produces a publication called *Revista Probidad* that is an electronic anti-corruption bulletin for its Central American subregion. This network takes advantage of information technologies and aids in breaking down barriers to freedom of information that many countries allow to continue unchecked. This initiative is brand new and we're excited about the response that we're getting from journalists throughout the region.

We consider it to be essentially a community-building exercise to provide journalists with the means of waging war against corruption. So if you read Spanish and you have access to the Internet, you can take a look at this on our Web site. It's on our Web site, The Forum of Economic Freedom, which is at www.CIPE.org, and just look for the category on the front page, *Periodistas Frente a la Corrupción*. You can also take a look at our discussion section on combating corruption which has among other things the OECD conference report and many other useful links to speeches and presentations, including our anti-corruption policy.

Thank you very much for your time and I look forward to your questions.

Jorge Braga de Macedo, President, OECD Development Center

Thank you very much, John. And thank you also for keeping within your allotted time because now Nancy Zucker Boswell is going to address us from Transparency International—USA.

Nancy Zucker Boswell, Managing Director, Transparency International—USA

Thank you very much for inviting me to participate on this panel and thank you to the organizers for pulling this event together. I think it is a tremendous opportunity for many of us to exchange experiences of what works and what doesn't work in our country. It also brings together old friends in this battle against corruption, both from the private sector and from government. I see many of my colleagues from Transparency International here in the audience from Argentina, Colombia, Ecuador, Peru, Slovakia and Zambia, and I've probably missed some others. I mention that because I think they can tell you far better than I can about the reality and sometimes the very harsh reality of fighting corruption in their countries. They can tell you that we try, as has been suggested, to work in coalitions with other NGOs, with the private sector and with the government on systemic reform of institutions and on increasing citizens' access to information.

If you'd like a little more information about some of their programs, I would suggest you take a look at our Web site. John has inspired me to add that to my presentation. We're at www.transparency.org. There are some very interesting experiences shared there and lots of very good materials. What I'd like to do is focus my remarks on the OECD because that's what this panel was billed as, and Transparency International was very proud to be a partner organization for the OECD Development Center conference in February of 1999. So it is a great pleasure to come back and tell you where we are about 18 months after that last conference.

When we met last February the OECD Convention Against Bribery of Foreign Public Officials had just come into force. I'd like to spend a few minutes focusing on that convention because I think it's important to remember that the OECD countries still have a lot of work to do. They play a major role in contributing to the problem and they can play a major role in correcting it. Bribery, particularly grand-scale bribery, often has transnational dimensions and it is important to get a multilateral approach so that we have some sort of common approach to addressing it. The OECD members are home to the major international companies and thus the convention can have a significant impact on what we would call the supply side from outside of many countries—the bribe payers.

The enforcement of this convention or even the threat of enforcement can provide a powerful impetus to change in private sector behavior. I'd like to mention a few areas where this can be particularly important and where it is time for action to take place. The convention is off to a very good start. For those of you who may not know about it, it has been ratified in the past year by 26 countries and they are not just in Europe, although we do have Germany and the U.K. and France, and we believe Italy is coming along. But also in Asia—Japan and Korea have ratified and here in this hemisphere, Mexico has ratified and Argentina, Brazil and Chile have signed and are in the process of completing ratification. So it does have broad application.

While this is impressive progress in a short time, the question is what really has changed? I think we can look at the monitoring process that is in place and say that a clear message has been sent that there is a high expectation that very strong laws will be implemented and applied. We have evidence that this message is being heard because the OECD working group has flunked several countries already and told them to go back and take remedial steps to fix their legislation.

The next phase of monitoring is going to be on-site visits—going out to countries and looking at enforcement programs to see whether this convention is working as a practical matter. Teams of experts are expected to consult not just with government, but we are urging that they talk with the private sector and civil society so they can get an accurate picture of whether this is a reality

In addition, further work is being done to close some loopholes left open by the convention. One of those is particularly important. It deals with bribes to political parties and party officials. The convention only applies to bribes to foreign public officials and not to political parties. And we believe that with one avenue closed there may be a temptation to use the other avenue, certainly if we look at recent events like the scandal in Germany with Chancellor Kohl and his party. There is also an article in this morning's *New York Times* about Chirac and slush funds and his party. We recognize that this is a severe problem and one that probably occurs in all our countries.

We have organized a high-level meeting next month to try to develop recommendations for submission to the OECD, and we hope they will take action. But it is important to note that the private sector doesn't need to wait for the OECD to act. The International Chamber of Commerce in 1996 adopted a set of voluntary rules of conduct on extortion and bribery. And those rules are there for the private sector in the OECD in many of your countries. Those of you not from the OECD should also look at them. In particular on this issue Article VI provides that contributions to political parties or to individual politicians should only be made in accordance with the law. That may seem obvious but if we read the papers we know people don't follow that rule. And all requirements for public disclosure should be in full compliance. Certainly transparency in this area is critical. Finally all such contributions should be reported to senior management.

This brings me to the other area where I think the convention can have a profound impact, and that is reporting. Financial recording and auditing are clearly terribly important. Prohibitions against bribery cannot be effectively enforced unless there are adequate requirements for financial accountability and transparency. The OECD convention recognized this in Article VIII and in fact specifically refers to it. But we were curious to know just how far countries had moved to require good standards. We worked with the Big Five accounting firms on a study that surveyed current practices and requirements relating to books and records, auditing practices and internal controls in 16 OECD countries including ten of the largest exporters. This study disclosed that many of these countries do not have legal requirements for internal control systems. Many don't apply books and records requirements. They don't bar secret slush funds for companies that are engaged in international business or foreign subsidiaries. They also revealed shortcomings in requirements for outside audits and for financial disclosure.

We have recommended that the OECD address these deficiencies during the monitoring process. Again, in the meantime, the private sector is free to take voluntary action, and if you look at the ICC rules, there is a provision there that can be taken up immediately. It says all financial transactions should be recorded properly, should prohibit off-book or secret accounts and should have independent auditing systems.

These are a few of the important specific steps that governments can take to stimulate private sector action and that the private sector can take on its own. Voluntary action is key because criminal enforcement, as many of you know, has its limits. You can only cover so many cases with the limited resources that you have. So voluntary compliance is an important complement to government action.

The evidence to date of real change is not terribly reassuring. Transparency International did a survey last year of businessmen in international trade, asking about the propensity of the OECD countries to pay bribes in the emerging markets. What was interesting was that few respondents in the business community were even aware of the convention and it didn't seem to matter whether we asked people from major international companies or those from domestic countries. So we need to do a great deal more about education. I hope that we can cooperate with the OECD Development Center to make sure that companies not just in the OECD countries but around the world are aware that the rules of the game are changing. This is true if we look at the Inter-

American Convention Against Corruption for this hemisphere. We can also look at the Council of Europe criminal and civil law conventions for that part of the world.

There are a number of regional approaches that are emerging. In fact, last February, just prior to the Development Center conference, Vice President Gore hosted a conference on fighting corruption. Prior to that, African ministers, I believe from a dozen countries, got together and developed a set of ministerial principles in the fight against corruption. So we have emerging regional agreements to try to do something about the problem. I hope it will stimulate the private sector as well. For the average citizen harmed by corruption it matters little whether corruption is the result of domestic or transnational bribery. In either case we all need to do something to reduce the incidence of bribery.

These are a few of the challenges before us and I look forward to the discussion we're going to have after the remarks. Thank you.

Jorge Braga de Macedo, President, OECD Development Center

Thank you very much and thank you also for having kept to the strict time limit that we imposed upon ourselves. Our third speaker will represent the Ethics Resource Center. Jerry, it is good to see you.

Jerry O'Brien, Director of International Programs Ethics Resource Center

Thank you very much. I've been forewarned that I need to stay within my time limits in order to keep up with my colleagues' good example.

I would like to talk very specifically about the role of the private sector in creating more ethical business standards and in fighting corruption. At the outset I would like to comment that there is great ambiguity about what the role of the private sector should be. Clearly, historically, corporations have argued that corporations exist merely to create wealth for their owners. I think that view of corporations has broadly been repudiated and we now realize that corporations have much greater responsibilities as corporate citizens, particularly as corporations grow in terms of their economic and political weight in the world. Clearly their responsibilities are much greater. However, that conversation is not yet over. There is still a lot of discussion about exactly how broad those responsibilities are.

The other comment I'd like to make at the outset is that responsibility for ethical business conduct and for fighting corruption really must be taken by the private sector. It cannot be assigned by other groups. Governments can't determine what the role of the private sector will be, nor can multilaterals or NGOs. It really is up to the private sector to determine how it will respond to the challenges of doing business ethically and fighting corruption. As Nancy pointed out, voluntary compliance is a critical aspect of this discussion and the limits of enforcement are pretty obvious.

Private sector actors, such as multinational corporations, however, are poised to lead the fight against corruption from the private sector. They have significant motivators which encourages them to embrace ethical business practices and high business standards. Clearly they are interested in having predictable and stable transaction costs. For example, there are some bottom line implications of conducting business ethically. There are also a number of important risk communication concerns in terms of conducting your business legally and according to high ethical standards. There are also a number of very good examples that have come out of the private sector already. Many, many corporations, U.S. multinationals as well as other corporations have very sophisticated and comprehensive compliance ethics, corporate social responsibility programs and initiatives. So there are examples of very good responses from the private sector to these challenges, and very innovative solutions to what are sometimes daunting challenges.

The Ethics Resource Center also argues that corporate actors are poised to be successful as they try to develop new ways to do business. Corporations are certainly nimble and able to institute change fairly quickly and dramatically in ways perhaps that the public sector is not. Private sector actors are also held accountable in very important ways, and this trend of course is growing. You only need to look at recent headlines to understand the degree to which Ford and Firestone are being held accountable for their recent business decisions. We also think that the successes that some corporate actors have demonstrated continue to promote other successes as corporations emulate each others' best practices, as industries emulate each other and as corporations in other parts of the world look to OECD member country corporations for best practices that have encouraged and supported their business development.

I'd like to talk about a couple of the kinds of strategies that the private sector has put in place at three different levels. Many corporations have created integrity programs. That is sort of a broad concept that we have begun to use recently which includes compliance programs. That includes the somewhat broader ethics programs as well as programs such as corporate social responsibility programs, corporate philanthropy programs and other related initiatives. These are our programs which have helped corporations change the way they do business, change the way they operate, the way they make decisions in order to operate more ethically according to a higher set of standards.

Beyond what an individual corporation can do, however, many industries have created collaborative initiatives. For example, the Defense Industry Initiative is a long-standing example of that here in the U.S. It is a group of defense contractors that came together to agree on a set of standards for conduct and for the reporting of exceptions to those standards as an industry. Another example of that of course is the Pharmaceutical Manufacturers Association, a global organization of multinational pharmaceutical corporations that has come together to articulate standards by which it will conduct its business. Of course an organization such as this has encouraged the development of national branches in many countries of the world where multinational corporations sit across the table from their domestic counterparts to talk about standards of competition and standards for marketing and promotion of their products.

At the highest level of corporate response to these kinds of challenges there are some very forward-thinking corporations that are actually trying to impact the external environment to try to

encourage the dialogue around ethics and the fight against corruption more broadly in the countries and regions in which they do business.

An example of that is Merck and Company, the U.S. pharmaceutical manufacturer which has clearly been a global leader in promoting and funding initiatives in many parts of the world which are designed to encourage and catalyze discussion among private sector actors about the appropriate role for the private sector in those parts of the world. Merck has funded the establishment of a number of regional integrity centers; they supported the expansion of a number of existing organizations in many parts of the world. Some of them are located in Latin America.

Most recently we have begun a relationship with Transparente Colombia, a Transparency International Chapter that has begun to do some very challenging and interesting work in the private sector, helping private sector actors develop appropriate strategies.

We are also working in the Middle East, in Turkey, in South Africa and in St. Petersburg on similar projects which are regional integrity centers whose goal is to bring together private sector actors to define their role in the fight against corruption and in establishing high ethical standards. These organizations are independent, non-governmental organizations designed to foster broad society-wide support. They offer a variety of kinds of programmatic support to private sector actors such as consulting, training, education and public advocacy. They tend to be linked with academic centers in order to undertake research to develop local strategies to face local challenges, and they are of course networked with global colleagues in order to learn from each other and to share with each other their successes.

I'd like to end by talking a little bit about the breadth of issues that the private sector needs to consider as it determines what its response to corruption will be. Initially corporations had a concern for operating legally. They wanted to comply with the existing laws. And so the original attempts in this field were compliance programs. Beyond that, however, many corporations decided that that was not enough. I think Ford is probably arguing for all it's worth that they haven't broken any laws in terms of their tire problems, but it is clear that they did not behave particularly ethically in that matter. So corporations began to look at the broader issue of business ethics, rather than what can we not do, but what should we do, what is the right thing to do here.

Of course, more recently, the most forward-thinking corporate actors have begun to ask themselves a broader set of questions that we are calling integrity questions. And that is a whole series of issues that are of real concern to corporations. Compliance and ethics and business conduct of course are the original core of the discussion. However, there is this broader set of issues such as transparency, not only internal to the corporation but promoting transparency between private sector actors and government; anti-bribery; anti-corruption initiatives; clearly good governance, and again internal to the corporation as well as externally; rule of law, supporting the rule of law, not only to their own activities but to encourage other players to support the rule of law as well and clearly the broader area of corporate social responsibility.

I will just leave you with the thought that this is perhaps the array of issues with which the private sector has to wrestle and these are the issues that the private sector has to decide what responsibility it wants to take in terms of impacting those issues.

Thank you.

Jorge Braga de Macedo, President, OECD Development Center

Thank you very much also for keeping within the time. This is a very good example of what can be achieved in a sustained timeframe. There was a lot of peer pressure here. Everybody understood that it was an advantage to limit his or her remarks to allow for a broader interaction. Good example of peer pressure, good example of what can be done.

Let me take a snapshot of each one of the three presentations, and actually look at them in reverse order to motivate your questions.

The idea of integrity was crucial in Jerry's presentation. Fighting corruption is a very complex, very, very fine type of activity where there are success stories. He mentioned Merck which we have heard about in many different connections, especially fighting diseases in Africa. The idea of integrity I think is very important.

Then Nancy reminded us that the OECD has a lot to do. There is a lot to be done in the countries that are often seen as role models. Again an example of peer pressure. Why have they done more? Maybe because they have more forums where this can happen. They all sort of watch each other. And just as today's paper mentioned a case of a potential political scandal, there are also cases where there is improvement. Just remember who succeeded Chancellor Kohl at the head of the Christian Democratic party—a woman formerly from East Germany who is as transparent as you can be.

And the last point in the first presentation, the last point I wanted to single out is the idea of building coalitions. John mentioned the role of journalists—their ability to tackle these issues in a professional and responsible way—the role of churches, the interaction between private profit-seeking business, NGOs and governments. This is really the key to success—the interaction between globalization on the one side that offers opportunities, and responses on the part of the different segments of society which are advocates to the situation.

I invite you to ask your questions. I'd like to gather a few of them and then we'll continue to interact until it is time for lunch.

ENRIQUE EDGAR MONTENEGRO DIVIAZO (Panama): I am the Secretary General of the Front Against Corruption in Panama. I represent the private sector. I would like to thank the panelists for this opportunity. Eighty-five Panamanian journalists who are being prosecuted for libel asked me to pass this question on to you. This is what the note says:

“We request that you kindly take this message from us, the journalists. We would like the world to know about the very difficult situation faced by people in the Panamanian media. We are being persecuted when we try to report corruption by the government or officials in power. This is

very detrimental to this country's future. In the name of more than 45 journalists and social communicators in Panama, please let the world know that we are the victims of persecution, unjust sentences and others in courts that are using law from a military dictatorship which ended years ago but which the democratic government has kept. We would like you to make world leaders in the fight against corruption know that in Panama there is an environment of legal insecurity that affects citizens and journalists who try to defend democracy and struggle against corruption.”

I will not take the time to mention the names of each journalist and the crimes of which they are accused, but my question would be the following: Could some agency or entity such as the ones represented by these gentlemen, the World Bank, the Inter-American Development Bank, the European Economic Community, through the representatives in our country cause these laws that came from a military dictatorship to be repealed or removed so that Panama will not face this lack of prestige in the world scene?

JORGE BRAGA DE MACEDO (France): Yes, this is a very difficult question. We will answer it in a moment. Panelists, that was a specific case about Panamanian journalists. Another question concerned whether laws from the previous system may be used in a new system. Thank you for bringing this specific case to our attention.

VICTOR HUGO TINOCO (Nicaragua): I am a member of the Nicaraguan Parliament. We have addressed the topic of interaction among different actors in fighting corruption. I feel that in this day and a half that we have spent here in all these presentations there has been something missing. There is a very important actor in our societies which has not been mentioned—and this is an actor that has a lot to do with the fight against corruption. These are the political parties.

We are all transient presences in the government. We could be here today and gone tomorrow. But we usually are part of a party for a longer time, sometimes even for a lifetime in some of our countries. And parties, even more so than governments or administrations, generate an esprit de corps, a sense of loyalty. So this sense of loyalty that parties have is a positive thing in a way, but it can also be negative from the point of view of corruption because when faced with a case of corruption we tend to be more tolerant toward those who belong to our same party.

Is there any kind of program within this whole effort against corruption that is aimed toward the parties? I feel that to a degree we can affect or impact the parties. We can make a difference in how these people will react in cases of corruption.

JORGE BRAGA DE MACEDO (France): Thank you very much. Yes, it's a very specific, focused question. Parties are organizations just like corporations and governments. There are some comments that we can make in that regard.

VICTOR MANUEL TALAVERA H. (Nicaragua): I am a Congressman from Nicaragua. My question is for Mr. John Zemko. You talked about investigative reporting against corruption. In Nicaragua, for example, there is freedom of expression to a high degree. But what happens when this kind of freedom of speech contributes in turn to corruption when somebody pays to obtain some information in order to report certain activities? What happens when transnationals, large

multinational companies, seek favors or benefits and in a bidding process they corrupt the government structures?

And a comment: To a great degree the perception of corruption is linked to the public sector, not really to the private sector. But the private sector sometimes can participate in illegal bidding or act illegally in bidding processes. Another thing I would like to mention and that we've talked about before is education—from elementary school to university. We feel that we need to start from the bottom up in order to fight corruption—nip it in the bud, so to speak.

JORGE BRAGA DE MACEDO (France): Even some people who are not as advanced also have problems with their values sometimes, and this is another point that we can discuss. Okay, we have three questions, perhaps one more.

LINDA TOPPING (United States): I'm with the Inspector General's Office in the Department of State. I had a comment on the initial formulation you had in terms of the movement of businesses from focusing on the area of the bottom line to a movement toward social responsibility. Your formula was expressed as bottom line versus social responsibility. In fact instead of a versus it is really an equal—a greater approach and a greater accomplishment of the bottom line.

I wanted to simply underscore that point because I think that it is obviously the value of a forum such as this to link individual social responsibility to the bottom line for companies such as we've seen British Petroleum and other companies that have moved toward investment in the important technologies that are sustainable long term. And I would like to see your formula say "equals." Just a small comment. Thank you.

JORGE BRAGA DE MACEDO (France): Thank you very much. Is there another question?

JOSE LUIS COINDREA GARCIA (Mexico): This is a question for Jerry O'Brien. I've been in ICAC in Hong Kong in a room full of code of ethics for almost every business branch or every activity of human beings. I believe there is a code of ethics for private enterprise that deals with the government. Is this advisable as a tool for controlling enterprises in their own way of doing business? Is this a widespread custom in other countries in your experience?

And this question is for Nancy Zucker Boswell. What is your experience in bringing our church organizations into ethics committees or anti-corruption commissions?

And for John Zemko, have you made any efforts in creating associations or links with Mexican business organizations, and who are they?

JORGE BRAGA DE MACEDO (France): Thank you. Last question, please.

LUIS HUMBERTO SANGUINO ROVIRA (Mexico): First of all, I would like to congratulate the panelists for their excellent presentations and share some thoughts with all of you who are here at this extraordinary summit. Mexico, as you know, is going through an initial process to democratic change and we have experienced some very significant changes. One of these is the strengthening of our control institutions, our higher monitoring institutions. And you were saying

that OECD countries are promoting constitutional and legal reforms in this kind of institution. I am from the controlling agency in Mexico, one of the largest in the world. I would like to say the following: Constitutional reforms in my country tend to strengthen these monitoring institutions in the fight against corruption. I would like to point out that in the case of Mexico City, an organization, an entity, has been created and we believe that if the world is becoming more globalized, then companies are merging to have better penetration into markets. Institutions that are managed by one person are disappearing and we are talking about associations or partnerships in all the world. What would be the role, then, that you would see for these organizations, these monitoring organizations? Should they be led by one person? Or should they be led by something more plural?

JORGE BRAGA DE MACEDO (France): Thank you. The question from the auditor of Mexico City concerned the design of the auditing. Should you have one single person or a committee? It is a very important constitutional question. I will allow the panelists a chance to respond, but in case we run out of time, I would like to recognize two people that can help with the follow-up of these matters. One is the local representative of the OECD here in Washington. Will Davis, please stand up. He can help you on the spot. Then the man with the camera, David Hamlet, can also help you. We'll start with you, Jerry, if you could very quickly respond to some of the questions.

JERRY O'BRIEN (United States): Thank you. I just have a couple of brief comments. The observation about the relationship between the broader corporate social responsibility and the bottom line is absolutely correct. In fact we make the argument that operating toward a higher ethical standard or shouldering one's corporate social responsibility in the long term is a competitive advantage. So that is absolutely correct. It was an unfortunate shorthand that I chose to use.

As for the comment about the ICAC in Hong Kong and the question of use of codes of conduct for various kinds of business, the answer is yes. We argue that every corporation needs to have its own code of conduct that responds to the various challenges and problems that not only are faced by industry, but also by the country in which it does business and by the individual corporate culture of that particular organization. So we resist the notion that there can be a global code of conduct for all companies and suggest that each and every company should invest significant time and energy to develop its own code of conduct that is reflective of its own culture and its own challenges and issues.

NANCY ZUCKER BOSWELL (United States): I'd like to quickly run down a few of the comments because I think that each and every one of them was really valuable and adds to the discussion. The question from Hong Kong on codes of conduct, I'd just like to add that in my experience and U.S. experience, the voluntary corporate programs that we now have in place for the most part came as a result of the Foreign Corrupt Practices Act being enacted in 1977. So there is nothing like a strong law being enforced to stimulate voluntary action.

In terms of the very moving point made by our colleague from Panama and the Nicaraguan Parliamentarian talking about journalism, I believe there are two sides of the coin. It is terribly important in the fight against corruption that the media is free to report the facts and that they not

be threatened with libel, let alone threatened with bodily harm. So we have to do everything we can to protect that right. On the other hand I think we do need to acknowledge that there is a role for responsible journalism, reporting the facts and not paying bribes or not being under the control of corporate ownership and therefore having control of the press. So these are two sides of the coin and I think we need much greater discussion of this issue in many countries.

On the issue of political parties, again, it is very problematic here in the United States and around the world. Political parties, because of corruption, are losing public trust. Citizens are moving away from the party system and I think it is a very dangerous trend. I think we need to look more broadly at the party situation around the hemisphere.

And finally, two more points. One was on the private sector role in public sector bidding. Transparency in public procurement is absolutely essential. There are billions of dollars of bribes paid annually on trillions of dollars of public procurement. Those are not Transparency International figures; those are World Bank figures. There are efforts in the free trade area of the Americas to secure a transparency in procurement agreement. There is an effort in the APEC region for the same. There is an effort in the World Trade Organization for the same. Whatever you think of globalization, let me urge you to think about supporting agreements that would require governments to have transparency in procurement and that would require corporate bidders to have corporate codes of conduct and training programs in place or else they're not permitted to bid on your project. You might even invite organizations like Transparency International to monitor public procurement. We're doing that in many countries and it seems to be very helpful.

Finally on the point of education, nobody would argue that we don't need to educate our children in the right behavior. I think we do need that. Let me just present two cautions. One, that's a long-term project and you need short-term demonstrated change. And two, actions speak louder than words. We can tell our children whatever we want, but they look at us and how we behave. And if we don't change our conduct the education won't change a thing.

JOHN ZEMKO (United States): I'll answer the last question first because it is the quickest. We do have a group in Mexico that we've worked with for many years, Corparmex, which is a private sector-oriented business association. We've partnered with them for many years and in fact did so on the organized conference that we did on the next stage of reform in Latin America which will be coming out in a publication later this year.

In response to the gentleman from Panama, I think that the example that I presented in my remarks earlier about what Ecuador is doing in this area, trying to get conflicting and duplicative and basically bad laws off the books is an instructive effort. That process, if it is to be a democratic one, needs to be largely driven by consensus within the society, whether that be through government or outside of the government by pressuring the government to move in that direction. So I think what needs to happen is a system of consensus building in order to get those laws in Panama off the books.

Lastly, on the issue of corrupt journalism, I think it is important to remember that a free press in the market-oriented economy is really two different beasts. One is the business of being a media enterprise and the other is being an independent watchdog on all sorts of issues. It is not an easy

relationship, but I think if journalists rely on the tenets of sound investigative journalism, then they're going to be led in the right direction. Their use of the Internet is an excellent way to try to create competition, to be the most credible in terms of delivering news, and I suggest that journalists take advantage of that outlet.

JORGE BRAGA DE MACEDO (France): Thank you. To continue this discussion you can use the e-mail addresses in the list of speakers, certainly mine. Let's continue talking. There is one sorrow in my mind and that is that we didn't have a question from Brazil. There is one happiness. It was well worth the time even though we encroached on our lunchtime.

E-Commerce Risk: Perspective from the Washington Summit

Basil Pflumm, Vice President, Practice Center, Institute of Internal Auditors

It is my pleasure to be with you all today. I want to tell you about this event that we've been planning with the U.S. Critical Infrastructure Assurance Office. I'm going to go fairly quickly through this. I wasn't quite sure how this event would fit in, but after listening to the presentations that were made earlier today about the partnerships of NGOs and partnerships with the private sector and partnerships with public or governmental organizations, I'm sure that it will fit just fine.

About a year ago we began to talk to the Critical Infrastructure Assurance Office which is an office of the U.S. Department of Commerce. The idea of that discussion was that in the view of the U.S. government there were challenges to the infrastructure of the U.S. that could not be handled by the traditional protective devices of the government. And they were interested in contacting somebody, namely an organization like the Institute of Internal Auditors, that could create a bridge between the governmental offices and private sector organizations. Their view was that the private sector was holding most of the assets that were really important for the economic and political wellbeing of the citizens of the U.S.

Now, lest this sounds too much like a U.S. event, I want to tell you that we will be working during the next 12 months on a similar series to showcase and explain this issue around the world because it is not unique to the U.S.; it is something that permeates all organizations.

Today billions of bits of information per second are flashed around routinely from one part of the world to the next. And the problem is that once one computer from the outside is linked to one computer on the inside, that information base is susceptible to corruption, loss of data, whatever else might happen. And so with that sort of a situation and with the explosion of the Internet, we are in fact looking at challenges to the private sector's assets.

The feared result was that the U.S. could not be assured of continued operation of certain critical industries. The threats and vulnerabilities surrounding information security include but are not limited to cyber-threats such as this year's widely reported denial-of-services attack. You are all familiar with the Amazon.com, the E-bay and the Yahoo challenges. They also include the virus attacks such as the ILOVEYOU virus. It is a situation to which this crowd is well attuned. In very straightforward language it is a situation where we have very high losses. According to an information security magazine, those losses within the U.S. alone total something like \$266 billion. That's a lot of money. Extend that to the worldwide bases and we are talking about something like \$1.6 trillion. So there are a lot of things going on in this environment that are challenging the society in private and public sector organizations and causing a lot of losses.

In addition to that we see high investment. By the year 2004 we expect the investment in information technology to grow to a little less than a billion dollars, or \$952 million. That's 15 times the current investment in about five years. At the same time the amount of investment that's going into protection is increasing by about 23 percent, so you can see this tremendous investment in an area where there is substantial losses.

At the time that we were talking to the government office about this partnership, the report of the President's Commission came out. I'm just going to wave this at you because I think it's probably the best codification of the problems that I'm talking about. It's this blue-covered book right here. It's published by the U.S. government, readily available. It is about three years old, and it's easy to get. This report singled out eight particular industries and I'll cite those for you. They are information and communications, electrical power systems, gas and oil transportation and storage, banking and finance, water supply systems, emergency services and governmental services. You can see that these are the primary things that really keep the country operating.

And the important thing to recognize is that most of those industries are not controlled by public sector or governmental organizations. Those entities are controlled in the private sector. And the protection of those assets and the maintenance of the ongoing systems must be protected and handled in the private sector. This is what caused the U.S. government to try to reach out to the private sector and to talk to organizations like my own, the Institute of Internal Auditors.

I might note for you that the Institute of Internal Auditors is now well over 70,000 members. Of those 70,000 members, 30,000 are in the United States, meaning that most of our organizational members are outside the U.S. I noticed that there is a very strong international contingent here and we do have organizations in almost every country in the world. Our standards are translated into 21 languages now and participation in the certified internal auditor program is growing. The primary area of growth is outside the U.S., particularly China, the Asian area. There is a significant amount of interest in certification and it is happening around the world.

I want to summarize the point, the issue, at least according to Richard Clarke. Richard Clarke is the National Coordinator for Security Infrastructure and Protection. He's appointed by the President. Clarke has said for the first time in our history, and he's talking about U.S. history, the military alone cannot protect our critical infrastructures. Computer networks owned by private corporations control our telecommunications, electrical, transportation and other critical systems. In the future, if America is attacked it may not be by bullets and bombs but it will be by bytes—electronically. Clarke told the participants at our session that we had a month ago in San Francisco that by protecting your company's information technology you could also be protecting the security of your country.

There is a lot in this report from the President's Commission, but I'd like to go on to give you some idea of the objectives of the project that the Critical Infrastructure Assurance Office had talked about to us, and this is broader than internal auditing. I want you to know the Critical Infrastructure Assurance Office is a very broad-based initiative in the government and we are involved in one piece of it, but we are the fulcrum of that piece that's dealing with information security and the protection of it.

The first objective is to improve the awareness in governance and executive levels of management and business of the risk associated with information security. Many corporate boards and the members that sit on those boards who are members of audit committees were very used to protecting the assets in the vault. They are very used to developing oversight of operational matters. They oversee the physical plant and equipment. But often the issues that I'm talking about, information security and the threats associated with that, are not really in the lexicon of directors. So we wanted to create awareness.

Second we wanted to address the changes needed in professional practices and principles. There is a dearth of principles or at least acceptable principles both within the United States and around the globe about what constitutes good control. There are a number of different models that are out there but we think we need to coalesce on those.

Finally we think professional auditing practices need to be identified as a basis for assurance. That's our business. Auditors normally tell managers that things are either okay or they're not so okay. So we think that there needs to be, and the Assurance Office feels that there needs to be, some improvement in that.

Finally we wanted to address the role of information security management in protecting corporate values and providing this assurance for the critical industries.

The idea was that if the private sector directors and company officials knew about the threat and they understood the threat, a business case could be made that would tell those leaders that it was in their best interest. Much like you spoke about in the panel before lunch, it is as much in their interest to bring this issue of protection to the fore.

Tom Horton, who is the Chairman of the National Association of Corporate Directors, has been a real staunch supporter on this whole project. He says ultimately the overall responsibility for the organization and its assets and for its perpetuation into the future rests squarely with the board of directors. Information such as sensitive files, proprietary product data, trade secrets and even strategic plans is one of the company's most valuable assets. It is the type of knowledge upon which the future depends and which if it gets in the wrong hands could bring a company to its knees.

If you've not been closely associated with internal auditing, you may not have noticed that we've changed our definition. We do different things than what we did a few years ago. So we have a new definition and this coincides with the activity that we were going through with regard to the infrastructure. Once again I'm going to read you the new definition and I'll come back to a couple key words.

First, "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." There is nothing new about independence and objectivity, but there is a lot new about writing both assurance and consulting into that definition, and we do consider that we are consultants to management. There is

really nothing new about a systematic, disciplined approach. I think that is pretty much in our heritage. But there certainly is something new about saying it is part of our job to help management improve risk management, control and governance processes. Clearly, if you consider what is being asked for by the Critical Infrastructure Assurance and you look at that definition, they really did pick, I think, the right organization to do something about it.

Leveraging off of that new definition and because of the internal auditor's very close relationship with the chairs of Audit Committees, the Infrastructure Office was interested in engaging the Institute of Internal Auditors and the auditing profession in general, to then reach out to the corporate directors and carry this message to them.

Now, we have a number of things in that project. Bill Taylor mentioned earlier that the sixth in a series of six events is scheduled today at the office of the New York Life Insurance Company in New York. We'll have a number of people, including the directors of the Critical Infrastructure Assurance Office here in Washington, a number of their key people, a U.S. Senator from New York and a host of corporate directors who have been engaged in this from the beginning, including Tom Horton. The IIA's President Bill Bishop is there, which accounts for me being here. So at any rate this is the sixth and at each of these events we've had an average attendance of 150. New York, because it is the financial capital of the U.S., has drawn a little bit more than that. They're pushing a couple hundred people there.

I want to tell you a bit about the partnership because it is important to recognize the coalition, and I put this back in my notes after I heard the presentation before lunch because I think it is important. Our partners, in addition to the Critical Infrastructure Assurance Office, are the National Association of Corporate Directors. Their members were invited to at least one of these events. The Information Security and System Security Audit Association, the American Institute of CPAs and the National Association of Corporate Directors all have been engaged in a prominent role throughout the entire process.

In addition, and probably the most significant part of this and the thing I think which relates to your agenda, is the fact that the private sector has stepped forward and supported this effort, including the Inter-American Development Bank represented by our friend Mr. Taylor to my left. We have a whole host of sponsors, including four of the five major accounting firms and smaller organizations. It's been a real good turnout of support that has allowed us to make these events first class. The target audience is corporate directors. We've never tried to do anything like that before. And to get directors in a room with auditors is not the easiest thing we've ever pulled off. But we've been able to do that and I think we've really opened some very strong communication lines.

What are some of the other dimensions of this corruption issue that you might be interested in? Well, it's a growing problem. In 1996, the number of companies that knew they had at least one intrusion into their information base was about 42 percent of the sample. By 1999 it was 62 percent. If you trend that it's about a 50 percent increase, so it's growing. The number of companies that knew they had no intrusion was something like 37 percent in 1996. By 1999 it was half that amount. So it is becoming more and more common for this to take place.

In addition, you might want to know who does it. Who are the people that get into that database and where do these intrusions come from? The source of most of the intrusion is from disgruntled employees, representing about 90 percent, and that's a pretty constant figure. But there are a lot of independent hackers out there. And then there are both domestic and foreign competitors.

What kinds of losses are happening in companies? What is really going on out there? Well, the computer virus is the most common by far—53 percent of the intrusions are computer viruses. But of particular interest to this crowd I think is the fact that when you add fraud with theft of data or trade secrets, with trafficking of illegal materials, we are close to about 17 percent of these. So it is a sizeable and significant piece of intrusion for illegal matters. And that was a surprise to me. I didn't really realize that that was going on, because most of what we hear about is people doing it without reasons.

I want to give you a couple of quick ideas about what kinds of problems come out of these series because I don't want you to think that the only thing that happens is that we lose data or we get corrupted databases. When E-bay and Amazon.com and the rest of the companies were involved in denial of services, the stock value of those companies drops somewhere between 17 and 23 percent. Now this was part of the business case. Why should a private sector board get excited about this and tighten up the security? This is the reason. Because Amazon.com lost \$6.67 billion of stock valuation. Yahoo lost \$17.24 billion. The issue is significant loss of wealth. When companies don't attend to this information security aspect and have something that closes them down, they'll lose revenue for sure, but what they're really going to do is lose stock valuation.

The second thing that I wanted to mention, and we certainly didn't understand it at the beginning of the project, is that most directors rely on something called directors' and officers' insurance to protect them from their activities if something goes wrong. We've had a couple of presenters from major insurance companies that do this kind of underwriting tell a room of directors that the coverage that they're relying on probably doesn't cover information security losses. So once again we have the business case for taking this sort of action.

I don't want you to think that this is only a private sector problem. I know the Controller General of the U.S. is here today and some of the GAO reports recently have pointed to a similar problem in the public sector. So it is not just a private sector problem. Anybody that has a Web site and has connectivity has the potential to experience this.

Now where do we go from here? Why do people really want to get connected on the Internet and why is it growing so fast? It is growing because it is cost effective. American Express sells a program called Purchase Cards and they say that a transaction (they have a couple case studies) normally costs about \$95. If it is automated with a purchase card electronic method, that cost will go down to something less than \$5 per transaction. So when you can take a cost element that is \$95 and bring it down to \$5 or less, it is going to be very attractive. Plus it is the thing to do. Who does not want to be connected today?

I'm going to talk about a couple other things that I think you would find important. A young woman who was the auditor for a governmental organization came up after one of the IIA's

educational events to talk about an experience that she had had. I don't have time to go through it in its entirety today but I'll give you the essence of it. It is described on ITAUDIT.ORG. However, we removed identifying information.

She said, "You know, we had this beautiful set of principles and standards for controlling our information resources. They were out on our Web site and all employees got a copy of them." One of their IT administrators took the consultant's password and came in and did some untoward things in the database. This young woman must have been a very talented auditor because she uncovered the inappropriate behavior. She carried it to her leadership and they were all ready to prosecute and dismiss the employee.

To make a long story short, even though they had some beautiful standards and beautiful procedures that I'm sure I would have loved as an auditor, they had not been communicated to or acknowledged by the employee so the employee couldn't even be terminated. To my knowledge, that employee still works in that governmental organization. Now, in that case, you can see that not only does this process require some external concern, it requires internal processes. So it is now a big deal in that agency that everybody has to know about the security requirements and has to sign them. These records are kept in the human resources department.

The motto of our organization is "Progress through sharing." And I can't think of a better example of that sort of thing. She came to me, it hadn't even been four weeks ago, she put the data down, now it's all in the Web site. And that's the sort of information that I think is very useful for all of us because we're learning. Nobody has a lock on how to achieve information security.

I know we want to get a few questions in, but I did want to discuss a couple other points that will be useful. Management is often culpable in this issue, and the reason they are culpable is that, first of all, at the boardroom level there is a lot of technical jargon. This is viewed as a technical problem. I'm going to say that I don't think it is so much a technical problem as it is a risk management problem. Those of you here who are from the U.S. will remember the Los Alamos tapes that were simply left in a room. So there are examples of things like that that are simply procedural. The example of the government employee tampering with a database isn't anything that is highly technical; it is something that happened as a result of lack of procedures.

Management often wants the problem to go away. It authorizes short-term fixes and fails to recognize how much money and information goes into that. Richard Clarke always makes that point whenever he speaks at our conferences. There is an awful lot of money spent on installing, and he refers to it as improvisation. In other words we make it up as we go. We do not always have the right kinds of controls.

There are some commonsense steps to a more secure environment, and I won't dwell on those, but they require more than looking at your own organization. That's the one outside point I would make. In a world of connectivity it is just as important to require your business partners to strengthen their security measures as to dwell on your own. If you are connected to your business partner and the business partner has a way into your system, his weakness becomes your weakness. We need also to adopt strong two-factor authorization. This is anecdotal, but we were sitting in a high technology conference and we were talking about what sort of authentication they used. I

figured with a high-tech company like that they'd use the retinal image or thumbprints or something. Same old stuff. And those passwords that we all use are really not all that secure.

In summary, I want to point out that one of the deliverables, in addition to the six events that we've already discussed, is a booklet that was put together specifically for board members. It is specifically a call to action. That call to action identifies the responsibilities of board members, senior management and the auditing community in order to address these issues. I will make this available afterwards if somebody would like to look through it or use it. See what you think. Some of you are going to say, "Well that's kind of a simple book." It is simple. It was meant to be in layman's language but it is not simple in context. It is simply something that we use to communicate a problem to people that ordinarily don't deal with that problem.

It has been my pleasure to be in front of you today. I looked at the book about this conference that was given out to all the participants. The organizers of this event, the publishers and sponsors of that document are to be commended. That is an excellent document.

RAY EINHORN (United States): Why doesn't the Institute of Internal Auditors promote audit committees in the government agencies of the United States?

BASIL PFLUMM (United States): Thank you for the question, Ray. I really appreciate that because it gives me the opportunity to tell you that we do have a pamphlet that does promote audit committees in the public sector. And we do support that. One of the things that the Institute of Internal Auditors does is participate as one of the sponsoring organizations of the Treadway Commission, the COSO organization. The COSO organization continues to promote audit committees both in public and private sectors.

Supreme Audit Institutions Working to Build Accountability Systems

David M. Walker, Comptroller General of the United States

It's a pleasure to be here and I appreciate you accommodating my schedule. I was in Atlanta yesterday and, unfortunately, we had a two-and-one-half-hour delay getting to Atlanta and a two-and-one-half-hour delay getting back from Atlanta. So I would have preferred being here yesterday, I can assure you.

I was incredibly impressed with your agenda and in particular with the speakers that you had yesterday. You really had a who's who. I understand you also had a satellite link transmitting this conference, this summit, to different parts of the world. I think that's fantastic, and also an impressive use of technology. I am particularly impressed by the fact that we have about 300 representatives from 51 different countries, and that we have members from the public sector, the private sector, as well as the not-for-profit sector. This conference is clearly much larger than last year's and hopefully you'll continue to grow.

The topic that we're speaking on—the issue of how we can fight corruption wherever it may be and in whatever form it might take—is very important. Truly, fighting corruption is a global challenge and a never-ending effort. Corruption can have an adverse impact on the economic growth of any nation and on the ability to form and sustain a democratic form of government anywhere in the world. It saps the strength of emerging economies, it increases the cost of doing business, it inhibits private investment, it weakens the appeal of a democratic form of government. And very importantly, it dampens the spirit of the people and their faith and confidence not only in government but in their future and the future of their nation.

There are various types of corruption. It takes many forms. It has many faces. It exists all over the world, including in the developed nations. The nature and the magnitude of corruption vary widely. It will probably always exist, but we should have zero tolerance for fraud, waste, abuse and mismanagement.

Forms of corruption include political corruption, structural corruption and transactional corruption. There is clearly a need for a multi-pronged effort to fight corruption. We need to work individually within our countries' boundaries, within our spans of control to fight fraud, waste, abuse and mismanagement on a daily basis. But more and more of the challenges that face us, including the challenge of corruption, require bilateral and multilateral efforts in order to be successful. As a result, nations, international institutions, regional organizations and other players must work together, must partner for progress to try to fight corruption wherever it exists. I'll give you a couple of examples later that deal with our work at the General Accounting Office, the GAO. We have to deal with it here in our country and must work cooperatively with other countries to fight it in other parts of the world.

It is incredibly important that we focus on promoting transparency and accountability throughout the world. Sunshine has a healthy effect. It is important that we improve transparency to get the facts out such that the people, the press and other interested parties can help us fight corruption and assure accountability. It is important to have an independent media. It is important to have financial disclosures for public officials and for political parties. It is also important to have open budgeting processes that are transparent on the allocation of funds, and effective internal control systems. They are management control systems. It is important to have suitable and modern information systems, effective financial and compliance reporting and modern information technology capabilities in order to be successful in this effort.

We must promote responsive, transparent and accountable legislatures. We also must make sure that those legislatures take their oversight responsibilities seriously. And as was mentioned this morning, we must have responsible whistle-blower protection. We must promote judicial reforms and the rule of law around the world. We must criminalize corruption. We must support law enforcement and we must issue wide-striped suits to those who breach the trust of our people. We must put some behind bars and make them pay the price. We must promote private sector development. We must support the establishment of strong, independent and resourceful audit offices, Inspector General offices, third party monitoring organizations and anti-corruption agencies through the world.

One of the things that I've been asked to speak on is the role of supreme audit institutions, the so-called SAIs, in helping to fight corruption. The General Accounting Office is one of those SAIs.

First, what is an SAI? SAI stands for supreme audit institution, and generally that means it is the lead audit institution in a particular country. There are 170 SAIs that comprise an organization called INTOSAI, which is the international organization of audit institutions. This organization is framed around the UN structure—about 170 nations. We work individually and collectively to maximize the performance and assure the accountability of our governments for the benefit of our people.

We work together to assure that there are sound accounting and reporting systems; that there are effective internal control mechanisms; that supreme audit institutions and related bodies are truly independent; that they have the resources, the tools, the access and the enforcement capabilities to do their job; and that they are able to say what they mean, mean what they say, take on the tough issues, even though it may not be popular to do so. As we all know, most everybody is for accountability until they are the ones being held accountable. And in that circumstance, many times their views will change. Institutions of all sizes, in all parts of the world, are subject to insulation from accountability, especially multilateral institutions, where they may not have direct accountability to the elected populous or to the people, where they may be somewhat insulated from the views and opinions of the people. It is particularly important in multilateral institutions that we work together cooperatively to get the facts and to allow sunshine to come to bear so that accountability can reign true.

INTOSAI has been working for years to help promote accountability around the world, maximize performance and assure accountability in our various countries. I mentioned some of the things that INTOSAI has done, but clearly we have to recognize the importance of having effective accounting and reporting mechanisms, independent audit institutions, auditing standards that make sense and meaningful internal control or management control mechanisms that represent the foundation in order to fight corruption wherever it may exist.

In the United States, at the GAO, we are doing much on a bilateral and multilateral basis to try to do our part in this global fight. We are involved in every major committee that INTOSAI has. We have leadership responsibilities for some and we're on the Board of Directors. We have formed a global working group of 13 nations as a supplement to INTOSAI that collectively represents 70 percent of the world's global domestic product. This group works on issues of mutual interest and concern because, more and more, the challenges that we face as audit institutions and countries have no boundaries. And clearly, one of those challenges that has no boundaries is the fight against fraud, waste, abuse and corruption throughout the world. There are many others, such as the environment, security, aging workforces, etc., that we all face.

We have a Fellows program which we have had for years where we help train auditors from other supreme audit institutions on our procedures and methods in order to help strengthen their institutions and share best practices around the world. We have worked with many countries on a bilateral basis to share knowledge and experiences to make each other better. And we have formed many public and not-for-profit partnerships, and will expand those in the days ahead to engage them in this fight.

What are some of the things that we have done within our borders—within the United States? First, I think it is important to know we view our mission at the GAO as working for the Congress to maximize the performance and to assure the accountability of the federal government for the benefit of our citizens. In doing that, it is important that we be dedicated to a set of professional standards and a set of core values. We have three core values. They are: accountability—which describes what we do; integrity—which describes how we do what we do; and reliability—which describes how we want our work to be received. These core values, when combined with our professional standards, are at the foundation of our ability to do our job effectively. We must be professional, objective, fact-based, non-partisan, non-ideological, fair and balanced. We must say what we mean, we must mean what we say and we must go where we have to go to get the facts and to pursue those facts to their logical conclusion.

I am fortunate that I have a 15-year term, because sometimes we say some things and do some things and go some places that people would rather we not. Therefore, knowing that I have a 15-year term and can only be removed through impeachment, which I can assure you will never happen in my case, gives me the ability, along with our 3,200 professionals, to do what we think needs to be done for the benefit not only of our client, the Congress, but just as importantly, if not more so, for the benefit of the American people. We have worked with our Congress to enact legislation that provides a foundation for maximizing performance and assuring accountability.

In the 1990s a number of major legislative reforms were enacted into law, such as the Chief Financial Officers Act that ensures that departments and agencies have financial and other

information systems that will generate timely, accurate and useful information. These systems are subjected to an annual audit, and from these systems, managers are able to make informed decisions every day about the allocation of public resources, again, to maximize performance and to assure accountability.

We worked with the Congress to achieve enactment of the Government Performance and Results Act or so-called GPRA in order to ensure that government takes a strategic planning approach to discharging its mission, that it is focused on what it is trying to do and that it is focused on generating positive results for the American people—not just working the process and spending the time. We want results that count, results that can be appreciated and results that can be measured.

We have also worked in the area of information technology, including the area of computer security. We are working in the area of people strategy, which is so critically important to maximize performance and assuring the accountability of any enterprise. And we also have gone about creating our own, what we call, high-risk list. We all know that there is more work to do than we can ever get done. And so therefore it is important that we focus on the areas of highest risk and highest opportunity. One of the things that we've done at GAO is that every two years, based upon the work that we do, we publish an update of the major performance and accountability challenges faced by the U.S. Government. We publish a subset of those that represent high risk for areas that we believe are much more subject to fraud, waste, abuse or mismanagement. Now, keep in mind, the U.S. budget is \$1.8 trillion a year. Our efforts in general will result in financial benefits of about \$20 billion a year. That's about one percent of the U.S. budget. One percent doesn't sound like much, but \$20 billion is a big number, I can assure you. So the fact is that we must focus on areas of opportunity, and what we have done is to try to do that, to focus on what programs are at higher risk, what functions of government, and to make sure that we allocate our resources accordingly.

We're going to have a new, updated list in January of 2001. We expect to retain a number of areas, to drop a couple and to add additional areas of risk as we move forward—one of which is the area of computer security which, as mentioned during the luncheon speech, is a particularly important area not only for the public sector but also the private sector.

Let me talk to you about two examples of how we've tried to fight fraud, waste and abuse both within our borders as well as on an international basis. First, we have with increasing frequency focused on trying to identify what we refer to as improper payments—payments that are made, which should not be made. In some cases it is because of fraud, in some cases it is the lack of adequate supporting documentation, and in some cases there wasn't effective competition to ensure reasonable price and appropriate performance in conjunction with contracting. We worked with the Health Care Financing Administration which administers our Medicare program, which is health insurance for the elderly, to come up with a methodology to estimate and categorize the number and amount of improper payments. We did that several years ago. The initial estimate was \$20 billion per year. Now some of those should have been made if they had the proper documentation, and some of them should not have been made. We've worked with them to where they have reduced that amount substantially—from about \$20 billion down to about \$13 billion. But we've still got a long way to go. Now what we're trying to do is expand the use of that

methodology and that approach to other areas in government so that we can try to focus our energies and measure the results of our efforts.

Several years ago we identified circumstances dealing with the U.S. Army where there were improper payments and duplicate payments to a number of contractors due to weak internal controls and a lack of effective accountability and incentives and penalties when these payments were made—penalties against the contractors. We worked with the U.S. Army and instituted changes to prevent these occurrences in the future.

Let me give you an example on a multilateral basis. We recently did work in conjunction with a U.S. financial institution and identified where tens of millions of dollars had been extorted from a Latin American nation and moved within nanoseconds offshore to an offshore bank through a U.S.-related institution. We discovered this, followed up on this and brought this to the attention of the Congress. Now we are looking at what needs to be done with our banking laws, with our enforcement mechanisms, in order to help other nations combat corruption, fraud and abuse wherever it exists. Let's face it. We're in a global world. We have no boundaries. Money and information can move instantaneously anywhere around the world. The fraud and corruption can occur in country X, but it may involve several more countries to effectively fight it. The fight against money laundering is something that clearly has to be a global effort. That is something that the global working group and others will be attacking in the months and years ahead.

So, yes, much has been done, but much remains to be done. Fraud, waste, abuse and mismanagement will never be zero, but we must take the necessary steps to absolutely minimize it. Those steps involve not only doing what we can within our own organizations and our own countries, but also doing what we must to partner for progress, to work cooperatively together on a bilateral and multilateral basis in public, private and not-for-profit sectors in order to continue the battle, continue the fight. We will never maximize economic growth, we will never be able to assure the health and welfare of our people and we will never be able to promote and sustain democracy throughout the world unless we are successful in this fight.

I can assure you that the GAO, as an institution, and I, as an individual, am dedicated to continuing this fight, and I look forward to working with you at least during the next 13 years and 2 months, which is the balance of my term in this effort. I thank you for taking the time to attend and I commend you for coming from 51 different countries around the world to be here for this important conference. Thank you very much.

NANCY ZUCKER BOSWELL (United States): I'm with Transparency International's U.S. chapter. One of the issues that many of our chapters around the world are concerned about is the lack of access to information. I wonder if you could talk a bit about how much information the GAO and the U.S. Congress make available to the public and how important that publication is for the success of your work.

DAVID WALKER (United States): Well, there are several issues with regard to access to information. The first is what you asked. When we do work, how publicly available is it? For the GAO, all of our reports are posted to the Web, our Internet site, which is www.gao.gov. There are

only two exceptions to that—reports that could represent a threat to our national security or to certain personal privacy. But that is a very small percentage. Those reports are brought to the attention of the appropriate parties. They just aren't posted to the Web. So an overwhelming majority of our work is publicly available not just in the United States, but around the world through the World Wide Web.

There is another aspect of access, and that is our ability to gain access to information in order to be able to do our work. In general we are successful. Sometimes we have difficulties. But one of the things that I'm finding with increasing frequency is that more and more governmental activities involve a partnership between the public and the private sector and more and more things are being done cooperatively with the private sector through contracting out, other types of activities. Therefore, one of the challenges that I believe we will have to address in the years ahead, that others will have to address, is that our ability to access information in the private sector is not as strong as it should be when it deals with government programs or when it deals with proposed government programs. One example is our current debate in the United States about whether or not to expand the Medicare program to cover prescription drugs. We need information from the private sector to effectively advise our Congress on that and to monitor related cost if it was to become law.

FERNANDO OMAR LOSADA (Argentina): I am the Internal Auditor of the Ministry of Welfare and Environment, and a former Fellow of GAO. You mentioned the GPRA and I'd like to know what are its results after seven years? How has this Act changed the way of life for the American people?

DAVID WALKER (United States): GPRA, the Government Performance and Results Act, was passed in 1993. But it wasn't implemented in 1993. It has only been implemented within the last three years. We have made progress in trying to get government departments and agencies to focus on goals, objectives, outcomes, and on measuring results rather than just work effort. We have a long way to go. But there is also no question that the process embodied by the GPRA is absolutely essential in order for us to change the way that government does business, the way that it measures success. It is also essential if we're going to maximize performance and assure the accountability of the government. We're continuing to work with the departments and agencies to give credit to those who are doing a good job and to criticize those that aren't, and it is probably going to be several more years before we get to where we need to be. I think our Congress is also trying to figure out how to better use the information from an oversight process, from a budgeting process, resource allocation. More work needs to be done in order to give this law real teeth and to get it to where it needs to be.

LUCY GWANMESIA (Cameroon): Thank you so much for giving me the opportunity to ask a question pertaining to a problem that has been worrying me for quite a long while. In your presentation to us this afternoon, you emphasized that we must criminalize corruption. In other words, we must send those who have misused public funds to prison.

In Cameroon we have an administrative system as well as a criminal system. If the misappropriation results in administrative mismanagement, we have what is called the Budget and Finance Disciplinary Board where we recoup the money administratively. But at the same time we

have the obligation, where there is sufficient evidence, to send the person to the criminal court. Now, since you are directly connected, or you walk hand-in-glove with the Congress, kindly inform us of your procedures when during your auditing you find that there has been mismanagement or misappropriation of public funds.

DAVID WALKER (United States): First let me clarify. We are constantly fighting fraud, waste, abuse and mismanagement. In many cases, mismanagement is just that. It is ineffective or poor management, which is inappropriate, which shouldn't be condoned. On the other hand it is not necessarily illegal, and therefore would not necessarily involve some criminal sanction. However, where you have outright fraud, outright extortion, kickbacks or other types of activities dealing with public monies, those can represent criminal violations and can result in somebody being prosecuted and sent to jail. My experience is that you don't have to send that many people to jail to send a message. But you have to be able to have the ability to do that and you have to have mechanisms that give you the ability to do that in order for it to be a deterrent. A vast majority of our actions are administrative, civil or monetary sanctions. You need to be able to have the other.

Now, when we find something that we believe represents any of those categories, we will publish a report which is brought to the attention of the Congress as well as the public. To the extent that we believe there might be a criminal wrongdoing, we will refer it to the Justice Department and the Justice Department then will make the determination as to whether or not to proceed with the criminal prosecution. So we do not have the authority to do it ourselves, but the Justice Department does. And it doesn't happen that frequently. As long as wrongdoing is publicized it can have a deterrent effect.

MARIO FALCAO PESSOA (Brazil): I am from the Internal Auditing Secretariat from Brazil, and as far as I know there is an Inspector General in each agency in the U.S. Government. What is the relationship between the work of the Inspector General and GAO in terms of planning, exchange of information and so on?

DAVID WALKER (United States): In the United States every major department and agency has its own Inspector General or Auditor General. Their job is to conduct the financial audit or oversee the conduct of the financial audit for their department or agency, and to fight fraud, waste, abuse and mismanagement within their agency. They are focused on their individual department or agency. We are focused on the government as a whole, and we are focused primarily on longer-range issues and cross-governmental issues because more and more of the activities of government span various departments and agencies and involve different levels of government and involve many countries in many cases. So we tend to be involved longer range, broader. We do publish our strategic plan. It is on our Web site. It is available for all the Inspectors General. They share their strategic plans with us. We communicate frequently with them. Our objective is to minimize duplication of effort. We all have limited resources.

Occasionally the Congress will ask us to do work in a particular department or agency that could be done by the Inspector General, but for whatever reason the Congress wants to bring in the GAO. There are circumstances in which that happens and there always will be circumstances in which that happens.

CARLOS NAVA PÉREZ (Mexico): I am from the Treasury at the Legislative Assembly in the City of Mexico. I would like to get your opinion on a circumstance that is of interest to me. We have discussed at this meeting the many actors that participate in the fight against corruption. We have discussed the private sector, the public officials, the politicians and the control system. But I believe we haven't discussed much about a problem that we experience in Latin America, especially in Mexico. And that is, who leads the fight against corruption—the Controller General or the prosecutors? It has to do with their term. You say that you still have 13 years and 2 months to go in your term, but in some countries the term is related to the political cycles of government and without any doubt this has an impact on the methods to combat corruption. What is your opinion as to the instability factor and what do you think would be useful in order to impart continuity in the agencies' fight against corruption?

DAVID WALKER (United States): Thank you for your question. I don't speak enough Spanish to be able to pick up all of it and respond comfortably. But with regard to your question on fighting corruption, I believe it is important that the supreme audit institution as an entity have independence and that the head of the supreme audit institution must have independence. In analyzing whether they have independence, you have to look to a variety of factors: How were they selected? Who selected them? To whom do they report? How long is their term? On what basis can they be removed from their office? I think the answers to these questions are necessary in order to analyze whether in fact the climate exists for the individual to act independently. Many would argue that independence is a state of mind. I do not buy that argument. While I believe that a state of mind is important, I believe that other substantive factors should ideally exist as a complement to that state of mind.

So you not only want individuals who are qualified and have the right type of attributes, I think you have to be able to give them the other types of substantive provisions over their selection and over their removal that will help them to be able to do their job. Let me say this—there are plenty of occasions where our agency, as an institution, or I, as an individual, will say things that our clients don't like. But we must say them. Hopefully mechanisms are in place for actions to be taken in that regard. I hope that's responsive to your question.

One last thing. Ideally, in my personal opinion, it would be highly desirable to have a stated term for the Auditor General or, in my case, Comptroller General, that is not tied to the normal election process.

KUNZANG WANGDI (Bhutan): During the course of auditing we come across an institution where the auditees will say that this is a national security and trust or some other such excuse. Now, in the case of the United States, you have the CIA and the FBI. How is the accounting of these organizations established? And to what extent are these organizations held accountable.

DAVID WALKER (United States): Is your question to what extent do we do work at the CIA or the FBI? Is that the thrust of the question? We do do work at the FBI. The FBI is considered to be part of the Justice Department. We do not do a lot of work at the Central Intelligence Agency, and we do not do a lot of work at the Federal Reserve Bank. But they do have their own Inspectors General that are responsible for doing work on a day-to-day basis there. On occasion we do work dealing with the CIA or with the Federal Reserve. I have the highest level security clearances in

the U.S. Government. A number of other individuals in GAO also have those clearances. So we have the ability to do it, but historically and statutorily there has been a limitation on how much work we do at the CIA and at the Federal Reserve Bank.

MANUEL DIAZ-SALDANA (Puerto Rico): We have in Puerto Rico the Ethics Office which is in the administrative branch. We also have ethics committees in all agencies and municipalities. To fight corruption there is no question there should be a standard of ethics for all public employees and officers in government. What are your comments on this subject?

DAVID WALKER (United States): We have an Office of Government Ethics in the U.S. Government and every department and agency has an official that will then deal with matters within that department or agency and will coordinate with the overall government and the Office of Government Ethics. I also think it is important to have other things. You have to have sound internal controls and you have to have effective public disclosure. You need to have disclosures with regard to key government officials over their financial holdings, over their relationships, in order to provide sunshine, in order to make the ethics rules work. In addition to that you need to have sound acquisition and contracting practices in order to maximize the likelihood that contracting type activities will be based on competitive practice and that the government will get the best price and best product while minimizing the possibility that there could be some inappropriate activities, whether they be commissions, kickbacks or whatever else.

Many times in contracting it is not a matter of a kickback or a bribe, it is a matter of whether or not it was truly independent, whether there was truly competition and whether or not the firm that was best able to deliver the required service or product for the lowest price and the best quality got the work. Sometimes it is just a matter of relationships and it doesn't necessarily have to be a kickback. The taxpayers could end up paying more than they should or they can end up getting less than they should. And that might be caused by mismanagement or inappropriate practices and not necessarily illegal activity. So we must look in many directions.

Experiences of a Corruption Investigator

Jack Blum, Attorney and International Investigative Specialist

It is an honor to be here this afternoon. I can remember when we would have anti-corruption meetings and discussions fifteen years ago and almost no one came. The field was pretty lonely. Now we've been discovered by the major institutions and it is a wonderful thing to see the number of people who now turn out to talk about these problems in a serious way. I'm very impressed by the turnout and also by the roster of speakers.

I have been through many different investigations and I've had a lot of time to think about the problem of corruption. I'm not going to talk about technical things or how agencies work or how the legal system works. I'm going to talk about what I've seen and experienced and how I've figured out when something is wrong and how I got to the bottom of it.

Corruption, I've come to conclude, is one of the oldest problems faced by civilization. We've been dealing with it since the time of the pharaohs and before. It happens when a head of state like the pharaoh decides he's going to take all the wealth of Egypt and turn it into building a tomb for himself. Or maybe the Emperor of China decides he's going to take all of the talent and skill of the artisans and create these clay soldiers he's going to bury with him to fight a war in the next life. And what has he done? He's taken it away from the people of his country to enjoy himself. This has gone on again and again. The revolution in France started when Louis XIV took all the wealth of France to build the beautiful palace in Versailles. It impoverished the country and led to a revolution. So we're dealing with a very old problem.

You ask how this kind of problem gets as bad as it does? I think a lot of it has to do with the ego and the madness of the people who decide to be the corruptors and the corruptees—the people who give and the people who take. They are under the illusion that somehow they can accumulate a vast amount of wealth and somehow that wealth will perhaps make them immortal. But they seem to have forgotten that basic message that you can't take it with you. There was a famous jazz musician who said he had never seen an armored car in a funeral procession. You don't get to take it with you. These people who have been involved in the stealing don't understand that in life what you leave behind is your community, your society, your organization and your friends. And the question is how have you enriched that society, that community and the friends and organizations with which you've been associated. The question is not how much have you taken away from them. Very few people turn out to the funerals of those who have stolen.

One of the first international financial investigations I became involved with involved a character named Robert Vesco. Robert Vesco was one of the premier crooks of the last generation. He got involved in illegally funding among other things the Watergate burglaries. He still has an outstanding warrant for that in the United States. But Vesco's claim to fame really started earlier

when a swindler by the name of Bernie Cornfeld set up a mutual fund called Investors Overseas Services. It was a gigantic ponzi scheme. They used the new money coming in to pay the people who wanted to redeem the old shares. One day the Brazilian police raided the Investors Overseas headquarters in Brazil. They found out this mutual fund was taking money from rich Brazilians out of the country to avoid taxes. They got the list of all the Brazilians and started arresting them and making claims for taxes. When the flow of funds dried up, Investors Overseas Services collapsed. Now there was a great financial disaster because these mutual funds were on the books worth \$2 billion which, in 1967 or 1968 when this happened, was a lot of money. It still is.

Vesco stepped in to rescue the mutual funds and what did he do? He stole all the remaining money. He set up shell companies in the Caribbean. He made the mutual fund a closed fund and then when people began to figure out what was happening, he decided to become a man of many countries. He went to the Bahamas, paid significant bribes to get a diplomatic passport, then went to Costa Rica, did the same thing, established business connections in Panama, and began to wheel and deal. A man I discovered in my travels as I tracked Vesco was an early confidant and friend of Manuel Noriega, and he helped Vesco understand the high profitability of a free trade zone where anything goes. Vesco got involved in helping later set up cocaine as an industrial product to be smuggled on an industrial scale.

Well, the point of my story here is that Mr. Vesco was also swindled, frequently, which I found terribly amusing. When I traveled to Costa Rica I discovered that Vesco in his arrogance had arrived in his private plane and said, "I want to settle here. I'd like to buy a home." And of course all of these Costa Rican real estate agents ran out to sell him a house. One agent got his attention when he said, "Look, the former home of the United States Ambassador to Costa Rica is available for sale." And believe it or not, the house is an exact model of Tara in the movie *Gone with the Wind*. Because a wealthy Costa Rican coffee grower saw the movie, liked the house and wanted one exactly like the one in the movie. The agent said, "How would you like to be the resident of this house, living where the U.S. Ambassador used to live?" Well, he bought the place and didn't ask any questions. And the surprise? The house was infested with tropical termites. The day he moved in he walked through the front door and fell through the floor. It makes you wonder about these people.

And now look at what's happened to Mr. Vesco's life, having stolen in his time \$400 million, probably made a billion more dealing narcotics and bribing governments and doing all kinds of wondrous things. He's in jail in Cuba. One of his children is a hopeless narcotics addict and another has a completely ruined life in the United States. Vesco has no life for himself and no legacy. And you say, "What did this man get? What was that all about?" I think there is a moral to this story. He's never really been caught and punished for most of the crimes he's committed. But what did he get in the end?

Another story which I think is a very good tale of where corruption gets you is a story of the Lockheed aircraft affair in which Lockheed bribed people around the world. I got involved in investigating all of this in 1975 when we became aware that Lockheed had paid bribes everywhere in the world. One day an informant came to me, a man by the name of Ernie Hauser.

Ernie Hauser was in an incredible business. He sold, if you can believe this, aircraft crash parts. He would go around to places where there was a plane crash or where there was a wreck, get whatever was left, sort of like auto salvage, and then sell it to people to put in new airplanes. Now understand that every aircraft part not only has to be certified as new, but has to be documented. The markup when you have aircraft crash parts is rather incredible. Ernie did this for a living and he cheerfully admitted to me when he came to me as an informant what he'd been doing. He didn't quite admit he was still in the business, but that he had worked for Lockheed and he had information that Lockheed had bribed Joseph Strauss, the Prime Minister, then the Defense Minister of Germany, to buy the Lockheed F104 Starfighter. It sure looked suspicious because of about 500 F104s that we sold the Germans, 250 crashed. In one of the crashes the plane killed the son of the then Defense Minister of Germany, not Strauss, but a guy who came after Strauss as Defense Minister. And the question was why did the Germans buy this completely inappropriate plane?

So I began to track around Germany to figure out what had happened, and began to run into all kinds of absolutely fascinating characters, many of whom were holdovers from the Nazi era. Then some wonderful people said, "Well, we investigated this again and again and again, and we don't think that we can find anything wrong except a lot of stupidity in our Defense Ministry." And I'm beginning to question Hauser hard because he said he made some of the payments. And I don't trust this guy at all. He's just admitted to me that he sells aircraft crash parts. So anything he says I don't believe. I have to have proof.

Well one day he pops up with a diary and he says, "This is the diary I kept when I was working for Lockheed. And you can see here that on such-and-such a day it says that I went to Strauss' office with a bag of money." He had a whole elaborate story about leaving the money and there was a signal. Hauser had a flowerpot on his balcony and on days when the money was to be delivered he moved the flowerpot and Strauss could see the balcony. And I'm listening to all of this stuff and I'm looking at the diary and I'm thinking, "No, no, no, no, no. This diary can't possibly be right." And with the cooperation of a friend in the German Defense Ministry, we rounded up all of the sign-in and sign-out sheets for Strauss' office for the dates in the diary. We took a look at whether he actually signed in. Well, the diary and the logs told two different stories. The diary said, "Skiing in Bavaria," and the sign-in log said, "Visiting Strauss." The diary said, "Visiting Strauss," and the sign-in log said nothing. So we knew the diaries were a fraud.

But meanwhile Hauser sold the diaries to a German magazine who published them and Strauss sued for libel as you would expect. Lo and behold nobody could sort it out and the allegations were completely unproven against Strauss. Later we found out that the journalist who bought the diaries was the same journalist who three years later surfaced with Hitler's diaries. Do you remember that—the fake diaries of Adolph Hitler that he sold for a large amount of money to the London Times? Now, this is a story of corruption among those who would inform and corruption among one of the journalists who purported to be an investigator.

But the most interesting thing of all in the process of tracking all of this nonsense down, one of the people said, "Look, you're in the wrong country. The place you really ought to be in is Japan, because there Lockheed hired a guy who was an indicted war criminal to be their agent—a man who had been in charge of handling all of the loot of the Japanese Army in China in the early

stages of WWII. He had become the Lockheed bagman in Japan. And sure enough, when I began to look at that, we found receipts, believe it or not, for bribes paid through the then Prime Minister of Japan. He literally gave receipts. Only instead of saying they were boxes of yen, they were referred to as boxes of peanuts.

I'm pleased to say as a consequence of that Lockheed investigation, some seven or eight heads of government were forced to resign and many people were forced to rethink the way they do business around the world. In the hearings we held, and we held some really remarkable hearings in the Senate, there was a moment that I think was emblematic of what corruption means. And that moment came when Senator Frank Church was questioning the Lockheed executive about bribes that were paid in Bolivia to sell the government of Bolivia the C130 transport. And I'm going to paraphrase the question and answer. Senator Church said, "I don't understand this. There's no competition for this kind of transport plane. There is a C130 and there is nothing else. This is the plane of choice if you're going to have a short-haul military transport. Why did you have to pay a bribe to sell the airplane?" And the Lockheed executive absolutely nonplussed looked up and said, "Senator, there was a lot of competition." "What was that?" said Senator Church. "The rest of the Bolivian budget." "Well," Senator Church said, "You mean the government might have spent the money on food or on health care?" "Yes, Senator, exactly. That's exactly what I mean." And in that moment you could see precisely what was at stake and what the issues were in major bribery.

I have gone in recent years to many places where there are extraordinary problems of corruption. And what I've discovered, even in places where you would think corruption is something that is not discussible, there are people who understand that their society is of greater importance and they are prepared to risk their lives to straighten out the issue of corruption. I've seen it in Kenya, in Mexico, in Nigeria, where very good people have taken all kinds of risks to do the right thing.

Probably for me the most important issue is the collection of taxes. You say, "Well, what does that have to do with it?" Well, everywhere I go the claim is the same. "We can't pay our civil service enough. We can't pay our police enough." In Mexico, I talked to people in the government about the problem. We understand that if you take an 18 year old kid and you give him a uniform and a badge and a gun and you pay him less than it costs to live in a month, you have a recipe for corruption because he is expected to steal to make up the difference. And I said there is only one solution. You have to pay him a real amount of money. And of course the answer is, "Well, we can't do it because we don't have the tax revenue to do it." And then the question is, "Where is the tax revenue?" Well, if you read the hearings on what was going on in Mexico and what has gone on where very wealthy people have moved their money offshore to hide it from the tax collector, you begin to understand what the heart of Mexico's problem is. If you're collecting ten percent of the taxes that are due, you can't solve any of the social problems. You can't begin to touch the issue of corruption. I believe that the time has really come for the world to focus on that issue.

Many countries around the world are saying, "Well, we see all of this money disappearing into the offshore world, we'll go into that business." And I was at a meeting where a representative of the Nigerian government got into an argument with a representative of the government of St. Kitts. St. Kitts is going into the offshore business and here is the government of Nigeria saying, "Wait a

minute. That's our money and that's going to be where people who are stealing in our country hide their money. How can you do that to us?" I thought that was a very stunning moment. I think it's an issue whose time has come. The major issues of corruption can be brought under control if we make sure that people have no place where they can safely hide the loot. That's why everything you've heard about offshore money is very important and it's why we need to create a kind of seamlessness in the world financial system so that people don't think they can take the money and get away with it.

But having said that I come back to where I started. It is also terribly important to convince people that they can't take the money with them. And that what really counts is the kind of society, the kind of life they want to build for their children and the kind of future they want to have in the world in which they are doing business. That, more than anything else, is what keeps people from being corrupt. These messages are not messages that I wrote. It has been the common theme of virtually every religious and community leader since the beginning of time, and it doesn't matter the culture. They've all tried to say what counts is your community, your society, your family, and not how much you can take, how much you can hide or perhaps how to rejoin the money in some other life.

I've been talking long enough. What I'd like to do is begin a conversation with you. I've been at this a long time and involved in many issues, and I'd certainly like to hear some of your thoughts and perhaps respond to some of your questions.

SELMA AURISTELA ESTRADA DE UCLES (Honduras): Good afternoon. I represent the government control office that looks into illicit enrichment and I handle government procurement. I need advice. Like you, in order to prosecute those who are stealing money we do investigate public officials. The onus is on the public official and we do take affidavits. The institution over which I preside is autonomous and we do not have sister offices in Central America. So it has been difficult sometimes to follow or track their banking accounts. I don't have to get approval from the judges to do that in my country. I get that from the institutions themselves. We have accomplished our goal. Now the problem is that the banks in Miami or in Bermuda or in the Caribbean for that matter have branches in Honduras and sometimes I find it impossible to track banking accounts. We have ratified the Inter-American Convention Against Corruption, but I want it to become more practical. I am happy because the U.S. has just ratified it, but in practice I have not found a way to track the account. So we have reported 15 people and I have been in this position for three years—15 people for alleged illicit enrichment. We have also been able to locate presidents who have taken half the budgets.

JACK BLUM (United States): You raise a theme which I think is very close to the things I've been working on for the last few years. The theme is "recover the money." When money is stolen, the best and most important thing you can do to get at the guy who stole the money or who has corrupted the institution, is to recover what he stole. And the track record thus far is abysmal. There are at least 15 countries that have appointed special teams to go find the money. We have had people from the Philippines, people now from Indonesia, people from virtually every country looking around for money that was stolen. And this is very serious money.

In the case of Mobutu, what, \$8 billion? There isn't enough foreign assistance in anybody's budget to make up for the money that was stolen by Mobutu and his family. How about Nigeria? I participated in several hearings where we are very clear that the amount of money that disappeared in Nigeria since independence is at a minimum \$40 billion more likely \$70 or \$80 billion. And this is a country where some 50 million people are living on less than \$1 a day. Where is the money?

And of course the money is sitting in bank accounts in New York, in London, in Miami. There is an elaborate structure. The structure is in place to hide the money and there are institutions that do it for a living. I commend to you the hearings of the Senate Permanent Investigation Subcommittee on Citibank which looked into three or four of Citibank's most notorious customers, Raul Salinas, Abacha, the Abacha children, the members of Abacha's family, Zadari, the husband of Benazir Bhutto in Pakistan, and finally the accounts of Omar Bongo. And if you read the things that were on tape inside the bank. Salinas is arrested. "Can we move the money from London to Switzerland to hide the trail?" And they are arguing, "Well, that won't help much because there will be a record of the transfer so they'll know where the money went." And you look at the way that the accounts were set up—a trust in Switzerland, a corporation in Caymans, a trust administrator in the Bahamas—all designed to frustrate investigation. And the officials of the bank calmly say, "Well, this is what rich people need. They need to be protected from kidnapping." I don't think so. I don't think that was the problem with Zadari. I don't think that that's a problem with Omar Bongo. I think the problem has to do with what's going on in the country. This kind of practice is unacceptable. And what the banks do is they use sovereignty, the sanctity of the nation's state, as the weapon to make investigation impossible.

We all came up with the idea that governments can't interfere in other governments' business in the 18th century. And it's in the public international law where we say when the criminal justice system in one state wants to deal with another it is at the level of the state. Well, if you try to take all of these investigations through the level of the state, they never, never come to conclusion, and that's where we are. The money stays hidden. The time to end this system is now. And this is something within all of our power. It is something that needs to be discussed, is being discussed, will be discussed. The OECD has begun to look at it. The G7 is saying we have to change the system. The question is can we make sure that the political will which now seems to be there leads to a fruitful result. We don't want people saying yes we'll do it, and then cynically providing trapdoors and outs to the people who want to continue to hide money. Taxes must be paid. Money that's been stolen must be recovered.

MARCELO TORO COMAÑA (Ecuador): The last constitutional president has been favored by the private bank it seems. One of those bankers publicly confessed that for his political campaign he had delivered \$3.2 million to him. While he was in power the banking system required favors of the president. There were banking holidays approved. The funds were seized by private banks. There were failures and hundreds of thousands of Ecuadorians have not been able to use their funds because of the funds that have been frozen by the president. The president is now lecturing on governance. The Ecuadorian citizens have their funds frozen and their families are dying because they have no funds to treat their sickness or to pay for funeral expenses. But the president is lecturing on governance abroad. And the bankers are enjoying the proceeds with luxury items abroad. My question to you who have experience—what should Ecuador do, first

with the immorals to make them return and pay their account in Ecuador and secondly, to recover the money that escaped and return it to the legitimate owners of those funds?

JACK BLUM (United States): This problem is not unique to Ecuador. It is a common problem around the world. And the proposal that I have made in hearings of the House and Senate is that there be an international effort to assist countries which have been the victims of this kind of theft. I believe the World Bank should be funding recovery efforts. I believe the World Bank has the responsibility and indeed if not the World Bank then we'll find some other international institution to assemble the appropriate team of experts and have them go to work to find and recover the money.

Secondly I believe that if there are remaining barriers to recovery despite the many international instruments on international legal cooperation, then we need a new convention that says bribe money, money stolen from public institutions, money stolen from institutions guaranteed by governments like banks which have to be in the end guaranteed by government, all of that money is money that can't be hidden. It is contraband wherever it goes anywhere in the world and we will punish and sue whoever hides it the same way we punish the guy who stole it.

Now, to me, this seems to be so simple a proposition. I can't imagine that if this kind of convention were put on the table publicly that any government could stand up and say no, we refuse to sign it. Can you imagine being the head of state who says I'm against recovering stolen money—I'm against finding the proceeds of bribes? I can't. Yet, for some reason, no one has come forward to put the proposal on the table. I think the time for the proposal is now, and I think this kind of international cooperation in finding the contraband is absolutely essential. No individual country, especially not a small country which is in economic difficulty as the victim, is in the position to do the recovery. As a private lawyer I spend a lot of time representing the victims of financial fraud. Do you know what the biggest problem of my practice is? By the time they get to me they're all broke. Somebody stole the money. So if you look at the countries that need the help, these are countries which also need the help to fund the recovery effort. I think that that's something which is very cheap to do by comparison with the many other things, the project loans and other kinds of loans. I think, for example, there ought to be a major effort underway at the international level to recover the monies for Congo, to recover the money for Ecuador.

As far as bank failure is concerned, one more thing. I have many close friends in Jamaica. Jamaica went through three or four significant bank failures in the last several years. And what that bank failure does to decent, hard-working, middle-class people who are trying to build their country and do the right thing and live a decent life is unbelievable. They lose the opportunity to educate their children. They lose the opportunity to take care of medical problems. They find that everything they've worked for and hope to retire on is gone completely. And we're not talking about large amounts of money, it is just that to these people it is all the money they have.

If the bank failure is caused by a guy, as in a number of these cases it has been, who just simply runs up a lot of debt, takes the money out of the country and then leaves the government and the people of the country to sort it out, that's a matter which really is very serious. That kind of behavior should lead to a real effort to both recover the money that was taken out of the country and to help the people who have been injured. And we've seen it in Venezuela where the economy

was wrecked for five years by massive fraud at the banks—money moved offshore, money disappeared. It is an area where we need much more international cooperation.

JORGE RODRIGUEZ TORRES (Ecuador): Could you expand on the system of operation both for local banks in Latin American and the rest of the world, and the banks that have branches in Latin America specifically? For instance, if I deposit more than \$10,000, I need to fill out a form and even have to attach my birth certificate to that deposit and my aunt's as well. If I come to the U.S. I have to report for customs if I have cash in excess of a given amount. So there are significant controls in Latin America that allow monitoring where the funds go. What is being done in Latin America when, for instance, an Ecuadorian withdraws in one single day \$64 million? There is another Ecuadorian citizen who took \$300 million. They are building townhouses in Key Biscayne, in Miami, with the money they stole from Ecuador. So how do you reconcile the fact that the government knows instantly when I move more than \$10,000 but we in Latin America do not know what is being deposited in domestic banks or savings? We also have access to banking accounts by the Ecuadorian citizens in a direct way. Sometimes in our dealings with the U.S. or Europe we see that the money is being taken out of the country to be deposited abroad, money that is later used to lend at higher percentages. The money is siphoned out of our country by way of drug trafficking or other means, and now is being used in developed countries.

JACK BLUM (United States): I think there are a couple of points I should make in response. When the issue of money laundering first arose, it was purely a question of laundering the money of drug traffickers. That definition has gradually expanded because people have come to understand that it isn't just drug traffickers. In fact, if you look at laundered money, the drug traffickers may make up about 5 to 10 percent of the money that's floating out there that somebody is hiding for some reason. The biggest single piece of money that's being hidden is tax money. People don't want to pay taxes, particularly rich people. Now, it takes a bit to understand how this game is played. It is usually played through false invoicing and the movement of goods at false prices. Let me give you an example. You're a coffee grower in Columbia. You ship the coffee to a corporation in the Cayman Islands at a price that is way below the world market price and you report to the Colombian government, "It has been a terrible year. I lost money growing coffee." You're going to have the Cayman Islands company that you control ship the coffee to New York where it is sold at a nice high market price and of course the money then is in the Cayman Islands where there are no taxes.

Now I've given you the simplest imaginable example of that. In reality this example occurs again and again and again in country after country. And when you have things like the free trade zone in Panama, you have an opportunity for every kind of re-invoicing, re-pricing, and hiding the origin, the destination and the place where the profit was earned and where the money is going. And the schemes are almost without limit.

I submit that this is a system that can be corrected easily. In this time of computerization, in this time of international cooperation, when the customs and tax authorities begin to exchange information seriously, we will begin to see that this is impossible. The day that we have people in different countries comparing notes and saying, "This is what it was sold for here, and this is what we paid here. Where is the difference?" is the day when this business comes to an end.

The problem is there are a lot of people who like the system the way it is. And I think it is a system that needs to be talked about. It is a system we need to expose to the public because once again it is one of those things which when put on the table publicly is something that no one can defend—no one can defend—not when every other person is forced to pay taxes because they are taken out of his wages. The system is indefensible. And I submit that this is a matter that has to be discussed. I'm looking forward to the day where we have across-the-board tax cooperation agreements, not just one or two countries, not just a country here or there, but where there is serious tax cooperation and anyone who doesn't cooperate is frozen out of the international financial system.

Anti-Corruption Initiatives in the Former Soviet States: What Went Wrong? What Needs to be Done?

**Vladimir Brovkin, Director of American University Transnational Crime and
Corruption Center's United Research Centers on Organized Crime in Eurasia**

Thank you very much for a remarkable opportunity to speak to this audience. I know very little about Latin America but when I hear the kinds of questions that come up I realize that the problems the Post-Soviet states, including Russia, faced in the 1990s are very, very similar. Indeed the resolution of these problems, as the previous speaker, Mr. Blum, mentioned, could be parallel along many lines.

My purpose today is to try to explain the causes of the corruption in the Post-Soviet states, primarily in Russia but also in the Central Asian Republics, the Baltic Republics and what was known earlier as the East European/Central European States. I will point out some of the differences that exist and perhaps once we have the diagnosis, I will map out a few obvious solutions, some that have already been mentioned. In fact, in terms of solutions, what we think needs to be done is hardly different from what I heard earlier today at this forum. But I think there are some important lessons that we can learn from the Russian experience and the Post-Soviet experience generally in terms of how corruption came into being and why it is worse now than it ever was in Russia in the twentieth century.

Obviously the big reason for this is that there are weak democratic institutions, there is a weak market, there is essentially no real reform of law enforcement agencies and there is a strong tradition of nomenclature which is a privileged Communist elite that is still pretty much intact and still pretty much in power in many of these countries.

This has led to the creation of a criminal political nexus or a bonding and a blending between criminals and politicians, between the crooks and those who pretend that they are democrats going through the motions of elections and posing as democratically elected leaders.

But let me be a little more specific and go back to the origins and the way it turned into a catastrophe in the early 1990s. In this country it is fashionable to think of the 1990s as a transition period. There are in fact transition studies. There are many books devoted to transition. One scholar joked that there are more books on transition than there used to be on arms control. And indeed the idea was that these countries were transitioning from Communist dictatorship to democracy and free market. The reality was very different.

What really happened in 1991 in the Soviet Union was not a transition to free markets and democracy, but a collapse of the Communist regime. One should think of it in terms of a collapse. And then when the regime collapsed it was a free-for-all. And those who were in a position of

authority could grab more than those who weren't. And so what followed naturally after that was not a transition to the market but a redivision of property among the custodians. In other words, those who were in charge of running the state property now had a chance to seize it into their own hands.

But, and here is a very important hitch, if they were able to seize it and own it legitimately as true owners, had a deed in their hands, then perhaps they would have been more interested in investing in their own country, making money. Thus the argument from many optimists in this country who say, "Well, we had our robber barons too in America, and then it all quieted down and they started investing and things went well." No way. It's not going to happen this way in Russia because the people who grabbed the property in the early 1990s are not certain at all they're going to keep it tomorrow because they know that they didn't get it legitimately. And because of the cultural heritage in Russia, property is a very weak institution. I call it conditional possession rather than property.

It is very much in the tradition of the Russian State that the Czar could deprive anyone, including a duke, a nobleman, of a property. He could send him to Siberia, seize his estate and that would be the end of his property. This tradition of the lack of private property in Russia was strengthened by the Communist experience. When the Communist rule collapsed, the party officials tried to help themselves to property thinking that the only safe way to keep it is—guess where—offshore in the Caribbean, in the Bank of New York, in other Western financial institutions.

So the way the system collapsed predetermined, in a way, a desire to divide it up. What followed is what has been described in several studies, fake auctions that generated more and more corruption. In 1994 and 1995 essentially under President Yeltsin, the ruling elite helped themselves to the gems of Russian industry—oil companies, aluminum plants, metallurgical plants, fishing vessels. It was the unbelievable theft of natural resources by the privileged few who got it in the process of prearranged, fake auctions.

You all heard about the Bank of New York scandal about the Mebetex. That was the Swiss company that was doing restoration work in the Kremlin buildings. They were paying bribes to Yeltsin and his family with a bank account in the Cayman Islands in Yeltsin's daughter's name. When you look at the hearings of the Banking Committee of the U.S. Congress on the Bank of New York you will see that a lot of money was wired directly into the Bank of New York from Russia, bypassing the offshores. Some of it went offshore but some of it went through the correspondent accounts directly in Russia. There was a genuine attempt to investigate who was wiring the money; there is record of it. But any attempt to investigate this on the other side of the ocean so far has led nowhere because the Russian officials are not willing to cooperate with the investigation, to reveal the names of those who wired several billion dollars to the Bank of New York.

Now the estimates of specialists, our own estimate is that about \$15 billion a year is leaving Russia. Most of it is in tax evasion money, what is called capital flight. But a pretty healthy portion of it is what could be considered real dirty money, that is to say money that is a result of obviously criminal activities—prostitution, women in trafficking, illegal arms trade, narcotics

trade, etc. It is very hard to separate the two because they use the same channels and the same bank accounts. The same people are handling all kinds of money flows. It is extremely difficult to say which one is which.

The Russian Ministry of Internal Affairs, which is equivalent to the police force, estimates that \$200 billion of Russian money has been parked abroad over the last ten years. This is an amazing amount of money since the yearly Russian budget is \$20 billion. Now supposedly a former great power has a budget of \$20 billion. That's peanuts. That's nothing. That's less than is spent in restaurants in the state of California. The reason for that of course is, as was pointed out, that there is no way the government can collect taxes, and the taxes are so high that every businessman thinks that it is in his best interest to avoid paying taxes.

So now what we've come to is this crazy mixture that is called Post-Soviet economy. It is not only in Russia, but it is essentially the same in Ukraine, in Central Asia, and also in some East European countries. Let me explain how it works. If you are an enterprise director, you are not interested in showing the state what is going on in your enterprise—exactly the same way as it was under the Soviets. By nature, you have double accounting. You have the real situation in your own notebook and then you have the official figures. The official figures always show that you are on the verge of collapse so that you can get state help, so that you can get subsidies, so that you can get virtually free energy. Then you set up an underground production at your enterprise that nobody knows anything about and those who do will be bribed to keep silent. Then you channel off that commodity to, ideally, the Western markets through some offshore companies and trading houses, and then you park your money abroad. So outwardly you stay poor and bankrupt. In reality you will accumulate a fortune and millions of dollars offshore. This is what has been going on. This is a typical situation.

Another model is what we call the Lazarenko Phenomenon. Let me explain. It is a very important one. Pavlo Lazarenko is now indicted in the United States for money laundering. He used to be the Prime Minister of Ukraine. The way he ran that business is like this. As a prime minister he would call an enterprise director and say, "Look, you are going to sell this metal to this company at this price." Suppose the director says, "Well, wait a second, that's at a loss to me. I can't do that." He'd say, "Don't worry, I'll give you a state subsidy. Don't worry, you'll get cheap energy." He tells the energy company, "You're going to deliver electricity," or whatever, oil, coal, "to that enterprise at that price." He says, "Wait a second, that's at a loss to me." "Don't worry, we'll get you a break through the subsidies or we can sanction the deal that you're going to have with the Russians."

So by dictating prices, managers and enterprise directors were forced to sell at a loss, but then they were compensated by state treasury. Then it would be sold to private companies offshore that Lazarenko controlled and of course the difference wound up—guess where—in the Caribbean and Western banks. In other words, it was a system of systematic robbery of the state of the Ukraine of its wealth and resources. The same was done in Russia, only the difference was that in Russia there was much more decentralization and there were several competing clans rather than one prime minister, although prime ministers do not really have a good record here. Prime Minister Chernomyrdin is known to have a personal fortune of \$5 billion. He is one of the biggest

shareholders of Gazprom. They are one of the biggest natural gas companies in the world and he was actually in charge of privatizing it in the early 1990s.

So this system generated more and more corruption because of the way the sales contracts were processed, the way customs was supposed to keep track of what's coming in and going out, the way the prices were fixed. At every level you have the right people who will close their eyes, look the other way. But in a nutshell it still boils down to theft. I don't think it is just mere tax evasion. If you look at the step-by-step procedure, there are many violations there at every stage of the way that would qualify as theft.

The next thing I want to point out is a general culture in Russia and in many Post-Soviet states of disrespect to the state. I think it is not only in Russia. It is in many countries of the world that suffer from corruption. I think it is because the general populous distrusts the state. The state is something to be feared. The state is not looked upon as a friend. And your wisdom is gauged by how well you are able to cheat the state. That is certainly true under the Soviet rule in the 1990s. If you are smart you know how to beat the system, cheat the state, not pay your taxes and park your money abroad. I think that is why we, Luis Shelly, Keith Henderson and I call it the privatization of state phenomenon. This means that state officials regard their state job not as something they have to do to fulfill their duty based on some ethical standards or patriotic notions of serving their country, but they look at the state job as something that is rightfully theirs from which to extract benefits. And that is privatization of state.

A simple example of that attitude which is absolutely prevalent in Russia is not only Prime Minister Chernomyrdin who thinks that Gazprom is there to serve him and his son, not only Mayor Luzhkov of Moscow who is the biggest real estate owner in the capital city of Russia, but a cop on the street. The cop gets \$30 a month as salary, he's got to feed his family, and there are all these Mercedes driving around. He stops one and charges them a \$100 fine and the fine goes into his pocket. That's corruption. But if you ask him what he is doing, by our standard he has privatized a piece of the state. He is not serving his country, he is not serving society, he is serving himself. His answer would be, "How come he has a Mercedes? How come nobody's doing anything about that? And I'm just taking a fine of \$10, \$15. That's half of my salary and I can feed my children, pay my bills." So the problem is that the state cannot collect taxes, the leaders of the state are crooks, they are channeling off the money abroad. And the people who suffer of course are the common folks—the Russians, the Ukrainians, the Central Asians.

The next problem is the law enforcement. When Keith Henderson and I discussed this issue for this conference I told him, "Look, we can't even call it law enforcement. It does not enforce the law. It doesn't know what a law is. It has never been law enforcement." The police and the prosecutors in Russia are not law enforcement. They have always culturally serviced the ruler and his whims, not the law and not any particular institution. Whatever they are told by phone, phone justice, that's what they'll do. Historically, as you know, the KGB has been notorious in breaking the law and abusing human rights. But in the early 1990s when they realized that power was slipping through their hands, they started stashing money away supposedly for the party but in fact for themselves. The most well-known case in that scenario is the bank that was set up in France that was channeling Russian money into secret accounts and then speculating on the Russian stock exchange with the GKO's, the short-term obligatory notes.

That illustrates a problem in many countries in Latin America, Africa and Russia, and that is that the police force is not really servicing the state. It services itself. And the police officers are often the ones who are in charge of all these secret accounts. They have the power and the connections. They have intelligence networks that are extremely hard to break. In other words, the KGB went private, went on their own. You could think of it as chunks of the Soviet State that went semi-independent in pursuit of their own happiness, in pursuit of their own well being.

Another problem with the law enforcement of Russia and that's even worse in Central Asian countries, much worse in the Caucasus, is that in the regions, in the provinces, being abandoned by the central state, having no money, they were looking for some new patrons, people who would pay their salaries. And in some areas these are governors and mayors. In some areas these are organized crime people. They are the ones who have the money. And they hire the local police for protection. "You guard us, you put your guys on the street. You guard our business, we'll pay you." And sometimes the pay is ten times more than what the state paid them as their official salary. So you have a situation where you have, on an individual basis, honest cops but essentially they are doing what they're told and what they are doing is providing protection for organized crime, for people who have the money.

You also have a situation and I will not mention the name of that province to avoid lawsuits, but there are provinces in Russia and in Central Asia and in Ukraine where the governor himself is the organized crime boss. He takes a cut from every deal. He takes a cut from every major company registered and doing business in that province. That's corruption. And the money of course goes in some offshore accounts, trust funds and all these other things that you heard earlier. You could think of it in terms of a landlord, a medieval fiefdom, a Mafia boss, a warlord in the Chinese tradition. He has privatized the state. He does not observe the law. And he is creating a local empire of his own that serves his personal interest rather than the general good.

Another point, I have come to the conclusion that in the mid-1990s corruption was not something accidental. It was an outgrowth of the so-called reform of the so-called market reforms that were not really reforms. I also came to the conclusion it was a deliberate policy by President Yeltsin. At first you would think it is absurd. How could a president of a country, of any country, want to have corruption as a state policy? What would he gain by that? I'll give you an answer. The answer is that Yeltsin was very much afraid of a coup d'état against him after the shoot-out with the Parliament that he had in November 1993. During that crisis the generals told him that they were not sure which side to support. And it looked very ominous that some of them might support the Parliament rather than the President and then of course you would have had bloodshed. In fact there was bloodshed, but it ended within a couple of days—you could have had a civil war situation.

I think after that Yeltsin retired many of the generals, but he couldn't retire them all. He couldn't break the mighty Soviet Army. So I think the policy was to let them steal. And the best example of that, the most notorious case, was the theft of military hardware in the western group of forces, that is to say the Russian occupation army in Germany in 1993, 1994 just before their departure. They were withdrawn in 1994 and during that time there was an unbelievable multi-million dollar theft of military hardware.

I want to point out that this was a very important point when corruption fostered the links between two kinds of people. I think it is also present in some Latin American countries, and that is to say that in the Soviet times, the generals of the Army and the mob, the organized crime, did not have anything in common. These were two very separate entities. But in 1993, 1994 when the generals needed to move hot merchandise, there was a link that was formed between the organized crime groups and the generals. And the networks were established in the Baltics, in Poland, even in Germany. They were then later used for other purposes such as now automobile theft and women trafficking.

So it is a very important point. Once you have corruption it is very hard to roll it back. That's the problem. Then it goes on because people are spoiled. They know they can get the money doing things like this. So essentially it ruined the Russian Army. The corruption was so endemic and the payroll offices were so miserable that the only thing they could do is sell what they had—their weaponry. And of course I could talk much more about it. This had very adverse effects in the war in Chechnya when the Russian troops were selling their weapons to the Chechens. The Chechens were selling it to whoever was willing to pay, and then there was an additional narcotics trade and all kinds of other bad stuff going on in that bloody colonial war in the Caucasus.

The upshot of that situation was that in the second half of the 1990s there were more and more cases where parts of the Duma, the Parliament, were financed by the new kings, the new wealthy individuals with criminal records or criminal connections. There is a serious danger, and I don't think it is just in Russia but in many other countries, of parliaments being contaminated by bad guys, by people with dishonest incomes and criminal records. And some studies by NGOs have been done that confirm that the Russian Duma has quite a few of those characters and in Ukraine and in Central Asia as well.

I don't want to paint it all black. There are some good spots. I think the Baltic countries are doing a good job. These are the only Post-Soviet states in the former Soviet Union that are, as Keith Henderson put it, halfway home. They are moving along the right path. But they are also affected by Russian organized crime, by the money laundering scams that go through Latvian banks, by oil shipments that go through there with shady records. They need to do some more work in controlling this.

The Ukrainians of course have also been badly shaken by the Lazarenko Scandal, by the siphoning off of the Russian gas pipeline and by a very bad record on corruption.

The situation in Central Asia I would say is the worst of all Post-Soviet states. The corruption in Kazakstan is endemic. It is ruining the country. President Nazarbayev is as corrupt as can be, taking lots of money from Western oil companies. In some Central Asian countries the people know what the price is if you want to buy yourself a job of a prosecutor or a judge or a police officer. But there is nothing new in this. It was exactly the same in the 1980s under the Soviets. Don't forget that Nazarbayev was the Communist Party chairman of Kazakstan. Aliyev who was the Communist Party chairman and a Politburo member is the President of Azerbaijan. The same elite stayed and essentially did the same thing, only more since independence. Unfortunately they are losing a chance to create genuine independence for their countries. I think they are ruining

their countries. They are making it easier for the Russians to expand their economic and political clout in the region. They are essentially unpatriotic in undermining possible prosperity and genuine independence in the future. I think this is a serious problem for them.

A lot of people in the West say, “Well, if the Russians can’t manage their own taxes and resources, if their elite is corrupt and is parking money in the West, why should we bother? Why should the free world bother?” Well, partly because I think morally any theft anywhere should bother anyone. Theft is bad. It shouldn’t go on. But on a very practical note, I’m convinced that if the current trends continue you will simply see major appeals. You cannot indefinitely pauperize the country, indefinitely shift \$15 billion in a country with a budget of \$20 billion and just think that nothing is going to happen. One day people are going to have enough. It does happen. People in Britain had enough. When I was there last week they just said, “We’re not going to pay 5 a gallon for gas,” and they took action.

Another problem is of course the stability. Russia is a big country with all these nukes out there. I think the United States cannot allow the Russian crooks to keep on stealing the money and parking it in the Caribbean.

Aside from the moral and geopolitical questions, I perfectly agree with what Jack Blum was saying earlier, we need to move to serious action against offshore jurisdictions. We need sanctions against those countries that help to channel the loot, be it from real dirty organized crime or from tax evasion or from theft of natural resources.

Very briefly I just want to read to you the fourteen points that Keith Henderson and I have prepared which is essentially a common sense list of measures that need to be taken. I only want to read them because in any bad situation, even the very bad, there are things that can be done, that must be done. There is a way forward. And Post-Soviet states have to wake up to these measures and start moving in the right direction.

The first of course is that there must be much more diagnostic research across the board by international organizations, including the World Bank, about the real situation. They must rely on independent analysis and not on the official data that is fed to them by their friends in the Russian government.

Number two is the creation of an independent, reformed judiciary, media and law enforcement.

Number three is to promote checks and balances and separation of powers. Not on paper. On paper it all looks good, but in reality.

Next is the creation of a genuinely independent prosecutors office and an independent police force, police that are not accountable to the central government.

Next point, there should be integrity in banking and serious action against Russian exports to offshore jurisdictions.

Next point, global integration and global crime and corruption problems require international cooperation and international intervention. They require international action including sanctions against those jurisdictions including Russia that force the money laundering and theft of natural resources.

Then they need a reform of commercial law and the strengthening of the institution of private property, ensuring that property really is private and is regulated by law and not by the whim of the ruler.

They need independent media, and this is where the West can help a great deal as it did in the Soviet times. We need to support honest people, journalists, independent TV stations. We need to give them money just like we did in the Soviet times. We need to listen to the critical voices and not only to those who represent the President and his entourage.

In other words, we need to support the society and the NGOs and civic organizations and transparency and real genuine reform in economic, judicial and commercial spheres.

Thank you.

RAY EINHORN (United States): Do you have students and what do they major in?

VLADIMIR BROVKIN (United States): Yes, I do have students. I mostly teach undergraduates, but there are some graduate students too, yes. They major in all kinds of things. The course that I teach is Law in Authoritarian Societies. Keith Henderson is teaching in the Business School. He is here with us also as a Co-Director at the Center. He is teaching governance and anti-corruption strategies at the Law School.

ALBERT HRABAK (United States): I'm with the International Business and Technical Consultants, Inc., IBTCI. I think these discussions of what can be done or what should be done to restrict the flows of money from victimized countries into tax havens and the actual repatriation of those monies to the countries from which they came are very interesting. These are essential questions for the beginning of this century. On the other hand I'd like to play the devil's advocate and also hear your ideas on what would happen to the world financial system if you took that much liquidity out of the fixed investments in the real estate in Long Island, in California, in Miami, in Singapore, in other places of the world. If you took that money from people who have a large propensity to save, that is the rich people of the world, and redistributed it to the people who have a large propensity to consume, perhaps within their own borders, what would this do to the world financial system's stability and liquidity? I'm not advocating that salaries in New York or in Washington or in Miami or in Tokyo have more importance than salaries in Peru or in Ecuador or in Russia, and one would question the system which allows these flows to occur in the first place. But I just want to play the devil's advocate and say what would happen to the financial system?

VLADIMIR BROVKIN (United States): When you think about specifics there is quite a lot that can be done. I just came back from an international symposium in Cambridge, England on economic crimes. One thing that they were discussing is what can be done about offshores. There

were representatives of many of these offshore jurisdictions who were arguing that they had a legitimate right to compete with the big guys in tax levels. That's fine. Nobody is questioning that. Anybody can compete with anybody on legitimate issues. But when you look specifically at their laws on incorporation, on banking and on trusts, they are designed to hide the money. That is where one could do a lot more work in information exchange, data banks. So some rich people legitimately keep some money in trusts, fine. That exchange of information could also resolve cases where money was indeed stolen through all these crooked ventures, price fixing and insider trading. There are laws that can be applied.

To answer the question, if you simply seize Lazarenko's money in offshore jurisdictions, I don't think it would help much if you return it to the state of Ukraine. If you seize money from Gazprom and return it to Gazprom they're going to steal it again. What one might think of doing is to channel this kind of money into funds supporting the people in these countries, supporting their schools, their infrastructure, their hospitals, so that there is some direct benefit bypassing the government. Perhaps this can be done through the World Bank, through some other international organizations, so that there is a direct benefit.

Another thing that I learned in that symposium is that it is virtually impossible by legal action to arrest these accounts if you go by today's laws. Virtually impossible. Let me give you an example. The Transworld Group that was pumping out hundreds of billions, at least \$200 billion from the Russian aluminum industry, has an office in London, in Geneva, in Israel and in Russia, and they operate in Kazakstan, Russia, Ukraine and a bunch of other countries. They were siphoning off revenue based on offshore manipulations of prices. They were selling stuff to themselves, parking the difference abroad. Russia lost \$200 billion on aluminum sales. There is no way you can prosecute in any of those cases because it would require simultaneous investigation and court cases in at least five countries with very different laws. And there is no way you're going to get anything because by the time you're finished, these offshore companies would be destroyed and money moved to other ones.

That means that you've got to take action on international law enforcement so that it is no longer easy to shift around the stolen assets among all these jurisdictions. In other words, the crooks can do it, they have offices in five countries. But law enforcement not only does not cooperate, sometimes they don't even speak to each other, don't even trust each other. They don't even have procedures or laws that can be enforced. Law enforcement is clearly at a disadvantage.

Fraud Awareness Session: Expanding Accountability and Fraud Prevention in the International Environment

**Joseph Farinella, Regional Inspector General/Pretoria,
United States Agency for International Development**

**Marvin Burgos, Special Agent, Washington
United States Agency for International Development**

**Joseph Farinella, Regional Inspector General/Pretoria,
United States Agency for International Development**

Good afternoon. As was mentioned, I am the Regional Inspector General for Eastern/Southern Africa, and I'm based in Pretoria, South Africa. Today I'd like to speak about how our office works with supreme audit institutions and USAID to help fight corruption and promote transparency and development.

The most recent international anti-corruption conference that was held last October in Durban, South Africa stressed that corruption and lack of accountability are major impediments to economic development in the world. And that corruption is no longer simply a legal issue, but a development issue since corruption impacts negatively on development and in the countries that need it most. Governments that adhere to democratic principles, the rule of law and transparency are more likely to be free from corruption.

We in the USAID Office of Inspector General therefore believe it is imperative to complement traditional development programs in the world with strengthening various institutions outside the United States that deter corruption and promote accountability and transparency. Working with one such body, supreme audit institutions provide such an opportunity. As Mr. Walker mentioned earlier today, supreme audit institutions or SAIs is the generic term for the national audit organization of various countries throughout the world, and they are increasingly being relied upon as key players in anti-corruption efforts.

In most countries outside of the United States, SAIs are also referred to as Offices of the Auditor General, National Audit Offices or some such similar designations. In the United States, for example, the U.S. General Accounting Office, or the GAO, is our supreme audit institution. And various U.S. Government agencies are audited by the GAO. Also various Offices of Inspectors General are integrated into many agencies throughout our government.

SAIs throughout the world operate much the same way as the GAO and Offices of Inspectors General. Supreme audit institutions and the Auditors General who head them are normally

independent of any ministry within their respective countries. Auditors General often report directly to their respective parliaments and often have budgetary as well as organizational independence. Many are appointed for a fixed term and are beholden to no one. In countries where this independence is not complete, there are efforts from both internal and external sources to move these organizations in the direction of more independence and autonomy. One of our Office of Inspector General prerequisites in working with SAIs is that they meet basic standards of independence.

SAIs perform regular financial or operational audits of various government ministries and programs in their respective countries. They seek to ensure that public funds are spent for intended purposes whether these funds come from government budgets, international donors or other sources. SAIs are usually the only organizations that have a legal mandate to audit the accounts and operations of governments in their respective countries. Therefore, they are not only at the forefront in ensuring accountability and transparency over public funds, they are usually the only ones specifically tasked to do so. In fact, in the USAID overseas environment, it is usually the SAIs in various countries that will audit USAID funds disbursed directly to government organizations. Because of this, countries that do not have functioning SAIs or ones that do not have the independence and the resources to carry out their work unimpeded, are the countries that are more prone to incidents of mismanagement, misuse of funds and corruption within their governments.

By working with SAIs, and developing their capabilities, we at USAID and the Office of Inspector General bring another resource and level of accountability to the fight against fraud, waste and abuse. In my office, in Eastern/Southern Africa, for example, we are working with USAID and supreme audit institutions on various levels in no less than nine countries. And we have plans to work with others. Our other regional offices are also actively working with supreme auditing institutions throughout the world. And this is truly a worldwide effort.

Specifically, we have signed Memorandums of Understanding or MOUs with at least 15 supreme audit institutions worldwide. For example, in Latin America we have MOUs with supreme audit institutions in Bolivia, Honduras and El Salvador. In Eastern/Southern Africa we have MOUs in countries such as South Africa, Zimbabwe, Tanzania, Zambia, just to name some. In West Africa we have MOUs in countries such as Ghana, Senegal and Mali. In Asia we've signed a Memorandum of Understanding with the supreme audit institution of Thailand.

These Memorandums of Understanding formalize our relationship and detail the procedures and standards that supreme audit institutions will follow when they perform audits of USAID funds. In Eastern/Southern Africa alone, supreme audit institutions in several countries are performing audits of USAID funds that are provided to government organizations. For example, not too long ago the supreme audit institution of Tanzania conducted a series of audits of USAID funds provided to various ministries that totaled \$19 million. Those audits resulted in USAID initiating action to collect almost \$300,000 in costs that were found to be unallowable. The South Africa supreme audit institution is in the process of completing its first audit of USAID funds that are being provided to its Ministry of Justice. The supreme audit institution of Zimbabwe has been performing USAID audits for a number of years. And supreme audit institutions in Asia and Latin America have also performed and continue to perform audits of USAID funds.

This collaboration is the result of our very active training and capacity building efforts with various supreme audit institutions in the world. For example, my office in South Africa has provided workshops on USAID and U.S. Government requirements and auditing standards and fraud awareness to seven supreme audit institutions. We've provided these workshops to SAIs in Ethiopia, Rwanda, Malawi, Madagascar, Mozambique, Tanzania and Zambia.

In the coming months we plan also to work with the supreme audit institution of Uganda. Recently the President of Uganda, in a meeting with one of our national legislative leaders, asked about USAID's anti-corruption efforts in Uganda. He specifically asked what USAID was doing to train or assist Uganda's national auditors and oversight staff. This type of interest at the highest levels by a head of state underscores the importance that is being placed on sharing ideas and information that will help promote transparency and fight corrupt practices.

Typically the workshops that we conduct include 60 or more people in sessions that can run anywhere from several days up to one week. In addition to representatives from supreme audit institutions, participants include government anti-corruption bodies, other government ministries, non-governmental organizations, private firms and USAID financial personnel. In Zambia, representatives from the Zambia Anti-Corruption Commission participated in fraud awareness sessions and discussed ways the Commission could better share information and better work together with its supreme audit institution. At a session we recently provided in Mozambique, lawyers from the administrative tribunal attended our workshop. Specifically, we discussed topics such as U.S. Government auditing standards and compared those to the international standards or local standards that may be used by supreme audit institutions.

Our training also describes in detail the specific guidelines for conducting USAID financial audits of non-U.S. based recipients. We discuss procedures for audit and the financial responsibilities of the organizations receiving USAID funds that are subject to audit. We describe the methods for examining whether expenditures are appropriate and whether proper internal control procedures and compliance with U.S. Government agreements are being followed. We also discuss the types of recommendations auditors should make when they find that improvements are needed in these areas. We also discuss fraud indicators and specific steps that auditors should take to detect fraud, waste and abuse.

Our Regional Inspector General's Office in San Salvador has also provided fraud detection training to Controller staff in Honduras. They are also providing similar training to the Court of Accounts in El Salvador. Our Budapest office has assisted their SAI in planning and implementing conferences on internal controls and involved its head in several anti-corruption conferences.

These are just some of the examples of the work that we have done with supreme audit institutions.

The publicity that these efforts receive is an added benefit in the fight against corruption. In the seven countries that we have provided workshops in Eastern/Southern Africa, the press has covered each and every one of these. In all cases, our efforts were covered in the local newspapers and in several instances also on the evening news. This I believe further underscores the

importance placed on promoting transparency and accountability by a variety of countries with different economic and political climates.

The success we've had in helping build capacity by exposing supreme audit institutions to our audit standards and investigative techniques is rewarding. And I must mention that USAID has been a partner in these efforts with our Office of Inspector General.

USAID Missions work with us and often assist supreme audit institutions under their Democracy and Governance programs and initiatives. This is vital, since most supreme audit institutions in developing countries have serious budget and resource constraints. And both USAID and the Office of Inspector General are assisting supreme audit institutions as our budgets permit. USAID Ethiopia, for example, has provided needed computers and other equipment to their supreme audit institution under their Democracy and Governance program. And USAID Malawi is looking to provide similar assistance to their supreme audit institution.

We recognize that assisting supreme audit institutions will benefit USAID's various strategic objectives and moreover contribute positively to development in the world.

In conclusion, I would just like to reemphasize that working together USAID and the Office of Inspector General will continue to use supreme audit institutions as a resource in fighting corruption and enhancing development prospects throughout the world. The training and assistance that the Office of Inspector General provides will complement USAID's efforts. Our experiences with supreme audit institutions have been worthwhile and productive in each and every case. What we plan to do now is to expand our work in this area and move forward together with a commitment to promote transparency and accountability over all public resources and funds.

Thank you.

Marvin Burgos, Special Agent, Washington
United States Agency for International Development

Good afternoon. This afternoon I have the honor of addressing you to discuss who we are, what our mission is, and to discuss proactive activities to stop fraud and corruption. Through our investigations we have been able to compile the ways that fraud has occurred, and we presented them in the pamphlets which some of you may have already picked up. They are printed in English and in Spanish.

I'd like to start out explaining the jurisdiction of the Office of the Inspector General. We have an investigative responsibility for the USAID African Development Foundation and the Inter-American Foundation programs, not only in the U.S. but also in countries around the world that receive foreign assistance from any of these organizations.

What are the sources of referrals or allegations for us to start the investigations? Most come from AID employees because they are in charge of the AID's programs and they deal with those programs and the institutions that receive funds from the AID. But we also receive allegations

from audits. AID is constantly auditing its own programs and operations, and when the auditors run into activities they suspect may be fraudulent they refer those to us and that is how we start the investigation.

Some of the allegations are received from contractors or grantees that operate with AID's funds. Most allegations from contractors and grantees have to do with the award of contracts. Sometimes they are competing for contracts and in the process realize that the winning contractor or grantee was awarded the contract by fraud and they let us know.

Private citizens are also a source of allegations totally unrelated to AID but for some reason they realize that there could have been waste or corruption in an AID program and they let us know.

Confidential informants are extremely important. You should know this and I'd like to emphasize it because within the investigations we offer confidentiality to those who provide us with information. Of course, if they request it, we grant confidentiality. And you need to know this because sometimes those who give us information may be afraid of doing so, so one of the protections we give them is the confidentiality.

We also receive allegations from other sources such as newspaper articles. Sometimes we have started an investigation based only on information that someone published in a newspaper article.

The mission of our investigations is to detect and prevent fraud, waste and abuse of AID's programs. And this means every single program that is financed by AID all over the world. There are two ways to complete our mission. One is by reaction, and I call it reactionary because we only react when the fraud has occurred. And that's when we start the investigation. So we act by reaction. We investigate every allegation we receive and they are all evaluated and investigated. I can assure you of that because that's my job. We take it very seriously. You may never know and, as we say in El Salvador, when there is smoke there is fire. So we take them very seriously.

The second way we complete our mission is of a more proactive nature. We provide anti-corruption and fraud awareness training to NGOs, to private voluntary organizations and government agencies. The NGOs and the PVOs are those organizations in charge of implementing AID's programs. They receive contracts and grants from the AID to implement their programs around the world. An example of a fraud awareness method is a presentation that we offered in Central American and the Caribbean. We made this presentation against fraud because of the aid that is being given to Central America and the Caribbean after the devastation by Hurricane Mitch and George. Six countries in Central America and the Caribbean will receive around \$600 million in assistance for reconstruction. The NGOs and the PVOs are being financed by the AID through contracts and grants for the reconstruction projects.

With the aid of the NGOs in the countries that have been most affected by the hurricanes, the areas are currently being reconstructed. One of the greatest challenges we have found is the vulnerability that arises with the rapid disbursement of funds because of the urgency of the

situation. And another challenge is to detect and report the vulnerabilities and problems within every reconstruction program by AID.

The results of the proactive initiative against fraud and corruption in Central America and the Caribbean have been marvelous. We have given 60 presentations on fraud awareness to over 2,000 employees of the NGOs and PVOs, as well as government agencies in the countries most affected by hurricanes. This has increased fraud awareness and it has also enhanced transparency of AID funds, which is our mission.

Part of our presentation to the organizations in Central America and the Caribbean was devoted to teaching the participants in detail what we have determined to be fraud indicators. From our past experience we have learned that one of the most vulnerable areas to fraud is the award of bids, of contracts. Billions of dollars are given in that process, so part of our presentation focused on fraud indicators in the process of award of contracts and grants. This type of fraud is extremely difficult to detect and unless there is a thorough understanding of the whole process, it is very difficult to detect. Someone said something yesterday that struck my attention. They said, "To detect this kind of fraud is as difficult as detecting when a fish is drinking water." And it is true.

We explained to participants in detail every single phase of the award of the contract. For instance, in the pre-solicitation of bids and proposals, we have found that those who are preparing this kind of document, both within AID or in the organizations that are awarding the contracts, sometimes place unnecessary restrictions in the document. They do so to restrict competition. And that's exactly what AID does not want.

In the solicitation of bids and proposals phase, in past investigations we've realized that those who draft the documents, again both within the AID or in the organizations that award the contract, sometimes place a limit on the deadlines to submit proposals so that only those companies that have received information ahead of time will have enough time to prepare the proposal. Again, they are restricting competition. Once they do that, they are left with three or four contractors and then they can channel the contract to the organization they wish.

What we have found out in the evaluation of bids and proposals phase is that the new companies that are competing for the contract sometimes lose. And we have found out that this is some conspiracy by a government employee or a group of contractors. In the award of the contract phase those who are in charge of awarding the contract disqualify without any explanation proposals that have no objections or they award it to a contractor that is not bidding the best price. And those who have been disqualified don't know what is happening and they just think that they will bid again next time, but they are not informed of why they were disqualified.

The other areas of the presentation had to do with product substitution. This refers to the trend of contractors to deliver goods and services to the government that do not comply with the specifications. This is one of the frauds that most affects us all, not only within the AID because we're paying and not receiving the goods and services for which we're paying, but also in those countries where the projects have been implemented. The motive is purely financial. Some of the cases that we investigated on product substitution really surprised me. Some years ago an

organization based in the U.S. was awarded a contract whereby AID wanted to send powdered milk to a third world country where kids were dying of hunger. So the AID prepared the contract, and someone was awarded the contract for dried milk. It was in excess of \$1 million. That person decided to substitute dry milk with a powder that is similar, the same texture, but is used to feed cows. He thought nobody would realize. But through an inspection we detected that it was not dried milk. The shipment was intercepted and we realized that his motivation was that he was going to pocket \$900,000 without considering the fact that those people could have died by drinking milk made from that powder. This is an extreme example, but it should give you an example of the degree or the length that people go to to make some money.

Now, as to phantom contractors, this is one of my favorite investigations. I find them so easy to investigate because the project either exists or it doesn't. The contractor exists or it doesn't. The difficult thing is to detect the fraud on the document that they submit to the AID or the donors. But once they tell us that there is a suspicion that perhaps the contractor did not build a bridge or perhaps he doesn't exist. I really enjoy the investigation from beginning to end. I am the kind of person that gets on the horse and will go through the jungle to complete the project.

Last year I had to investigate a circumstance of an organization that received \$75 million from the AID. They were in charge of delivering small grants to promote the economy and development. And this is where the problem of phantom contractors is at its best—when they have to subcontract or sub-grant. We realized that there was a sub-grant that looked suspicious and we started reviewing the documents and we went to inspect the project. They had received money to build a library and, according to the folder, it had been in operation since 1996 and there was a list of who visited the library and the hours of operation. So Friday at 2:00 PM we went there and three hours later we found in a small village a house that someone had built and the bricks were fresh, and we realized there was no library. We looked at the folder and realized that the grant had been false. The documents were false and someone had pocketed the money. So they are easy to track.

Bribery and illegal gratuities were also explained to the participants of the Central American and Caribbean presentations, but there is not a lot to explain about this. This is illegal all over the world and, correct me if I am wrong, so there is not much to say about bribery.

Companies conducting business under several names definitely restricts the competition for contracts. We have found that at AID we sometimes receive five proposals and we realize when we investigate that one contractor delivered four proposals with different names. We think we are evaluating five, but in reality there are two companies. And so that restricts competition.

If at some point you run into an employee who doesn't want a promotion or a raise, that is suspicious. Who doesn't want a raise or a promotion? And this was the case when I investigated the phantom contractor. We realized later that the person who had filed the false papers to build the library was the finance manager. She would work Saturdays, Sundays, holidays, overtime, and when she was offered help or she was offered a promotion or a substitution, she said, "No, I'm a humble person. I am here. I am fine and I'm happy." Well, she was happy because these were 50 projects that she had filed and they were all false. Fifty phantom contractors. So that is a red light.

So these are some examples of fraud indicators that we discussed in our presentation. We also have strategies for prevention and deterrence of fraud. To prevent fraud we identified local organizations and individuals with criminal history that may pose a threat to AID's programs. We also identified the NGOs and PVOs within the U.S. and in other countries that in the past have not complied with AID's regulations. This information is vital. We need to know who we can do business with and who we can't.

We also identified AID programs that in the past had been susceptible to theft, fraud and abuse. There are programs such as the disaster assistance programs that are vulnerable because of the solarity of disbursement of funds.

We also share information with other donors, and we do that because we want to make sure that no two donors are financing 100 percent of the project. We call this duplication—collecting twice on the same project. We also share information with other law enforcement professionals. We believe firmly and, as they say in the Dominican Republic, that there is strength in unity. So with the flow of information and exchange of strategies, we can combat corruption in a better and more efficient way.

When we identify the AID programs that are weak, we work around the world to strengthen those programs to prevent fraud and, as they say in Nicaragua, an ounce of prevention is worth a pound of cure. So we also prevent fraud by investigating the allegations as soon as possible to minimize losses. We believe firmly that these investigations should be carried out quickly because sometimes fraud is in progress and we need to put a stop to it. And we also establish internal controls in order to prevent fraud, and this helps us a great deal.

In order to deter fraud, we increase the perceived risk of being caught. We believe that educating on the risk of being caught and on the consequences of being uncovered, just letting them know, may act as a deterrent factor. We also educate the AID staff and partners about fraud and corruption. And we do that by giving them training against corruption and fraud. We also try to understand how fraud has been committed, and we establish appropriate policies to prevent this from happening in the future. After we analyze how fraud has been committed, we create activities to reduce risk.

Also we provide intelligence reports to the AID Missions concerning individuals and organizations that may not be trustworthy partners. We'd like to make sure that the Missions of the AID around the world know about the risk of doing business with certain organizations or individuals. And we also educate them about their responsibility to report evidence of fraud and corruption. This is not only important for the AID staff, but also for those organizations that do business with the AID. The investigation is essential so that all employees from NGOs, PVOs and AID staff know how and where to report fraud.

There have been instances where people realize that fraud has been committed, but they don't know where to report it so the fraud continues, and that becomes more expensive. So we provide NGOs and government organizations with training such as we have carried out in Latin America and the Caribbean.

To conclude, I will say that in the future the AID Office of Inspector General will continue with its proactive initiatives around the world to stop fraud and combat corruption and we will continue to monitor the high-risk programs because, as they say in Honduras, an ounce of prevention is worth a pound of cure.

MANUEL DIAZ SALDAÑA (Puerto Rico): Do you use independent auditing firms as a part of the process of requesting funds through these organizations? Do the recipients have to submit reports audited by accountants in order to help you with that process?

JOSEPH FARINELLA (South Africa): All recipients of U.S. Government funds receiving a certain amount of funds every year have to have an audit. That threshold can be set at the individual Missions. But there is a requirement for a yearly audit once that threshold is reached. In addition, there are standard clauses and provisions in all USAID grant agreements that basically allow USAID to request an audit on any amount at any time that they deem necessary. And they exercise that option as well.

ANTONIO BARROS DOS SANTOS (Mozambique): First of all, I'd like to thank you for this seminar on corruption. I would like to ask you what to do when donations are expressed in dollars. For example, \$1 million for medicine. But we don't know what \$1 million in medicine means, really, because it is not expressed in quantity. This happens many times in the donations from the United States and other countries. For us it is difficult to know, for example, the price of aspirin. When I was in customs I checked on that and found that the aspirin that was donated was evaluated at nine times the normal market price. We need somebody to support us in finding the real price of donated goods.

MARVIN BURGOS (United States): First of all, we're talking about AID grants, which is my jurisdiction. I can't speak for donations that come from the United States. I know that other organizations also donate funds. I know that when it comes from AID, we have auditors that conduct regular audits of the program. So I'm sure if that were to happen, one of the auditors would be able to pick up on what you are telling me, which, by the way, doesn't surprise me at all. That is something that I've seen happen in the past, but what I can tell you is that if the funds come from AID, they are regularly audited by either our own auditors or firms that we hire.

JOSEPH FARINELLA (South Africa): Just to add one comment, regular financial audits of any USAID grant look at the reasonableness of expenditures. And definitely if costs were reviewed that were nine times what a reasonable person would pay for a commodity, it would definitely be questioned.

MARVIN BURGOS (United States): If you ever come across something like that again, and it has to do with AID money, there is a little package that you can pick up outside that has our 1-800 hotline number. You can also send us an e-mail and we can look into it.

DAVID ALONE SELEMANE (Mozambique): I am a member of the Parliament, so my question is directed to the Regional Inspector General. I would like to know what you present to audiences in Mozambique on SADC countries in terms of corruption, electoral fraud and the lack

of transparency according to your USAID vision. And I would like to know if these SADC countries correspond to USAID objectives and aids. I'd like to know your feeling about this general region in South Africa.

JOSEPH FARINELLA (South Africa): The amount of explanation and detail that we get into during our workshops and our presentations regarding fraud and the problems we encounter in auditing and in investigating USAID funds are generally what we present—whether we give these workshops in Mozambique or other countries in the region. What I have found is that most of what we discuss tends to be relevant across different countries and cultures. We also generate a lot of discussion in the specific countries regarding the problems that individual countries experience. Often we can provide some frame of reference that really brings out the fact that these are universal types of problems and issues that aren't unique to any one specific country.

As to the second question regarding our experiences with the SADC countries, we have worked with a number of them in the region and we are thinking of working more on a regional basis bringing SADC countries together to discuss some of the issues that have been addressed over the past few days. Up until now we've done this on a country-by-country basis, but I think it is quite important to share ideas more on a regional level. The SADC countries would be an excellent forum to start that type of dialogue.

KEN DYE (Canada): I work in SAIs all over the world in developing countries and I have two questions for you. One is I don't know why the donors don't ask for value for money audits. You've got contracts with all the requirements of the project set out, and all you ask for is financial audit opinions. I think you could probably get more bang for your buck if you ask the Auditors General for VFM audit reports as well.

My second point is the USAID; I see your generosity in offices that I visit and I'm particularly impressed with your computer program because I think it's time we really get our SAIs computerized. But I noticed that your audit requirements for USAID are a little different from the World Bank and the World Bank's are a little different from IDB and IDB is a little different from ADB. Everybody has different requirements. And it causes quite a problem for SAI personnel to understand all your different rules. They have to have four different books. It's a big problem if you are in Nepal and you are a forestry expert or something and you are all by yourself and you have to figure out all these complex rules. What I would like to suggest to you, and perhaps you can tell me why you don't, is to have the donors get together and have one reasonably comprehensive set of audit requirements so the SAIs can understand what you need, deliver what you want, and have less complexity in their lives where they don't have a lot of resources.

JOSEPH FARINELLA (South Africa): To answer the first question on value for money audits, that's generally what we call performance audits or program-type audits. And as a matter of course, in the USAID environment, we do those types of audits with our own internal audit staff within the Office of Inspector General. Regarding a role for the supreme audit institutions in doing performance audits or value for money audits, that is something that we've been exploring and discussing with a number of supreme audit institutions. What we found is that the expertise of the SAIs with which we deal, and I'm speaking in my particular region, are able to do only financial or

regularity-type audits, because that is what they are trained to do. There is a need for training and exposure to performance or value for money audits.

Regarding your second question on the differing standards, the different requirements, USAID vis-a-vis the World Bank, that is a difficult one. USAID has very specific requirements for implementing their agreements and by extension auditing those agreements. Very often the differing requirements of the World Bank, of the United Nations, development organizations and other entities really don't apply and it would be, I would say, impossible to bring it all closer together. There is difficulty in creating a type of universal approach for procedures when we have very specific requirements vis-a-vis other organizations. But it is something that I agree we can and should look at and see where we can find some commonality and some methods or means to bring different requirements together.

ERIC HARID (Zimbabwe): To follow up on the audits being similar, what I don't understand is the United States is a member of INTOSAI. The Comptroller General is a chairman, I think, of the auditing standards for the body. Why is it that impossible if a country is also a member of INTOSAI and they adhere to the INTOSAI auditing standards that they can't find common ground for us to use those standards and produce audit certificates that will satisfy USAID, NORAD, CETA-Canada, CETA-Sweden and all the other donors? I had the problem on a personal basis. I have to satisfy USAID and I have to satisfy NORAD and I have to satisfy CETA, but above all my mandate is to satisfy my own country. I am over-stretched. By being over-stretched I think I end up being very thin on efficiency. So if there is any good time that this conference on donors should be held, I think it should be now. And that value for money audit you are talking about is a good idea because at least those funds will be put to good use. You might want to comment.

JOSEPH FARINELLA (South Africa): Your point is well taken. I can say that the Memorandums of Understanding that we sign with supreme audit institutions in the world do provide for conducting audits in accordance with either U.S. Government auditing standards or INTOSAI standards. Now I will say that you are correct in the fact that once we work with supreme audit institutions and provide exposure to U.S. Government auditing standards that we do ask or we do prefer that audits be done in accordance with those standards, but it does allow for audits of USAID funds to be conducted in accordance with INTOSAI standards. That is a point where we probably could reach some sort of common ground and commonality between the different audit organizations. But I think it is important to note that even in the USAID Memorandums of Understanding that we signed with supreme audit institutions we recognize that fact and allow for audits to be carried out in accordance with INTOSAI standards.

AKHTAR SANJIDA KASEM (Bangladesh): I have two questions. The first one is in the USA, what is the legal distinction between and NGO and the PVO? And what is the difference in applicable USAID provisions for these two types of organizations?

My other question—as an auditor I have seen cases where the employee under one federally funded project complement is working part time on another federally funded project complement and is getting paid for the second project work as well. So I would like to know whether the remuneration he is receiving for the second type of work should be questioned as an unallowable cost and, if so, under which specific guidance or reference?

JOSEPH FARINELLA (South Africa): Your first question, the distinction between NGOs and PVOs is often a very vague one, if you will. I don't know if I can give you a precise answer other than to say that we look at NGOs, PVOs, in a very similar light, and in our approach to audit we treat them similarly.

MARVIN BURGOS (United States): There is one distinction that I do know about, and somebody correct me if I'm wrong here. PVOs are non-profit organizations, are non-educational, which means you cannot have a university as a PVO.

JOSEPH FARINELLA (South Africa): As to the second question, the simple answer to that is if a person is working on more than one grant, the costs are allocable to the particular grant that the individual is spending time on. When auditors do their financial audits, they look at whether costs are allowable, they look at whether costs are reasonable, and they also look at whether costs are allocable to a particular grant. And if they find that they are not, they will definitely question that cost.

MARIO FALCAO PESSOA (Brazil): I would like to extend the question that has been asked and I would like to suggest that you not answer the question but think about it. We have procurement legislation; we have accounting legislation in our countries. They are similar but are not equal to the international organizations. Sometimes the procurement and the accounting and financial standards are tighter than the standards of the international organizations. For example, I have to train my auditors how to deal with the IDB, with the World Bank, with the IMF standards and so on. So my people spend a lot of time training on how to fill out the forms and how to present the reports instead of spending time investigating. So I think it is very important for the international organizations to accept the local rules when they are tighter than the organizations' rules. I think it could be much more efficient for the supreme audit institutions and other auditors to work with the rules of their own country.

YVELINE RAKOTONDRAMBOA (Madagascar): I am from Transparency International. If after an investigation you discover some misuse or abuse, what kind of recommendation do you make? Are there any sanctions, and if there are sanctions, is it at the level of the local USAID office in a country or against some grantee?

MARVIN BURGOS (United States): My job as an investigator is to gather the facts and present the facts to the Mission where the fraud took place and the Mission makes the decision. I simply present the facts.

GRAHAM JOSCELYNE (United States): I would like to respond to some of the concerns that are being expressed about the burdens that are put on SAIs by organizations including the World Bank. Just to let you know a little bit of history, and the history isn't all that long, and that is that even five years ago, although there was a lot of burden put on SAIs to do certain things, I don't think there were many people in the World Bank who really understood the important role that the SAI played in the governments of countries. That is something that is changing. We are now interacting much more with the SAIs. We have qualified people, in fact, some of my colleagues

here today, who are making it a point to learn and understand the very important role that the SAIs play in the governments of their own countries.

But there are a couple of other things that we observe, and here I'm not going to say too much about the SAIs, because there are not many of them here. Let's look at the independent auditors, the Big Five, etc. To give you a sense of some of the challenges that you and I face, we've discovered as we work with many of the Big Five we may get a name which we know well and we anticipate when we get work from them that their standards from various parts of the country will be the same. What we've discovered is that the work is not the same. All of them say they apply the standards, but yet when you look at the work you discover something quite different. So even within the international accounting area, there has not until recently been any attempt to ensure that there is an application of standards on a consistent basis across the world.

You've probably been reading in the papers about some of the major changes that are starting to happen within the accounting arena. I would share with you the fact that at some point that's going to affect the supreme audit institutions. If INTOSAI really wants to be taken seriously on an international level, they're going to have to put a mechanism in place to assure people like the donors and their own clients that if you say that you apply the standards you can demonstrate that that is taking place. That challenge is something that faces the accounting profession internationally right now and certainly within the next few years it is going to really affect the supreme audit institutions on some basis or another.

Having said that, I certainly am aware within the World Bank that there is an effort afoot right now to see to what extent we can bring the donors together to get a sense of what needs to be done to assure ourselves that we don't unnecessarily overburden the people with whom we interact. That is happening.

EVERETT MOSLEY (United States): I've tried with all my might to remain quiet and stay in the corner because my people have done such an excellent job. But one thing I need to explain to you, and it doesn't justify the fact that we use different standards. We really should work towards using the same standards. There is no question about that. Unfortunately, we are required by the Inspector General Act that was signed for all Offices of Inspector General to follow the generally accepted governmental audit standards. Those are not exactly the same as the INTOSAI standards, but we have no choice. If the work is being done for us, by law, we must follow those standards. Now I know that there have been some efforts and they are working towards trying to solidify those standards with the INTOSAI standards, and hopefully that is something that will come. But until that time, by law, in the U.S., we must follow the generally accepted governmental audit standards.

WILLIAM TAYLOR (United States): Let me just say a word on behalf of the Inter-American Development Bank. We likewise, as Graham indicated, are moving much more into the audits being conducted by SAIs. I think right about now we're probably around 20 percent of the audits conducted by SAIs. We are concerned that more companies, governments and so forth are using IFAC public auditing standards, accounting standards and so forth. So our bank has entered into a program with IFAC whereby we will be translating all of the public accounting and auditing standards into Spanish. I think there are eight published now and five close to final, thirteen in all.

We'll be providing them to all the member countries of the IDB free because we believe they need to see the differences between INTOSAI and what is required by us.

And probably more importantly, we are arranging, actually we're meeting next week, with IFAC to get the standards when they come out in English. They're out for draft for about five months. We'll be translating those into Spanish, sending them out to all the member governments in Latin America so they have the opportunity to comment on the drafts. All these drafts are basically issued for everybody in the world to follow, wherever you may live. They come out of New York City and they're in English. I think if IFAC is to move along more successfully their standards need to be translated into different languages in the world, and they must give governments a chance to comment on them because we don't all think and operate the same way.

Civil Society Panel: Experiences of Professional and Civic and Non-Governmental Organizations in Fighting Corruption

Moderator:

Carlos Morelli, Governance and Transparency International Consultant and Senior Advisor, AAA Project

Panelists:

Rosa Inez Ospina, President of Transparency International/Colombia

Victor Abreu, Executive Director Interamerican Accounting Association

Kwasi Abeasi, Director General, Private Enterprise Foundation and Assistant Governor, Rotary Club International District 9100 Responsible for Ghana

Carlos Morelli, Governance and Transparency International Consultant and Senior Advisor, AAA Project

Good morning dear friends. This session of the event has several very interesting characteristics. First of all, the entire panel comes from the private sector. Before I introduce them to you, we have a few reflections.

What makes this conference different from other conferences we have had on anti-corruption is the weight of the participants that come from controlling institutions and financial institutions. I think this has given a special characteristic to the presentations, to the questions and to the answers.

We have the Olympic Games of corruption. The difference of course is the Olympic Games are every four years. Ours is permanent. The scandals that we have in Argentina, with the politicians in Brazil, with the military in Peru, with what is happening in Bolivia, Paraguay and Central America—we have that every day. And sometimes we ask what is the point of having the conferences? Where do we go since corruption has not been stopped? That is one of the things that we have to understand, that this is a process which we will understand little by little, that the problem of corruption is not only a government problem. It is a problem of the civil society, of the public sector, in other words, of everyone.

Just three weeks ago we had a Declaration of Millennium. One hundred and fifty heads of state were gathered together here in the United States through the United Nations and in 32 points of reference to the amenity problem, many problems were mentioned—poverty, environment—but we did not hear any mention of corruption, transparency and the subjects we've been discussing at this conference. We know that the Declaration of the Millennium is important but we also have to think that it is not complete.

Another of our reflections is that we are now talking in more concrete terms about the problem of corruption. We estimated that in Latin America we spend around \$200 million yearly in procurement of goods and services. Of the \$200 million, the question is how much did we lose? How much is lost? It is estimated that around 40 percent of the budget is probably lost through inefficiency and corruption. Napoleon Santos and some other specialists in Ecuador figure about 30 percent was lost through bad contracts and inefficiency. The figures are alarming.

On the other hand, a few years ago Henry Kissinger said the entire Latin American debt is equal to the monies that had been hidden over the last years in the United States. At that time it was around \$400 million. Today the Latin American debt is more than \$600 billion. But the flow to the foreign countries continues. And we continue to say that the laws are inefficient. We have not actually attacked corruption efficiently. There are several paradises and there are many, many evading ways. This is why we have many, many ways to go insofar as prevention.

I think the biggest responsibility is in the civil society, not only in Africa but also in Latin America. Now I will share something that is systematic. Corruption has received not only the benevolence of some states but also the complicity of civil society, of the private sector, for not acting.

Ms. Rosa Ospina from Colombia is the first person that will talk. She is the Executive Director of Transparency International in Colombia. Before she worked on transparency issues she was consultant of the Proequity Project and also worked in the Office of the Comptroller General in Bogota. She will tell us exactly what the role has been of Transparency International in Colombia and what steps have been taken.

Rosa Inez Ospina, President of Transparency International/Colombia

Good morning to everyone. The team of Transparency International in Colombia feels it is very important to share experiences with you. Transparency International is a private organization and we have syndicates and personalities in Colombia who fight against corruption in the management of private sector entities and also in the universities.

So that you will understand the characteristics of the organization, let's talk about our mission. We not only plan it we also do it. As a part of civil society, Transparency International has a systematic approach against corruption centered on changing our institutions, public and private. And I want you to understand that our intent is to tackle the state as well as the private sector. Our intent is to have honest public servants who actually put the collective interest ahead of the private interest. We want to have private citizens and heads of companies who are aware of their social responsibility. From the beginning we understood that commitment is important from the people that we work with as well as the heads of companies. And for that we have coalitions with several people at all levels. We fight against corruption and contribute to the strengthening of the citizenship.

We want to contribute to large private movements so that we and Colombia can dispel the supposed condemnation that Columbia has no future because of the corruption. We want to tell

Colombia and all the people that we want to terminate corruption because Colombia is a great nation. We must not only stop our participation in the international drug market, but also change the internal processes in order to conquer corruption.

One of our strategic objectives is to mobilize social actors against corruption. In this mobilization effort we have two very important ways of working. Yesterday we talked about the people of Transparency International in Latin America—from Peru, from Argentina, from Ecuador, from several countries. We, of course, from Colombia systematically contribute to this organization and to the strengthening of this organization. But in addition we work in Colombia in an international network. We have 32 partners in the country. Of those departments and those sectors we chose seven to start with. Two of those have organizations similar to ours. With the other five we are generating the capacity to create new organizations so that we can work as a network.

The second objective is the building of an ethical infrastructure. If we have time later on we will refer to the two that we have in Colombia which are the integrity pacts and integrity islands. In Colombia we have four presidential programs against corruption and there are all kinds of programs, institutions, and proposals from the state in the fight against corruption. We monitor the developments and some of the characteristics of those programs and we also develop other tools with the public sector to check on the integrity of those who handle the monies of certain institutions and keep them away from corruption. For example, purchasers from an institution or persons in a privatized area are sensitive to corruption. We work with those entities.

The third objective is the development of corporate ethics and entrepreneurial social responsibility. In the very complex situations in which our country lives, the heads of companies not only have to assume responsibility for the development of the country, but also responsibility for the social arena and of course their own company ethics. We're working with some international organizations in developing ethics programs and what it is is a rendering of accounts, accountability of the companies that provide the public services. And this process is very important in Colombia. Although all the conditions do work relatively well, we find that the citizens, the men and women that use our services have actually demanded what they consider their rights to certain opportunities and qualities of information. And this is why we're working with the heads of companies. The level of responsibility that they have is no greater than the general conditions in terms of the citizenship.

Of our five objectives and main tools, the fourth is citizenry organization and empowerment. We believe that the citizenship has the obligation to ask for a rendering of the accounts. We cannot actually overburden the citizenship to ensure that everything is done properly but it is their right and their obligation to be good citizens and be aware of civil society's compliance in the fight against corruption.

Monitoring by the citizenship is a constitutional right that gives them access to any public funding. There is much that can be done through very simple things that neighborhoods do through their members and we have 20 years of experience. There are people that actually put their life on the line and this is literally true in Colombia.

We are very worried in Colombia because we think that public awareness is fundamental and very important. But it can't become reality because of our numerous scandals. We can't figure out how to sell the citizenship awareness program. In our culture, in our country, in Colombia, every time there is a scandal, every time that we show that somebody was identified and persecuted and condemned, they say, "Well, who will the next one be?"

Of course the people are still totally worried about the continuing investigations. This is why we have to be very positive in how we show where the problems are, how big they are and which institutions are better and which institutions are worse. This why we are working so diligently on anti-corruption issues in Colombia. This time, together with other sectors of the civil society, we feel that we can be successful not only in our work but also in identifying where things are done better. Then of course we can actually give the citizenship some credibility.

And we are also working on a fundamental tool which I don't want to miss this opportunity to present. We will be working with other countries in Latin America on a National Observatory of Corruption. With several indices that we have in the countries every year we can tell the country what has happened, what really has happened with the patrolling, with the procurement, with the legal aspects and with the various executive branches. And we can actually show the citizenship what has been done. It will be done on a regional basis and we hope that with this we can actually expect to be able to speak with more objectivity on the subject of corruption. The big challenge is to find ways to actually eradicate the corruption and be able to actually talk to the public. It seems that we are trapped in a logic that says we can only talk about what clearly is done badly. We should be talking about what is done properly.

We will talk briefly about the steps for developing integrity pacts which is a very important tool in this scenario. The tool of course was created by Transparency International. It was approved by the conventions and was created to identify corruption. We have 14 countries in the world that are working with several variations, Greece and some European countries and some Latin American countries like Colombia, Argentina.

In Colombia before we decided to implement these integrity pacts we carried out a diagnosis of the government hiring situation, or contracting situation in Colombia and we found some weaknesses. And that is what a risk map is. It is a map of risk indicators to which we have to pay attention if this problem is to be solved because these problems are detected frequently. But we should not mistake a risk map for a diagnosis. This just shows a potential for problems.

We developed a series of indicators based on which risks show up at a certain time. From that we can determine how serious the problem is within the government contracting situation. From there we can go on through a diagnosis. We see that there are all these risks. There is a generalized impunity. Colombian justice is very inefficient and traditionally those who are able to catch the big fish are heroes. But they become big fish actually when they are caught, so sometimes they win the elections more easily when they've actually been accused of something. So it is a very complex situation. Even when Colombian justice tries to do things right, people don't believe them. So these are some of the threats and risks that we face, but we also have some strengths.

Colombian legislation, in terms of government contracting, is quite comprehensive. It could be improved, of course, but if we complied with at least half of the legislation we have, we would have half the level of corruption we have now. So we have legislation, we have programs in place. We discuss our contracting problems. We are receiving international aid. The problem is do we have an agenda? Do we have the institutions? And we also have inefficiency in the institution. We have noncompliance with our legislation. We need to be more familiar with our law and then comply with it. And we also have specific risks. For example, there is a problem with limited time for administrators. A person who is elected for a three-year period and cannot be reelected has to use his or her budget quickly. If any of you were only elected for a three-year period you would understand the pressure these people are under to produce some results. They need to yield results but they also need time to consult with citizens and make sure that there is transparency. So this is one of the other risks that we face.

And of course there is the war situation that the country is going through. So we have these agreements. It is something that is voluntary, signed by all the actors involved in the contracting process—bidders and authorities. In these agreements we define sanctions, we determine those that will be in charge of arbitration and all the points that we will need in that bidding process to guarantee transparency. So we are attempting to transform our structure for government contracting.

We have achieved some significant results after one year of work. We can mention one. Specification lists used to be secret, used to be confidential in the past. Nowadays in all these projects in which Transparency International is involved, specification documents are placed on the Internet or published before the bidding process begins so that they can be discussed, so that all questions can be asked, all concerns can be addressed.

I will mention Lilliana's presentation from yesterday. The fact that our law does not permit or allow for these specifications to be modified is not just a threat, it is a real problem for us. Once those bidders who are qualified see the specifications, they can point out any inconsistencies. If we could not modify them these inconsistencies would remain as part of the specification list. So it is not just a threat, it is actually something that we need.

There are also several degrees of complexity in these programs. We have some bilateral and multilateral organizations that are participating at different levels. We have worked through 54 significant bidding processes in Colombia and these include procurement, privatization and concessions.

And this is an ongoing process. Of course it is still underway. There are 17 bidding processes that are on their way right now. We have signed pacts for 15 of them. Transparency has withdrawn from several of these because they do not qualify for us. They do not have the time to go through the process that we need to go through and if they do not have the time we cannot help them. We need to have workshops with the officers so we can tell them about the ethical commitment that this requires. In some cases we have been drawn to make public statements saying that the process is not a transparent process, that there are no guarantees and that the rules that should be followed are not being followed. We do not take sides. We report them or we let the national prosecutor take the case. In some cases we have withdrawn at the end of the process,

or rather no integrity pact has been signed. This has happened in six cases because the bidders have not wanted to sign. These are bidders from the same sectors, infrastructure and construction, and they have come from the same region in the country as well. These are the ones we have had difficulties with trying to get them to sign integrity pacts.

With these pacts we are contributing to the creation of more accurate risk maps. Integrity pacts point to one aspect—the bidding process. But there is also the definition of the project, the structure of the same, and execution. These are not covered by the pacts. Of course there is still a lot of work to be done on this.

Three final thoughts: As I said, it is vital to have objective information on the subject of corruption so that we can be prepared to realize when things are being done correctly and to determine which things are not being done correctly and to be able to reach a solution.

We also feel that we need to continue with zero tolerance. When we're dealing with the private sector, believe me, it is very difficult to find this concept. We have seen multinational companies in certain sectors that tell us that they do not report corruption cases or rather they say, "We do not accuse each other of corruption." These are very important, significant sectors of multinational companies with headquarters in developed countries, and this is the way they do business. We have to work toward zero tolerance of corruption.

Last but not least, if we do not achieve the structural reforms of our political systems so that those who want to run for office don't need to make payments for this, unless we do this, unless we change the situation, we will not be able to talk about eliminating corruption. These politicians have to find huge amounts of money to fund their campaigns and if they do not have a way to get this, they will end up getting elected and owing favors, owing money, to a lot of different people. The system needs to change.

Thank you.

**Carlos Morelli, Governance and Transparency International Consultant
and Senior Advisor, AAA Project**

I would like to thank Rosa Inez for not going over her time limit. We have a panel of experts who have prepared some presentations for you and I think we can complement the speeches with some questions and answers. I think there are some points that Rosa Inez has touched on that will be relevant to our discussion.

For example, why is the private sector not reporting corruption? In one way or another this is something like a pact of silence. Why do they not report their competitors? They do it to avoid retaliation. There are two problems—corruption and extortion. In the private sector, there are countries, states or institutions that are organized for the purpose of corruption where, at every level, everybody is prepared to defend themselves and use extortion whenever it serves their purpose.

Also, civil society's involvement depends on a political decision in the first place. Sometimes it is difficult for initiatives to come up in civil society if political leaders don't want to be involved in dealing with the topic of corruption and they feel that there will be retaliation. In Colombia, as in many other countries, these people who report corruption are actually risking their lives. We know that it is possible to have participation from civil society, but it will be difficult.

Now, talking about controlling, sometimes we don't understand why our figures don't match, and Victor Abreau will talk about this. He is the Executive Director of the Interamerican Accounting Society. He has worked as an international consultant for a public management project at Price Waterhouse. He has a doctoral degree. He has a very solid background in his field and I invite him to come up and speak to us.

Victor Abreu, Executive Director Interamerican Accounting Association

Good morning ladies and gentlemen. It is a great pleasure for me to be here at this Anti-Corruption Summit. As a public accountant, I have a lot of issues that I can focus on regarding corruption. If there is any profession that is related to the management of public and private funds, it is the profession of the accountant. It has its problems just like any profession.

What we do in my organization is attempt to establish the highest standards for this profession and share them with other countries, adapt them to specific situations. Sometimes there are models that do not always match our needs. And we also try to build awareness in this respect.

My presentation will not be technical. I will talk about some of our goals and some of our work as an international organization for education, awareness-building and the attempt to establish quality control standards.

I have a brief introduction. There was a gentleman by the name of Nasrudin. He was accused along with other people of taking money from the public treasury. There were some doubts as to who had withdrawn the money, whether it had been Nasrudin or the other defendant. Nasrudin was very clever and he said to his lawyer, "Why don't we send the judge a very expensive gift so we can help him along in the process?" "Are you crazy?" said the lawyer. "He's a very honest judge and he would decide against you." The following day the judge refused to listen to arguments and sentenced the other defendant. When they left the court, Nasrudin's lawyer said to him, "What a surprise. I could have sworn we would lose this case and that you, Nasrudin, would be sentenced. It was very fortunate that you did not send that judge the expensive gift." Nasrudin replied, "No, I did not send him the gift, but I could not resist sending it to him on behalf of the other defendant."

So what's the lesson? Even honesty, if it is taken advantage of, can complicate issues. So we need to be very careful.

As a profession we have gone from a position where we were part of the defense, so to speak, to the offense. At the very beginning of the organization of our profession, we had some problems. We had some bankruptcies of private companies, and the auditors had said that these were healthy,

sound companies and in a very short time they went bankrupt. And people were asking themselves: where were the auditors? This is a question that has been coming up again and again. So we came up with regulations and standards in our profession.

We now do a physical inventory, and this was not a standard procedure in the 1930s. But by 1939, we were doing this regularly and other things that we now take for granted, like looking at accounts pending, for example. That something as basic as this was not established as a standard to be followed is hard to believe.

So the profession matured, we could say. One thing that caused great concern all around the world and the United States and in other countries within this profession was the EMS Government Executive's case, headquartered in Fort Lauderdale. The markets were revolutionized because this was a figure of more than \$3 billion. There was a gentleman involved, and his signature was supported by one of the most prestigious firms in our profession. There was a trial and this person who was in charge of this auditing company admitted that he had worked for a commission, that he had received money. It was not simply a mistake or a poor decision. He had actually received money.

That was a case where it was proven that the accountants had not come to the right conclusions due to negligence and ignorance. But in another case which took place about 15 years ago, the parameters of the profession had changed somewhat, the way we look at illegal acts, errors and omissions changed. Omissions from the accountants. What I mean is that if before we were willing to say things even though we had certain doubts, now we have become skeptics. We are saying that these people are not saints. They are human beings with strengths and weaknesses and very often they take advantage of certain weaknesses in the management of the company to misuse certain funds. So our whole attitude changed as a profession. We went from a more defensive stance to a more offensive stance.

Why do I say this? In the first auditing report of the Society of Public Accountants, we said that public accountants had no obligation to detect corrupt acts. It sounds very clear. Then on another statement made later about responsibilities of the auditor, our position changed. But it was still a defensive stance. According to the statement, the auditor did not necessarily have the obligation to detect acts of corruption due to the fact that they had a limited scope of activities that they could carry out. It was a selective audit, only for certain transactions. And for that reason the auditor did not necessarily or was not necessarily expected to detect all acts of corruption—still a defensive stance.

It was in 1985 that we moved toward a more offensive position. Instead of defending ourselves as a profession we began to talk about protecting public interest. So it was a radical paradigm shift. So it was in Resolution #53 on Errors and Irregularities. It was supplemented later on through Declaration #82, which was even more specific. It was clearly established that public accountants do have a responsibility to detect errors and irregularities, fraud, according to Declaration #82, as long as these have a significant impact on the company's figures.

If it doesn't impact the financial statements and these operations are not registered, obviously the accountant can wash his hands and do as we generally do. One Peruvian accounting friend

says, “Never has an accountant been condemned for his inefficiency or lack of objectivity. They always win in any legal battles because it is a profession that has always been on the defensive.” And then he points out, “We win the legal action, but we lose in front of public opinion and the civil society.” He was really right. When we only protect the interests of one profession, we become very egocentric. We have tried as the Interamerican Accounting Association to break that defensiveness and take the profession towards the offensive—toward trying to protect the public interest. We are not instruments of corruption although in many ways we have functioned as part of the machinery. We have the strength to denounce and that is a practice that needs to be condemned by the tribunals. The example of the United States is very interesting. Any condemnation of a public accountant implies an automatic expulsion of his profession. And yet our countries are very timid to actually impose our ethic codes and to judge others. This is why the public interest is broken when they come up with lists of companies by accountants.

You know that the World Bank has a list of the companies that can audit their projects. The IDB has another list. The Finance Ministry has another list. The General Accounting Office of the country has another list. And the central bank has another list. And even the Institute of Accountants also has another list. While these lists don’t always coincide with the international aspects, in the international scandals about which I have spoken the biggest accounting firms of the world were implicated. For instance, in the case of the Bank of England, one of the biggest accounting firms of the world was involved because the negotiation of financing instruments had not even been regulated. It is what is called light economy. They said the money is there because the money is circulating. All this to preserve their image. I believe that a profession does not deserve an image without the practice, without the facts. It is to be or not to be.

The Interamerican Accounting Association has worked firmly to establish a better environment but the controls are not sufficient. We believe more than anybody else that the controls should be systematic. If we didn’t believe, who would? But precisely because we know the animal from the inside out is why we can actually present the argument. As Declaration #55 of AICPA says, in terms of regulations, management is over the controllers. The pressure comes from the bottom. And where there is corruption, there is little that we can do to avoid it. We are working to create an environment where those lists would represent the quality control of the companies based on their standards, based on their rules. They should be even more transparent, more defined, so the public can actually trust them.

In a recent case of the BCCI one of the big companies was actually paid \$4.5 million just for a compliance audit. And for three years the opinion that was issued was clean, when practically everything was not clean. And then the question is always asked, “Where in the hell were the auditors?”

Inspired by Facundo Cabral and some of his messages, I dared myself to create the following blend. It is not as scientific as the Corruption Perception Index, but at least will define the types of corrupts as it would ideally be done by Max Weber. These are classifications that do not exist, but may materialize.

Warning: These classifications are applicable to the public corrupt as well as the private.

Typology of Corruption:

The Libidinous: Passionate about love and money. His principal enemies are those infamous lovers that denounce him...

The Charismatic: With so much charm and confidence he is able to seduce even the most honest ones (e.g., Alan Garcia, Carlos Andres Perez and Collor de Mello).

The Fluorescent: From the distance everyone can tell that there is a corrupt coming.

The Digital: The one that uses information technology and his technocratic airs help to disguise his real interest (in contrast to the Digital Pirate that does it for fun).

The Mystical: Goes to church, prays and partakes in bread and wine...but is afraid to confess. Made fortune dishonestly and now tries to project himself as a role model.

The Jurassic: Comes from the dinosaur dynasty—son and grandson of corrupts. This specie is almost extinct since they evolved into nobles, eminent businessmen and some are politicians.

The Reference: When someone says, “That one, the one that is seated next to the corrupt.”

The Cardiac: The one that suffers when he thinks of the missed opportunities that would have made him rich. It is the same individual that when accused of corruption has to be admitted to a clinic or hospital because his heart cannot cope with the “humiliation.”

The Selective: Only takes big and sure bites.

The Filter: Remains the most insignificant and vulgar—steals from petty cash and subtracts the residual value from what is left over.

The Law Obedient: Steals with the support of the law and enjoys the immunity given by the justice system.

The Gentleman: Feels offended when he is accused of corruption—swears that he did not do it and dares to fight his accusers.

The Rebel: Steals from the rich to give to the poor, but cannot figure out how to distribute the wealth—the antithesis of Robin Hood.

Thank you.

**Carlos Morelli, Governance and Transparency International Consultant
and Senior Advisor, AAA Project**

Now we change continents and theme. Now the subject is the expression of the private sector. We have invited Kwasi Abeasi who is from Ghana. He is the Director-General of the Private Enterprise Foundation, and he has participated very actively in many directorships relating to ethics and transparency and the fight against corruption. He is Chairman of the Center for Democracy and Development, and holds a degree in Mechanical Engineering, and studied at Harvard University and Singapore University.

**Kwasi Abeasi, Director General, Private Enterprise Foundation and
Assistant Governor, Rotary Club International District 9100 Responsible for Ghana**

Thank you Mr. Chairman. Good morning everybody. For those of you who have played cricket before, when you are the last batsman it places a lot of pressure on you to make sure that you don't lose your wicket. So I'll try and be short then, to give you what I have for you without losing my wicket.

I consider it a great honor and a privilege to be given the opportunity to make a presentation on what efforts some of us are making to ensure success in our country's fight against corruption, a problem which is so devastating and universal but yet until recently people would not want to talk about. Yesterday John Zemko characterized corruption like the weather. Everybody talks about it but nobody does anything about it.

For us in Africa, we know that corruption is something that everybody knows is there, but nobody wants to talk about it.

I plan to give a short presentation on corruption in Ghana, not because I'm an expert on corruption, nor because I am the appropriate person to speak on Ghana, but in the past few years I have been considerably and sufficiently involved in the fight against corruption in Ghana as a private sector representative. My position with the Foundation as well as my Rotary involvement gives me, I believe, the right to talk about corruption in Ghana.

I am also hoping that my participation will help remove the myth that some people have about corruption in Africa. The impression that the whole of Africa is one vast block of corruption and that nothing is being done about it may also be corrected.

We in Africa are very concerned about corruption. And if you want to know why, look at it this way. If you have \$1,000 and you lose 25 cents out of it, the tendency is that you might not feel it or do something about it. But when you have \$100 and you lose \$10, you are definitely going to feel the pinch, not only that, you're going to be deprived of resources that you need to do other things. We in Africa need money for education, health and to pay the debts that some of you wrongly advised us to incur. And for which indeed some of you should be made to pay. And at the appropriate time I will explain this further.

During the last two days you have heard from various speakers that there is widespread corruption, that corruption is a universal problem and that it should be tackled with urgency. The President of the World Bank, Mr. Wolfensohn, whom we heard from yesterday, is on record since

1998 or thereabouts to be leading a campaign against corruption, starting from within his own set-up. Indeed in March 1999 two conferences were organized here in Washington—one for the Security Agencies and Anti-Corruption Institutions (which was attended by a sizeable delegation from Ghana) and one for the private sector in which I had the privilege to participate on behalf of Ghana. The 9th International Anti-Corruption Conference held in Durban also was attended by a large contingent from Ghana. Mr. Mckee defines corruption in the Transparency International Source Book simply as “the misuse of public power for private profit.” But I prefer to use the definition we arrived at at the Laurentian Seminar in 1998, because it admits that corruption is not new. Nor is it confined to any particular part of the world. On the contrary, it states, “Corruption is a global phenomenon although its severity varies from country to country. It is also a fact that corruption usually occurs in secret and not openly, and that both parties involved in the illegal or immoral action benefits from it. And that is why it is difficult for a third party to find out or detect it.”

The cost of corruption and its effect on development, as you know, is enormous. And for us in Africa, it is very enormous. In essence, corruption is decidedly dysfunctional to the maintenance of a just social order. It encourages mediocrity and undermines the merit system of rewards, appointments and entitlements. In the political realm, it undermines democracy and good governance by subverting the formal processes.

Corruption, you’ve been told, in the judiciary suspends the rule of law; and corruption in public administration results in the unequal provision of services. In Africa, corruption increases the cost of business. It also distorts the playing field shielding firms with connections from competition and thereby sustaining inefficient firms.

Indeed, the effect of corruption on development is agreed to be so immense that all available resources and efforts should be marshaled to fight it.

In the act of corruption, I believe that there are two parties always—the corruptor and the corrupted. For a very long time, and indeed as has been acknowledged by Transparency International, the fight has been waged against the public sector. The private sector, at least in my country, has sat looking at and accusing the public sector. So we decided to change the strategy and make the public sector a little comfortable so that they will come out and help us wage this war. So we admit that corruption does not occur only in the public sector, but that the corruptor very often is the private sector. If the solution is to be found, then we must be seen to be part of the solution.

Ghana, like several other countries, has experienced several military interventions. Indeed we are experienced on that. The justification for virtually every successful or attempted military intervention in Ghanaian politics has included a tirade of criticism against the ousted regime for fostering corruption and being the very embodiment of corruption. This is usually followed by a promise to stamp out this evil and to introduce probity, accountability and transparency into our national life. However, the situation reverts to the previous status quo.

Previous national efforts to deal with the problem of corruption therefore has centered around commissions of enquiry, special tribunals, religious crusades, criminal prosecution and media

exposure. The measures advocated and implemented by the military were ineffective because they were narrowly construed and lacked a sound appreciation of the problem. In short, “We tackled the stem and branches of the problem and left the roots deeply entrenched in the well-nourished soil of bureaucratic incompetence and arrogance; in pockets of influence amidst a sea of large-scale poverty; in governmental insensitivity and avarice,” writes a foremost commentator in Ghana, Dr. Ken Attafuah.

The state of corruption in Ghana has become a source of worry. It is so great a concern that even the president has had to talk about it on several occasions, twice during his address to Parliament and even at the recent UN Millennium Summit. The perception that corruption is rife in Ghanaian society is further collaborated by empirical studies conducted in 1998 by the Centre for Democracy and Development, an independent “think tank” for which I am the Chairman of the Board of Governors. The survey on public perceptions of corruption in the delivery of health care and education services in Ghana clearly indicated that the public finds the delivery of these critical services completely corruption infested. Details of this study are available. The good news however is that more people are now bold enough to talk and do something about reducing corruption in the Ghanaian society.

Let me quickly tell you about current efforts that we are making to fight corruption in Ghana, and then I will end by making some suggestions. As I said, in recent times, a lot of concern has been shown about the state of corruption. Expressions of concern have come from the President himself. In October 1998, the Commission on Human Rights and Administrative Justice in conjunction with a number of key stakeholders including the Private Enterprise Foundation staged a National Integrity Workshop. The purpose was to generate widespread public awareness of the social and economic costs of corruption and to foster a positive and non-partisan approach towards combating corruption. The private sector for the first time formally joined the fight. My involvement was encouraged by the finding by Transparency International that where genuine attempts to combat corruption have been unsuccessful, there has generally been one missing ingredient—the involvement of civil society and the private sector. In our current efforts to combat corruption in Ghana therefore the private sector, represented by my organization and the civil society, which has just now been organized, have taken a very active part in this fight. Other bodies, like the Centre for Democracy and Development and the Serious Fraud Office, a constitutionally created institution set up on 1997, have also been key institutions for the fight against corruption.

Of the strategies we adopted in fighting corruption the first was to identify that real governmental readiness, commitment and leadership to grapple with this problem was a sine qua non for success in this fight. Government must lead by example and commit adequate resources to the fight. This has been acknowledged by government. The political will to go the full distance in punishing high government officials who are found guilty of corrupt practices, however, needs to be demonstrated.

The Commission for Human Rights and Administration Justice (CHRAJ), one of the key institutions for attacking corruption in Ghana, was charged to investigate all instances of alleged or suspected corruption and to take appropriate steps including a report to the Attorney General and the Auditor General on the results of the investigations. In 1995, by virtue of these provisions,

CHRAJ was able to investigate media allegations of corruption, illegal acquisition of wealth and abuse of office by some government ministers. Despite the far reaching impact and the results, we realized that the limits to the power of CHRAJ made it impossible for it to prosecute because it lacked the powers of seizure and prosecution. We are therefore taking the necessary steps to do the necessary amendment and give it this power.

The Serious Fraud Office (SFO), another constitutionally created institution which came into existence in 1997 amidst controversy that it was an organ which government intended to use against opposition members, is another key institution that is playing an effective role since its inception.

The experiences from other countries that have attained impressive successes in the struggle against corruption indicate that a fair and living wage policy is crucial to the successful implementation of any anti-corruption program. Attention has therefore been drawn to the low wages prevailing in the country and the government has been urged to provide the Ghanaian work force with a living wage that will serve to insulate some of the more vulnerable members of the public service.

We have also instituted what we call the Civil Service Performance Improvement Program which is meant to reform the civil service and the public service into a more performance-oriented and better-motivated organization. Progress in this direction has been satisfactory, however the question of adequate remuneration has not yet been solved.

Recognizing the fact that for corruption to occur there are always two parties—the corruptor or the influencing source, and the corrupting influence, we decided to try and remove those factors that tend to make the private sector want to bribe the public sector. We also decided to do something about what it is that made the public sector easily corrupted. The local private sector and the foreign private sector were supposed to be involved in this. For even though the foreign private sector is usually fairly well governed by a code of ethics and good business practices and regulations, there still sometimes are a few whose operations are affected by corruption. Forget about all that we see about corporate responsibility. Some of them are involved in this illegal act.

I had the privilege of testifying at the Senate Subcommittee on International Regulations on Wednesday, and one of the worries of one of the Senators was whether we were not aware that America is experiencing corruption. I said, “This is not new.” We knew it. Indeed on my way to the last corruption conference I stopped in New York before coming to Washington. And this man asked me, after looking at my passport, “What are you here for this time?” because he realized I had been here a few more times. I said, “Well, I’m going to Washington for a corruption conference.” And he said, “That’s a good place to go, you know, all the big guys are there.” I wasn’t sure whether he meant all the big corrupt guys are there, or all the big guys fighting corruption are there, or both. I’m not sure what he meant.

So we know that corruption occurs in the U.S. as well. But what is happening is that this time the U.S. is not adopting a holier-than-thou attitude. They are saying we know we have it but we are encouraging you to do something about yours, which is very encouraging.

Indeed the campaign by the World Bank against corruption drew attention to the increasing level of corruption in international contract administration. In any case, the attitude of the foreign private sector will usually be influenced by the perceived behavior of the local or indigenous private sector of the particular country.

One of the major causes of grand corruption is that in most developing countries it is difficult for anyone to win a major government or parastatal contract without paying a large bribe, usually 10 to 15 percent. And this of course is a big problem. So we need to work more on grant corruption before we start talking about petty corruption.

So what is the way forward? A simple approach is to tackle the thing on two fronts. For the private sector we believe that we need to work on areas that will create less incentive for the private sector to give kick backs. For the public sector we have started with an attempt at organizational and attitudinal change within the civil and public service that can help minimize the opportunities for corrupt practices. We have also introduced for the financial services management, which I'm sure is of interest to those of you here, what is known as the PUFMARP, the Public Financial Management Reform Program, to try and improve the honesty and the system of financial management. We hope this will improve the work. On efforts to remove the incentive for private sector to want to corrupt the public officials, we have started through PEF to advocate for a national crusade to reward performance.

We are insisting that productivity should be introduced into our remuneration and rewards system, and we are also in the process of developing a code of conduct and ethics for the private sector along the lines of the Commonwealth Association for Corporate Governance. And we may need some help there.

We have also, with the help of the World Bank, formed an anti-corruption coalition of stakeholders in the fight against corruption known as the Ghana Anti-Corruption Coalition. Indeed, this group has put together an action plan which was to be discussed with my President yesterday, and whether he agrees to it or not, we intend to go ahead and publish it and work with it. Fortunately, as I said, he indicates that he is worried about the problem.

As we agreed at the 9th International Anti-Corruption Conference in Durban, we need to work toward the adoption of a zero-tolerance level toward corruption in our country. We will definitely need your encouragement.

There are other organizations, like the Rotary, which are also working to fight this war. They are doing so by changing the attitudes of the business and professional men and women who are Rotarians. Rotarians are guided by a code of conduct which insists on being fair to all concerned and honest in their dealings with others.

Finally, let me end by making some suggestions. At a hearing on the Hill, the topic was "Fighting Corruption, an Unfinished Agenda." I thought it was appropriate because it is an unfinished agenda. Now, if you have a meeting where the agenda is not finished, you don't close the meeting. You carry on with the items on the agenda. It seems to me that some of us are closing this meeting because we are shifting resources from the fight against corruption into other

areas. I think we should continue to provide resources and time to this fight. We must find a way also of rewarding those countries that make a determined effort to fight corruption.

I think that the Transparency International Corruption Perception Index is not being utilized properly. To be at the bottom of the scale is of no importance except for the fact that we should find out why we are even on the list. Some countries are not on the list, not because they are not corrupt, but because they do not want to open up to scrutiny. So we should at least make sure that everybody is encouraged to play in the league. We should also use it in such a way as to encourage countries to move up the ladder. I think that if a country moves even one step, it should be encouraged because it takes a lot of effort.

Let us also create more success stories like Botswana in Africa, to mention the most recent effort. People think that South Africa is near Ghana. Africa is a big continent. It is bigger than South America. It is as big as the United States of America. The fact that we've done a conference on corruption in South Africa does not mean that we have covered the entire African agenda. Let us take the road show to all the various parts of Africa—to West Africa, to North Africa, to Central Africa. You have these meetings here where you bring only a few of us. That is not the way to fight it. Let us take you there so that you see the effect of corruption, so that you see how we are trying to deal with the problem. That way you'll understand what we are up against and you might be able to make better suggestions for us.

The private sector is key to this fight. It must be assisted especially in the transition economies. In your countries, the private sector is well developed and strong. In Africa, and in emerging economies, the private sector needs to be built up, to be given muscles so that it can compel government to do what it is supposed to do. Very often institutions like the World Bank, IMF, tell us that their mandates do not allow them to deal directly with the private sector. And I ask, "Who wrote the mandate?" Are they not human made? Can't we change them when the circumstances change?" I urge you to change your mandates so that you can help the private sector put more pressure on governments to deal with this terrible disease.

Finally, let us make it unrewarding to engage in grand corruption by returning the loot to where it was stolen. Mobutu, Habyarimana, we could easily have saved their countries. And we all looked on. They kept monies in your bank. And yet I have tried to put \$5,000 in my account in America and it is almost impossible. How did they do it? You knew it. Help us stop this because it is killing us.

Finally, I urge you to take this road show to the doorstep of where it is most needed. Thank you very much.

**Carlos Morelli, Governance and Transparency International Consultant
and Senior Advisor, AAA Project**

Thank you Kwasi. He was talking about a meeting that took place on Wednesday, thanks to an invitation. Some speakers from this conference were there. Kwasi Abeasi and Roberto de Michele gave their presentations to the U.S. Senate at the International Relations Committee. And

they talked about corruption. If you like figures, one of the Congressmen said to us that in the last four years they had received about 350 claims from U.S. companies saying that they had not been treated fairly in procurement processes in the world. And they believe that U.S. companies have lost \$26 billion in contracts that had been awarded through corrupt practices. They took these figures from a new act, a U.S. law against corruption. The text is available if you want it.+

I have asked our speakers to be brief because this session has been limited in terms of time, but if you have some questions I ask you to ask them now and to be as brief as possible, please.

ENRIQUE EDGAR MONTENEGRO DIVIAZO (Panama): Good morning. I am the Secretary General of the National Front Against Corruption in Panama—a private sector agency. This question is specifically for Dr. Ospina from Columbia. Regarding transparency, are there any regulations within Transparency International statutes which allow or prohibit public officials from participating or being a director in Transparency? In Panama, the controller, the attorney general and other officials are part of Transparency International. And we believe that this is like giving cheese to a mouse and asking him to keep it safe. Transparency International is very passive in Panama, I would say, because of this situation where we have public officials on their Board of Directors. So if you could give me an answer, I would appreciate it very much.

ROSA INEZ OSPINA (Colombia): I think it would be a two-part answer. First of all, the Transparency International organization is clear on the fact that each country can organize its own chapter or organization as they see fit. These are rules that are imposed in each country separately, so they decide whether officials can be on the board or not, whether businessmen can be in it or not. In some countries this is allowed and in other countries it is not. There are chapters where anybody who has any links to a church cannot be accepted either. So as a world organization, we respect each country's autonomy to have their own organization and build their own associations as they see fit.

In the second place, we also need to understand that it is difficult sometimes to know who the people involved are when situations change in a country. Today we can have a group that is not a part of the administration and then there are changes and some of these people can turn up again. They were not within the government before, within the administration, but now they are promising democratic changes and they are elected into the government. They come from civil society or business or from Transparency International. So this is the second part of my response. We need to understand this dynamic that takes place and understand the situation in each country because these political forces can shift positions.

LISSETTE DUMIT (Dominican Republic): You have been talking about the private sector and you have been referring to multinational companies. What happens when we are talking about family businesses? For example, sometimes several family-owned businesses dominate the market and sometimes it is more favorable for them to be a system of chaos. Should there be a way to punish these people or to force them to sign integrity pacts and fight against corruption? What solution would you propose?

VICTOR ABREU (Dominican Republic): I would make a comment from my point of view. In emerging markets this is very difficult because everybody knows each other. A businessperson who owns or runs the company has contacts with others. They could be neighbors, relatives or godparents to each other's children. It becomes much more difficult because there is a factor of friendship that takes precedence; business takes on a secondary role. What we need is a serious fight against corruption. There is a pattern of establishing partnerships and no sector should be neglected. It is difficult to break that family-run or family-oriented scheme, but it can be done. Many families in fact have members that are in different political parties and are divided. Many businessmen have relatives who are distanced and they are also distanced due to principles. Principles can unite or separate people and they can establish the rules of the game within that kind of a context.

ROSA INEZ OSPINA (Columbia): I would just like to say that in the case of integrity pacts, we ask those who are interested in participating in the bidding process whether they are small or bigger businesses. We don't only work with multinationals. There are also small business bidders and they have to follow the same rules as the others. For larger contracts there are a lot of multinationals that are competing but a lot of national companies as well, and they face the same problems as the multinationals.

JAVIER CABREJA (Dominican Republic): This question is for Rosa Inez Ospina. Is there a specific core subject for civil society in the fight against corruption—promoting educational campaigns or activities related to the promotion of new legislation or efforts in reporting corruption? Is there any specific role for civil society? Also, we have talked about the fact that it is vital for the fight against corruption to have as a foundation a coalition, partnerships, civil society, private sector and state. It is very easy to say, however it is easier said than done. It is very difficult to create this type of alliance and coalition. My question is, in your experience, what obstacles have you come up against and how have you been able to overcome these obstacles in relation with the state?

ROSA INEZ OSPINA (Columbia): Okay, I will answer the two questions. In the first place I think we need to understand that there are many possibilities, scenarios, priorities for civil society to make contributions in the fight against corruption. We have to see that there are different organizations with different interests. So from that perspective they will contribute to the struggle. We can't just say that it should only be education or reporting or monitoring that civil society should be involved in, or even public awareness. There is also a debate going on regarding the fact that civil society also includes the private sector. In transparency we have been very practical about this. We have said that when we talk about the private sector we are talking about business people who play a specific role in business dealings with the state and we call the rest of the citizenry the civil society. But I think that there are many possibilities for participation.

Now, regarding the difficulty in forming partnerships, I think that the main thing is to respect each group in its autonomy, its interests, its specific abilities so that we can come together with different projects based on our differences. We need to understand the identity of each one of these, otherwise the alliance can break. In our experience we need to allow each group to be weighted in the way that they need, depending on the sector. And it also depends a lot on who is in the government. At this time we have a very clear partnership with public administration and with

the private sector. However, this is not something that we can count on all the time. We cannot always have a good relationship with the government; it depends on who is in power.

NELSON REYES RIOS (Peru): A very specific question for Victor Abreu. My position is Director of the Internal Control Office in the judicial system. I think my first question was answered. It was about citizens' involvement. But now I would like to ask Victor, or tell him, that professionals don't get a specific following or monitoring in Peru. I don't want to say anything about accountants, for example, but accountants, engineers, attorneys are organized as experts that can serve the government. And my question is, is that the system you have? In Peru we have been able to intervene in some situations. We have been able to audit an accountant or some other expert who is receiving money from the government and we have been able to do this thanks to citizen involvement. So we have been able to support other sectors in this struggle which is for everyone. Citizens' involvement is permanent. There was a poll that was carried out and 58 percent believe that this is important.

VICTOR ABREU (Dominican Republic): Just a brief comment. There is a professional figure that exists in Peru, perhaps not in others. It is a judicial or a legal expert. There can be a judge who is not an accountant, for example. He may have a difficult time understanding some very complex documents that he might receive. So for that purpose we have our controller Ileana Colon and another person from Puerto Rico who is also here. They have a corrective action plan which involves each corruption case; each case of corruption is prosecuted. The person is prosecuted to the fullest extent of the law. We do not put things in drawers or file them away. Until the case is truly closed, we continue to work on it. So I think that that partnership among judges, accountants and other experts is very important, because there is a certain leniency sometimes in the judicial systems. There are some corrupt people. Everybody knows they are corrupt. We do not want them to remain unpunished.

CARLOS MORELLI (Peru): Thank you for all your enthusiasm and your questions. Our speeches have generated a lot of topics for discussion, but unfortunately we have to continue with our very full agenda for this morning. We would like to thank the speakers who have been with us here today. It has been an honor and a privilege for me to be here today.

**Special Participatory Working Session: Conference Participants and
World Bank Institute in Interactive Session—A Collective Action
Approach to Program and Strategy Formulation to Combat Corruption**
Daniel Kaufmann, Senior Manager, Governance, Regulation and Finance Group
World Bank Institute
Maria Gonzalez de Asis, World Bank Institute

**Daniel Kaufmann, Senior Manager, Governance, Regulation and Finance Group
World Bank Institute**

We already know each other, so allow me to come down from the podium because this is a different type of session. It is going to be very participatory—very interactive. For the first ten minutes the interaction will be of a different kind. We're going to present to you the results of the survey taken on Thursday where we took very, very seriously your views on the challenges that we need to address.

One of the things we found out in the survey is that about half of the participants here are from Latin America and the other half are from other parts of the world. So, I will continue to speak in English, but what you will see on the screen is in Spanish. You will be aided by the translation as well. Also, at each table, there is an analysis of the data printed both in Spanish and in English. Please bear with us. This was done on very, very short notice.

What is your view? What did you tell us on Thursday? Over 200 people responded to the survey. Over half did it with an interactive keypad. About 70 filled out the paper forms. In addition, there was a Webcasting using the latest technology and a number of people participated in the survey through the Internet (about 50 or so). We looked last night at the results from the Internet survey. Those responses are very consistent with the results that we are going to show you now. However, we're also going to see very interesting differences between different groups.

First, what are the characteristics of all the participants? Over two-thirds come from government agencies, about half from Latin America and the other half from other parts of the world, particularly from Asia, from Africa, and so on. In terms of the type of jobs that you have, half, again, are Inspectors General or equivalent auditors and the rest represent a good distribution of many other types of jobs.

What are the most corrupt institutions? What is your opinion about your own country? Your leadership? The executive comes out at the top and these are singled out. That's a very serious problem. The judiciary is a close second. Then comes the police, the budgetary institutions, and

the bureaucracy. There were some complaints about international organizations and the bilateral donors.

If we look at the judiciary, we see that there is a problem. What is the biggest obstacle for transparency and freedom from corruption in the judiciary? About half of you said that political pressure is the key obstacle—in other words, the lack of independence of the judiciary. It is singled out as very, very important. But interestingly, almost one-third said that economic vested interests are the key obstacle.

Also very interesting, you did not rate low salaries as a major reason for corruption. That is food for thought. Another area not rated highly is the problem of training or job insecurity. Basically the problem of political and economic dependence and influence was identified as absolutely key.

What are the best-equipped agencies, institutions, agencies or groups to work on a national anti-corruption program? What did you say to that? Some very interesting results came out. About half of you—and that's quite high considering the group here—said that it has to be a very broad coalition. You have representatives here from many broad coalitions, and the exercise we're going to have in a few minutes is consistent with that half of the responses. Then there is civil society and NGOs. Even though over two-thirds of you come from the executive branches, you send the message that it is extremely important to have a very broad coalition rather than only one agency, although 18 percent said that an anti-corruption agency could basically be in charge of putting the program together. Very few of you thought that it should be only the NGO. And we heard Rosa Inez Ospina put it very well in terms of the very broad coalition.

Let's move on to the next one—the question of the expense of corruption in procurement. The first set of four is: "What percentage of public procurement in your country or region of expertise is tainted by corruption?" Apparently it depends on your vantagepoint. You had quite different responses. You believe that one-third of the projects in public procurement are tainted by corruption. If you are a judge or a lawyer, you rate it much higher than if you are an auditor, although the auditors say almost 30 percent.

There is a lot of uniformity or agreement on the percentage of bribes—basically about 15 percent. So whenever a project is tainted by corruption, on average, what is the expected award on that public procurement project? On average it came out as 15 percent. This is very important. It suggests that it is a serious problem that needs to be addressed. That's why we are all here and why this exercise is important.

Let's move now to what you said about the consequences of corruption. "What's the most costly part, the most important consequence of corruption?" It is interesting that on average very close to each other you rated at the top "less economic growth and investment for the country," and similarly you rated very high "increased poverty impact." However, depending on which group you come from, you had slightly different ratings. Those that come from government focused much more on the impact on growth and investment. Those that come from outside government focused on poverty impacts and the lack of access by the population and by the poor to public

services. That may be some food for thought in terms of the mission of everyone in their jobs and it may be part of a discussion when the group meets.

In each country and in each region, challenges and priorities will vary. This is very important when you get together in terms of the work that will be done. One has to say: The main challenges in my region and in my country may not be the same as in others. The same issue of diversity comes out again when we determine the most important obstacle for transparency or for controlling corruption in the judiciary. About half of you responded that you have not participated in anti-corruption programs and about half responded that you have. Those that have not said that political pressure is the most important obstacle—the issue of dependency in the political sense. Those of you who have been involved in an anti-corruption program, and may have information that others do not have, basically put the issue of economic pressure at the top. Economic pressure relates to the role of some private firms—the issue of capture by some firm. So what this illustrates is this is not just an issue of political dependency. There are economic vested interests from other actors that are also crucial, and it will vary from your perspective. So when you get together and we are working at these tables, bear in mind that you may have different opinions depending on your background and your experience.

In sub-Saharan Africa, by far the most important factor was considered the political pressure—the lack of independence of the judiciary. But when we get to Asia, the economic factors and the private interests play much larger roles. So, once again, your background and where you work influenced the answers you provided. Although both political and economic interests play the most important role, the importance of each one varies.

Similarly, if we look at the question of who is best equipped to formulate, design and work on the problem of anti-corruption, that answer also varies depending on where you come from and the country on which you focus. On average, as we said before, the broad coalition—civil society, private sector, the executive and the legislative—dominates. However, it is interesting to see that representatives from Asia, for instance, are a bit more reticent about this broad coalition and think that the anti-corruption agencies like in Hong Kong have a much better chance than, say, Africa, where people don't think much about these anti-corruption agencies. And that may again relate to the experience that you have had for many, many years and having observed recent experiences and observations of the individual country.

I'll summarize quickly and then Maria Gonzales de Asis from our group will provide the rules of the game. First conclusion, first implication, is that there is broad agreement among the whole group of the existence of a very important challenge of controlling corruption. And there is an agreement that something needs to be done and something can be done about this.

But at the same time there are important differences of opinion. One, the magnitude and nature of the challenge of controlling corruption varies from country to country and from region to region. It even varies based on the job of the survey respondee. Second, the institution which is the most vulnerable also varies from country to country and from region to region. This determines who should take the lead in working against corruption, although most people did choose a broad coalition. Rosa Inez Ospina, from Transparency International Colombia, and others discussed how crucial it is to give space to every stakeholder, to every group that is involved. We

all come with different backgrounds and expertise. Ultimately, for something to really work, consensus is crucial, where everybody has to give space to everybody else. It may not be exactly the program that you yourself had in mind, but if the group all agrees, there is a much better chance of something happening, not only today, here, but when going back to the countries. So please provide each other space. Room for a good constructive debate and compromise is extremely important.

Let's move now to the next part, the rules of the game.

Maria Gonzalez de Asis, World Bank Institute

Thank you all for being here today, for participating in this joint exercise. This is something we do at the World Bank Institute along with other organizations like Transparency International. USAID is here today with us as well, and we have some excellent facilitators here today, experts in the anti-corruption field such as Robert Klitgaard, Roberto de Michele, Carlos Morelli, Jim Wesberry, Daniel Kaufmann and others. We would also like to thank Transport of the Americas for their support of this project.

Daniel Kaufmann asked us to determine who would be the best group to carry out anti-corruption exercises. Most of us said it was associations comprised of civil societies, the legislative power and the executive power. This was the best group for a national program against corruption. Today we will be working together with experts from the civil society and from the government. This is something we've done in many countries in this fight against corruption.

The World Bank and other agencies respond to the needs of countries and requests from countries that are interested in carrying out some of these programs for structural reforms and anti-corruption. When we receive these requests we conduct the diagnostic exams that Daniel Kaufmann was telling us about to determine the specific problems. When we have the results from these surveys we establish a coalition among the government, the civil society and other sectors depending on the results we get. So these are the steps—first a political will, then a diagnosis, then the collective or plan of action. The collective action will also allow us to monitor some of the reforms that are being implemented by the government, the party that needs to do this, and they will in turn be evaluated by civil society. This is why this coalition between the civil society and government is important. This also includes NGOs, the private sector, etc.

Today we will participate in an exercise that is an example of what we do in other countries. We have been doing this for seven countries with the anti-corruption course that we offer in Africa. Some of them developed a plan of action. We also have some of these representatives here with us today. This is a simulation, of course, a mock situation.

I want to give you an example of what we are doing in Bolivia and Paraguay. Very briefly, we followed the steps that I mentioned before. We began with political will and a request from a government to have its participatory program. The diagnostic studies were carried out. When donor agencies thought that these countries had a plan of action and had had the workshops, they

started to give their support to those countries where they could implement changes in bidding processes, in the judicial system, etc., and then these changes would be evaluated by civil society.

In Bolivia the steering committee was not off to a very good start because it was made up just of members of the government. The anti-corruption plan technically was perfect, however it lacked credibility from civil society and from other sectors. And this made it impossible for the implementation of the reforms to be carried out the way it should have, but we are working with some international organizations to solve that problem.

In Paraguay we are working on an anti-corruption program which, from the start, has been supported by their civil society and their government. It is an anti-corruption plan that is based on the diagnosis that we carried out. This is being done in Latin America and in other countries in Africa, Asia and in other regions.

Let's go on to the rules for today's exercise. I hope that this exercise will prove useful to all of you. The goal is to understand the role that each member should take as a part of civil society, as an officer in the government or as part of the private sector. I hope this experience will demonstrate to you the efficiency of combining political will, diagnostic studies and some capabilities in order to implement reforms. I hope it will demonstrate the need for firm alliance with civil society to promote equality and transparency.

In this brief exercise you will have a chance to discuss with members of your group specific problems and their solutions specific to your countries or regions. Some of you may not have available some of the diagnostic studies for your countries based on what Daniel Kaufmann was telling us. But you can start working on a plan of action that can later become the actual plan of action for your country, bilateral region or organization.

During the time we will be working here we need to be open to constructive criticism. Sometimes in order to make progress we need to compromise. We need to prioritize and get results through consensus. And we need to prioritize what areas are more important to us as a country or a region and not just for ourselves as individuals. We also need to explore how we can contribute individually to an anti-corruption program in our countries.

There will be a facilitator for each table. Each group, as I have said, is divided into countries, regions or international organizations. For example, if there is a group that is made up of a specific region, then we will work on problems in such a way that we attempt to reach a consensus regarding which problems should be a priority. If it is a group made up of a country, we will focus on that country's problems. If it is a bilateral or international organization, then you should focus on problems that you have in those organizations and how they can be solved in a way that will make it possible to help those countries that need support in their fight against corruption.

During the session we will select a representative for each group, and that person will present the results, the plan of action, to the rest of the audience once our group discussions are over. There are 13 groups and the representative of each group will have three minutes. I ask you to please limit yourselves to three minutes to explain to the rest of the attendees the country, region or organization you represent, and secondly the priority or one of the priorities that was identified.

We ask you to actually identify three priorities, but then in your final presentation you will refer only to one of the priorities, and then tell how you would solve this problem and who will be in charge of implementing the solution and how the results will be monitored.

Let us begin. I hope that we will be very productive. We have an hour and a half. I will let you know as time goes by how much time we have left.

(Groups convene for one and a half hours.)

**Daniel Kaufmann, Senior Manager, Governance, Regulation and Finance Group
World Bank Institute**

I know how much exciting work is going on, and we apologize for ending the discussion. Unfortunately, our time is up and we need to move quickly to the next stage of this exercise which will be the presentation of each team.

Presentations from the Groups

**Africa (Francophone) Group Representative
MAMADOU DAOUDA TRAORÉ (Mali)**

The first problem we identified is the judicial power, the second one is the public market or the public contracts, and the third problem is the elections. As you know, these three problems are very important in our different countries. Those who benefit from these different problems are decidedly the elite of the highest level of the authority. And who is affected by these different problems? We say it is the general population.

As far as implemented action and results for the first problem, we say we have plenty of motivation but not enough coalition. We want to point out that motivation itself does not decrease corruption. In terms of action to be taken by the government, we say there should be more controls and sanctions regarding judicial power. From the civil society, we need to have a pressure group and in this pressure group we point out the importance of the media.

From the donors, we want control over the funds given to our countries. As our colleague yesterday pointed out, we have to make sure that when our leaders receive these funds, they allocate the funds appropriately.

In terms of expected results, if all these things are accomplished together, the result will be a kind of economic, social and political development in the society.

Africa (Anglophone) Group Representative
CHRISTINE MUNALULA (Zambia)

The first problem that was identified in this group was the lack of political will by the government to fight corruption. The discussion was that in almost all the countries here there is some institution or some laws on corruption but there just isn't the political will to implement. Another problem is the poverty level and it's the poverty that leads to the corruption. The poor are taken advantage of and the rich are corrupting the poor. It happens even in elections. The poor people who are members of the electorate are corrupt and corrupt governments continue. The third problem is the Mao administration of justice which covers the courts, more especially the judiciary, which lacks independence, the independence of the judiciary.

Who benefits from the problem? It is the multinational companies, the political leadership, the business executives and the bureaucrats. Who is affected? The rural community, the working class and then the local-national companies.

Previous implemented actions and results: It was discussed that almost every country has anti-corruption bodies. And what was agreed is that while they are doing something, there is still a lot that needs to be done.

Actions to sensitize society: For this also they said there is some level of sensitization that is going on, but again, more needs to be done.

Strengthening of audit bodies, implementation of anti-corruption regulations: It was agreed that it is not enough to have them; they should be implemented and enforced.

Actions to be taken by government: We need enforcement of more stringent laws, a declaration of assets by public officers, regional-international initiatives and implementation, meaning interregional bodies. We need an increase in wages to reasonable standards for the working class.

Actions to be taken by civil society: Civil society should demand accountability and transparency.

Actions to be taken by donors: They too should demand transparency and accountability and also should be training key accountability players and continue to support civil society.

Expected results: We should move towards zero tolerance of corruption and towards the implementation of good governance, towards peace and political stability, and then an improved economy and standard of living.

Latin America (Dominican Republic, Puerto Rico) Group Representative
VIRGILIO BELLO ROSA (Dominican Republic)

I would like to thank our friends and colleagues from Puerto Rico who participated and helped us with this presentation. Basically we have agreed on two problems. First of all, and this is the main problem, there is a need for implementation of a system for awarding contracts for public works. There is legislation in place in our country for regulating the way these contracts are awarded; however, these regulations are not applied. Who would benefit from not applying the system? Corrupt politicians who receive large sums of money from the companies that want to execute these works. Also the so-called political investors. These are executives who invest capital and who give money to politicians who are running for office in order to benefit later from their investment policies. Also the contractors that are included in these deals also benefit. This affects all of society, especially the poorest sectors of society, because these funds are therefore not used for the benefit of the people who are the most needy in our countries. Also public finances and civil society are hurt by these practices. Reports have been made, legislation has been revised, however these revisions have not been applied. The government, however, has made some decisions. There is now a prohibition on the practice of awarding contracts directly. This now has to be done through legal procedures. We need to form partnerships with all the interested parties to prevent corruption. We need to monitor how government funds are used in the awarding of contracts for public works. Now, the results we expect are the following: greater transparency, better use or application of our public funds and the use of these funds for the benefit of the poorer sectors of society.

Another problem that we detected in this group of Puerto Ricans and Dominicans was the following. Funding for political parties in our countries is a problem. This benefits political parties and their leaders. It affects society and public institutions. Actions that should be implemented include executing the law, enforcing the law, monitoring by civil society. Certain agencies, such as the electoral council, should have greater accountability in getting political parties to use funds in the proper way and keep them from benefiting when their chosen candidates win the elections. Civil society should monitor and report problems. We also need technical assistance and support, and greater access to information. Our societies need to have access to information regarding what sums of money are spent by the government and which amounts of money are spent by the private sector and what use is made of these funds. There is a suggestion that the names of the people who donate funds to political parties should be put on the Internet and they should be investigated. There is one point that is important to us in the Dominican Republic but not to Puerto Rico. We need more independence for the judicial power so that it can act independently of the executive power.

Latin America (Mexico, Nicaragua) Group Representative
JORGE MANUEL AGUIRRE HERNANDEZ (Mexico)

Not forgetting some general problems that we can find as causes of corruption in Mexico and Nicaragua such as a general culture or the presence of corruption throughout our history, lack of values and lack of the rule of law, we just want to focus on one problem which affects both countries equally in spite of differences in the level of social and economic development. And that

problem is the concentration of power in one group. This benefits elites that have been taking advantage of this concentration of power for their political, social or economic benefit. We feel that when power is concentrated in very few hands the general effect toward society is negative. It focuses on a lack of economic development and of democracy.

So from that point of view, who is affected? Society, which is affected economically and politically. What actions have been implemented? Well, there are some fundamental differences here between Mexico and Nicaragua. In Mexico, an electoral reform took place in 1996 and this allowed for new electoral councils to be started which were more autonomous. It allowed for greater transparency in the processes of the country. In Nicaragua we are only just beginning to touch upon this kind of subject and we have yet to take steps in this direction. This would probably involve reform of the Nicaraguan constitution.

What actions can be taken by the states to realize any advances? Well, we believe in both cases we should move toward plurality in the legislative power to avoid a focus of power in one group. In the case of Mexico we should continue to move forward in consolidating these electoral reforms that have taken place.

What actions should civil society take in this respect? Well, first of all, we need its involvement in demanding that some reforms take place and also in helping implement these reforms so that this governing elite can feel the pressure and be forced to change. In the case of Mexico we feel that civil society also needs to demand the consolidation of these changes and better organization in order to avoid any kind of regression.

Regarding donors, we need more technical assistance from them. We think that good governance experiences should be shared to help consolidate these processes in different countries.

What results can we expect from these kinds of actions against concentration of power? Well, exactly the opposite effect. We would like this power to be evenly distributed among the different sectors.

Latin America (Colombia, Ecuador, Bolivia) Group Representative
RAMIRO LARREA SANTOS (Ecuador)

The group established three issues as problems and priorities for reform. First of all, illicit profiting, secondly the complexity of the judicial system, and impunity. And in second and third place, the lack of clear goals and systems.

Who benefits from this situation? Undoubtedly it is a minority of our population, the economic, social and political oligarchy, those who are in power and who exercise that power who are affected. The people, the great masses, the majority are excluded from these processes.

Previous actions and results: In some of our countries, reforms of the judicial system have been carried out at the constitutional and legal level; however, these have been insufficient and

sometimes they are not even enforced. Legal and constitutional reforms are never realized, never come to fruition. And there is no uniformity in the judicial system in the enforcement of our laws.

Actions that the government should take: First of all we need to have a political will to solve these problems. We need to modernize the state. In some countries privatization is seen as the best way or the only way to modernize. We need to carry out a risk analysis and take some steps to minimize these risks. We need to strengthen enforcement agencies. We are all asking or clamoring for truth, but this is what we need to do. And we also need to have an international approach. We have seen that most countries have legal statutes to deal with these issues. However, there is no homogeneity.

The steps civil society should take: We need to respond. We need to exert pressure on the government. The people are the ones who are at the head of this fight against corruption. They need to take control. We need to equip them with the tools they need and provide the training at all levels, especially with regard to ethics and morality.

From the donors we need strategic and logistic support depending on each country's needs. We need reforms in local standards.

Expected results? We discussed the problem at length. There is a need for legal uniformity in the international sphere. We all want to have our own statements, our own legal statements, but we need a common denominator that will make these laws stronger and more effective. Now, for resources that are ill-gotten resources, we need to have some sort of mechanism to help us overcome this great frustration for society. The way the situation is now, there is no way to recover these funds from the corrupt politicians. There should be sanctions on these corrupt people and a way to recover the lost funds.

Latin America (Peru) Group Representative CARLOS MORELLI (Peru)

The Peruvian group had the privilege to discuss amongst ourselves the private sector. There are eight of us and we are totally in agreement that we have a very difficult corruption problem. We thank the people from Peru that allowed us to discuss these issues. We identified three main problems. One is the lack of political desire to fight corruption in Peru. In that sense it is convenient to formalize the project that has already been presented to channel all the efforts against corruption—a coalition that should consist of government, private sector, syndicates and the church.

Another problem is the lack of transparency. We should have access to public information in such a way that the communication media and the civil society and the organized society know about the contracts, the agreements and whatever happens with the state.

The Peruvian laws should be in agreement with the Inter-American laws. Extradition laws, for instance, have not been in compliance. We also identified that we need to implement several programs of cultural specifications and also we need to look at some of the acts and enhance them

rather than criticize them. We don't protect the people that denounce acts of corruption. The judicial power had a program of denouncing but we couldn't protect them. We also have a government ethics agency, but we don't have adequate funding.

As far as the actions to be taken by the government, they need to reestablish the credibility in the state. We have to generate also a greater credibility in the government employees. Not all of the employees are corrupt. We have to conduct a conscious effort to make people respect us.

As to the actions of the donors, we have to implement anti-corruption programs not only insofar as financing of the project but also for international relations.

The expected results are to combat poverty, recoup value for the citizenry and particularly to head anti-corruption efforts globally.

Latin America (Honduras, Paraguay, Costa Rica, El Salvador, Panama) Group

Representative

SELMA AURISTELA ESTRADA DE UCLES (Honduras)

Thank you friends of the entire world. The first problem or priority we identified is the acquisition/procurement process of the state, particularly the bidding process which needs clarification. The administration of justice is the second of the problems for the group.

And who benefits? Obviously the heads of companies who make the profits. Who is affected? Obviously the citizenship is affected when the procurement process is inadequate. The people are the ones that actually suffer.

Other actions? Countries should share their plans and actions to prevent corruption. Also, it is very important to educate the people about the laws that are in place in each institution. We establish conscience when we demand that everybody must fulfill his or her obligations. If the people don't know the laws, there is less incentive for the state employee to fulfill his/her obligations.

The actions to be taken by the government: Short term, the group wants to simplify the procurement process to make it absolutely clear and with the least number of obstacles. Long term, strengthen the institutions of control. Back them up. Campaign against corruption with a short plan as well as with long-term goals. Implement transparency projects in the acquisition process such as those currently in place.

Actions to be taken by the civil society: Work as a team to demand that the government comply with transparency to go along with the auditing we now have in place.

Actions to be taken by the donors: There should be a coordinating effort amongst all the international organizations. For instance two international institutions sometimes work on the same issue, lending money to the government on the same issue. Then when the international organizations are not in agreement, they sanction the government and, of course, who suffers is the

people. But more than anything else, the international organization has to actually demand that corruption not exist. They are the ones lending the money.

Latin America (Brazil, Venezuela, Argentina) Group Representative
NATALIO GUILLERMO PERES (Argentina)

The problems we identified are the impunity of the judicial and administrative systems that do not allow proper control of the administration, the lack of transparency in the contracts awarded by the states and the various contract awards that violate administrative rules. The weakness of the systems of controls in the various states is our key priority.

Who benefits? The politicians and the powerful ones. Who is affected? Obviously the state and the democratic system and the poor ones in the society. As one of the panels said, the state is definitely affected because it loses capital.

Previous actions? We have many. The electronic controls that were implemented in the three states represented on this panel did not have the answers they should have had.

Actions that should be taken by the government: The first one is education of the population. It is fundamental. An educated population would not allow a government to be bought or twisted. Implement a control system and sanctions in the judicial system that would be efficient and independent. And then empower the various government agencies to sanction the employees. That should be effective. Strengthen the controls and the agencies that control. They should be independent and well paid.

Actions to be taken by the civil society: Participate in the actions of the state. To do this, civil groups must be educated in the business of government.

The expected results? Fundamentally, to have better economic development, sounder laws, a reduction of the poverty and the power distribution and social justice. As they said this morning, this is not a moral problem, it is an economical problem which debilitates the states and definitely the international organization lending money will never recoup it.

Asia 1 Group Representative
ANNELI DUCA MANZANO (Philippines)

Ladies and gentlemen, I want you to know that I am indeed pleased, honored and privileged to have worked with the Asian group comprised of the following countries: Bangladesh, Pakistan, India, Ceylon, Qatar and the Philippines.

In fighting corruption, integrated action has to be taken at various levels like the political, the bureaucracy, in the judiciary, investigating agencies, the media, the public, etc. However, our group considers the following as the most important. First is the political will and commitment.

The second is the public and media participation in the drive against corruption. And the third is strengthening of the systems and institutions.

So who benefits from the problem? Definitely for the political will it will be the political leaders. In the judiciary it is the judiciary themselves, even the bureaucrats and the business community, the Mafia and organized syndicates and even the money launderers as well as the NGOs in government organizations. We also consider as beneficiaries the multinationals, the banks and the donors.

So who are affected? Definitely we would all consider the people. One in our group even mentioned the future generation. Even the financial institutions will get affected.

When we discussed the various actions which were previously implemented, mention was made of the vigilance committees. There is the role of the ombudsman, and some mentioned the civil service performance measurements. The results of poor department actions in some agencies initiated some anti-corruption measures.

As to what are the actions that may be taken by the government, we mention the speedy remedial actions. There should be real punishments for culprits. There should be transparency and accountability. They mentioned zero tolerance by the government and by society. They mentioned oppressed freedom. You see in most developing countries the freedom of the press is somewhat carteled considering that publications normally belong to just one and they get influenced by those who are in power.

Other actions include electoral reforms which come from the powers that be. In general a politician gets elected by all possible means. So when they're in power they use all means to recompense whatever expenses they used during the campaign period. We should also encourage whistle blowing within the government ranks. As to the actions that may be taken by the civil society, they are just the same as those mentioned by the previous reporters.

The actions to be taken by the donors include technical assistance reforms. There was also mention of an anti-corruption clause. And they should also be held to following the rules and regulations in picking the actual beneficiaries. We also mentioned disclosure of the donors' reports. They should operate from one focal point, meaning one agency, which would coordinate the efforts of all the other distributing levels.

And the expected results? They are transparency, economic growth, increases in the standard of living and faith and confidence in the system. In any government for that matter, the eradication of corruption helps us to deliver the basic services. It helps in our efforts to eradicate poverty and it helps to initiate growth. When corruption is erased, the standard of living will be improved.

Asia 2 Group Representative
KUNZANG WANGDI (Bhutan)

We have confined our work to one problem, the problem that is in the executive system. We think that if this problem is not rectified, who benefits is the politicians and the corrupt business people. Who is affected? It is the ordinary citizen who has no proper representation and who does not have a say. In the past, measures have been taken. Several projects have been implemented. But these are not effective and are sometimes very poorly implemented. We expect the government to make a commitment to do things better and civil society should play a very active role so that the public policies, economic reforms will bring the intended benefit. And obviously the donors must be accountable. They should show by what they do that these other things should be done in a better manner. And obviously they should also insist that accountability exist in the projects. The net result is we'll have good governance, we'll have better economic results and the society will be happier.

Bilateral Agencies and International Organizations Representative
MARTA CECELIA VILLADA (Latin America)

This group was comprised of representatives from USAID, World Bank, one of the governments in the Latin American region and one person from a private business community.

The priorities or the problems indicated were the weak judicial systems and high levels of executive branch corruption. Those were the two priority problems identified by the group. As to the actions to be taken by the government, it was recommended that the governments prosecute and use the consequences of once identified issues of corruption as deterrents. Also, the governments should put in place better legislation that makes information open to the public. They should be more accessible and distribute and disseminate information. They should create better internal systems for management and disbursements of funds.

In terms of civil society and what actions can be taken, there were four of them: report corrupt activities, create an anti-corruption culture by educating and preparing the new generation, participate in broad-based coalitions and use the benefits and advantages that the new digital technology brings in order to use and improve public information.

We have a long list of actions to be taken by donors because many donors were at the table. We suggest conditional grants be given that monitor the use of credits. Credibility checks for providing funds should be implemented in the process to monitor transfer of plans, to fund civil society for the efforts that were recommended and the actions that civil society will take. I come from civil society and I think this is a very important one—disseminate results of audit reports publicly. They shouldn't be kept in the drawers of a few agencies; they should be published. Another is to suspend funding from donor organizations when levels of corruption get to a point where they are not manageable.

Expected results? Many are the same ones that you already listed in your groups—effective action when corruption is found, better use of impunity and public awareness of the negative effects of corruption.

**Eastern Europe/Former Soviet Union ECA Group Representative
EMILIA SICAKOVA (Slovak Republic)**

Central and Eastern Europe countries were included in this group, and it was quite hard to reach a consensus of what kinds of problems are the priorities. We finally defined the following three problem areas. The first one is the privatization, then judiciary reform, judiciary problems and the public procurement.

The beneficiaries of the malfunctioning and corrupt systems are politicians, business elite and the one who regulates the malfunctioning system. In the system of the malfunctioning judiciary, many times the judges are beneficiaries, as well as the attorneys and the politicians. In the malfunctioning of public procurement, it is regulators, politicians and business elite who are benefiting.

Who is affected? Generally it is the general public who is affected by the corrupt system, including clean business elite and taxpayers. In the judiciary system, it is the same, the general public, including good business and good judges. In the public procurement, it is the consumers, taxpayers, and good business.

In many of our countries reforms have already taken place, but they are not complete yet or we are waiting for results. And there were some suggestions on how to improve even the current systems, especially to increase transparency, open the system to the public, complete the reforms in the judiciary, introduce disclosure for judiciaries or judges.

A lot can be done by the civil society such as monitoring the process of privatization and public procurement and being more participatory in the whole process.

What can be done by donors to increase transparency by themselves? There was quite a debate about this, but we agreed on the need to increase transparency from the European Union, especially in the contract system.

What are we expecting from all these reforms? To increase economic growth, to increase justice and have a good life.

Maria Gonzalez de Asis, World Bank Institute

Can we have a big round of applause for all our participants? One final announcement: A survey has been distributed to you. Please fill it out. This will help us to improve our work in the future. I hope that you will turn it in as soon as you can. For those of you who have not had a

chance to work on a chart or look at the charts, they will be posted on the World Bank's Website, and hopefully all the results will be there available to all of you.

Closing Remarks

James B. Durnil, President, ICGFM
President, National Rural Electric Cooperative Association International LTD

The last few days have indeed been a success and we've had a spectacular Anti-Corruption Summit. Jim Wesberry, Everett Mosley, Bill Taylor and Graham Joscelyne far exceeded my expectations in their choice of speakers and in making the conference a success. I want to thank you guys for a job well done. I also would like to thank the support staff outside who have answered most of your questions and have taken care of most of your administrative problems. Special thanks to Sylvia Rodriguez from Casals and Associates who has been helping us for many months, and also Audrey Dysland, the Secretary General of the Consortium.

As I mentioned in my opening comments, it is really a dream of USAID, World Bank, Inter-American Development Bank, the other regional development banks and hopefully to all of you and the citizens of your countries to eradicate public corruption and abuse. We know it exists, we talk about it, and some of us here probably participate in it. We must take the lessons learned here in this conference back home. Take these lessons and discuss them with senior officials in your governments. We must encourage them to move forward and implement some of these anti-corruption measures. Just one good corrective measure, one good fight against corruption can make your trip here worthwhile. You'll not have spent the last three days in vain or just on a vacation. You will have spent it doing public good. I have confidence in you and your abilities to help the citizens of your country in fighting corruption.

Thank you for coming to what I consider to be the best of our 15 conferences held here in Washington, D.C. Our spring conference next year in Miami will begin April 2 and will be held at the Radisson Mart Plaza Hotel, the same location we've had for several years, next to the Miami Airport. You received a copy of the agenda of that conference; it is a green brochure that was handed out during our conference.

Have a safe trip back home and good luck in your efforts to fight corruption in your home country.