

**THE FIGHT AGAINST CORRUPTION: THE
UNFINISHED AGENDA**

HEARING
BEFORE THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

SEPTEMBER 20, 2000

Serial No. 106-185

Printed for the use of the Committee on International Relations



Available via the World Wide Web: http://www.house.gov/international_relations

U.S. GOVERNMENT PRINTING OFFICE

69-716

WASHINGTON : 2001

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THE FIGHT AGAINST CORRUPTION: THE UNFINISHED AGENDA

WEDNESDAY, SEPTEMBER 20, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The committee met, pursuant to call, at 2:20 p.m. in Room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (Chairman of the Committee) presiding.

Chairman GILMAN. The Committee on International Relations meets today in open session to receive testimony on "The Fight Against Corruption: The Unfinished Agenda."

We have a distinguished international panel, and I want to welcome you all today. I will introduce you shortly. I also want to note that we are disseminating this hearing over the Internet at the same time as we are taking your testimony.

The Committee on International Relations has a long-standing interest in the problem of international corruption. We are, of course, concerned with the problems that our American firms face when they are required to compete in foreign markets against companies which are able to give bribes. We don't want to see Americans disadvantaged and markets lost.

But this is not the sole reason or even the main reason for our Committee's concern. A fundamental goal of American foreign policy is the promotion of growth and stability abroad, because it is good for our Nation, and it is good for the individual human beings around the world. Corruption, though, undermines the basis of that growth and stability, particularly in the developing world. It deters investment, it wastes precious external and internal resources, it demoralizes entrepreneurs and ordinary citizens who deserve good government. Corruption defeats democracy because those corruptly enriching themselves will be unwilling to turn power over to democratically elected successors. They therefore have an added incentive to entrench themselves in power. The corrupt have an additional unfair advantage because their ill-gotten gains provide them with the resources to widen their advantages over any opposition.

It is clear, however, that tremendous progress has been made in recent years on this issue. The private sector, led by organizations such as Transparency International, has done a tremendous job in nurturing grassroots networks in support of anticorruption efforts. The government, business and individuals supporting efforts such as those by TI have really begun to pay off.

Brave and able government authorities have shown that in many governments, impunity for the corruption is a thing of the past.

The current administration deserves both high marks for its efforts on several fronts. It led the consensus that achieved, among other things, the OECD Anticorruption Convention. Diplomatically and through the development assistance program, it supported a wide range of anticorruption efforts, and has prevented the anticorruption movement from becoming a name-calling, us-versus-them exercise.

International organizations such as the OECD and OAS have also played extremely important roles.

Present in our audience today and at the witness table are many individuals who will be taking part in an anticorruption summit tomorrow through Saturday over in Arlington. I want to thank the participants for their very important work they are doing, along with our colleagues who could not travel there. We will be doing all we can to support you.

I especially want to thank the conveners of the conference, the International Consortium on Governmental Financial Management, its supporters and sponsors, such as AID and GAO, those from our government and international organizations who will be addressing them, and particularly Jim Wesberry of Casals, who is busy coordinating the conference, but has found time to advise the Committee on this hearing.

I also want to salute our Ranking Democratic Member, the gentleman from Connecticut, Mr. Gejdenson, who sponsored the legislation that was recently passed in the House and which should go to the President soon that is reemphasizing and strengthening our government's anticorruption efforts.

We question where has the most progress been made and what needs to happen next? Surely the conclusion of the OECD and the Inter-American Conventions are highlights of the recent years.

However, the administration reports on the status of the OECD Convention makes it clear that much still needs to be done to choke off the supply of corrupt dollars flowing from rich nations to the rulers of the developing nations. The Convention will not work if it is not transposed into a good national law and those laws are not enforced.

In that regard, the OECD needs to step up its monitoring and enforcement efforts. In addition, our OECD partners need to establish internal corporate and accounting controls in businesses resident in their various nations, for without a paper or electronic trail, there will be no way to prosecute those who would ignore or violate the standards of this important Convention. We need more tangible actions and less lip service from Convention signatories.

I would also call on other key exporting nations in all regions of the world to consider joining this Convention and strengthening their supply-side anticorruption efforts. More attention needs to be addressed to developing institutions in developing countries so that they can do more for themselves and in cooperation with other nations and with international organizations to build structures and effective public opinion against corruption.

We need to consider more carefully how to help the countries of the former Soviet Union and in the former Soviet bloc deal with the vast array of ills that are exacerbated by corruption, and we need to address those problems squarely.

Our panelists today are going to offer their own perspectives of what the most important remaining problems are and on where we need to go. We can theorize about this, but, to do our best job, we need to hear the voices of those involved in the struggle. So, again, we thank our panelists for being here. After other Members make whatever comments they may wish to offer, I will introduce our panelists.

At this time I call on our Ranking Minority Member, the gentleman from Connecticut, Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman. It is clear that America's leadership in anticorruption issues started in the early and mid-1970's with the Foreign Corrupt Practices Act. I can remember companies in my own State complaining about being handcuffed in those days as a result of our restrictions on bribery to foreign government officials, how it disadvantaged us. But I would say that time has won them over to our side, most of the companies I talk to are, obviously, not happy in situations where other governments, even some of our closest allies like France, apparently, allow the deductibility of bribes in contract competition. They have made us a commitment they will repeal the deductibility of bribes given, and I think American companies now get that it is the right course of action.

We need to only look at not just what has happened in our hemisphere. In Africa and Asia, democracies are threatened by corrupt practices of the government. The new democratic government in Nigeria is struggling to undo decades of corrupt action by military leaders who plundered billions of dollars from a very wealthy country, left their people impoverished and a failing infrastructure.

We can see the impact on American business as well in estimates that as much as \$26 billion may have been lost in the last 6 years alone. I can tell you from small and large companies in my own State, that oftentimes we find our closest allies bending, if not breaking, the rules of international commerce with financing mechanisms or other encouragements that, if not bribes, come darn close to bribes. Nobody wins in this process.

But I am heartened to see that the effort started by the Vice President at the Global Conference on Fighting Corruption has begun to take hold, that the G-7 is ready to take important action, that the action that this Congress passed with my legislation with the strong support of the Chairman on anticorruption issues is an important beginning.

What I want to make sure people understand is this is not just about making American companies more competitive. It is that. We want American companies to win when they are in an economic competition. But if we believe in democracy, and we want to build a system where the world has faith in its elected leaders, we need to make sure that we get rid of corruption. Corruption undermines democratic institutions, belief in organized government, and it is something we all need to fight. So we are thrilled to have all of you here and look forward to hearing from you in your many perspectives.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman. I want to thank you for holding this very timely and important hearing on the issue of com-

batting corruption, clearly a threat to global peace, stability and prosperity, but particularly challenging to those nations struggling to develop democratic institutions and the rule of law.

The Helsinki Commission, which, as you know, I chair, has undertaken a series of hearings on this important topic, examining the breadth and the depth of the problem in the OSE region and what steps the OSE can take as an institution to combat corruption and organized crime.

Mr. Chairman, the cancer of corruption and organized crime undermines public confidence in government and threatens development of the rule of law in the very countries that are trying to shed the legacy of communism and its corrupt and repressive system.

Widespread corruption in the transition countries threatens their ability to provide strong and independent legal regimes, market-based economies and social well-being for their citizens. Corruption has stymied economic reforms in these countries and impeded efforts to improve the standards of disadvantaged peoples.

In the absence of the effective rule of law, Mafias have flourished through their corrupt connections, gaining powers over whole sectors of economies and derailing legislative reform agendas inimical to their interests.

I would note that on July 17th, President Constantinescu decided not to run in Romania for a second term, deciding instead to devote his full time to the fight against corruption. But he made the point that "when I began this campaign, I discovered a Mafia system had been created in Romania in which the octopus-like front companies were benefitting from high-level state institution support. This is what made possible the fraudulent bankrupting of banks, the destruction of the fleet, and the huge damage caused by the oil and chemical-fertilizer Mafias and the unrestricted growths of corruption."

A recent EBRD report recognizes the reality of corruption and calls for greater efforts among governments and international organizations to depoliticize economic activities and develop measures to constrain state capture by private interests. As a result of this capture and siphoning off of public wealth, citizens deprived in some cases of government-sponsored basic support mechanisms have formed very negative opinions about democracy and free markets.

Mr. Chairman, as a concrete example, during a Commission hearing in March of this year regarding the human rights situation in Turkmenistan, one of the most authoritarian and repressive regimes in the region, opposition leader Avdy Kuliev cited three components of President Niyazov's internal politics, the first of which was corruption.

The fact that this Committee again is holding this hearing and talking about corruption not solely in an economic sense, but corruption in government and in public institutions, is in itself refreshing. For a long time we could not even utter, or some people did not want to utter, the "C" word.

Let me just say, Mr. Chairman, the Helsinki Commission has pushed for a greater recognition of the threat of organized crime and corruption in the OSCE and has supported efforts to develop an OSCE strategy to combat them.

During the 1999 annual meeting of the OSCE Parliamentary Assembly in St. Petersburg, Russia, our delegation called for convening a meeting of the OSCE foreign ministers to develop strategies to combat these threats. I introduced a resolution there condemning cross-border trafficking in women and children. We had a very robust debate, and the delegates from all of the countries that make up the OSCE approved that resolution, which we again approved this year in Bucharest when we held another Parliamentary Assembly. Interestingly enough, this year's focus was on the very matter of today's topic, corruption, and all of its aspects and manifestations.

I would ask that my full statement be made part of the record.

Again, I want to thank you for this very timely hearing, and thank especially our witnesses for being here and for the great work they do to try to mitigate corruption.

Chairman GILMAN. Thank you, Mr. Smith.

[The prepared statement of Mr. Smith is available in the appendix.]

Chairman GILMAN. Mr. Menendez.

Mr. MENENDEZ. I want to commend you also for holding the hearing, Mr. Chairman, and the question of corruption is a question of costs, enormous costs, I believe; the cost of doing business certainly, but also the cost of corruption's consequences for societies. The loss for businesses, for U.S. firms is considerable. The State Department in a recent report says that over the past 5 years, it has received more than 350 allegations of bribery related to international contracts worth \$165 billion. U.S. firms allege actual losses in this period of \$25 billion in contracts due to illegal bribes by foreign competitors.

The financial incentives can be irresistible for any individual firm. At any level, bribery hinders competition, distorts trade and harms consumers and taxpayers, but I believe the costs to society at large are even greater.

Corruption is about the rule of law, responsible development, and citizens' faith in their government. A corrupt society is a dangerous society. Corruption facilitates crimes, destabilizes a society, and impedes all manner of economic, political and social development. It undermines the rule of law and democracy, and a lack of democracy is very costly indeed.

For example, in Peru right now, the government is putting the country and the Peruvian people in jeopardy by risking future investment due to corruption. Corruption in the tax administration has made the government seek to make up for its losses by illegally and illegitimately going after the tax deposits of an American firm, an American firm that will clearly send a message to the community in the United States that it is not a country to invest in.

Also in Peru, Vladimir Montesinos, the feared and corrupt head of the country's intelligence service, was caught bribing an opposition political candidate. The bribes, and there were certainly more than one, cost Peru democratic legitimacy. Maybe catching the perpetrator may help bring it back.

Indeed, if you look at Transparency International's Corruption Perception Index, you would see that the countries at the bottom of the list are countries whose governments' actions or inactions in

terms of stemming corruption, promoting democratic governance and investing in sustainable governance have proven costly for their society.

In many cases, instability, a lack of democracy and even war in these countries has forced the international community to spend enormous amounts of money to help bring about peace and democracy. Yugoslavia, Indonesia, Nigeria, for instance, are all at the very bottom of the list.

It may be a stretch to suggest that corruption contributes to poverty, intolerance and war, but I don't think so. I believe that even disasters, and ensuing disaster relief funds, would be lessened in terms of the cost if corruption were reduced.

Witness Hurricane Mitch in Central America. Of course, corruption didn't cause the hurricane or determine which countries were hit, but the losses in the two countries most affected, Honduras and Nicaragua, probably would have been greatly reduced if corruption were not such a problem in those two nations, which find themselves at the bottom of Transparency International's list. Why? Corruption means that less development and infrastructure money actually makes it into building quality homes, bridges and roads. In other words, in my mind, corruption actually can kill.

In conclusion, Mr. Chairman, I welcome the attention to efforts at corruption reduction, and I urge increased resources to combat corruption. I am a proud cosponsor of Mr. Gejdenson's Anticorruption and Good Governance Act. I applaud his efforts. I do wish the act authorized increased funding for the battle against corruption, for the battle for democracy, but it is a step in the right direction. I look forward to working with him and you to achieve those goals.

Chairman GILMAN. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Mr. Chairman, I want to certainly commend and compliment your leadership and for calling this hearing this afternoon, and certainly offer my personal welcome to our distinguished guests here on the panel that will give us, I am sure, their words of wisdom in trying to combat this very issue. I would also like to commend the gentleman from Connecticut for his sponsorship and authorship of this important legislation.

I certainly echo the sentiments that have been expressed earlier by my good friend from New Jersey, both gentlemen from New Jersey, and their insights into this very important issue. I don't think it has any limits in terms of what we talk about, corruption. We can talk about the drug cartels, we can talk about the syndicates, we can talk about all of this, we know it exists, and I think it is very, very important that as well our business community are not taken at a disadvantage when it is all right to bribe officials of some countries and our companies there can become disadvantaged as far as conducting fair competition as far as the business climate is concerned.

So I think this legislation is very much appropriate, and I think we need to do more, and I sincerely hope that the interests in the Congress will not be in any way diminished in pursuing this, not only certainly providing for our own Nation's inadequacies and maybe failings as well in seeking to go after corruption, but certainly as a demonstration of the kind of example that we could lead

or share our resources and our understanding with our sister nations throughout the world, hopefully that we can combat this very insidious and very difficult situation that many nations of the world are confronted with.

I thank you, Mr. Chairman. I yield back the balance of my time.

Chairman GILMAN. Thank you, Mr. Faleomavaega.

To our panelists, let me note we will be entering any of your written statements you may wish to make into the record at the hearing in full. Accordingly, I would ask each to please proceed for 5 to 7 minutes, and then we can have an appropriate dialogue.

Our first panelist today is Mr. Fritz Heimann. Mr. Heimann was a founder of the Transparency International and is Chairman of Transparency International USA. Mr. Heimann has a long career of service in the General Electric Corporation, which has itself been a great leader in the struggle against corruption for all the right reasons. I think it is appropriate to recognize GE's support of your personal efforts and its leadership in this matter more generally.

Please proceed, Mr. Heimann.

STATEMENT OF FRITZ HEIMANN, CHAIRMAN, TRANSPARENCY INTERNATIONAL USA

Mr. HEIMANN. Thank you, Mr. Chairman. I would like to compliment the Committee for calling this hearing. Your title, "The Fight Against Corruption: The Unfinished Agenda," is extremely appropriate.

During the past few years, a good start has been made in addressing international corruption; however, much more needs to be done.

TI was established in 1993. Our headquarters are in Berlin, Germany, and we have a network of national chapters now in over 75 countries. TI's first objective, placing corruption high on the international agenda, has been largely accomplished. There is now widespread recognition of the damage done by corruption. This recognition is a big step forward from the time when corruption was treated as a taboo subject by the international community. The major challenge now is to prove that tangible progress can be made to reduce corruption. There is still much skepticism whether reform will work.

The current prominence of the issue gives us a window of opportunity; however, that window will close unless we can show successful results in the next 3 to 5 years. This requires realistic priorities. We must be selective in focusing resources, programs in countries where success can be achieved in the next few years.

I will concentrate on the OECD Convention because that is the most promising initiative so far and is closest to achieving tangible results. Demonstrating that the Convention will work will add momentum to the whole anticorruption effort. It is strategically important because if the major industrialized countries can show that they have cleaned up their act, that will significantly strengthen their leverage in trying to curb corruption elsewhere.

The OECD Convention is important because the member countries are the home countries of most major international corporations. Thus it becomes the ideal tool for controlling the supply side of international corruption. Approximately 26 of the 34 signatories

have now ratified, including 9 of the 10 largest exporters. This means that the necessary critical mass is aboard. The focus now shifts to making sure that the Convention is effectively implemented and enforced.

A key element of the Convention and the reason why we can have confidence in it is that it provides a process of follow-up monitoring. During the past year, the implementing laws passed by 21 countries have been reviewed. The most telling sign that the monitoring process is off to a good start is that both the U.K. and Japan were given flunking grades by the monitoring process. Not many international institutions have the courage to criticize their largest members.

During the next 12 months, we need to make sure that deficiencies in implementing laws are corrected and that the eight remaining signatories ratify the Convention. Considerable additional work is needed to make sure that the good intentions of the Convention will be translated into practical results.

I will focus on four issues which I think deserve the attention of this Committee; first, making phase 2 of the monitoring process work. Early next year the OECD is going to begin the second phase of its monitoring process, namely assessing the effectiveness of national enforcement programs. That will be the critical reality check to determine whether the Convention is working. OECD teams will be sent to six countries each year to conduct on-site reviews.

TI has made two suggestions to OECD to make sure that the monitoring process works. First, we are convinced that much more adequate staff and budget support must be provided. At present only 3 out of the 1,800 employees of the OECD are working in this area. As we move to evaluating enforcement, this becomes a much more difficult task than the previous effort to examine the adequacy of implementing laws, and that will require much more staff support.

The monitoring process must also be made more transparent. Public hearings should be held each time the OECD conducts a country visit. Civil society and private sector exports should be allowed to present their views and respond to questions from the monitoring team. Making the monitoring process more transparent remains quite controversial at the OECD. Many countries prefer to conduct reviews behind closed doors. For them, proposals for non-governmental participation raise the specter of Seattle-type confrontations. TI believes that a more open process will improve public acceptance and reduce the risk of confrontation.

The second step is to prohibit bribery of political party officials. The OECD Convention as approved in 1997 prohibits bribery of foreign public officials, but does not cover bribery of foreign political party officials. In TI's view, this leaves a dangerous loophole which will be increasingly exploited as the prohibition of bribery of public officials goes into effect. The U.S. has pressed for such coverage, but very few other OECD countries were prepared to tackle this controversial subject.

TI believes that the recent scandals involving Chancellor Kohl and his party demonstrate that the time has now come to close this loophole. To that end, we are organizing a high-level international group to develop recommendations for submission to OECD. The

group will meet next month in Italy. This meeting will be chaired by John Brademas, a distinguished former Member of the House, and by Peter Eigen. A major effort will be required over several years' duration to convert this project into an effective move.

The third recommendation is to strengthen OECD's focus on accounting, auditing and corporate controls. Last April, TI submitted to OECD a detailed survey of current practices and requirements in the financial area in 16 OECD countries, including the 10 largest exporters. The survey was conducted by a task force from the big five international accounting firms. The study disclosed very serious deficiencies in most of the 16 countries.

Prohibitions against foreign bribery cannot be effectively enforced unless there are adequate requirements for financial accountability and transparency. TI has recommended that the deficiencies identified in our report be dealt with during the OECD monitoring process. To make that happen needs another strong push by the U.S. Government.

The fourth need is to publicize the existence of the Convention. Last fall TI published a survey called the Bribepayer's Index which looked at 19 leading emerging markets around the world. It showed that very few of the respondents, only about 1 in 20, had heard of the OECD Convention. What is most surprising is that respondents from major international companies were just as ignorant as those from local companies. TI has recommended that a major educational effort be launched to make clear to businessmen, both in OECD countries and in key foreign markets, that bribing foreign officials is now a crime.

Chairman GILMAN. May I interrupt the witness? Would you try to summarize? We have given you 7 minutes. We hope you can summarize.

Mr. HEIMANN. I will be glad to stop here. There are a couple of other points that are covered in my testimony, but I will be happy to address that as part of any colloquy.

Chairman GILMAN. Thank you very much.

[The prepared statement of Mr. Heimann is available in the appendix.]

Chairman GILMAN. Our next panelist is Mr. Kwasi Abeasi. Mr. Abeasi is Director-General of the Private Enterprise Foundation of Ghana, which is an umbrella body for business associations in Ghana. Mr. Abeasi has held a variety of private sector positions in the oil and industrial sectors. He has an MBA from Syracuse, and was also trained at Harvard. Mr. Abeasi is also Assistant Governor of the Rotary District 9100 in Africa.

Mr. Abeasi.

STATEMENT OF KWASI ABEASI, DIRECTOR-GENERAL, PRIVATE ENTERPRISE FOUNDATION, GHANA, ASSISTANT GOVERNOR, ROTARY DISTRICT 9100 (AFRICA)

Mr. ABEASI. Thank you, Mr. Chairman. I consider this indeed a privilege and an honor to make a presentation.

I have noted you rightly termed it "unfinished agenda." I hope in my short presentation I will be able to indicate what efforts we are making in my country to make sure this fight is successful.

Let me say at the outset I have decided to speak on the subject not because I am the most appropriate person in Ghana or that I am an expert, but only because I have in the past few years been sufficiently involved in the fight against corruption in Ghana as the private sector's representative. And as the Director-General and also with Rotary, I have experienced quite a bit of the fight to be able to talk about it. I feel that from these two strategic positions, I have enough experience to be able to give you some impressions.

I also hope that the impression that is given that the whole of Africa is one vast block of corruption and that nothing is being done would be corrected.

Mr. Chairman, corruption is not new, nor is it confined to any particular part of the world. On the contrary, corruption is a global phenomenon, although its severity differs from country to country. For those of us in developing countries, its effect is very devastating. The cost of corruption and its effect on us is well-known, and it is so enormous that all efforts must be marshalled to fight this war. Needless to say, it is impossible to eliminate corruption, but with a concerted effort, we believe that we can minimize it.

Previous efforts to combat corruption in Ghana, like several countries, have been the effects of military interventions. The justification for virtually every successful or attempted military intervention in the 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 the evil and to introduce probity, accountability and transparency into the body politic. This, however, only proves to be not true.

Previous national efforts to deal with the problem of corruption have therefore centered around commissions of inquiry, special tribunals, religious crusades, criminal prosecutions and media exposure. In short, they tackled the stem and branches of the problem and left the roots deeply entrenched in the well-nourished soil of bureaucratic incompetence and arrogance, pockets of influence amidst a sea of large-scale poverty.

Corruption in Ghana has been a source of worry and a great concern. Indeed, evidence to support this can be found in the findings of the Global Risks Survey, TI's Perception Index, and indeed in our President's own mention in sessional addresses to Parliament and recently his address to the U.N. Millennium Summit.

The perception that corruption is rife in Ghanaian society is further corroborated by empirical studies conducted in 1998 by the Center for Democracy and Development, an independent entity with which I am connected. The good news, however, is that more people are now bold enough to talk and do something about reducing corruption in the Ghanaian society. The verbal onslaught on corruption in the Ghanaian society has been led by the President himself.

In October 1998, we established the Commission on Human Rights and Administrative Justice in conjunction with a number of key stakeholders, including my organization, the Private Enterprise Foundation. We staged a National Integrity Workshop to create awareness of the social and economic costs of corruption and to foster a positive and nonpartisan approach toward combatting cor-

ruption. We also established the Civil Fraud Office, which is also a constitutionally created institution, in 1997.

In our strategies toward fighting corruption, we have indicated that government may lead by example and commit adequate resources to the fight. While this is 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.

CHRAJ is one of the key institutions that we are using to fight corruption. The Civil Fraud Office is also another constitutionally created institution which came into effect in 1997 amidst controversy that it was an organ which government intended to use against opposition members, and yet in its short existence some effective work has been done.

The experiences of countries that have attained relatively impressive successes in their struggle against corruption indicate that a fair and living wage policy is crucial to the successful implementation of any anticorruption program. Attention has therefore been drawn to the low wages prevailing in the country, and the government has to provide the Ghanaian work force with a living wage that will serve to insulate some of the most vulnerable groups.

We have also created a new role for the private sector. Indeed, the OECD has just published the final report of the seminar we had in Washington here on fighting corruption in developing countries and emerging economies, the role of the private sector. Because we were part of this seminar, we have already started implementing some of the findings and recommendations.

Recognizing the fact that for corruption to occur there are always two parties, the corruptor, or the influencing source, and the corrupted, the private sector acknowledged the fact that very often the corrupting influence is from the private sector. We therefore agreed to get involved in this fight for the first time in my country in 1998.

It should also be borne in mind that both the local private sector and the foreign private sector sometimes are guilty of acts of corruption. To this end even though we know that the foreign private sector is usually fairly governed by business practices and regulations, sometimes there are a few of these ones who condone this.

We have therefore decided in taking steps, new steps, to combat corruption in my country and done three things. First of all, we have looked at the areas of contracts and have set up the SFO to look into all contracts and ensure that the possible effects of corruption are minimized.

Secondly, we have also started drafting a code of ethics and conduct along the lines of the Commonwealth Association for Corporate Governance's Guidelines and Principles for our business community to augment the Company's Code, which is also being reviewed, and we will need assistance in this direction. We want to fashion it along the directions of the King Commission on Corporate Governance of South Africa.

We have also, with the help of the World Bank, established the Ghana Anticorruption Coalition, on which I represent the private sector. An action plan has been drawn up which would be launched this coming Friday.

Finally, we also have started the Ghana Integrity Initiative as a local chapter of TI in Ghana.

Civil organizations, like Rotary Clubs, are contributing immensely by way of changing the attitudes of the business professional men. In the 1989 Council of Legislation for Rotary International, it was highlighted that business and professional people must concentrate on the ethical requirements of the vocation, as well as the laws of their land and the moral standards of their community. Surely with these noble objectives and declarations, the more Rotarians we have in the country, the less corruption we will have in that particular country. We have decided, therefore, to increase the number of Rotarians in our country.

In conclusion, Mr. Chairman, let me say that we can conclude or finish this agenda, or at least shorten the agenda, if all of us, governments, development partners, civil society and the private sector, will show a real commitment to this new coalition of forces against corruption and augment each other's efforts. We should try all we can to make resources available to all the stakeholders or members of this coalition, especially civil society and the private sector.

By the private sector, Mr. Chairman, I do not mean the so-called nongovernmental organizations, but rather private sector associations and institutions that can really be held accountable for the use of these scarce resources. More mileage will be obtained by tunneling these resources through credible private sector associations which can keep the pressure on governments to do more than just pay lip service. Most donor groups, especially the Bretton Woods institutions, have always cited their mandates as not allowing them to offer direct assistance by way of resources to the private sector. I believe, however, that these mandates are man-made and can therefore be modified or changed.

Finally, let me also repeat the appeal of my President, Flight Lieutenant J.J. Rawlings, to the U.N. Millennium Summit that the fight against corruption will be greatly enhanced if proceeds from these corrupt activities, especially by people in leadership positions, which find their way into foreign bank accounts in your countries, when detected are returned to the countries concerned from whom the U.S. took them in the first place.

I thank you very much for your attention.

Chairman GILMAN. Thank you, Mr. Abeasi, who is also incidentally the private sector representative on Ghana's anticorruption commission. We thank you, too, for your work on the Washington Conference Report on Corruption.

[The prepared statement of Mr. Abeasi is available in the appendix.]

Chairman GILMAN. Our next witness is Roberto de Michele. Mr. de Michele heads the Transparency Unit of the Argentine Ministry of Justice and Human Rights. An attorney, he is also a teacher, an author and a translator. He is best known as a corruption fighter in his own country, and is also consulted by authorities around the world. He has a special perspective as a citizen of a developed Latin American country to bring to us today.

Please proceed, Mr. de Michele.

**STATEMENT OF ROBERTO DE MICHELE, MINISTRY OF
JUSTICE AND HUMAN RIGHTS, ARGENTINA**

Mr. DE MICHELE. Thank you, Mr. Chairman, and thank you for the invitation to this hearing.

Briefly I would like to first mention the current situation in Argentina. Argentina is going through a process to increase transparency and accountability in government, a process which started showing some signs a few years ago when by decree the first code of ethics in government was passed and an Office of Government Ethics was created. By the end of last year, this decree was transformed into a law, national legislation, which includes rules for ethics in government for the three branches of government, and also creating special obligations in terms of conflicts of interest for public officials.

At the same time, the new administration which took office in 1999 created by law the Anticorruption Office within the sphere of the Ministry of Justice. The mandate of the Anticorruption Office is to implement the rules and provisions of the Inter-American Convention Against Corruption. In fact, this office has two branches, two areas, one dedicated to investigation and the other one dedicated to planning, designing, proposing and implementing policies to increase transparency, accountability, and reduce incentives for corruption.

Some of the particular tasks that this office carries out is investigation of past and current situations in which public officials and particularly the executive branch might be involved dealing with cases stipulated under the Inter-American Convention as corruption.

The other area among the assignments the Direction for Transparency Policies deals, with issuing opinions on conflicts of interest of current officials in government. In fact, it has issued so far more than 50 opinions, including Ministers, Secretaries of State and officers of lower rank. The opinions instruct public officials on such actions as selling of assets and withdrawal from private activities that might conflict with their public duties. It is also in charge of administering the system of financial disclosure forms in which citizens can track the possible evolution of assets of public officials and therefore increase the social control that is needed as in any sound policy to promote transparency.

Argentina is not only active within the sphere of the Inter-American Convention, it also takes part in other forums, such as the Financial Action Task Force dedicated to issues of money laundering. It is active also within the United Nations Center for Research on Criminal Issues and Justice, and is working there on proposing an elaboration of the general convention against corruption within the framework of the U.N.

Only 10 days ago, Congress in Argentina approved the OECD Convention, which means that in a short time it will become law. Our office is in charge now of analyzing the reforms to our substantial legislation that the new convention will require. The possible changes will be focused basically on issues that have to do with money laundering and the possible complementation or conflicts with the existing legislation on money laundering.

Also it will have to deal with issues such as the ones mentioned before by Mr. Heimann, referred to as accounting procedures and rules in order to implement more standardized and transparent ways in which corporations take notice of their economic operations.

There will be also some recommendations in terms of mutual assistance between judiciaries of different countries in extradition. There is also going to be—part of the work will focus on the idea of seizure of assets of people who are allegedly involved in cases of corruption.

There has been a lot said and written on the effect of corruption for the economy and the market, but let me perhaps introduce a thought that not everyone shares. Corruption not only has to be viewed as a problem, but perhaps as a consequence of the problem. The basic problem is the lack of rule of law and weak public institutions. You are aware, Mr. Chairman, that unfortunately not all the world shares the benefits of democracy and rights for the citizens and effective government. If the question is what can be done in terms of making more progress in this arena, I would say that a sound strategy should include a long-term vision, which is promoting the expansion of the rule of law and democracy around the world as a more substantial basis on which to build an anticorruption strategy.

In the short term, other actions can be implemented. We believe that the monitoring process provided by the OECD Convention is an adequate procedure by which different countries can enter into a more elaborate and useful context in which the rules of the game are fair for everyone, and therefore offer adequate guarantees that nobody will be playing by their own standards or unaccepted rules.

Referring to this kind of procedure or process, you are probably aware that the OAS, the Organization of American States, within the Working Group on Probity and Public Ethics, will try in the short run to adopt measures that are similar to the ones provided by the OECD Convention.

Going back to the question of what can be done on this area, the exchange of expertise will probably help countries involved in concentrating on the same focus or projects. In the particular case of Argentina, we have a formal agreement with the U.S. Government, particularly with the Office of Inspector General of the State Department and the Office of Government Ethics, that has proven useful and a successful way in which we can exchange experiences and collaborate in fields of mutual interest.

Again, Mr. Chairman, thank you for the time.

Chairman GILMAN. Thank you, Mr. de Michele.

Our final panelist today is Robert Klitgaard, the Dean of the RAND Graduate School and the Ford Distinguished Professor of International Development and Security. He served as an advisor to many governments on economic strategy and institutional reform and has written seven books on a wide range of public policy issues, including *Corrupt Cities*, a *Practical Guide to Cure and Prevention*.

Welcome, Dean Klitgaard. You may proceed.

STATEMENT OF ROBERT KLITGAARD, DEAN, RAND GRADUATE SCHOOL

Mr. KLITGAARD. Thank you very much. It is a pleasure to be here this afternoon with you.

One part of the next agenda in fighting corruption is how to invite in even more the private sector into that fight, and this afternoon I would like to share one idea for your consideration.

The idea builds on a paradox that in all the countries that are afflicted with systematic corruption, people in everyday life in the private sector know how the systems work. After all, they are the ones that are paying the bribes and being extorted, so that common citizens know how corruption impedes the social services they do and do not receive.

Lawyers understand how corruption afflicts the legal system and its implementation. Business people understand very well how corrupt systems of procurement and contracting work. Accountants know very well how tricks are played in corporate governance which become corrupt, evasion of taxation.

There is a paradox here, because on the one hand these people know, but they cannot say. In many of these countries, speaking up about the kinds of systems that exist to corrupt their country is dangerous. It is a form of virtual suicide to speak up. They know, but they cannot say. So the challenge, or a challenge, in the next agenda, in the next step in this process, will be to figure out how can we learn what they know without putting them in a very sorry predicament?

So here is the idea I have for your consideration. Imagine that with the lead of the U.S. Government and our private sector, we picked out three areas where we know corruption afflicts many of our friendly countries, let's say one in the economic area such as procurement, one in the social area such as pharmaceuticals, one in the justice area such as the legal system in the courts, and we invite another set of countries to participate with us in a diagnostic effort that builds on the private sector's knowledge of how these corrupt systems work.

So what I have in mind is going to each country, taking out 15 or 20 individuals who are involved in the private sector side in each of these three areas, and engaging in confidential individual interviews with them that lead them through the system to describe not individual people who are giving or receiving bribes, but how the informal, possibly corrupt, system works in practice. How are side payments made? How extensive is the problem? How do the perpetrators of corruption keep their actions and the results of those actions hidden from public scrutiny? How does the corrupt system work?

With this diagnostic effort, improvements would then be sought, again in cooperation with the private sector. On the one hand, how can the formal systems be strengthened; on the other hand, how can these corrupt informal systems be subverted through actions ranging from public, private and nonprofit?

Let us suppose then with this effort reforms would follow, helped by the American Government, helped by American business, and then after some time, using the same methodology, we would actually try to evaluate the success, going back once again to business

people, lawyers and accountants, and asking how are we doing after a year, 2 years, 3 years.

Now, I would like to contrast this idea with the current state of play in international aid for anticorruption efforts, and I want you to imagine you are the President of country X. Country X is a country that is receiving World Bank help or USAID help, and you have received a loan or grant on the condition that you clean up corruption in your country. Okay. This puts you in a tough spot, because when you announce an anticorruption effort, you are admitting that your government is corrupt, and the opposition party says, of course, we knew this all along. That is what we have been saying. And your ministers and your civil servants are embarrassed at the bashing that they take at your very hands.

So it puts you in a tough position, which is one reason why many Presidents do not enjoy being given conditional loans on the contingency of announcing that their governments are corrupt and they are going to heed the tune of the World Bank or the U.S. Government to clean it up.

In contrast, take the idea I mentioned to you. Imagine again you are the President. You say, I am delighted to be part of this international effort to study the way corrupt systems afflict our world. I am so happy that the private sector in our country and the citizens groups are taking part in this diagnostic effort, because, after all, this is a problem that affects all of us, and all of us must be part of the solution. The international nature of the effort, the fact that the private sector and the opposition parties would also be involved in this effort gives you insulation as a President and a chance to move forward with a more positive political face on this issue.

Now, how might this work in practice? One final advantage of this idea is it is fairly cheap. Imagine 150 to 200 interviews per country, some convening and collecting of results both internally and internationally, the financing of reforms, much of which should be done by countries themselves, and then its follow-up surveys, again abetted by the private sector. It is an idea that will not cost us as much as many other ideas.

So practically, Mr. Chairman, how could this idea be pursued? I suggest that you, this Committee, Members, develop this idea and dialogue with USAID, with Transparency International, with the Commerce Department, and then with friendly nations who would be interested in participating. With this collaboration, using technical expertise, design the diagnostic, the interview instruments that would be used and the procedures for gathering the data, organize the collection of the data in each country, and then enable a system diagnostic to be drawn of each of those three areas that we would choose as the focal points. Share the results of the diagnostic study with the governments of each of these countries and work with them to develop transparent, openly discussed remedies for the informal systems that we see that are corrupt. Then implement the recommendations, follow it up a year later, and use the very processes developed, the participation of the private sector in this effort, to develop further ideas for combatting corruption.

To conclude then, inviting the private sector means learning what business people, accountants, lawyers and common citizens

know about the way corrupt systems work. The particular version of the idea I have outlined here this afternoon, in this particular version the United States would take the lead in organizing an international collaborative effort to analyze how corrupt systems work and how they might be cleaned up. Notice that the idea goes beyond international conventions, beyond codes of ethics, beyond foreign aid that is aimed at civil service reform or more of the same in government. Instead, it looks at inviting the private sector into the fight against corruption.

Thank you.

Chairman GILMAN. Thank you, Dean Klitgaard, for your very interesting proposition.

[The prepared statement of Mr. Klitgaard is available in the appendix.]

Chairman GILMAN. Let me ask some questions.

Mr. Heimann, are there any pressures that our government, as opposed to the World Bank or other international institutions, can or should put on foreign companies to adopt appropriate books and records and practices so that the supply of bribes can be reduced?

Mr. HEIMANN. Thank you, Mr. Chairman. I will be very glad to answer that question.

TI proposed to the World Bank several years ago that it should encourage corporations to adopt antibribery compliance policies. At the time the World Bank took the position that only American companies had these policies, and it would be inappropriate to apply this requirement because it would shrink the pool of perspective bidders.

We think at this point we are at a stage where over 20 countries have ratified the OECD Convention. I think the time has come to impose such a requirement not just on the part of the World Bank, but on other international financial institutions, and we hope very much your Committee would encourage that, because I think I share Mr. Klitgaard's view, you need the cooperation of the private sector. Criminal law sanctions work only if the majority of companies comply voluntarily. Then the law can bring the other 10 percent in line. But a program of encouraging voluntary compliance is essential to get the 90 percent aboard.

Chairman GILMAN. What should the United States be doing besides the International Bank?

Mr. HEIMANN. Well, what AID and other American agencies already require. The important thing is to get the rest of the world on board. But the U.S., through its role in the World Bank, in the Inter-America Development Bank and other similar institutions, can promote this. Similarly, OECD has a group that works on bilateral aid programs. So I think there are a number of vehicles available to the U.S. Government to push this. I think if your Committee encourages it, the government, the administration, would do this.

Chairman GILMAN. Mr. Abeasi and Mr. de Michele, how have developing countries responded to the adoption of the OECD Convention? Have they welcomed the move to criminalize bribery, or do they resent it as an intrusion in their internal affairs?

Mr. ABEASI. I think, for my part, it has been quite acceptable to us, because as you indicated, it is a major cause of benefit for

Ghana, and therefore it is being welcomed, especially by those that are getting into the democratic dispensation.

I just want to take the opportunity to say that the steps being advocated by Mr. Klitgaard has already been taken by a few countries, including my country, for instance. We need to create a demonstration effect that people that have done that are going to get ahead. Botswana, for instance, is well-known in the league for less corrupt nations, and I think we need to create a few more of these.

I want to suggest that we are at a place where, with a little effort, we can have another example which will be showing that demonstration effect. But the OECD Convention appears to be in the right direction.

Chairman GILMAN. Mr. de Michele?

Mr. DE MICHELE. Mr. Chairman, in my knowledge, there has been no negative reaction to the adoption of the OECD Convention. In fact, the adoption of the Inter-American Convention, which took place 3 years in advance, shows that basically these kind of conventions and rules are adoptable by countries.

Now, the question still remains, how real will these provisions become in each of these countries, and how far we can move in terms of international cooperation.

Chairman GILMAN. Thank you.

Dean Klitgaard, can your proposition be pilot-tested? You have heard Dr. Abeasi say they already tested it.

Mr. KLITGAARD. Yes, sir. It has been done in a few countries, for example, with judges and prosecutors. We are asking lawyers how the system actually works. Members of the bar association enabled a description to be made of how that system worked, and then you could close the loopholes and the risks. In other countries it has been done in areas like road building and pharmaceutical supply, where you can analyze the steps along the process of procurement and contracting to notice where the systematic vulnerabilities are to corruption.

What hasn't been done yet as a pilot basis is this kind of international comparison with the systematic effort to build in the private sector in the civil society as part of an international effort. I think that is something that would really add to the effectiveness of the effort.

Chairman GILMAN. Dean Klitgaard, couldn't your proposal be tested out at the Washington Conference on Corruption and see if they would voluntarily agree to undertake this?

Mr. KLITGAARD. Sure. We could try it out. You mean this week?

Chairman GILMAN. Yes.

Mr. KLITGAARD. We could try it out.

Chairman GILMAN. Try it out there and let us know how it works out.

Mr. Gejdenson.

Mr. GEJDENSON. Thank you, Mr. Chairman.

You know, I can't remember which Ottoman emperor, but it seemed to me one of the Ottoman emperors said he was giving his top staff access to his harems and treasuries. Others objected to this, asking why he paid his people so well, and he said he didn't want to lose his empire for a handful of rubies.

It seems to me one of the issues we have to take a look at and I didn't hear discussed here is frankly, in some countries, compensation is at such a level that you have to get a little extra on the side. If you are asking somebody to be a customs official, and you are paying him an official wage that by no stretch of any imagination, even with his spouse or her spouse working, even with a second job, is enough to survive on, then the government is saying, you have got to steal.

Is there any review of what happens to critical employees at choke points where you can cut off corruption by training their salaries? Obviously many of these governments are in trouble, but unless, it seems to me, that the people who work for you are able to survive on the salary you pay them, you know they are going to cheat.

Mr. HEIMANN. You have put your finger on one of the most sensitive and most difficult areas to deal with. Like most corruption issues, you have to develop local solutions to deal with it.

In many, many countries, the civil service is too large, and, as you say, underpaid. However, the effort to go from that to a small number of people who are competent and well compensated is a very, very difficult step. It has got to be addressed.

Mr. GEJDENSON. It is the critical step. As long as I am making one-tenth of what it takes to survive, I am going to find a way for my children to eat.

Mr. HEIMANN. From a TI standpoint, our first priority is to deal with grand corruption, big payoffs to top officials. Until you have dealt with that issue, until you have got the top of the government interested in reform, you can't deal with low pay in the rest of bureaucracy and facilitate it.

Mr. GEJDENSON. I am not sure I agree with that premise.

Mr. HEIMANN. It has to be addressed.

Mr. GEJDENSON. I also want to thank you. We used a lot of your agency's work in drafting our legislation.

Mr. HEIMANN. Yes. We are very much aboard your effort, and we want to continue working with you as it proceeds.

Mr. GEJDENSON. Yes?

Mr. KLITGAARD. I would like to take a crack at that question also. In 1989, I wrote a paper in a journal called World Development called Incentive Myopia. It pointed out that the free market reforms around the world were praising the value of incentives for farmers and fishermen and industrialists, and getting the prices right was the mantra, but we were not getting the prices right in the public sector, where in many African countries the median wage of a public servant could not feed a family of four, that we were inviting corruption in the same way.

It is one thing to note the problem; it is another thing to create a solution. The solution I proposed was to forget about the solution through grand civil service reform and raising the average level of pay of all workers in government. That is financially impractical. Anyway, big civil service reforms don't have a good track record. Instead, pick some key areas where performance is measurable and try some experiments to see if they work. For example, in public works such as road building and ports, anything to do with power supply, you have pretty clear measures that you can provide, re-

ward the laborers. This has been done in Ghana, in fact, back in the days 15 years ago. They were very successful to pay people with food-for-work money, additional bonuses for work successfully done with results that followed.

Customs and tax bureaus in 1985 in Bolivia, they created a scheme where if the public Customs officials hit a 60 percent increase target that they themselves had specified, 5 percent of the additional 60 percent would go to them as payoff. In effect, they doubled Customs revenue in 1 year in Bolivia in 1985.

So you have to begin with schemes that have a measurable outcome to show it works, and then try to spread to the more difficult areas of government where it is very hard to measure. This is where it is also very entrenched with corruption, such as the courts and police. But I believe with an experimental approach as opposed to a civil service reform approach that this kind of problem can be addressed forthwith.

Mr. ABEASI. Mr. Gejdenson, if I may add to that, as he said, we are attempting a Civil Service Performance Improvement Program. The basis is we want to try to reduce the size of the civil service and shift the excess toward alternate employment. The problem is how do you generate the alternate employment?

Most people would want to get out of civil service that does not pay properly so they can get into the private sector. So the innovation is to develop jobs that people can do themselves and empower them by giving them new skills. This is the kind of operation that reform is trying to achieve, but it is not easy. Again, you need to be able to do a study that tells you the critical number of people you need in this service. This is the step we are on.

Mr. DE MICHELE. My office has just finished a diagnostic of the Argentine public administration that has been made public yesterday, specifically in procurement and human resources. I believe it is one of the first diagnostics that was produced via interviews and surveys on public officials themselves, high-ranking, mid- and low-ranking. The study shows, one of the findings, that even when you don't have the problem of low salaries, you still do have the problem of incentives for corruption. That is one of the findings. The other finding is that you have to be very careful to put a lot of things under the same word. Corruption is too large a word. You have to divide, analyze and—

Mr. GEJDENSON. Explain that. Explain what you mean by not having the same title for all of it. Give me two different categories from your perspective.

Mr. DE MICHELE. You can have similar situations in two agencies and a different outcome. It all depends on the process that the agency runs. Customs, running Customs is not the same as distributing syringes, not the same as contracting bridges. Therefore, you can have some problems of low wages in those three agencies, and in some of them you cannot have corruption. This requires—and I think it has been said before—this requires to develop tools that will allow for specific diagnostics.

As far as I know, Mr. Klitgaard is perhaps the expert at the table, that we have not been very successful developing very specific tools. We are at the beginning of getting good instruments for this. So everything that goes in that direction is positive.

Mr. GEJDENSON. Could I have the Chairman's indulgence for one more question?

Mr. Heimann, we have been very sanctimonious here in the United States, kind of sitting back here and growling about our European compadres continuing to bribe at will.

What is your sense? One, are we missing some of our own ill deeds here? Occasionally American companies do get caught violating our own laws. Are we doing a good job enforcing Americans laws? And are the Europeans genuinely ready to not have the company deduct the bribe paid to the foreign official? Is Europe really engaging us on this, are they ready to go forward, do they see this as a serious challenge to democracy and society, or are they saying Americans want us to deal with it, we will make a little noise, but it is still not high on our radar?

Mr. HEIMANN. We are making progress. We have got a long way to go. Three or 4 years ago, TI could not get German companies to pay any attention to its agenda, and it took really the election where the Social Democrats took over to change the climate. Now German companies are actively participating in TI's work. We are making some progress in the U.K. France, the progress is kind of slow. So you have to look at it country by country.

I think one of the important changes in the last few years, and I think TI has played a role in this, is to make this an international issue and not just a U.S. issue. As long as we had the Foreign Corrupt Practices Acts and we said, well, you got to do what we do because we are clean and you are dirty, that was not productive. Over the last several years, I think it is being regarded as an international issue, and you are getting increasing support around the world. While that is progress, there is a lot more to do. But keeping it internationalized and being tactful how we push this from the U.S. standpoint is one of the key ingredients, and I think the administration deserves credit in having done this very, very well.

Mr. GEJDENSON. Thank you.

Chairman GILMAN. Dr. Cooksey.

Mr. COOKSEY. Mr. Gejdenson, don't leave. I am going to answer your question.

Mr. GEJDENSON. Go ahead. I am listening.

Mr. COOKSEY. Mr. Gejdenson is a good friend of mine. We have fun throwing barbs occasionally.

I want to go on a little bit different line of questioning. I see some very young, idealistic people, hopefully students, in the back, and I want to bring up a rather disturbing dirty subject. I want to talk about the corruption in this country. I will give you some quick examples. The question I would like each of you to answer is do we keep our level of corruption down to the level that we should? If so, why? If so, do we do it because we prosecute people occasionally, or do we still let people get by? I am going to give you examples.

The first example is a report from the World Bank. It is actually from the William Davidson Institute that I am sure you are familiar with. But it shows that the U.K., Germany, Japan, France and Russia, all give less kickbacks, bribery, for foreign investment than the United States does. Austria is worse than us, Belgium is worse

than us, and Greece is off the chart almost. That is the first example. That is an international example.

Local domestic examples: An investigator with the premier law enforcement agency in this country told me 2 years ago that in a previous administration in this city, the District of Columbia, there was a bribery kickback system going on in which the municipality was sending city vehicles out, trucks, backhoes, bulldozers, to residential and commercial construction jobs in this city where we are today, and the billing was done to another third-party entity. This investigating agency put the whole case together, wrapped it up, and there was never an indictment, never a prosecution.

I am going to tell you about my State of Louisiana. We have a Governor who has been Governor for four terms, was recently convicted on 17 counts along with his son and other people for extortion or selling riverboat licenses. The Commissioner of Elections is going to trial in the next 90 days for a similar bribery kickback scheme.

There is in my town. I live in north Louisiana. I don't live in New Orleans, I live in Monroe. We have a former city official. So you see, Mr. Abeasi, we have this in this country, too.

My question is—and I won't tell you what party they were in—

Mr. GEJDENSON. Tell us what State they are from, if the gentleman would yield?

Mr. COOKSEY. They are from my State.

Mr. GEJDENSON. Thank you.

Mr. COOKSEY. But they were all in your party. Okay.

How can we judge these other countries? And I agree, it goes on there. I used to work in Kenya. I used to go over there with truckloads of medical supplies when I was going over to do eye surgery. I was adamant about following the rules, and I went through all this, and one of my surgeons that went with me would get his trucks through for \$20. Finally I gave up. For \$20 I would get mine through in an hour. So, you know, it is easier to do it that way.

My question to you is do you think we are really clean in this country? If not, why do we prosecute some people, and why do we not prosecute others, and what can we do to improve our situation in this country?

Mr. KLITGAARD. Are you a medical doctor?

Mr. COOKSEY. Yes, I am an eye surgeon. That is where I used to make an honest living, before I got this day job.

Mr. KLITGAARD. Is there a lot of disease in the United States?

Mr. COOKSEY. Yes. There is more in Africa, where I used to work.

Mr. KLITGAARD. Should we therefore not get into the business of curing disease in Africa, because there is disease in the United States?

Mr. COOKSEY. We do, but there seems to be a neglectful attitude in this country.

Mr. KLITGAARD. All right, but that is the same principle. The principle would be something like this. There is corruption everywhere in the world, just as there is sickness everywhere in the world, and we start from that point of view. And then we say, but the distribution of illness, different kinds of illnesses, are differently intense in different parts of the world. We have more heart disease than Africans do, we have more colon cancer than Africans

do, let's say. They have more problems of hunger, malaria, diarrheal diseases and so forth.

Mr. COOKSEY. Infectious diseases.

Mr. KLITGAARD. So we don't say, you are sick, we are healthy. We say, do we know anything that can help you fight your diarrheal diseases, and the answer is yes, we do, and therefore we go and try to help.

The same thing goes with corruption. I am often asked by foreign journalists, are you saying, gringo, that you don't have corruption in your country? And I say, first of all, no. We have been historically the number one exporter of corruption historically. I don't think we are anymore, but I think we historically have been.

Mr. COOKSEY. We are still high.

Mr. KLITGAARD. And we lead the league in insider trading, or we are close. We are doing very well in organized crime. At least historically we have done pretty well in that area. Being from Los Angeles, I can talk with pride about our police corruption being right there at world standards. I am joking. And, finally, I might say in this august body that in terms of campaign financing, there are some who believe that the system of campaign financing that we enjoy in this country, if not corrupt, legalizes influences and practices that in other countries would be thought to be inappropriate.

So we come from that point of view, yet nonetheless we can say to them, do you think you are being held back by a judicial system that is systematically corrupt? Ours is not, not systematically. Do you think you are being hurt by banking and credit systems that are undermined by favoritism, theft and patronage? Ours are not systematically corrupt. Do you think there is any way we can help each other to do better for mutual benefit here? The answer is yes.

So I think the medical analogy is a very good one to help us not be proud, not be self-righteous, but to look instead—instead of saying, is there more heart disease in Argentina or in the United States, say, I don't know, but let's get to work on this patient.

Mr. COOKSEY. A good response and a good answer.

Mr. Heimann?

Mr. HEIMANN. In my experience working in Transparency International with people from many, many other countries, the right way to proceed is very much the way Bob Klitgaard had it. We have to admit we do not have a perfect system, but in most of the areas we are looking at, we have tried and we have been successful in many, many areas, and we have to learn things from other countries, but other countries are willing to learn from us. We have a much more transparent financial system. We have an SEC. Most countries don't have a SEC. We have an Office of Government Ethics that is being rapidly followed as an example by many other countries. The Chinese sent people here to learn about the U.S. Office of Government Ethics.

So, nobody is clean. The reason we can work with each other is because we all have to admit none of us are clean. TI conducted a Bribepayer's Index last year. We looked at not just corrupt officials, but who does the bribe-paying. The U.S. came out in the middle of the pack. We were 9th out of 19. This came up to us as a real shock. We thought with the Foreign Corrupt Practices Act 20

years in existence we would be way ahead of the others. We were not. But that in turn—

Mr. COOKSEY. Could you continue to answer the question?

Chairman GILMAN. Without objection.

Mr. HEIMANN. I am sorry?

Mr. COOKSEY. Go ahead.

Mr. HEIMANN. We are—

Mr. COOKSEY. We are over my time limit, but I appreciate your comments.

Mr. HEIMANN. So campaign finance is obviously a major area where we have got to learn. But that is one area where I don't think people can learn too much from us because of the first amendment problem. I met with John Brademas the other day. The 1974 Campaign Finance Reform Act I think was a good move, but the Supreme Court gutted it, and other countries don't have the first amendment problem.

Mr. GEJDENSON. If the gentleman would yield, I want to say the Supreme Court has been wrong on other occasions, including separate but equal and a few other decisions through the years, so I think that a future Supreme Court will recognize that you can limit dollars without limiting speech, and if free speech and dollars are equal, then obviously poor people don't have an equal voice in this democracy. So I think it is just a mistake the Supreme Court made. I respect the Supreme Court, but I assume that a future Supreme Court will recognize that you can distinguish between the pile of money you have and the issue of free speech.

Thank you, Dr. Cooksey.

Mr. COOKSEY. Absolutely.

Mr. Abeasi, would you comment?

Mr. ABEASI. I would want to say it is not new to us. I am not surprised. We know that corruption occurs here. Indeed, when I was coming here for the last seminar, I stopped through New York, and the immigration officer asked me, where are you off to this time? I said, to Washington. He said, what for? I said, I am going for the corruption conference. He said, that is a good place to go, you know.

So we know that it happens here, but the important thing is that if you came with a holier-than-thou attitude, then it would be difficult to get us to take you serious. But we know that the damage that it causes in the United States is such that you might not even notice it, whereas if you took it to the developing country level, the damage is so devastating that we need to do something about it.

Mr. COOKSEY. It is. It is very deep, and it is broad.

Mr. de Michele, would you like to comment?

Mr. DE MICHELE. Very briefly, I think, first of all, it is not my intention to comment on the situation in the United States, but basically I would try to say that if you put the idea of corruption along the idea that this is a personal or individual problem, I think that is the wrong direction. If you put the idea of corruption in terms of a systemic problem, something that it can be viewed somehow empirically and therefore improve the system, improve the quality of government, then people don't get personally hurt by that, and then you can move faster.

Mr. COOKSEY. That is a good comment. Thank you, Mr. Chairman.

I would like to thank my friend Mr. Delahunt. I was probably imposing on his time.

Chairman GILMAN. Mr. Delahunt.

Mr. DELAHUNT. I want to congratulate you on the work that you have done, and I particularly think Transparency International has earned and continues to enhance its reputation all over the globe. But to pick up on the last point by Mr.—how do you pronounce your last name?

Mr. DE MICHELE. de Michele.

Mr. DELAHUNT. Thank you.

In talking about the systems and your experience with corruption in various governments, it is just my own observation that corruption appears to be more rampant, in those nations where there is a weak judicial system. The problem of corruption is far in excess as to what we see in democratic societies, democratic nations, where the judicial system is an independent and healthy institution.

It would seem to me that much of what we do here in Congress, as well as any administration, we should revisit what we do in terms of what we describe as nurturing democratic institutions and funding efforts and specifically focus on those judicial systems, because, again, thinking specifically of Latin America, and wherever there is a serious problem with corruption. Just recently we have had the President of Peru make an announcement that he was going to call for new elections and wouldn't be a candidate himself, and that was based upon what presumably was a corrupt act that was videotaped, by a high government official.

Invariably I believe it goes to more specifically a weak judicial system and also a judicial system that has no independence—or little independence—from the executive branches of those nations. That is just an observation. I would be interested if you have any comment.

Mr. HEIMANN. You are absolutely right. If the judicial system is corrupt, other methods of dealing with corruption are not going to be effectively enforced. The other side of the issue, very few things are harder to reform from the outside than judicial systems, and a lot of money has been spent to try to inculcate the rule of law from outside. It simply has not worked. This does not mean we have to stop trying, because you are right, this is absolutely fundamental, and the way TI tries to work on this is through the national chapters to develop a local constituency interested in doing this.

Mr. DELAHUNT. I think you are very effective in that, by the way. I think there is a relationship between improvements that we do see and the efforts of your national chapters, because I really think you bring that attention and that focus and that spotlight to what has occurred. But I agree. I mean, we have to persevere and persist in trying to find a mechanism to effect the kind of change that I think we agree is critical.

Anyone else?

Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Delahunt.

Mr. Gejdenson, do you have any further questions?

Mr. GEJDENSON. Mr. Chairman, no. I just want to thank—if I could for one moment, thank the panel. I think it is something that we have to continue to work on. There are a lot of preconceptions that occur both here and elsewhere. I remember in 1972 I was in Spain with a young woman who was a college graduate. At that time Franco had been head for some time of the Spanish Government, and I was talking to her about democracy, and she says, oh, we can't have democracy in Spain. The Spanish people, we are just not suited to democratic institutions. I just could not believe what I was hearing from a young university person, well educated. You know what? The Spanish people have been pretty good at having democracy in Spain.

So I think a lot of these preconceived notions that there are areas of the world—I think Mr. Cooksey's point is well taken that the Democrats in Louisiana have been caught, the Republicans haven't been caught yet, but certainly will be at some point, that we have problems here as well, but we all have to work at doing this better. We all have to work to make sure that we build the institutions in every society that protect the citizenry, whether from war or from thievery internally. We can do that together, focusing on the challenges and putting away our preconceived notions. Not that we are perfect, not that anybody out there is perfect, we have to do the best we can. There are lots of approaches.

I want to thank you, Mr. Chairman, for holding the hearing.

Chairman GILMAN. Dr. Cooksey?

Mr. COOKSEY. Incidentally, you have been wonderful witnesses, and this has been a good discussion. It is something we really need to address now. I was pleased with your very thoughtful and good responses.

What do you think the comparative impact is of bribes from external sources as opposed to those from internal sources in a country? You know, let's say there is one country that they are building airplanes, and they use bribes to get you to buy their airplane, and yet that that same country, they have a lot of internal bribery going on. What is the—what are the impacts of that on that society, and what is the impact internationally? The question again, what is the comparative impact of bribes from external sources and those from internal sources? Internal being within, Louisiana is bribing Louisiana, as opposed to French bribing French, and then across country lines.

Mr. ABEASI. I believe that since the foreign exchange or difference in currencies, naturally foreign bribery has a lot more impact if you take the developing countries. Internal bribery, circulation of the few CDs or nada, or whatever, in there, but when it transfers across borders, then a little bit of dollars transfers into a huge amount of local currency. So the impact is really huge if it is foreign bribery. This is why we need to more careful.

The only thing is that it is more difficult to detect bribery across borders than within. Perhaps that is the only difference. But otherwise the impact is heavier when it is from outside.

Mr. COOKSEY. Thank you.

Any other comments?

Chairman GILMAN. Thank you, Dr. Cooksey.

Do any of the panelists want to make any closing statement?
Yes.

Mr. HEIMANN. I would just like to make one additional point at this time. In your opening remarks, Mr. Chairman, you referred to the Inter-American Convention as another important issue. We couldn't agree more. It is a terribly important initiative for the Americas. The one deficiency of that Convention is that it did not have a monitoring process, and we are convinced that you need a monitoring process to go from good intentions to reality, and we hope you and the Committee will help this effort along. Particularly there is a Summit of the Americas next April in Canada, and we hope that the U.S. will make this a top priority deliverable from that convention, to make sure from the Summit of the Americas that they will then agree to launch this kind of a process.

Thank you.

Chairman GILMAN. Mr. de Michele, did you want to comment on that?

Mr. DE MICHELE. No.

Mr. ABEASI. Mr. Chairman, I just wanted to ask you, Mr. Heimann, it is not just the monitoring system, but we need a reward system that will, you know, highlight the fact that people are making progress in fighting this battle so that it will have a demonstration effect, especially in our part of the world. Thank you.

Chairman GILMAN. Dean Klitgaard?

Mr. KLITGAARD. Nothing further.

Chairman GILMAN. I want to thank our esteemed panelists and our Members who took part today. This has been, I think, a very helpful session. Please convey our best wishes to those participating in tomorrow's summit on corruption. We hope out of that summit will come some worthy recommendations. Thank you again.

The Committee stands adjourned.

[Whereupon, at 4 p.m., the Committee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW JERSEY

Mr. Chairman, I want to thank you for holding this very timely and important hearing on the issue of combating corruption—clearly a threat to global peace, stability and prosperity, but particularly challenging for those nations struggling to develop democratic institutions and the rule of law. The Helsinki Commission, which I chair, has undertaken a series of hearings on this important topic, examining the breadth and depth of the problem in the OSCE region and what steps the OSCE can take as an institution to combat corruption and organized crime.

Mr. Chairman, the cancer of corruption and organized crime undermines public confidence in government and threatens the development of the rule of law in those very countries which are striving to shed the legacy of communism and its corrupt and repressive system.

Widespread corruption in the transition countries threatens their ability to provide strong and independent legal regimes, market-based economies and social well-being for their citizens. Corruption has stymied economic reforms in these countries and impeded efforts to improve the status of disadvantaged groups. In the absence of effective civil rule of law, Mafias have flourished through their corrupt connections, gaining power over whole sectors of economies and derailing legislative reform agendas inimical to their interest. A recent EBRD report recognizes this reality and calls for greater efforts among governments and international organizations to “depoliticize” economic activities and develop measures to constrain state “capture” by private interests. As a result of this “capture” and siphoning off of public wealth, citizens, deprived in some cases of government-sponsored basic support mechanisms, have formed negative opinions about democracy and free markets.

As a concrete example—during a Commission hearing in March of this year regarding the human rights situation in Turkmenistan, one of the most authoritarian and repressive regimes in the region, opposition leader Avdy Kuliev cited three components of President Niyazov’s internal politics, the first of which is corruption.

The fact that the Committee is holding this hearing and talking about corruption—and not solely in the economic sense, but corruption in government and public institutions—is itself refreshing. In the not too distant past, many public officials were loath to mention the “C” word. Many corporations simply accepted the demand for bribes as a cost of doing business.

In recent years, this attitude has begun to change and, frankly, I believe the globalization of our economies is in part responsible. There is a growing realization throughout the world that bribery is not a harmless emollient to the deal. It is poisonous to emerging democracies; poisonous to economic development; and poisonous to free and fair trade. The business community has come to realize that, in the long-term, competing on a level playing field with transparent rules of the game is more beneficial to their bottom line, and they have strongly supported our government’s efforts through the OECD and other organizations to develop and implement anti-corruption initiatives.

The Helsinki Commission has pushed for a greater recognition of the threat of organized crime and corruption in the OSCE and has supported efforts to develop an OSCE strategy to combat them. During the 1999 Annual Meeting of the OSCE Parliamentary Assembly in St. Petersburg, Russia, our delegation called for the convening of a meeting of OSCE Foreign Ministers to develop strategies to combat these threats. We also introduced a resolution condemning the cross-border trafficking in women and children—a major industry, along with drugs and weapons, for organized crime entities. This year, we were successful in having the OSCE Par-

liamentary Assembly adopt as the focus of its work during its Ninth Annual Session in Bucharest, Romania, the topic of Promoting Transparency in Government and the Rule of Law.

Our Commission worked closely with the State Department to ensure that combating organized crime and corruption was on the agenda of our heads of state during the OSCE Summit in Istanbul in November of last year. As a result, the OSCE leaders issued their "Charter for European Security" in which they specifically recognized that corruption poses a great threat to the OSCE's shared values, generates instability and reaches into many aspects of the security, economic and human dimensions. The OSCE Heads of State committed themselves to step up efforts across all dimensions of the OSCE to combat corruption and to promote the rule of law. They directed the OSCE Permanent Council—the Organization's primary working body—to examine how best to contribute to efforts combating corruption and to report to the meeting of OSCE Foreign Ministers scheduled to convene in Vienna, Austria on November 27–28, 2000.

Members of our Commission, and our colleagues in the House and Senate, will continue our efforts to develop strategies within the OSCE process to combat corruption and promote transparency and the rule of law. Mr. Chairman, I look forward to the testimony of our distinguished panel of witnesses and any recommendations they may have as to how we can continue to address these issues here in the Congress and working with the OSCE. Thank you.

PREPARED STATEMENT OF FRITZ HEIMANN, CHAIRMAN, TRANSPARENCY
INTERNATIONAL USA

I want to compliment the Chairman and the Committee for calling this hearing. Your title—"The Fight Against Corruption: The Unfinished Agenda"—is most pertinent. Over the last half dozen years a start has been made in addressing international corruption. However, much more needs to be done.

I represent Transparency International (TI), an NGO formed in 1993 to combat corruption around the world. TI's headquarters are in Berlin, Germany, and we now have a network of national chapters in over 75 countries. I am one of the founding members of TI, serve on TI's board of directors, and am Chairman of its US chapter, TI-USA. I am also Counselor to the General Counsel of General Electric.

TI's first objective, placing corruption high on the international agenda has been largely accomplished. There is now widespread recognition of the damage done by corruption: undermining democratic institutions, distorting market economies, and crippling international development programs. This recognition is a big step forward from the time when corruption was a taboo subject, and was treated by the international community with a mixture of apathy, cynicism and denial.

The major challenge now is to prove that tangible progress can be made to reduce corruption. There still is much skepticism whether reforms will work. The current prominence of the issue gives us a window of opportunity. However, that window will close unless we can show successful results in the next three to five years. This requires realistic priorities. The US Government, as well as TI, must be selective in focusing resources on programs, countries and institutions where success can be achieved in the next few years.

I will first discuss the OECD Convention on Combating Bribery of Foreign Public Officials. That is the most promising initiative so far and has the best chance of achieving tangible results. Second, I will discuss the outlook for other international conventions and suggest some priorities. Finally, I will briefly comment on some other initiatives.

I. OECD CONVENTION: CURRENT STATUS AND NEXT STEPS

International conventions deserve priority attention because, in a global economy, bribery has taken on international dimensions, and multilateral programs are needed to combat it. The OECD Convention to Combat Bribery of Foreign Public Officials was signed in December 1997. Because the signatories are the home countries of most major international companies, the OECD Convention is the ideal tool for controlling the supply side of international corruption. Currently 24 of the 34 signatories have ratified, including nine of the ten largest exporters. This means that the necessary critical mass is aboard. We must now make sure that the signatories effectively implement and enforce the Convention.

Monitoring Process: Phase 1. A key element of the OECD Convention is its process for follow-up monitoring. The first phase of the monitoring process, a review of national implementing laws, began in the Spring of 1999. The laws of 21 countries have now been reviewed. TI and its national chapters have actively participated in

the monitoring process, submitting our own evaluations to the OECD. For example, TI disagreed with the position of the UK government that new legislation was unnecessary. We pointed out that existing UK laws did not provide an effective basis for prosecuting foreign bribery.

In June 2000 the OECD Working Group reported to the OECD Ministerial on Phase 1 of the monitoring process. The most telling sign that the monitoring process is off to a good start is that both the UK and Japan were flunked. Not many international institutions have the courage to criticize their largest members! As a result, the UK has agreed to introduce new legislation this fall. The Japanese government has also indicated that it plans to introduce corrective legislation.

During the next twelve months we need to make sure that deficiencies in implementing laws are corrected and that the ten remaining signatories ratify the Convention. That includes Argentina, Brazil, Chile and the Netherlands. Considerable additional work is needed to assure that the Convention will achieve its objectives and that the behavior of companies in international trade will really change. Four issues deserve the attention of your Committee.

First: Making Phase 2 of the Monitoring Process Work

Early in 2001 the OECD is scheduled to begin Phase 2 of the monitoring process: assessing the effectiveness of national enforcement programs. That will be the reality check to determine whether the Convention is working. OECD teams will be sent to six countries each year to conduct on-site reviews.

To assure that Phase 2 will be effective, TI has made two recommendations to the OECD. First, more adequate staff and budget support must be provided. Evaluating enforcement programs is a much more difficult task than examining the adequacy of implementing laws under Phase 1. Sufficient OECD staff support is not yet assured.

Second, the monitoring process must be made more transparent. Public hearings should be held during each OECD country visit. Experts from civil society and the private sector should be allowed to present their views and respond to questions from the monitoring team. Making the monitoring process more transparent remains a controversial issue at the OECD. Many countries prefer to conduct reviews behind closed doors. For them, proposals for non-governmental participation raise the specter of Seattle-type confrontations. In TI's view, a more open process will improve public acceptance and reduce the risk of confrontations.

Second: Prohibiting Bribery of Political Party Officials

The OECD Convention currently prohibits bribery of foreign public officials, but does not cover bribery of foreign political party officials. TI is concerned that this leaves a dangerous loophole, which will be increasingly exploited now that bribery of foreign public officials is prohibited. While the US has pressed for coverage of political bribery, very few other OECD countries were prepared to tackle this controversial subject.

TI believes that the recent scandals involving Chancellor Kohl and his party demonstrate that the time has come to close this loophole. To that end, TI is organizing a high-level international group to develop recommendations for submission to the OECD. The group will meet in mid-October in Italy. The meeting will be co-chaired by John Brademas, a distinguished former member of this House, and by Peter Eigen, TI's Chairman.

Third: Strengthening Accounting, Auditing and Corporate Controls

In April TI presented to the OECD a detailed survey of current practices and requirements relating to (a) books and records, (b) auditing practices and (c) internal corporate controls in sixteen OECD countries, including the ten largest exporters. The survey was conducted by a task force from the Big Five international accounting firms.

The TI Study disclosed that most of the sixteen countries do not have legal requirements for internal control systems. Many countries do not apply books and records requirements, for example, barring secret slush funds, to all companies engaged in international business or to foreign subsidiaries. The survey also revealed shortcomings in requirements for outside audits and for financial disclosures.

Prohibitions against foreign bribery cannot be effectively enforced unless there are adequate requirements for financial accountability and transparency. TI has recommended that the deficiencies identified by the Task Force be dealt with during the OECD monitoring process.

Fourth: Publicizing the Convention

Last Fall TI published a survey of businessmen and other experts in international trade, conducted by Gallup International in 19 leading emerging markets. It showed

that very few of the respondents had heard of the OECD Convention. Respondents from major international companies were just as ignorant as those from local companies.

TI recommends that major educational efforts be launched to make clear to businessmen both in OECD countries and in key foreign markets that bribing foreign officials is now a crime. Businessmen will not pay attention to laws of which they are not aware. Another important audience should be procurement officials and prosecutors in countries where bribes are paid.

The OECD should be encouraged to publicize the Convention, and the State Department could also play a role. A prosecution for foreign bribery would undoubtedly provide the best learning experience.

OECD Outreach Program

Before turning to other issues, I want to comment on the OECD Outreach program. The Convention has been signed by five countries that are not OECD members, including Argentina, Brazil and Chile, and there is an outreach program to obtain additional signatories. Accession by countries that play an important role in international trade, such as China and Malaysia, would be helpful. However, much broader expansion could be counterproductive.

The OECD operates by consensus, and it took years of work before sufficient cohesion was developed to make progress on difficult issues. In particular, the effective functioning of peer group reviews, on which the monitoring process depends, requires reasonable compatibility of economic interests and of legal systems. Large-scale expansion, including countries with incompatible interests, could disrupt the present constructive atmosphere.

II. OTHER CONVENTIONS

The OECD is the best forum for controlling the supply side of bribery because it includes the home countries of most major international companies. However, unless the demand side is also addressed, pressure to pay bribes will continue, and ways to meet such demands are likely to be found.

The demand side is more difficult to tackle because it is not as concentrated as the supply side. Every country that imports goods and services, or accepts foreign investment, must deal with the demand side of international bribery. While all countries have laws prohibiting their officials from demanding bribes, in many countries such laws are not enforced, or only sporadically enforced. The TI Corruption Perceptions Index for 2000, released last week, shows how widespread corruption is around the world.

International conventions are important on the demand side because they create a set of consistent norms to guide reform efforts, and provide a lever for civil society and the private sector to encourage governments to take more effective steps to prevent their officials from soliciting bribes. In addition, providing for mutual legal assistance through conventions will facilitate investigations and prosecutions.

Efforts to promote international conventions are underway in a number of forums.

A. Regional Forums

Inter-American Convention Against Corruption

The Inter-American Convention has been ratified by 20 countries, including the US. It is broader in scope than the OECD Convention, covering both supply and demand sides. However, its provisions are less specific, and there is no provision for follow-up monitoring.

In our view, follow-up monitoring is essential to transform the Convention's good intentions into practical effect. The Organization of American States (OAS) provides an institutional base for a monitoring program. However, the use of strong peer pressure, as displayed by the OECD, goes beyond the customary practices of OAS. During the past year there has been increasing recognition in the Americas that a monitoring program is needed. This has been actively encouraged by TI's national chapters.

The OAS is currently considering what kind of monitoring process would be most suitable, and should make its recommendation before the end of this year. The US delegation to the April 2001 Summit of the Americas in Quebec should make it a high priority to secure a decision by the leaders at the Summit to launch the monitoring process. We urge your Committee to support such action. Six OAS members, including Argentina, Brazil, Chile and Mexico have signed the OECD Convention, and are committed to participation in the OECD monitoring process. That provides a useful precedent for similar action under the Inter-American Convention.

An OAS monitoring process would require adequate resources. The Inter-American Development Bank should be asked to help provide funding.

Council of Europe Conventions

The Council of Europe is working on three conventions to curb corruption. One covers criminal law, one covers civil law, and one establishes a monitoring program. The membership of the COE includes the fifteen countries of the European Union as well as countries from Central and Eastern Europe. The US has observer status.

The COE program should be encouraged by the US. In particular, the convention establishing the monitoring program, referred to as GRECO, could become a potentially promising vehicle for strengthening the institutional capability of legal systems in Central and Eastern Europe. Whether this promise can be realized will depend on whether sufficient resources will be provided by the wealthier countries from the European Union, and on whether there is enough political will to make difficult changes in Central and Eastern Europe.

Prospects for Other Regional and Global Conventions

There have been proposals for regional conventions for Africa and Asia, as well as for a global convention under UN, or possibly WTO, auspices. There is not enough time for me to discuss these initiatives. I only want to refer back to my earlier comment about the need to concentrate on programs that have a realistic prospect for achieving tangible results in the next few years. Additional conventions dealing with corruption are unlikely to be productive unless (a) the participants have reasonably compatible legal systems and economic interests, and (b) there is an institutional base for follow-up monitoring.

III. OTHER INITIATIVES

TI and the International Chamber of Commerce have promoted the adoption of corporate compliance programs by the private sector. Such programs are an essential complement to international conventions and national legislation against corruption. Criminal enforcement can deal with a small percentage of violators, if the majority of companies comply voluntarily. Laws remain ineffective if the majority fails to comply.

TI believes that the World Bank and other international financing institutions can promote more rapid acceptance of corporate compliance programs by making the adoption of such programs a precondition for participation in project that they finance. When we previously proposed such a requirement, it was argued that this would limit the pool of eligible bidders because few non-US companies had adopted anti-bribery compliance programs. Such arguments are no longer appropriate now that the OECD Convention has made foreign bribery a crime in 24 major exporting states. Here again, support from your Committee would be very helpful.

Before concluding I want to express TI's appreciation for the role that the US Government has played in the fight against international corruption. Without strong US leadership such initiatives at the OECD and OAS Conventions would not have gotten underway. Many people at the Departments of State, Commerce, Justice and Treasury have been actively involved. We also appreciate the strong support provided by the Congress.

The fight against corruption now has broad international support. TI is proud of its role in developing such support. We are convinced that continued US commitment is essential to move from an encouraging start to the next phase, achieving of tangible results. Thank you for your interest and support.

**PRESENTATION TO THE HOUSE COMMITTEE ON
INTERNATIONAL RELATIONS ON "THE FIGHT
AGAINST CORRUPTION: THE UNFINISHED AGENDA
IN FIGHTING CORRUPTION, ON 20TH SEPTEMBER
2000 WASHINGTON DC**

Mr Chairman,

Members of the House Committee on International Relations,

I consider it an honour and indeed a privilege for me to be given the opportunity to make a presentation to you, honourable members, on the fight against corruption which you have rightly designated as an unfinished agenda. I hope that in my short presentation, I will be able to indicate to you what efforts we are making in my country to ensure that this fight against corruption will be successful.

I will like first of all to thank Mr. Hillel Wienberg and my Rotarian friend David Hamod for making it possible for me to take part in this hearing. I am humbled by the fact that I am appearing alongside distinguished personalities like Mr. Daniel Kaufmann who has done so much in this fight and whom I have encountered at all the seminars and conferences I have attended from Washington DC to Durban South Africa.

Let me state from the onset that I accepted to speak on the subject not because I am the most appropriate person in Ghana to speak on this topic or that I am an expert on the subject but only because I have in the past few years been sufficiently involved in the fight against corruption in Ghana as the private sectors representative. As you might have seen in my bio, I am the Director-General of the Private Enterprise Foundation (PEF) an umbrella body for the private sector associations of Ghana which include the Chamber of Commerce, the industry associations, the exporters association and others, who have felt the need to come together to exert greater influence on policy initiatives for the creation of an enabling environment in which private sector businesses can

thrive as partners in the Economic Development of the country. It is a non-profit making, non-political autonomous institution, incorporated as a company limited by guarantee under the Ghana Companies Code with the assistance of the US Agency for International Development(USAID) in 1994.

I am also a Past President of one of the Rotary Clubs in Ghana (ie Rotary Club of Accra-North) and currently one of the three Assistant Governors of Rotary International's District 9100 (which covers Ghana, La Cote D'Ivoire, Togo, Benin, Burkina Faso, Sierra Leone, Mali, Senegal, Liberia, Guinea, Guinea Bissau and Niger) responsible for Ghana. I feel therefore that from these two strategic positions I have had enough involvement in the fight against corruption in my country to be able to share the experiences with you. I also hope that my participation will help remove the myth that some people seem to give to corruption in Africa. The impression that is given that the whole of Africa is one vast block of corruption and that nothing is being done about it may also be corrected.

Distinguished Ladies and Gentlemen, it is important that we are once again talking about corruption because there is now widespread societal agreement that corruption is a universal problem. There is also widespread popular belief that corruption must be tackled with urgency at local, national and international levels. Indeed a few years ago the UN issued a circular to all member nations that corruption had attained such proportions that they require each country not only to recognise that it has become a problem but also that each nation should indicate what steps it was taking to address the problem. The President of the World Bank Mr. J.D. Wolfensen has also been on record since 1998 or so to be leading a campaign against corruption. Indeed in March 1999 two conferences were organised here in Washington DC- 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 from Ghana with Prof. Mike Ocuaye of the institute of Conflict

Studies, University of Ghana, Legon. The 9th International Anti-Corruption Conference held in Durban, South Africa from 10th to 15th October 1999 was also attended by a large contingent from Ghana (about 20) including myself. Before I get into the subject however, Mr. Chairman, let me first make sure that, we are agreed on some working definition of what we mean by corruption.

At the Laurentian Seminar in 1998. Corruption was defined simply as “the abuse of public position for personal gain or for the benefit of an individual or group to whom one owes allegiance. Corruption occurs when a public official accepts, solicits, or extorts a payment or when private agents offer a payment to circumvent the law for competitive or personal advantage. Corruption is a two way process involving members of both public and private sectors, who are engaged in illegal, illegitimate and unethical actions that diminish a country’s economic prospects and degrade its social and political, legal and economic systems. Corruption is a symptom of weakness in political, social, legal and economic systems. Corruption is not new, nor is it confined to any particular part of the world. On the contrary, corruption is a global phenomenon, although its severity varies from country to country.”

One cannot assume that corruption always means the same thing or has the same impact or motivation. However, from these definitions we know that corruption involves integrity, virtue or moral principles. It also involves wrongs such as bribery or selling of favours etc. It is also important at this stage to draw attention to the fact that corruption always involves at least two parties – the corrupter or the influencing party and the corrupted or the one whose integrity, virtue or moral principle is impaired by the action. It is also a fact that corruption usually occurs in secret and not openly, that is why it is difficult to detect. Also both parties involved in this illegal or immoral action benefit from it and therefore it is always difficult for a third party to find out.

The cost of Corruption and its effect on development:

It is said to be axiomatic that the cost of corruption is enormous, covering the loss of development funds, retardation of economic growth, flight of capital, and the inflation of administrative costs. Corruption also frequently results in loss of legitimacy and respect for legally constituted authority by, among other things, undermining the integrity of the social-legal foundations of that authority. It debases the moral fibre of a society by nibbling away at the core values that bond the society together. In this sense, 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 formal processes.

Indeed the effect of corruption on development is agreed to be so immense that all available resources and efforts should be marshalled to fight it. All these effects have been felt in my country's case. Needless to say, it is impossible to eliminate corruption but with a concerted effort and structured approach, we believe that it is possible to minimise it to tolerable levels.

Previous Efforts to Combat Corruption in Ghana:

Ghana, like several other countries have experienced several military interventions starting with the 1966 coup d'état that overthrew Dr. Kwame Nkrumah's government of the Convention Peoples Party. 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 the evil and to introduce probity, accountability and transparency into our national life in all its spheres: economic, political moral and spiritual. This is true of the coups of February 24, 1996; January 13, 1972; June 4 1979; and December 31, 1981.

“Previous national efforts to deal with the problem of corruption have centred 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 socio-legal, political and economic bases of corrupt conduct. In short, they tackled the stem and branches of the problem and left the roots deeply entrenched in the well nourished soil of bureaucratic incompetence and arrogance; pockets of influence amidst a sea of large-scale poverty; governmental insensitivity and avarice” writes Dr. Ken Attafuaah in his article on “Corruption and the Challenges of National Development.”

The State of Corruption in Ghana

Corruption in Ghana has been a source of worry and great concern and the situation seems to have worsened. Evidence in support of this can be found in the findings of the Global Risks Survey, Transparency International’s Perception Index, the President Flt. Lt. J.J. Rawlings’ sessional addresses to Parliament and His recent address to the UN’s Millennium Summit as well as statements by the Catholic Church, and the Deputy High Commissioner of Britain in Ghana, Mr Craig Murphy.

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 (CDD), 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 healthcare and education services in Ghana clearly indicated that the public finds the delivery of these critical services completely corruption infested. Details of this study which formed part of the October 1998 National Integrity Workshop, are available at the CDD. The good news however is that more people are now bold enough to talk and do something about reducing corruption in the Ghanaian society. The president himself has led the verbal onslaught on

corruption in the Ghanaian society to the extent of even appealing to the Queen of England on her recent visit to Ghana, for assistance in the fight against corruption in Ghana.

Current efforts to combat corruption in Ghana

In Recent times, concern about the spate of corruption in Ghanaian society has increased significantly. Expressions of concern have come from the highest levels of Government, with the President making the subject a central focus of his sessional address at the Opening of Parliament in both 1998 and 1999. He also spoke of his worries about this major problem on the visit of Her Majesty the Queen of England, Queen Elizabeth II and recently also in his address to the UN general assembly during the Millennium Summit. In October 1998, the Commission on Human Rights and Administrative Justice (CHRAJ) in conjunction with a number of key stakeholders (including government and 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, represented by me, for the first time formally join the fight. In my contribution, I highlighted TI's finding that where genuine attempts to combat corruption have been unsuccessful, there has generally been one missing ingredient ie 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 organisation the Private Enterprise Foundation (PEF) and the civil society represented by CIVISOC have been very active participants. Other bodies like the CDD and the Serious Fraud Office (SFO), a constitutionally created institution set up in 1997 have also been key institutions for the fight against corruption in the Ghanaian society.

Strategies for Fighting Corruption in Ghana

Recognising the need to dispel the pessimism of those who hold the view that due to the mind boggling scale of the problem of corruption in Ghana, nothing can be done, we decided to use the shining examples of success in countries like Hong Kong and Botswana to generate hope and optimism.

Secondly, it was identified that real governmental readiness, commitment and leadership to grapple with the 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 CHRAJ is one of the key institutions for attacking corruption in Ghanaian society. It is charged by the constitution 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 of that significant development, and the results of the investigations, the limits to the power of CHRAJ to act against corruption was clearly evident when it could not carry out the necessary sanctions. It was found that CHRAJ lacks the powers of seizure and prosecution even where there is clear evidence of corruption. This constitutes a major limitation on the effectiveness of CHRAJ to deal with corruption. Efforts are under way to get the Act setting up CHRAJ to be amended to specially give it powers of seizure and of prosecution.

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 in the fight against corruption. Since its inception it has proved to be a very effective institution for fighting

corruption, having investigated and retrieved several billions of cedis of public funds otherwise lost to individuals and corporate entities.

The experiences of countries that have attained relatively 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 programme. Attention has therefore been drawn to the low wages prevailing in the country and the government 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 from the lure and temptations of corruption. With the current economic difficulties created by the fall in the prices of our major export commodities of cocoa and gold coupled with the astronomical rise in the cost of crude oil imports, it is highly unlikely that this portion of our strategy can be realised in the very near future.

One of the factors which has served to facilitate corruption in Ghana's public service is the lack of enforcement of clear and compelling guidelines in the operation of government ministries, departments and agencies (MDAs). In addition, some traditional attitudes, beliefs and practices hamper the efficient operation of the bureaucracy and encourage corrupt practices in order to circumvent the rational, merit and salary-based system of duty, service and reward. To improve the situation a Civil Service Performance Improvement Programme (CSPIP) has been instituted to reform the civil and public service into a more performance-oriented and better motivated organisation. Progress in this direction has been satisfactory however the question of adequate remuneration has not yet been solved.

New Role of the Private Sector

Recognising the fact that for corruption to occur there are always two parties – the corrupter or influencing source and the corrupted or the receiver at the end of the corrupting influence, the private sector acknowledged the fact that very

often the corrupting influence is from the private sector while the corrupted is the public sector. When we talk about corruption in the public service or in government circles, you will usually find that the corrupting influence or corrupter is from the private sector.

For example if it is in the award and execution of a government contract that we should find some act of corruption, it is most likely that it is an operator in the private sector who will corrupt a public official(s) by way of "bribery or purchasing of favours". A simple way, therefore of making an impact in our fight against corruption could be to focus on ways of removing the conditions that allow the public sector to become easily corrupted while also addressing those that induce the private sector operators to want to corrupt the public officer.

Mr. Chairman, distinguished ladies and gentlemen, when we talk of the private sector, it should be looked at in its entirety, as consisting of an indigenous or local private sector and an external or foreign private sector.

Even though the foreign private sector is usually fairly well governed by codes of ethics and good business practices and regulations there still sometimes are a few whose operations are also affected by corruption

Indeed in the campaign by the World Bank against corruption, it 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 behaviour of the local or indigenous private sector of the particular country.

For the local or indigenous private sector, as I have already indicated, there is also some level of corruption going on which need to be dealt with.

While poverty contributes as one of the causes of corruption especially petty corruption, to my mind, corruption can more appropriately be attributed to greed and selfishness than to poverty.

Insufficient remuneration has also been quoted in several places especially for the public or civil sector as being responsible for the corruption that is seen in these sectors. The private sector companies usually feel the pressure to bribe, on the grand corruption scale in three main areas.

The first area concerns the fact that in most developing countries (and Ghana is not an exception) it is very difficult for any one to win a major government or parastatal contract without paying a large bribe, either by way of commission or percentage usually 10 to 15%.

The second area is that of offshore bribery which is usually condoned because it could be easily justified or difficult to detect. The third area can be found with companies who do not have work and seek to create some work by offering very attractive bribes to decision makers to approve unneeded purchases or projects.

What can be done? The way forward:

Mr. Chairman, distinguished ladies and gentlemen, the question now is what can be done or what is the way forward?

As I have indicated earlier, a simple approach for an effective impact against corruption would be to remove the corrupting incentives usually provided by the private sector while minimising or removing the conditions in the public sector that encourage the public or civil servant to allow himself or herself to be corrupted. For the former method, we have started with an attempt at organisational and attitudinal change of the public service through the CSPIP.

This organisational and attitudinal change within the civil and public services can help minimise the opportunities for corrupt practices

Such other measures like the following also helped in improving the situation:

- improving work methods and procedures to reduce delay,
- increasing the effectiveness of supervision,
- Rotating officers to ensure that no officer or group of officers remains too long at a single operational unit.

On efforts that can remove the incentive for the 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 reward systems. 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's Guidelines and Principles of Corporate Governance in the Commonwealth to augment the Company's Code which is also being reviewed by us for the necessary amendments to be canvassed. We will need assistance in this direction in doing this by setting up a commission similar to the King Commission on Corporate Governance of South Africa. With the assistance of the World Bank, we have also formed an anti-corruption Coalition of all stakeholders in the fight against corruption including representatives from government, CHRAJ, ^{SFO}~~SEF~~, Institute of Economic Affairs (IEA), PEF, CIVISOC and others which have drawn up a national anti-corruption strategy that embraces women and men of demonstrated integrity in the country in search for enduring solutions. This strategy is grounded not merely in exhortation to do good, but also anchored in an objective appraisal of the push and pull factors involved in corruption. We are also in the process of adopting ~~a~~ a National Integrity System as a follow-up to the 1998 National Integrity Workshop, in a collaborative effort by all the stakeholders. It is a multipronged approach to fighting corruption. It requires many actions and methods and its goals are to make corruption a high risk and low gain undertaking. As was agreed at the 9th International Anti-Corruption Conference in Durban, South

Africa in October 1999 we need to adopt a zero-tolerance level towards corruption in our country. We will definitely need assistance in this endeavour. Most of the assistance given to the country have been to government. If we are to succeed in this, some of the assistance should be directed to the private sector through its recognised institutions such as my organisation the Private Enterprise Foundation and others like the CDD.

Other civil organisations like the Rotary Clubs are also contributing immensely by way of changing the attitudes of the business and professional men and women. Rotary International (RI) is a service organisation made up of 29, 626 Clubs in various cities of 146 countries dedicated to serving the communities in which the Rotarians live. Our code of conduct is guided by the 4-way Test of the things we think, say or do in which we ask

- i. Is it the truth
- ii. Is it fair to all concerned
- iii. Will it build goodwill and better friendships and
- iv. Will it be beneficial to all concerned.

Rotarians are also guided by their objects of Rotary which states:

- a) First, the development of acquaintance as an opportunity for service
- b) Second, High ethical standards in business and professions; the recognition of the worthiness of all useful occupations and the dignifying of each Rotarian's occupation as an opportunity to serve society.
- c) Third, the application of the ideal of service in each Rotarian's personal, business and community life and
- d) Fourth, the advancement of international understanding, goodwill and peace through a world fellowship of business and professional persons united in the ideal of service.

A 1989 Council of Legislation for Rotary International also adopted a declaration for Rotarians in businesses and professions as follows;

“As a Rotarian engaged in a business or profession, I am expected to:

- 1) Consider my vocation to be another opportunity to serve.
- 2) Be faithful to the letter and to the spirit of the ethical codes of my vocation to the laws of my country and to the moral standards of my community.
- 3) Do all in my power to dignify my vocation and to promote the highest ethical standards in my chosen vocation.
- 4) Be fair to my employer, employees, associates, competitors, customers, the public and all those with whom I have a business or professional relationship.
- 5) Recognise the honour and respect due to all occupations which are useful to society.
- 6) Offer my vocational talents: to provide opportunities for young people to work for the relief of the special needs of others and to improve the quality of life in my community.
- 7) Adhere to honesty in my advertising and in all representations to the public concerning my business or profession.
- 8) Neither seek from nor grant to a fellow Rotarian a privilege or advantage not normally accorded others in a business or professional relationship.”

Surely with these noble objectives and declarations the more Rotarians we have in a country the less corruption we will have in that particular country. We have therefore in the recent times intensified our efforts to increase the number of Rotarians through the creation of new Rotary Clubs and the recruitment of new Rotarians into the existing Clubs. Starting with only one Club of 50 members in 1969, the number grew to 16 Clubs with about 600 members by 1990.

Last year through a determined effort the number of Clubs were increased to 19 with a total membership of about 900 and two more Clubs are being prepared to be chartered in the coming year. With the commitment of fellow Rotarians and the influence they are expected to have on their business and professional colleagues it is envisaged that they will also contribute immensely to the fight against corruption.

~~I thank you for your attention.~~

In conclusion, Mr Chairman, Distinguished Ladies and gentlemen, let me say that we can conclude or finish this agenda or at least shorten the agenda if all of us, governments, development partners, civil society and the private sector will show real commitment to this new coalition of forces against corruption and augment each others efforts. We should try all we can to make resources available to all the stakeholders or members of this coalition especially civil society and the private sector. By the private sector, I do not mean the so-called NGOs (who waste useful and scarce resources) but rather private sector associations and institutions like my organisation (PEF) and CDD who can be held accountable for the use of these scarce resources. While NGOs originating from your end here have generally been useful and accountable, those initiated from the host developing country have more often than not just been sources of obtaining

foreign resources for which they very seldom are able to properly account for. More mileage will be obtained by channelling these resources through credible private sector associations which can keep the pressure on governments to do more than just pay lip service.

Most donor groups especially the Bretton Woods Institutions have always cited their mandates as not allowing them to offer direct assistance by way of resources to the private sector directly. I believe however that these mandates are man-made and can therefore be changed or modified to take account of the new demands.

Finally let me also repeat the appeal of my President Ft Lt J. J. Rawlings to the UN Millennium Summit that the fight against corruption will be greatly enhanced if proceeds from these activities which find their way into Foreign Bank accounts in your countries, when detected, are returned to the countries concerned from whom they were stolen in the first place. May success crown our efforts and I thank you for your attention.

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PREPARED STATEMENT OF ROBERT KLITGAARD, DEAN, RAND GRADUATE SCHOOL

Thank you for inviting me to testify on efforts to fight global corruption. I am Robert Klitgaard, Dean and Ford Distinguished Professor of International Development and Security, the RAND Graduate School in Santa Monica, California. The Graduate School is part of RAND, a nonprofit institution that helps improve policy and decisionmaking through research and analysis. The opinions and conclusions expressed in this testimony are mine and should not be interpreted as representing those of RAND or any of the agencies or others sponsoring my research.

One part of the unfinished agenda in the international fight against corruption is how to invite in the private sector.

After all, corruption does not just involve government. Business people and lawyers and citizens pay the bribes, even as they condemn bribery. They should be invited to become part of the solution. But how?

The first point to note is that business people and citizens know where corruption exists and how corrupt systems work. Citizens understand how bribery shapes the services they receive or don't receive. Accountants know the illicit games played with audits and taxes. Lawyers understand corrupt legal practices. Business people know all about corrupt systems of procurement and contracting.

But there is a second point: they know, but they can't say, at least not publicly. In many countries, if an individual stands up to denounce a corrupt system, he or she will be attacked by it.

So, the trick is how to learn what people know about corruption without asking them to commit suicide.

Please consider this idea. With the leadership of the American government and our private sector, other countries are invited to join in an international effort. Together we pick three areas that are particularly prone to corruption, such as procurement, pharmaceuticals, and the police.

In each country, people in the private sector are asked in confidential interviews how corrupt systems work, but not about specific individuals. The results of many such interviews becomes a diagnostic of each area. What is the informal process, how extensive is the corruption, how does it work, how do its perpetrators avoid detection or prosecution?

Using the diagnostic, improvements are sought. How can formal systems be strengthened? How can corrupt systems be subverted? Answers are developed through cooperation between government and the private sector.

Reforms follow. And then, after some time, the same sorts of confidential interviews leading to diagnostics are used to monitor progress.

POLITICAL BENEFITS

This idea is politically attractive, especially compared with the usual anti-corruption strategies, which many countries find offensive.

Imagine you are the president of country X. Suppose you are told that as a condition for foreign aid you must clean up corruption in your government. This may put you in a tough spot. If you agree to the demands, the opposition may say, "Yes, we told you so and now they admit it this administration is corrupt." Your cabinet members and your civil servants may wonder why you are bashing them.

Now contrast your reaction to the idea proposed here, an international effort that invites in the private sector. You are pleased that all sectors and all countries are combining to battle this universal problem, the cancer of international corruption. You point out that the diagnostic studies are being carried out in many countries, including the United States, and that these studies address the international dimensions of bribery as well. You are glad that the private sector and citizens in general are recognizing that this problem involves all of us, that all of us must be part of the solution. And so forth—I think we all can begin to write the speech.

There is a final advantage to the idea: it is relatively inexpensive. We are talking about a total of perhaps 100 to 150 confidential interviews per country, some culling and sharing both nationally and internationally, appropriate remedial measures, and follow-up.

WHAT NEEDS TO BE DONE?

How might this idea be pursued?

1. Develop the idea in dialogue with USAID, the Commerce Department, business organizations, and organizations such as Transparency International.
2. Share the concept with other countries for further refinement.

3. With these collaborators, design the diagnostic study of the three or four sectors per country.
4. Organize the collection of data in each country. Confidentiality of individuals surveyed is important, so it may be advisable to involve non-nationals in the administration of the survey.
5. Share the results of the diagnostic study with the private sector, citizens' groups, and government officials. Redraft it and come up with joint recommendations (for both the private sector and government, of both national and international scope).
6. Share the results and recommendations in an international meeting.
7. Implement the recommendations, perhaps with international cooperation.
8. Follow up progress a year later and thereafter.
9. Leverage the partnerships developed through this process to take further steps in the fight against corruption.

CONCLUSION

To conclude, "inviting in the private sector" means learning what business people, professionals, and citizens know about problems and solutions but are unable publicly to proclaim.

In the particular idea I've outlined here, the United States would take the lead in a set of international, private-sector-based studies of how corrupt systems work and how they might be cleaned up. The idea goes beyond international conventions and codes of conduct. It goes beyond foreign aid directed at capacity building or "more of the same." Inviting the private sector should be part of the new agenda in international cooperation against corruption.

