FORUM HEARS DISCUSSION ON ENDING CORRUPTION

The Washington International Financial Management Forum, on February 5, 1997, began its twelfth year of providing luncheon-discussion sessions in the Washington, D.C. area. It was delighted to have as its featured speaker Frank Vogl, President, Vogl Commincations, Inc., and Vice Chairman of Transparency International. His topic was “Ending Corruption!” Mr. Vogl was introduced to the meeting by Jim Durnil, Manager, Coopers & Lybrand LLP. Following is a transcript of Mr. Vogl's remarks together with a resume of the question and response period which transpired.

Remarks of Mr. Vogl

Thank you so much for inviting me to talk about corruption. You didn't have to bribe me to get me here. No, I think the issue is critically important and very vital for the auditing profession. I want to thank Jim Durnil for his kind introduction and note that Coopers & Lybrand has played a key set of roles in the support and formation of Transparency International.

Private auditors can make a difference in curbing global corruption. So too can you in the public sector -- after all, Auditors General are the linchpin of the integrity systems of nations.

Today, I want to talk briefly about Transparency International and corruption and then learn about your insights and perspectives on this topic. Whenever there is corruption, there is a financial transfer, often booked in some remote corner of a balance sheet under a suitable disguise. You are -- you can be -- on the front lines in curbing this practice.

At the outset let me say that a good deal of my time in the first few years of this decade was involved in working with a Canadian mining company to secure exploration and mining permits in Tanzania. We entered into some outstanding agreements and we never paid bribes.

Had we not made the investment of time at the outset to build respect, to demonstrate our real commitment, to understand the country and its government, then we probably would have confronted some very difficult situations. We may well have been forced into the choice of either paying bribes, or walking away from the country.

We found ways to avoid the bribery trap, even in a period when corruption throughout the public sector was rising rapidly in this country.

Against that background of personal experience I learned a lot about how corporations need to plan new market entry in emerging economies, how to deal with possible prospective corruption
issues as a corporation, and how vital it is that an organization like Transparency International exists to serve as a catalyst for anti-corruption forces.

And, I was especially delighted in August 1995 when the fledgling Transparency International in Tanzania decided to stage a workshop on corruption and invite a broad array of leaders from the judiciary, the police, politics, business and the media. This was just a few weeks before multi-party elections. The workshop was an incredibly frank and open encounter. A lot was said that was on target and the participants ended with a pledge to confront the issue. They declared that the candidates for election should sign the anti-corruption pledge.

Well, Mr. Mkupa signed, he won the election, he became the first African President to publicly disclose his personal assets, and he created a Commission of Investigation to boldly attack corruption. Let me call your attention to a few press clippings -- the commission reported just a few weeks ago. It was indeed bold. It named names, including cabinet ministers.

I am delighted to say that Transparency International has encouraged the Tanzanian process, provided some assistance and is seeking to ensure that the anti-corruption momentum is sustained.

But, clearly, I am getting ahead of myself. Transparency is the word increasingly used around the world in conversation about corruption -- the misuse of public power for private profit.

Transparency International has been overwhelmed by interest and support since its launch in 1993. Today, we have about 60 national chapters, from the United States to South Africa, from Argentina to Spain. New ones in Jamaica, Papua New Guinea and India are about to be launched.

Transparency's Mission

The mission of the organization is:

1. To curb corruption by building conditions to assist governments to establish and implement effective laws, policies and programs of action.

2. To strengthen public support for, and understanding of, actions to curb corruption, notably actions that enhance public transparency and accountability in international business transactions.

3. To encourage all parties to international transactions to operate at the highest levels of integrity, guided by the mandates and approaches of Transparency International's Standards of Conduct.

The idea of creating Transparency International was that of Peter Eigen, a World Bank executive in Nairobi who was concerned about the scale of corruption in Kenya and the degree to which (a) it was leading to a massive waste of vital resources and (b) the international community was ignoring the topic.
Peter started talking about the issue with friends in 1990 and 1991 and soon a movement was launched. He took early retirement from the World Bank and ever since, on a purely pro bono basis, from a head office in Berlin he has led this movement. Today we have a tiny progressional staff and a growing army of volunteers -- in which I am one of the foot soldiers.

An organization like Transparency International can thrive only when individuals of great personal integrity and courage demonstrate a willingness to lead. I really want to stress this. Movements work because of people, brave people. None more so than our Advisory Council Chairman Olugegan Obasanjo.

Today, he languishes in a Nigerian prison. He is victim of the corruption that he had dedicated his life to fighting.

We are volunteering time for Transparency International above all because we see curbing corruption as an absolute imperative if democracy is to be firmly established around the globe and if respect for human dignity is to be meaningful. Let me just recall the words of General Obasanjo who observed that “young people now have as their role models the leaders who have made money as a result of corruption. Corruption destroys the future of our society.”

The corruption that we see so widely in many countries is in large measure the product of the policies pursued by multinational corporations with the full blessing of the governments in which they are headquartered. The United States is alone in having a Foreign Corrupt Practices Act that makes the payment of bribes abroad a crime -- in Germany, corporations can deduct their foreign bribes from their taxes. Transparency International -- as a major focus -- is working to improve the regulatory and legislative frame-works in industrial countries to discourage foreign bribery.

Progress is being seen in a number of forums. It is slow, but it is real. As the scandals multiply in France, Belgium, Italy, Germany and elsewhere in Europe, so the pressures mount for tougher legislation to curb corruption and the payment of bribes abroad by multinational corporations.

Now, these pressures are not based upon moral outrage, rather, they are stimulated by dollars and cents and taxpayer burdens. Transparency International in Italy has been doing some research into public sector expenditures in the City of Milan -- it has compared costs prior to the launch of full-scale investigations by Italian judges in 1992 and current costs. The findings are absolutely astonishing. They show declines in public spending on infrastructure projects, such as roads and subways and airports in the city of Milan of an average of 35 to 45% between the pre-1991 period when corruption was rife and the post 1992 period when major judicial investigations curbed corruption in this city. In addition, the data shows how the huge savings from curbing corruption could be used to reduce the City's deficit, while boosting expenditures on basic services like schools and street lighting and road repairs.

Permit me now to focus on the developing world and the critical issues of corruption there -- issues that really go to the heart of the very survival of democracy in many instances.
Let me first state that Transparency International is only at the start of a long journey -- we are not even four years old. We have neither the expertise, the experience or the strength to seek to attack Russian corruption, or Chinese corruption, or Indonesian corruption. We must learn by doing and this is one of our prime goals today.

We are seeking, through work such as that being pursued in Tanzania, to build “Islands of Integrity” -- assising governments, through coalitions of politicians, civil servants, academics, jurists, business people and others, to instigate reform that can create more transparent societies.

From these examples we will learn and seek to export our knowledge. We are backing up our efforts by mobilizing many volunteers with expertise to share their wisdom -- the major product of this effort is the Transparency International Source Book and I urge you all to delve into its huge resources on the World Wide Web at WWW.transparency.de.

The “Transparency International National Integrity Source Book” is a first effort to list and to describe the crucial elements of reform that countries can adopt to reduce corruption. We have learned from efforts in many countries and sought to summarize them in this first volume.

We have focussed on five broad areas:

1. Prevention of corruption through reform of public programs.

2. Prevention through government reorganization and reform.

3. Law enforcement.

4. Public awareness.

5. Creation of institutions to prevent corruption.

The Source Book is being translated into numerous languages and serving as a centerpiece to workshops where experts in different countries and regions can adapt our basic best practice notes to their own traditions. We see this as a vital vehicle for demonstrating just what can and what needs to be done. It is a proactive effort to build reform initiatives.

And we recognize that just to list the measures that need to be taken, provides no assurance that action will indeed be seen. We are an action-oriented NGO. Permit me to briefly share with you some of the approaches we are taking to assist the process of reform.

We are striving to build broad-based coalitions of like-minded individuals to work with the governments of countries that invite Transparency International to assist them to design and implement anti-corruption national strategies. Our efforts are fortified by the establishment of local volunteer groups, so-called Transparency International national chapters.
I sincerely believe that auditors have some vital roles to play. Those roles can start in the private sector in the developing countries themselves, seeking to convince regulators and business leaders of the need for standards of transparency that we take for granted here in the United States, but which rarely exist in Africa, for example.

Then, I believe that you can mobilize skills to assist those Auditors-General in Governments who may wish to do good, but lack the experience and the expertise. Training becomes an imperative. For example, in one country I know, there is an Auditor-General directly answerable to Parliament, but his reports tend to arrive after roughly a three year time lag, by which time they are at best of academic interest. He says that he simply lacks the human resources to do his job.

Then, there is the need, I believe, for auditors to make the public in emerging economies far more aware of their roles and their work and their standards. You exist in many countries under a cloud of opaqueness. I would urge you to promote transparency.

Yes, we are climbing a mountain even higher than Everest, yet I am hopeful. The scale of bribes may be rising and the abundance of corruption may be great, but actions like the ones now evolving in Tanzania are encouraging. Then, in increasing numbers of countries we are seeing:

-- Rising democratic pressures;

-- an increasingly vibrant, courageous media, seeking to expose corruption;

-- bold public prosecutors who sense the rising public demands to act against corrupt politicians;

-- the formation of groups like Transparency International;

-- and, people of outstanding courage, like Olusagun Obasanjo, willing to speak publicly and forcefully about corruption.

Transparency International and other non-government organizations are going to be increasingly visible and active. Our aims are lofty, but with your help we shall make progress.

Our home page address is http://www.transparency.de. Thank you.

Question and Response Period

Forum Coordinator Ray Einhorn said he would like to ask the first question. He said he saw somewhere in the Wall Street Journal or the New York Times where countries are ranked according to their corruptness. Mr. Vogl responded, which is the most corrupt country in the
world? First of all, we do not rank countries in terms of how corrupt they are. But we do rank countries in terms of how corrupt they are seen to be. A number of surveys have been undertaken by various research groups of business people asking which countries are most corrupt. Which are the hardest to deal with. And we now made an attempt to pull together all of these surveys, and the latest updating of these surveys, to review these surveys and to produce once a year a simple corruption perception index. So I am not going to say that Nigeria is the most corrupt country in the world. I am going to say that it ranks as the country perceived as the most corrupt.

I must tell you that this index has a life of its own. In the elections that just finished the day before yesterday in Pakistan literally every time a politician was interviewed on the issue of corruption that policians would say, and we have news clips which show it, that Pakistan is the second most corrupt country in the world and where he got this was from was a distortion of our index. We are trying to improve that index. We have had some complaints from developing countries that say you are businessmen viewing us as a country that is corrupt. Why don't you have some surveys of which corporations are most corrupt? That is a nice idea.

Jim Durnil, Manager, Coopers & Lybrand, noted that having been in the foreign aid business for about fifteen years it appears to me that INTOSAI would be a very good vehicle for T.I. to work with. He said that he knew the Auditor General of Kenya has done a lot of work on corruption in Kenya. He asked if T.I. had worked with INTOSAI very much and whether they are cooperative. Mr. Vogl said he didn't know. He did say he knew that there is an African branch and T.I. had had discussions with them, but he didn't know what had come out of that. But it is a very promising source.

Lucja S. Cannon of the Center for Systems and International Studies said that the speaker had mentioned the crux of his activities is really international corporations, but what I noticed, for example, Jim Wolfenson, President of the World Bank, said that you would not coordinate any production in World Bank programs. I am not aware that there is any corruption in the World Bank, but I did note that some of the programs of the World Bank instituted in other countries seem to promote that. For example, the World Bank recently made a loan to Poland that is to be used to pay for financial services and the rates are said to be almost five times as high as the customary rates. So the rumor is that the contracts have involved paying bribes which other countries don't have to pay as much for similar services. It seems that this is something that should be looked at by the World Bank. Would you comment

Mr. Vogl responded that he didn't know if the audience got the thrust of that, but it was really about the World Bank's role and he would like to expand to cover the role of the multinational institutions on corruption. The example was given about a recent program in Poland where the conditions could have had some people to think that some were probably benefitting too much.

As some of you here deal with multinational institutions or know them quite well, let me take a minute to explain our perceptions. Because Peter Eigen and I came out of the World Bank and both of us had relatively senior positions at the Bank, we both thought in the early 1990's that it would be relatively easy to convince the World Bank to start addressing the issue of corruption,
taking a lead in it and in fact using the expertise to mobilize and make a difference. We found out, however, that we were absolutely wrong. Whereas the British, the Swedish, the French, the Dutch, the Canadians, the U.S., the bilateral agencies and numerous others were enormously responsible and enormously excited about doing something in support in this area, and whereas Bob McNamara, former President of the World Bank, and the former Executive Vice President of the World Bank under McNamara, felt that the time was ripe and they were willing to do anything they could to push this thing forward we found that some people in the World Bank were entirely hostile to the whole notion of us getting involved.

We found ourselves in a really bizarre situation. Many of our friends at middle and senior levels at the Bank were extremely supportive and were urging us on and saying we should do more and should have meetings with the President and so on. We couldn't get the meetings, we were turned down, Peter Eigen and I were personally vilified and remain vilified publicly by some of the people at the Bank who opposed the meetings by saying Peter and I were making a fortune out of Transparency International. Both of us provide our services on a pro bona basis.

Meanwhile, however, three things have happened. One, Jules Muis became Controller at the World Bank from outside the Bank and one of the first things he asked was what was the Bank's position on this issue and he and other new people in the Bank started raising this issue. Two, Jim Wolfenson became President of the Bank and relatively quickly understood that if he didn't deal with this then the whole question of the efficiency of the use of Bank resources was open to question. Third, Secretary Rubin and various other people in the United States political arena seemed to say forget about getting foreign aid if you can't demonstrate that the money was being used effectively and there is too much waste, there is too much corruption and the Bank seemed silent on the issue.

To cut a long story short, we have now secured from the World Bank a start of what I hope will be a very good relationship, very strong support from Mr. Wolfenson, very strong support from his office, and strong support from the Economic Development Institute. A number of people at the Bank at various levels are starting their own initiatives. There are still some difficulties. For example, some procurement difficulties which we are trying to haggle out with the Bank. There needs to be more transparency in some parts of procurement, but things are starting to move in the right direction.

Interestingly enough we have never put the same pressure on the IMF, but the IMF seemed determined and is moving on its own accord, in some respects faster than the Bank, and I think that has something to do with the fact that Michael Camdessus himself has served personally for quite a long time and the staff has recently been holding some meetings on this and have been very supportive.

Let me add one more aspect because some of you are great experts in this area. We at Transparency International have the notion, and it may not work, that there would be great interest in trying to create in the procurement arena something called an Island of Integrity where you get a major, major contract -- let's say Ethiopia has a huge engineering contract to be financed by the World Bank -- and there really are only five companies in the world that can really bid
on that, five with that capacity. We would like to see those five agree that while they would take bribes normally in much of their business, at least on that particular bid they are willing to sign documentation saying that they will not pay bribes -- documentation signed by their seniors -- and that they formulate an anti-bribery pact among themselves and the World Bank containing language which, at least on that project, can go forward. We have got some very strong support for that notion from people like Mr. McNamara and it would be very nice to know if some of the people in this audience have some experience with this sort of notion and could possibly advise us on this notion.

Lin Weeks of the U.S. General Accounting Office said she would just like to contribute some information and address the question that Jim Durnil had raised concerning INTOSAI and other audit offices around the world and what is going on. This is an issue which is becoming of great importance globally and in the auditing community. In October 1996 the UN and INTOSAI jointly sponsored a conference in Vienna on what the audit offices known internationally as SAI could be doing to look at the issue of fraud and corruption and, as Jim Hamilton mentioned before, next September or October there will be the INTOSAI-ICGFM joint conference on internal controls. One of the products going on in INTOSAI's internal controls committee right now is to begin to try and come up with some examples and to support the INTOSAI guidelines on internal controls to assist the audit offices in developing countries to implement this. Interestingly enough Commonwealth Auditors General met together in November -- 30 some countries -- and their topic was the role of the audit offices in dealing with fraud and corruption. In the 1998 INTOSAI Congress, which will be held in Uruguay, the overall theme is the role of the audit office in preventing and detecting fraud and corruption. So there is no doubt about it, this is becoming a big issue and not only within INTOSAI, but we are doing some great things with the Consortium to do more in this area.

Ademar Toro, formerly with the Inter-American Development Bank, now a financial adviser, said his question was, since this will be the never ending battle you mentioned, that there is a need for a great deal of work. I know that just today the Wall Street Journal said there is an effort to impress the judge to be lenient in individual cases because the law is not responsive. You only need to look at the New York Times and you will see that the news every day contains stories on corruption. So that is the reason for my question.

Mr. Vogl responded that obviously this is a never ending thing and there will never be an end to corruption. I think one of our principal concerns, however, is that many countries in the world today have only relatively recently adopted or instituted democratic systems. The institutions of democracy in those countries are extremely fragile and there are big question marks whether they can be sustained.

Anna Shen of the World Bank said she would like to know if your work will have any effect on human rights? Mr. Vogel said yes and replied that when a minister of health in West Africa is bribed to take totally outdated drugs from a western corporation that are useless despite an international contract that was for new drugs, and people are likely to die as a result because they can't get good drugs, that has happened. Time and time again you have wasted your money
through corruption and the poor suffer the most. When the expensive presidential palace is built or something is built in the middle of nowhere or a sports stadium is built they do very little for the people in the rural areas who desperately need a school or a hospital or a clinic. So one of the great motivations for us, and I speak for myself and others who work on corruption, is to try to end this great distortion of the use of public funds in these countries to see that in a way that these resources meet the objectives they were designed for which I believe will have a great humanitarian benefit. In that sense I believe there is a very strong connection between corruption and human rights -- the right to an education, the right to health care, the right to a basic decent way of life. Beyond that I think we could get into a long discussion, but basically that is the connection I would put on it.

Margaret Bartel, Institute for Democratic Strategies, noted that the speaker had commented on Tanzania in connection with businesses that had been able to operate without paying bribes. What do you think are the key elements that allowed that business to be able to go into Tanzania and get a license and operate without paying bribes whereas other corporations did?

Mr. Vogl stated that he did not bribe this wonderful lady to ask this question. The simple answer is that I wrote a book “Boom" published by Irwin a year ago on globalization and the managing of a global corporation -- a book which I would be delighted to state is available from book stores -- which has chapter and verse of the facts of this. The book is “Boom: Visions and Insights to Creating Wealth in the 21st Century." In a nutshell we believe very strongly that corporations have to create for themselves reputations of excellence in countries where they seek to do business. They have to set the ground rules; make it very clear that they have a long term commitment to the country, and make it very clear to the country that they are not going to pay bribes. They must be willing to demonstrate, perhaps through philanthropy or through other means, but they must be very transparent and very public and I give you as one example Coca Cola which in many countries has demonstrated how possible that is. It takes an awful amount of work and involves senior executives getting into countries early in the process. Sending junior to middle executives to countries to set it up and bringing senior executives only to cut the ribbon is not the way, in my opinion, to build a sense of (1) commitment to the country, (2) contacts at the right level and (3) a reputation of excellence of the company. I think it is hard to do it by the way and I think this book of mine leads the way.

Shirley Svestky of the U.S. General Accounting Office said she would like to say that her Office had identified wide corruption in emerging trade issues and were trying to identify all of the indicators which she said probably should be reviewed. She said she would like to thank Transparency International for providing a panel discussion this month, but would also like to point out that corruption is a barrier to free trade and we need to see what we can do about removing that barrier.

Mr. Vogl said that was a great question and he obviously agreed with all of that and was very pleased that GAO was doing that. Obviously that was a barrier to free trade. He wondered how many had seen the cover story in this week's Economist. Many of us have a dilemma because when we talk about this issue particularly with respect to some of these smaller industrialized countries we get the response that goes like this: It's all very well for the Americans to say that
our corporations shouldn't pay bribes abroad because American corporations don't. But our country doesn't have President Clinton to pick up the phone and make the sale. The pressure that the U.S. diplomatic corps and government could push with a government to procure a sale is so much greater than the pressure that a country like Denmark could put on any country. And so the Danish company will say we understand everything you are saying about how wrong bribery is, but please understand that it comes within the full context of trade competitiveness and the enormous political leverage that major countries have.

When Helmut Kohl goes to China and talks to the government there about building new Volkswagen factories he brings with him the whole power of the German government and a tremendous force. Surely that is not something that the Finnish government could do or the Icelandic government could do or the Irish government could do. And one of the great debates that is going on, and I am glad you asked the question because I think people should be aware of this, and this is what is on the cover of the Economist this week. The great debate that is going on right now within the OECD and elsewhere as they look at free trade and corruption is that they are also starting to take into account the arm twisting that major governments try to do to promote their commercial purposes.

Pedro Antonio Medina of the Organization of American States wanted to know whether the speaker, in his experience in developing countries, had found a correlation between corruption in the public sector and the lack of the civil service system. Mr. Vogl responded that he didn't know if there was a correlation. I think it is very difficult. Let me give you a good example. Many people have said that many countries that have had a long tradition of a good civil service system are also countries that have had let's say less corruption. My friends in India tell me that's not so. They tell me that they have a wonderful tradition of an administrative civil service in India. It is old and it is very widely respected. They also tell me that they have such massive corruption in India that they are deeply worried about this very notion. I don't have an answer, I wish I did. It is certainly something that one is trying to look at very carefully. I am absolutely convinced to put it the other way around. If you do not have a very strong esprit and pride in the civil service and belief in what the civil service can achieve you certainly won't have a bulwark against corruption. But I am hesitant to say that you haven't got this real correlation between a strong civil service per se and an absence of corruption. I just hesitate about this because I don't have the evidence.

Mr. Medina pointed out that every four years you have a turnover in the government and you get new people. Mr. Vogl noted that one of the things we try very hard in our source book to do, and where you can help here, is that we do believe that certain institutions of government such as the Auditor General or the Inspector General or the judiciary should be independent of precisely these types of political turnovers and should have the degree of independence and strength of a base including the morale and the esprit and the culture to provide them with being the linchpins for national integrity. That is something we are trying to campaign for.