

Transparency International (TI) and the Worldwide Corruption

A Controversial Global Issue

By
Dr. Gedion Getahun

Common sense makes human to feel that corruption cannot be a basis for any viable society, but.....

At present the incidence of corruption is growing fast and in some societies corruption has become systematic. This is why there is a growing interest of the private sector and the civil society organisation (CSO) and the international community to fight against corruption.

Corruption is defined in many ways, depending on the country context. In the international business and at the world market place, where struggle to survive exists corruption is regarded as beneficial.

According to Alemann it labels every misconduct of civil servants and politicians globally. In more appropriate forms it is single acts of misdemeanour in office, such as fraud, embezzlement [1]. He notes bribery, favouritism, clientelism, nepotism, simony as examples of corruption, and includes that corruption always occurs without automatically being linked to the decay of a state or the decline of moral standards. Whereas TI defines corruption as misuse of public power for private benefit, which includes the bribing of public officials, kickbacks in public procurements and the embezzlement of public funds. Eradication of corruption is proved to be quite difficult task. To avoid corruption without tackling the fundamental problems affecting the economical, the social and the moral, standards bring resistance from those who are exercising it. Manifestation of corruption has changed its face, and is changing continuously. Corruption is a war without arms, trained solders and cannot be win forever. It was and still is a never-ending task. It is universal and exists in all societies of the world. Experience shows that, corruption is not measurable. It is difficult to obtain direct data on corruption due to the following reasons:

- Such an agreement is obscure.
- Those who participate in the illegal act swear an oath to remain silent knowing the criminal offence they are involved.

Since no methodology exists to collect meaningful data on corruption, the TI presented “Corruption Perception Index”(CPI), based on the following available information from:

- The World Economic Forum (Switzerland)
- The World Business Environment Survey of the World Bank
- The Political and Economical Risk Consultancy (Hong Kong)
- Well-informed Individuals

Corrupted Sectors

In the widest sense, political parties; MPs; police; judicial systems; custom officials; banks and financial institutions; technology centres; engineering and construction industries; oil business; development aid sectors; the arms and defence sector are thought to be corrupt. TI’s global Bribe Payer’s Index shows that the arms and defence sector are rated as one of the most corrupt private business sectors. The defence sector is accounted for 50% of all bribery allegations (US Department of Commerce). According to Stockholm International Peace and Research Institute (SIPRI), global military expenditure in 2004 was approximately \$1 trillion. The value of all arms transfer agreements worldwide (international trade) in 2004 was over \$21.8 billion (Congressional Research Service) [2].

Since 1999 foreign corruption is illegal in the European Union. Contrary to the US anti-corruption programme, many countries of the European Union as well as other exporting countries allowed their companies to bribe in overseas. Before 1999, the political and the

business establishment lived with the idea that, to compete in the business world, they ought to change their behaviour at the international market place and accept what is customary there. This behaviour is called bribery. Bearing this in mind, business people and companies from these societies were in strong believe that the European values of integrity and honesty out side Europe should not be exercised, according to their evaluation it is a form of exporting cultural imperialism [3]. Therefore, many industrialised countries allowed their companies to bribe, even subsidised the systematic bribery through generous tax write-offs by export financing agencies. Most multinationals have systematically bribed million dollars \$ to those decision and policy makers in the third world countries. As a result they were able to profit billions of dollars through contracts in these countries.

According to Peter Eigen, director of TI in Berlin, in February 1999 a convention was put into practice, which had been promoted by the OECD in which 35 countries agreed to change their laws to prohibit their companies to bribe foreign officials. However, there is much doubt, if the laws have been accepted by every company and are exercised accordingly [3]. The United States of America has for three decades foreign bribery laws that restrict American employees from engaging in such behaviour, regardless where they conduct business. It was the Carter Government which introduced 1977 “The Foreign Corrupt Practices Act (FCPA)” in the United States. This legalisation makes it illegal that American Citizens or American Companies bribe outside the US.

To mention few anti-corruption laws:

- Council of Europe Criminal Law Convention on Corruption 27.1.1999.
- Declaration against Corruption and Bribery in International Commercial Transactions (United Nations General Assembly, 16 December 1996)
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transaction (OECD, December 1997)
- The United States Foreign Corrupt Practices Act (FCPA) in 1977
- Inter-American Convention against Corruption 1996

The FCPA is the first anti-corruption law in the world to stop or at least to discourage bribing foreign officials. Believing that US corporations would be at great disadvantage competing with their counterparts (which are free to bribe foreign leaders) else where in the world, several members of the community were against FCPA at the beginning [4].

Corruption in the Developing Countries and in the Industrial Societies

It is extremely important to create a methodical approach to distinguish corruption in the developing countries from corruption in the industrialised countries. There are similarities to a certain extent. In both societies one can find that large as well as medium sized companies collaborated with the corrupt and ineffective bureaucracies. In the democratic societies, the awareness, as well as the incidence of corruption has been enhanced through its accountable political bureaucratic elite. The democratic system and its societies have successfully used and strengthened public information media as a means of collecting and disseminating information to the general public [5]. The main ideology is to detect the official conduct and behaviour of the political and bureaucratic elite, and monitor the manifestation of corruption, increase the public awareness to forecast the rise of corruption. Assuming that there is less corruption in democratic societies, than in autocratic societies we can discuss the following:

It is quite possible that under democracy the incidence of corruption is elevated.

In autocracy it is either unreported or less transparent.

In old Africa tradition, bribe was identified as an outlaw. It was strictly forbidden by culture to take or to give a bribe within the same tribe or even among colleagues. The old eminent chiefs or clan leaders were very powerful. Their power was unlimited. Their order was supreme and every subordinate in the society has shown loyalty and obeyed the traditional rules. Accountability was considered and was given the highest priority. At that time corruption was not understood as we understand it today.

Good Governance

It is obvious that political and institutional frameworks are vital to achieve sustainable developments. Since last decades, developing helps from industrialised countries require the vehement establishment of good governance that refers the regulation of infrastructure for formal education, health, transport and communication services. The new definition of good governance includes also the absence of corruption, and well-established institutional arrangements whose aim is the removal of abject poverty. Further more, good governance means the establishment of an appropriate and effective legal framework for commerce, financial institutions, taxation, government expense expenditure, environment programme, business competition and labour market. The emphasis is to shift the weak under development programs linked with corruption (input) into the best implemented economic and social development programs bounded by good governance (out put). This has become an obligation for economical and technological co-operation between the developing and the developed countries. Presumably, along with good governance, it seems that the delivery of basic health and education, the elimination of abject poverty, democratic leadership, non-violated human right are taken as physical instruments to measure corruption in the developing countries.

Good governance is a hypothesis that has no ability neither to detect nor to quantify corruption in the developing countries. It is just a transit from one system into another. For example, corrupted culture into transparency culture. It gives whistleblowers and corruption watchdogs an excellent opportunity to take their assignment more serious and make an effort to protect corruption in the society.

Similar to the developing countries one reason for corruption in the developed world is, the misuse of public or private economic power for private use. According to economists, corruption in Europe results in lower tax revenues and higher states spending amounting to losses of some billion dollars yearly. Corruption activists in Europe believe that Globalisation has become a motor of corruption in the country. European companies rake in profits from abroad they are turning more to illicit methods that became illegal in Europe. As recently as 1997, the German government made bribes paid to foreign officials by German Companies tax –deductible. The German Federal Police Service (BKA) registered nearly 90,000 cases of such crimes in 2005, a 10 percent increases over the previous years, while a survey by the auditing giant KPMG concluded that 80 percent of these cases go entirely unreported [6].

Why Does Corruption Exist in the Developing Countries?

Apart from cultural, economical, political, historical facts, the exploitation of natural resources (no matter from whom), a history of autocratic and unaccountable governments, as well as civil wars, conflicts and crises through out the developing nation have escalated the corruption. Several countries have become virtually synonyms with graft.

Enormous natural resources in a numerous countries have proven too tempting to some elites and international business concerns. Willingly or not, developing helps by bilateral and multilateral agencies have not been immune to corruption and misuse. Public services are unevenly provided and of poor quality, besides civil servants are more often so badly paid that they resort to petty corruption in order to survive [7]. In a few developing countries News Media are independent and critical and corruption is now publicly debated.

Let us compare one industrialised and one non-industrialised country to show corruption in their different societies. In this example Germany and Ethiopia.

Corruption in Germany

Germany, the homeland of Transparency International (TI), ranked in 2001 to the 20th position out of 91 countries polled in the world (TI's Annual Index of Corporate Corruption). In the year 2006, Index of Corruption compiled by TI, Germany ranked 16th suggesting it was more corrupt than Austria, Sweden, or Britain [6]. After a series of scandals, efforts to stop corruption in Germany began in the 90th. One of them was the establishment of a financial watchdog group to monitor publicly listed companies. In the mid of 1980 there were a controversial discussions about corruption in the country, followed by many political scandals. Corruption became main feature of the news media. A few politicians had to resign from their mandate. In the last few years, German Press focused on widening corruption scandal in the country. Few example of Germany's incidence of corruptions:

- . Corruption case of the Honorary Consul of Germany in Lviv.
- . An alleged link between politicians and organized crime including charges of complicity in bribery.
- . Child prostitution and interference in court trails.
- . Some high-ranking politicians were also brought in connection with corruption for not doing enough to combat corruption in the Saxony Political Establishment.
- . Financial-crime unit for the city of Frankfurt also backlog of bribery and fraud and other white-collar-crime cases were reported.
- . Munich soccer stadium bribery affair.
- . Daimler Chrysler, BMW, and Volkswagen have been investigated in the past several years on charges ranging from insider trading to bribery.
- . Seimens, the Munich- based conglomerate was in the throes of the worst bribery scandal in its history.

Further more, experts cite the 1999 International Bribery Law that forbids German companies from bribing members of parliaments a broad was another example of regulation that has not gone far enough in Germany [8].

Corruption in Ethiopia

Like everywhere in the world, corruption exists in Ethiopia also. Bankers, workers and other professionals were convicted of bribery and corruption at the Federal High Court. Among them, several top business people, administrators, party cadres, officials of the state privatisation agency, members of state-owned commercial Bank (CBE), finance department chiefs of the state farms etc.

Some comments about the situation in Ethiopia:

"In a city where 100kgs of Teff is costing 530 Birr, it is unrealistic to assume a government officer to live with a 400 Birr salary, feeding himself and his family. In order to feed his family, it is expected that the officer will do any thing to cover the skyrocketing living costs. So before a government employee steals material from his office or a police officer or judge drugs himself to a corruption the government should try to balance employee's salary with the living costs."(Muluberhan Lolita).[9]

"In a country where a top general's salary was not more than 4371 Birr (US \$500) people could hardly contain their disbelief that any one could siphon off such a huge sum of money (US\$40,000). Until then (mid 1980) corruption was perceived as perfectly normal in Ethiopia, but limited to petty gifts to the bureaucracy or in the court. 2001 survey conducted by the Institute Educational Research of the Addis Ababa University states" Offering and receiving bribes and various forms of corruption on the one hand,

and the disposition of public functions on a discretionary basis by favouring clients and supplicants on the other hand were viewed as normal” (Tamrat G.Giorgis) [10].

Attempts have been made to fight corruption in Ethiopia little more than half a century starting from Emperor Haile Sealssie’s Government until the present time.

The country has made an attempt to create an aware society, where corruption will not be tolerated by promoting ethics and anti-corruption education for the general public. But considering the facts mentioned above, it seems that corruption has deepen its root in the society. It has become pervasive.

Dealing with a pervasive character of fraud and bribe in Ethiopia, Ambassador Berhanu Dibaba said: “ *Based on the findings, the commission has made appropriate and constructive recommendations and urged those departments and public enterprises to take corrective measures sooner than later before corruption reaches a pervasive stage.*” [11].

About the pervasive situations in the country, Tamrat W.Giorgis said: “*After this inauspicious start, the state’s drive to fight corruption hasn’t quite recovered its credibility. Now corruption has become so pervasive that it is no longer limited to the public sector, 10 percent kickback has become a key word for private firms that award procurement or project contracts to other private companies, as it is called private-to-private corruption by Kebour Ghenna*”

Transparency International and Ethiopia

In the year 2005, compiled survey by TI ranked Ethiopia at the 137 th place out of 159 nations polled. In the year 2001, the Institute of Educational Research in Ethiopia conducted 600 firms. Firms across the regional states revealed that 78.5 percent believed in the first place corruption in the public sector negatively influenced their operations and growth, followed by unemployment. In the year 2005, 40 percent of small and medium enterprises surveyed by the World Bank Institute, named corruption as one of the three major challenges to successfully running their business along with problems in tax administration and access to land [10].

The Index of Economic Freedom for 2001 places Ethiopia in the “Mostly Unfree” category with rank of 124 {Ranks range from 1 for Hong Kong to 155 for North Korea, Wall Street Journal, November 1, 2000) [12].

Ethiopia’s TV program has attempted to educate the public on how corruption impoverishes society. The Federal Anti-corruption Commission of Ethiopia has distributed, magazines, posters, brochures, fliers, in addition it has provided training to 267 Federal Offices and enterprises.

DISCUSSION

How does corruption correlates with the following factors?

- Education and Income Level
- Government Rules
- Benefit Exceeds Cost Theory
- Weak Law
- Societies Tolerance
- Incidence in Big and Small Communities (Large Cities and Small Towns)
- Foreign Aid and Foreign Investors
- Transparency
- Prize Award

Education and Income Level

There is a wide spread believe that, higher level of education lowers corruption due to enhancements of transparency. This theory is far away from the reality. Possibly, by raising the standard of education the general public would gain a sufficient knowledge to

weigh and consider the appreciations of advantages and disadvantages of corruption, the ground on which it lay, and its survival in the society. But as it is understood by few politicians and international institutions, education is not the most important tool to empower the population to fight corruption. This theory had been acceptable, if corruption would not exist in countries of the European Union and somewhere else, where literacy is higher than in the developing countries. Similarly, a higher level of income is not a guarantee to reduce corruption. Also countries with higher income face corruption or are likely to experience corruption. Countries with higher income level (economic well-being) will have fewer incidence of corruption, probably due to serious legislations and ant-corruption laws.

b) Government Rules

Laws and legislations, which are not clearly defined, or drafted in a complex manner are not interpretable to citizens. They bring uncertainty and confusion to follow. This brings power to public officials to act on an “ad hoc” basis. Also civil servants may wish a payment (bribery) from the public for doing their normal job, or their expected duties. This circumstance creates room for corruption.

c) Benefit Exceeds Cost Theory

Corruption occurs not only because the benefit exceeds the costs of penalty, but also happens mostly without balancing the above mentioned theory. The fact is *benefit* through corruption means gain of money, titles, prestige, goods and services, economical and political powers illegally. The *cost* is the possibility of monetary penalties, incarceration, loss of face in the family and in the society, long or short imprisonment. By nature, if two or more participants (companies or individuals) have determined to make an informal exchange of giving and taking in what ever form it may be, they are not worried about what would happen later, if the case is identified. They never say the penalty exceeds the benefit and therefore we would not do it. The corruption margin (higher benefit and less penalty) is absolutely irrelevant to them. Company managers and high-ranking public officials in reach countries are involved in corruption though they are offered good salaries and are wealthy. They know very well, if corruption emerges they loose position, salary, power but still proceed. This shows that the penalty exceeds cost theory never refrains those who are doing it from practicing corruption.

d) Weak Laws

Corruption flourishes in most countries not because that they have not implemented anti-corruption legal act in their national policy, but rules are not exercised firmly. If the implementation of laws is not monitored, the corruption margin increases. When implementation capacity of the law is raised the level of corruption becomes small (begins to decline). Thus, the enforcement of the law plays a vital role in struggling to diminish corruption.

e) Tolerance of Corruption

The incidence and persistence of corruption depend on the reaction of the society. Apparently, there are numerous reasons why society tolerate or accept corruption. Followings are few examples.

- 1) Corruption is committed, because it accelerates proceedings, reduces bureaucratic obstacles and makes business relationships smooth and straightforward.
- 2) A constant fear of victimization and not to fall in the hands of those in economical and political power (authorities).
- 3) To take advantages of unilateral benefit.

- 4) To support a mutual interest.
- 5) Not to destroy well established net works of clientele.
- 6) Minimal knowledge about legality and illegality of oral agreements and/or written statements.
- 7) In some societies bribe is accepted, if it could save some one from the death penalty.
- 8) Public opinion is not very sensitive but rather indifferent to corruption

g) Incidence of Corruption in Big Cities and Small towns

There is a believe that corruption is enhanced more in a small towns or community because the citizens know each other. Whereas in big cities or large towns corruption remains unidentified. This theory explains the various emerging forms of corruption in the society. It shows that implement of legislation and legal instruments as applied in the international political establishment alone are not sufficient for an effective struggle against fraud and embezzlement, but primarily the society can control corruption.

h) Foreign Aid and Foreign Investors

Foreign trade and investment may bring economical advancement, technology and new management style to any country and can make the country more efficient in production and distribution. These systems bring dissemination, laws governing commerce, banking, government taxes and expenditure businesses in international standard. If this view is correct, then countries with open economies tend to be less corrupt. In the contrary, some corruption analysts see the case quite different. The foreign traders and investors exploit the poor countries weak legal and administrative systems through bribe to be successful in business of their interest.

According to Myrdal and Lambsdorff, corruption is imported into developing countries by the foreigners who wish to invest in the country of their choice. (Myrdal 1968; Lambsdorff 1998) [5]. Further more, there is a doubt that foreign aid from whatever source is coming, gives government officials the possibility to misdirect the aid for their pet projects or for themselves but not in accordance with the priorities required for the country. If this is true, the consequences are that, countries which are more open to foreign trade, aid and investments would experience more corruption.

i) Transparency Tradition: Transparency International says, Finland is the least corrupt nation worldwide. Such a high ranking is linked to Scandinavia's dominating "Culture of Transparency" concept which would be required that politicians should publicly declare all their income. If transparency is the remedy to abolish corruption then every one has to work hard for the development of transparent culture and to adapt the system in the society.

j) Prize Award

If a head of state is awarded a honorary doctorate degree (h.c) from any country with economic ties or receives payment designated as " prize" award from a company or foundation could this be seen as a bribe? Or is such payment prohibited?

A prize awarded to Foreign Public Officials should guarantee that it combat corruption and brings faster developments in technology, health, education, economy and improved governance. If it is dedicated for excellent achievement in political leadership, struggle for peace, or environmental merits it is all correct and is acceptable. An award from any multinational company to a country leader or any high ranking or low ranking

government official with a political mandate who is able to make decision about the future business relationship with the company, if he or she receives a prize it could be stated as a bribe. Also an award can be considered as bribery, if it is involved with International Business Transactions. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transaction (Article 1: The Offence of Bribery of Foreign Public Officials Dec 1997) and the Foreign Corrupt Practices Act (FCPA), **International** Agreements Relating to Bribery of Foreign Officials (Article 1) may be applied here.

Ideas to be Included into Anti-Corruption Programmes

a) Encouragement of the Society and Anti-graft funding in the Developing Countries

Anti-graft aid is essential. It is advisable that, each country has its own National Anti-Corruption Campaign Steering Committee. The committee should have the right to control, if laws have been exercised and policy makers have gone far enough to avoid corruption or not. This helps to prove the resolve of government officials to deal with graft. In the past anti-graft advisors in some countries have either resigned or stepped down because of frustration by lack of funding from the government. For example, couple of years ago, the head of the Kenyan branch of corruption watchdog Transparency International had to resign [13].

b) Amendments of Corruption Legislations

The anti-corruption laws are not clearly formulated. There exist several doubts and uncertainty. For example in Germany, since the beginning of 80th, the illegal financing of political parties is forbidden. Although the former Federal Minister of Finance Graf Lambsdorff had received donation for his political party FDP from the Flick Company the accusation was cancelled, according to the court it was not illegal, because the party chairman thought it was legitimate to receive the money. Therefore, the requirement of intent was not fulfilled. Furthermore, bribery and corruption are mixed in their basic definition, this brings confusion. Although an act of bribery is committed when an office holder is promised or granted an advantage (not only money) in return for an action, which has already been carried out or is expected to happen. Mostly, only the exchange act is considered to be bribery but not the promise or the grant.

c) The Rules have to be Exercised

Weak enforcement mechanisms and opaque regulations are obstacles to fight corruption. It is not the absence of rules and regulations that many people in the world are suffering, instead it is the absence of putting rules and regulations into practice. Therefore, rules have to be exercised.

d) Activity of the Media

Free and accessible information, free press and assertive civic organisations are required. Corruption cannot be reduced or abolished simply by getting rid of corrupted officials. One needs to address the underlying problems, to which weak media and excessive discretionary powers belong [14].

e) Financial Transparency of all Political and Economical Mandatory Powers

Enforcement of the government rules of subjecting officials to whom, head of states, member of cabinet, MPs and other high ranking officials etc belongs, to mandatory audits of financial positions before assuming office, during tenure and after leaving the government services [14].

f) Public Awareness

Non-governmental organisation, the media, private sector, should attempt to build public awareness of the costs of corruption and shared responsibility to combat it.

g) Encouragements of Civil Society Organisation (CSO) and the Private Sector

- Widespread commitment from the private sector has to be encouraged.
- The encouragement of the committed civil society organisation (CSO) to undertake regular monitoring of corruption barometer has to be raised

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