



INTERNATIONAL ANTI-CORRUPTION CONFERENCE (IACC)

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8th INTERNATIONAL ANTI-CORRUPTION CONFERENCE

The Papers

External Donors: How Can They be Part of the Solution?

[Lima Declaration](#)

Rt. Hon. Baroness Chalker FSS

External Donors: How Can They Be Part of the Solution?

Mr Chairman, distinguished guests, ladies and gentlemen,
Today is the first major occasion overseas when I have given a speech since leaving Government and the first without the constraints which government necessarily imposes. This is a liberating experience in itself. Consequently, I hope that what I have to say will be taken as a personal and honest appraisal of the issues we are discussing, with the benefit of my experience at the cutting edge of development politics for 8 years.

Corruption is a fact of life in all corners of the globe. It is found in developed and developing countries alike. It is to be found in the public and private sectors. It can manifest itself on a "grand scale" and at the "petty level". Politicians, civil servants, businessmen and others have each been implicated and exposed as perpetrators of corrupt practices, at different times.

It is too simplistic to look for definitive, all embracing answers to the reasons why individuals or governments indulge in corruption. There is no magic wand at our disposal. However, the fact that such an array of speakers has come together here in Lima, is a clear demonstration of the will to tackle the cancer of corruption. Yes it is all our tasks to drag out the truth from the dark recesses where corruption has, for too long, gone undetected, and in some instances, been condoned or even encouraged.

In this new climate of relative openness, the importance of the international media should not be underestimated; journals such as the Financial Times and the Wall Street Journal have devoted considerable space to analyses of the corruption issue as well as to articles exposing individual cases.

Some may be concerned that such media exposure could be counterproductive, at least in the short term. Corrupt governments or businesses may seek alternative methods. I believe that in the longer-term the cumulative impact of serious investigative journalism will act as a highly effective weapon in the anti-corruption armoury.

The task facing us all is daunting. There are vested interests to be tackled, ingrained attitudes to be overturned and cultural orthodoxy's to be challenged.

There can be no gain in this process without some pain. However, we must ask what is the price of not tackling the issue?

There is an overwhelming, hard-headed economic case for tackling corruption. If developing countries wish to have fair access to the benefits which the expansion of free trade will bring, then it is in their own national self-interest to dismantle the barriers which will deter foreign investment. High on the list of deterrents to FDI is the fear of dealing with countries where the rule of law is undermined, where democratic institutions are weak, where the accountability of the public service is non-existent and petty corruption is endemic. There is increasing empirical evidence to show that investors, especially foreign ones, choose to go elsewhere rather than become caught up in costly projects which squeeze their profit margins. In the new world economy of the twenty-first century, corruption on a grand scale will not continue to oil the wheels of investment.

This is not to pretend that the onward march of free trade and more discerning decision-making by investors from the developed world will, in themselves, result in the market correcting all distortions in trade, investment and development. They should, however, be a major factor in focussing politicians on the disadvantages to the economic well-being of their people of failing to tackle the causes of corruption.

Why Fighting Corruption is Essential

First, if the world's political leaders are serious about finding solutions to the gross disparities in wealth between developed and developing nations, action against corruption is crucial.

There must be a concerted effort to expose the causes of corruption and particularly the contribution it makes to exacerbating the abject poverty of millions in the developing world.

Second, all nations wish to stimulate economic growth to satisfy the increasing expectations of their citizens. Such economic growth can only be achieved effectively and for the long-term if decision making is soundly based with institutions in which investors and ordinary people across the world can have confidence. Those who refuse or fail to see the correlation between corruption and long term economic stagnation will condemn poor countries to a worse fate as more enlightened societies grasp the nettle of reform. Politicians who remain wedded to out-dated and economically damaging corrupt activities will, in due course, suffer the political consequences. Ultimately, economic progress and wealth creation cannot be secured without the private sector, just as the private sector is a truly essential player in the overall fight against corruption.

President Narayanan and Prime Minister Inder Kumar Gujral have, in recent weeks, demonstrated an impressive political and moral determination to attack the corruption they believe is now endemic in Indian society.

Invoking the spirit of Mahatma Gandhi, President Narayanan declared:

"Corruption is corroding the vitals of our politics and society."

".....the people have to be in the forefront of the fight against corruption...."

"A social movement or a widespread national movement is needed to cleanse the system."

The fact that the leaders of one of the world's great nations chose to highlight the corruption issue at a time when the eyes of the world were focussed on Delhi, celebrating 50 years of independence, demonstrates the progress being made. At times of national rejoicing, politicians normally wish to concentrate on the good news, not on the downside of their country's life.

Why did President Narayanan do it? As The Times of London said:

"Behind this appeal, which if heeded would change India as much as it would enrich it, lies a sharpening recognition that corruption and poverty go together."

The enlightened approach being adopted by India's political elite should now find expression elsewhere in the developing world. India will benefit from its decision to lay bare the corruption culture and the mechanisms it intends to use to overcome its causes. Foreign investors can have confidence that the climate for investment in India will improve. Honesty and positive action by governments can make a real difference. India has shown the way.

Can Donors Make a Difference?

There has been a tendency in some quarters to pin much of the guilt on developed countries and their business communities for corruption. This is a futile and self-defeating exercise. There are no truly innocent parties in this debate, and we must acknowledge the causes of corruption are to be found in the north, not only the south. However, our focus should be on finding solutions for the future, not indulging in retrospective debate about who or what is most culpable in the development of international corruption.

The north has understood the need to put its own house in order. The G7, the Commonwealth, the OECD, the EU and others have in recent times, set in motion recommendations to make foreign bribery a criminal offence and end tax deductibility of bribes to foreign officials. There is still much work to be done and scepticism to be overcome, before the necessary legislative frameworks and legal sanctions are fully in place. This is not solely a job for the donors, but it is also one for business. It is in their interests also. In a recent survey for the World Bank top business executives identified corruption as the most important obstacle to transacting business in sub-Saharan Africa, Latin America and the Caribbean.

The fact that the political will is now being translated into proposals for reform should act as a catalyst for everyone, especially the developing world to respond. No single action by any individual or government can

effect the changes we wish to see; the process must be two-way and complementary. Where the developed world can and should be enabled to make a difference is in the process of building the capacity of institutions in developing and transition countries. Based on my somewhat long experience, building strong, accountable and durable institutions is central to deterring corruption and the causes of corruption.

I make no apology for repeating my views published in the Nairobi press in 1994:-

"Where a government wants development aid to help with a transformation to democracy, to strengthen its institutions, to weed out corruption and incompetence, we (the then British Government) will give it. But where a government turns its back on democracy, ignores accountability, flouts human rights and allows corruption to flourish, our aid will be of a humanitarian nature to help the people in real need. No taxpayer in any donor country should be asked to contribute to the Swiss bank accounts of corrupt third world politicians".

Cleaning-up government is a complex and lengthy exercise, requiring political commitment and a determination to see the process through to a successful conclusion. The challenge for us is to devise ways of assisting those who wish to be helped to set about building their own strong, independent and accountable institutions whose ethos is to engage pro-actively in driving corruption out of the national psyche. Where substantive strategies of reform and renewal can be most effective are in the following six areas: -

- civil service reform;
- the establishment of soundly based policy-making processes;
- the legal framework, including the judicial system and an adequate prosecution service;
- strengthening financial management systems;
- government procurement and contract Management systems which demonstrate open, competitive bidding for public contracts;
- anti-corruption commissions to improve integrity in public life; answerable to Parliaments not governments.

It would be disingenuous, however, to suggest that reform in any of these areas can ultimately hope to fulfil its purpose unless the political environment is open and democratic with a properly functioning elected legislature. The process should as far as possible, in principle at least, have the consent of opposition political parties.

Civil Service Reform

On the whole, western democracies benefit enormously from long-established institutions such as an impartial civil service. During my many years as a Government Minister, I deeply appreciated the ethical code and high standards by which my civil servants discharged their duties. For an ethical code to operate successfully requires all parts of the body politic to subscribe to its development.

The objective of any reform programme in the civil service must be to enhance public confidence in the integrity of the service. Tackling the root cause of why officials resort to corruption leads to a civil service with improved recruitment procedures, fairer remuneration and a career structure with promotion based on merit. In short, the ethos should be thoroughly professional with performance targets clearly set out. Underlying this should be a code of conduct to which all public servants and politicians must adhere - and which commands respect from the Permanent Secretary down to the lowliest desk officer.

Such a code may, for example, as in the case of Zimbabwe, define wrongdoing in the following terms:

1. failing to take reasonable care of state funds or property;
2. theft of funds and property;
3. failing to reimburse advances,
4. falsifying official documents;
5. accepting bribes;
6. failing to declare and disclose conflict of interest.

Infusing the service with such an ethos cannot be achieved in isolation from the conduct of government ministers or parliamentarians in general. If reform is to produce results which improves demonstrably the policy-making process and increases transparency and accountability, agreement and co-ordination between the political and administrative arms of the Executive and Parliament, is vital.

Although countries embarking on a reform process should work closely with the international advisory organisations, each country must identify for itself what specific requirements they have. The host country needs to be involved in drawing up the programme of reform. Such exercises must command the widest possible support within the country and not be viewed as interference in their internal affairs by foreign authorities.

The Case for a Public Forum

As a potentially integral part of the reform process, I suggest that there is considerable merit in convening a public forum of key public figures to debate openly the fundamental issues involved in ineffective capacity-building. Politicians, parliamentarians, the private sector, the media and academic community all have a useful and productive role to play. Not only can they generate ideas, they should also command respect from and the support of, the wider society. Chaired by an independent public figure, the forum might consider:

1. an ethics code;
2. effective interface between the State institutions and the people;
3. case studies on comparative examples of reformed or reforming civil service structures; and
4. the effects of corruption and bribery on
 - i. the international standing and reputation of a country and
 - ii. the economic well-being of a country.

In itself, such a forum cannot hope to produce a panacea for all ills. However, its deliberations should facilitate informed debate on the evils of corruption at all administrative levels within a country. In other words, an anti-corruption ethos must permeate regional and local government too where corruption may be endemic and more difficult to detect.

In addition to the civil service, an integrated institutional reform process needs to examine the legal and judicial systems. Effective enforcement of anticorruption legislation demands an accountable judiciary truly independent of the Executive and political interference. In particular, together donor and recipient should look at ways of creating effective prosecuting authorities as part of the process of strengthening legal enforcement. I am strongly of the view that a highly trained and motivated prosecuting authority is vital. Without this, there is a real prospect of corruption cases collapsing because of evidence withheld or false information used by the defence. The capacity of authorities to gain the evidence necessary to secure a conviction is a crucial element in a fair and responsive legal system.

None of these reforms will have lasting success without budget reform. The requirement for sound modern financial management systems within government, central and local, is now more widely recognised. Proper auditing procedures should be established which can at best prevent but at least minimise and detect wrong-doing in the public sector.

This is necessary if a government's macro-economic objectives are to be secured, scarce resources prioritised and allocated within a strategic framework, and projects implemented effectively.

Associated with this is the difficult and sensitive area of government procurement. Countries seeking to improve their system of bidding for public contracts should learn from best practice elsewhere. The economic and moral madness of corrupt bidding procedures is self-evident. The legacy of badly built roads, semi-finished tower blocks and industrial enterprises situated in the wrong location is well known to those who have witnessed at

first hand the debilitating consequences of corrupt bidding practices. I repeat -if countries indulging in such folly continue to sweep this issue under the carpet, the downward spiral to economic stagnation and decline will inevitably increase the prospects of economic marginalisation.

Anti-Corruption Authorities

The use of anti-corruption authorities is a mechanism used throughout the world to advance the cause of integrity in public life. I have personal experience of a number of such projects where Ombudsman offices, independent anti-corruption commissions and Inspectors General have been established to investigate those suspected or accused of corruption and to pursue alleged abuses of power.

In principle, the creation of such bodies is essential although experience has taught me to be sceptical about the effectiveness of those which report exclusively to a Head of State or government. The independence of any such commission is necessarily compromised if there is an absence of scrutiny by the elected legislature. Such commissions should report direct to parliaments where all elected representatives of the people can judge issues on their merits, free from interference by the Executive. The ACCs must also be underpinned by an adequate system of prosecution, an open and independent judiciary and the resources necessary to conduct their work in a proper fashion.

Conclusion

I make no apologies for concentrating my remarks today on the importance of building the capacity of institutions. Of course, the anti-corruption agenda encompasses other issues many of which are inextricably linked to each other. But, for a nation in the developing world to advance its economic well-being, rooting

out the underlying causes of corruption in State institutions must surely be a very high priority.

We meet at a time when the corruption issue has rarely been higher on the agenda of governments and international organisations. It is incumbent upon all of us to seize the advantages which this new openness provides. No one pretends that there is a bright new dawn just around the corner. There are forces at work in the international economy with much to lose from a concerted attack on the menace of corruption. We shall not, however, be deflected from the task in hand, notwithstanding the dangers which can accompany an assault on wrong-doing.

If the political will exists, reinforced by a demonstrable commitment to enact the reforms required, then whilst we may not remove completely the blight of international corruption the movement towards a less corrupt environment will become irreversible.

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