

PRESS CONFERENCE TO LAUNCH TI'S GLOBAL CORRUPTION REPORT 2009

DATE: WEDNESDAY, 23RD SEPTEMBER 2009

VENUE: BRITISH COUNCIL HALL, ACCRA

THEME: Business must counter corruption to foster economic sustainability

1. INTRODUCTION

Distinguished members of the Media, Invited guests, Ladies and Gentlemen, it is a great pleasure to have you here at the launch of Transparency International's Global Corruption Report (GCR) for 2009. On behalf of the Board and Management of Ghana Integrity Initiative, I welcome you all to this Press Conference. We appreciate the contribution that the Media is making towards the anti-corruption campaign. We look forward to more of such contributions in the future and sustained collaboration in the fight against corruption.

At this very moment, Transparency International is simultaneously launching the Global Corruption Report for 2009 in New York and Berlin alongside similar launches by several local chapters in several countries. The *Report titled, Corruption and the Private Sector* (GCR) shows how corrupt practices constitute a destructive force that undermines fair competition, stifles economic growth and ultimately undercuts a business's own existence. In the last two years alone, companies have had to pay billions in fines due to corrupt practices. The cost extends to low staff morale and a loss of trust among customers as well as prospective business partners. According to TI Chair Huguette Labelle, in launching the report, "Fostering a culture of corporate integrity is essential to protect investment, increase commercial success and ensure the stability sought by poor and rich countries alike, particularly as we climb out of an historical crisis".

The GCR report documents many cases of managers, majority shareholders and other actors inside corporations who abuse their entrusted power for personal gain, to the detriment of owners, investors, employees and society at large. In developing and transition countries alone, companies colluding with corrupt politicians and government officials, have supplied bribes estimated at up to US \$40 billion annually, according to the GCR.

Research findings contained in the GCR 2009 showed that about half of international business executives polled estimated that corruption raised project costs by at least 10 per cent. Ultimately, it is citizens who pay for these costs. Consumers around the world were overcharged approximately US \$300 billion through almost 300 private international cartels discovered from 1990 to 2005.

Another concern addressed in the report is how the sheer economic power of some companies and business sectors translates into disproportionate and undue leverage on political decision-making. Failure to regulate such influence lays the foundation for kleptocratic systems and stunted growth. Lobbying efforts often lack transparency and tend to fall outside the system of checks and balances that firms rely on for strategic decisions. For example, in 2008, roughly one-third of Standard & Poor's 100 companies required board oversight of political spending.

Revolving doors between public office and the private sector, another practice documented in the report, provide a smooth path to deceitful public procurement deals where non-competitive bidding and opaque processes lead to immense waste and unreliable services or goods.

The extent and multifaceted ways in which private sector corruption is manifested greatly surpasses the few companies that actually employ systems to stop this abuse of power for illicit gain. Almost 90 per cent of the top 200 businesses worldwide have adopted business codes, but fewer than half report that they monitor compliance, according to the report. Definitely, adopting business codes without complying with them is as good as not adopting them at all.

Many of the countries found at the bottom of TI's yearly *Corruption Perceptions Index* – which measures perceived levels of public-sector corruption in over 170 countries – are not only victim to unscrupulous governments but to major firms that are more than willing to enter into corrupt deals with these governments. These intricate webs, involving more than simple bribes, are possible because companies believe that they can get away with such criminal practices.

“Basing a company or fund's future on personal relationships and unpredictable systems or simply operating in a dark space without oversight and accountability is a path to guaranteed failure,” said Labelle.

What the private sector must realize is that corporate integrity pays. Companies with anti-corruption programmes and ethical guidelines are found to suffer up to 50 per cent fewer incidents of corruption and to be less likely to lose business opportunities than companies without such programmes. The tools for corporate anti-corruption action are broadly and readily available but companies must pick up the pace in applying them.

The dearth of confidence in corporate ethics highlighted by the present economic crisis makes the need to promote anti-corruption mechanisms, as an integral part of a company's operations, all the more urgent. “Winning on anti-corruption means adding to the bottom line. It is time that corporations face up to the risk of paying millions in fines and the long-term loss of trust from their customers and shareholders,” added Labelle. Forward thinking CEOs are already acting forcefully against corruption and reducing risks in an effort to secure sustainable business growth with integrity at the core of their operations.

Corporate integrity is about more than sustainable earnings or returns on investment. When reckless companies engage in corruption, the consequences can be devastating. From water shortages, exploitative work conditions or illegal logging to unsafe medicines and poorly or illegally constructed buildings that collapse with deadly consequences, corruption can bring about unprecedented harm. The private sector has a crucial role to play in preventing these outcomes, by operating with transparency and accountability wherever there is a profit to be made. The private sector incurs additional costs or receives less profit when it has to pay bribes.

However, in most cases, the private/business sector succeeds in transferring the increased costs to the consumer and the ordinary citizen, especially when there are no alternatives.

The *Global Corruption Report 2009* presents evidence of persistently close linkages between business and governments in developing and industrialised countries alike, multiple conflicts of interest and the growing risks of disproportionate influence on the part of corporate lobbying. Case studies from Bangladesh, Germany, Malaysia and Trinidad and Tobago all document a precariously close nexus between private business and public institutions and officials.

General trends and emerging risks in Africa

The Report reveals that in Africa, the informal sector amounts to more than 40 per cent of the economy in many countries, reaching well over 50 per cent in Nigeria and Tanzania. The lack of legal protection and the desire to dodge regulations makes the informal sector easy prey for extortion and the solicitation of bribes by corrupt officials. The lack of legal protection and the desire to dodge regulations makes the informal sector easy prey for extortion and the solicitation of bribes by corrupt officials.

In Burundi, 90 per cent of entrepreneurs think paying bribes is standard practice. In 2008, as many as 79 per cent of businesses polled in Burundi stated that the customs system is corrupt, with 68 per cent considering corruption to be a major obstacle to private sector development in the country. **In Morocco**, integrity studies have found that only 7 per cent of Moroccan companies have attempted to act when faced with corruption. The companies were not sure they would be vindicated for their actions or even feared reprisals if they reported the corrupt activities.

In Angola and Uganda, the costs of starting a business surpass the average per capita income, putting formal status well beyond the means of many informal entrepreneurs. The private sector has grown rapidly in Ethiopia but a significant number of businesses continue to operate outside the formal sector. The high inflation in Zimbabwe and the introduction of price controls have contributed to a massive, parallel, informal economy that provides opportunities for middlemen and exploitation. However, in **Kenya**, a new licensing law agreed upon in 2007 eliminated over 140 different business licenses that had previously been necessary to open a business. These excessive regulatory requirements had bred widespread opportunities for bribery in order to avoid compliance.

In Ghana, there have often been questions as to whether it is only the politicians and public officials that are corrupt. GII's reply has always been in the negative. The point, however, is that politicians and public officials are in the position to do something about corruption but rather often collude with private sector practitioners to enrich themselves. The private sector pays bribes because they are either asked for it or they believe that that is the only way to get what they want – the contracts, licenses, payments for work done, etc., especially when there are unexplained delays in processing. Red tapeism, complex regulations and procurement procedures foster corruption.

In Ghana, it is sometimes difficult to distinguish between private sector corruption and public sector corruption. When a Minister or a DCE (as reported in the GCR) establishes companies, awards contracts to them and takes kickbacks for himself or the party, is it private sector or public sector corruption? When engineers in public institutions, set up companies, using names of friends and family members and ensure that contracts, which they will supervise, are awarded to such companies, how would you describe any corrupt act involving these companies? Is it public or private sector corruption? This is debatable but whatever the answer is, it blemishes the image of the private sector and the government alike, especially when nothing is done about it.

The lesson from the analysis in the GCR 2009 calls for more action in the anti-corruption fight. A change in strategy and action is required to ensure that corruption in the business sector is tackled effectively. It recommends four approaches:

- Business needs to recognise that corruption risks start with bribery and go beyond, requiring an integrated approach to corporate integrity and corporate citizenship.
- Governments need to take advantage of a new generation of innovative tools and thereby put much more emphasis on regulatory capabilities, actual enforcement and international cooperation.
- Civil society needs to become fully aware of how corruption in business is at the core of many other social, developmental and environmental challenges, and must forge much broader and more effective partnerships to support corporate integrity.
- Stakeholders – from business owners, executives and workers to auditors, investors, regulators and anti-corruption activists – have to acknowledge that corporate integrity is a multi-stakeholder effort that requires collective action across sectors, borders and institutional boundaries.

How far has Ghana gone in adopting these approaches? Fighting corruption at the nexus of private and public entities requires a radical change in the government's commitment to addressing these problems. Prompt investigations of alleged corruption cases and harsh sanctions for violators constitute one solution, but this approach can be successful only when the political leadership adopts a strong anti-corruption stance. This has been the problem with our governments, especially when it comes to cases affecting party faithfuls and funders.

We have put in place the enabling legal environment for key stakeholders to operate smoothly, including legislation to enable citizens to report cases of corruption and enable accountability institutions to investigate credible reports of alleged corruption cases and prosecute violators. However, the Freedom of Information Bill has still not been enacted to enable citizens fully utilize the existing laws in fighting corruption. Moreover, the Assets Declaration Law (Act 550) needs to be amended, and the proposed Regulations laid before Parliament for approval, to make the law an effective anti-corruption tool. The delays in enacting proposed anti-corruption laws appear to indicate a lack of commitment on the part of the Executive to the anti-corruption course, in spite of the promises of zero tolerance for corruption and transparent and accountable governance.

With the revelations during the public hearings of the Public Accounts Committee of Parliament in 2007 that MDAs were not complying with procurement procedures, the Attorney-General also

announced that the government would develop an anti-corruption policy for the private sector to address gaps in laws and regulatory institutions while promoting cooperation between law enforcement agencies and private entities. We are still awaiting the development of this policy.

The same Attorney-General announced the establishment of the Financial Intelligence Centre (FIC) to ensure the implementation of the Anti-Money Laundering Law. The new institution, we are told, will process, analyse, disseminate and interpret information it discloses or obtains, and inform, advise and cooperate with relevant agencies. However, we are also still awaiting the establishment of the Financial Intelligence Centre (FIC).

We must admit, however, that some anti-corruption mechanisms are helping to improve the fight against corruption, such as improving knowledge on how to register and supporting informal businesses in bureaucratic processes. For example, after we began facilitating and promoting registration by shortening the process, entrepreneurs reported being exposed to less corruption.

However, Ghanaians themselves must recognise their duty to ensure that anti-corruption laws are enforced, that cases of corruption are reported and that the government is pressured to prosecute such cases. Transparency must be injected into Ghana's public system. Adequate information about systems and procedures must be widely disseminated to give citizens access to goods and services as a right, rather than favours from corrupt officials who demand payment in return. These should be displayed at the premises of all service providers.

About the Global Corruption Report:

Transparency International's *Global Corruption Report 2009: Corruption and the Private Sector* (GCR) features more than 75 experts examining the scale, scope and devastating consequences of corporate corruption. This is complemented by 45 in-depth country reports along with best practices and practical recommendations. The GCR is a flagship yearly publication from TI that compiles expert research and analysis from around the world with a thematic focus related to corruption.

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