

**Combating Corruption
in Asian and Pacific Economies**

Combating Corruption in Asian and Pacific Economies

Papers Presented at the Joint ADB-OECD
Workshop on Combating Corruption
in Asian and Pacific Economies

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Foreword

Measures to curb bribery and corruption are now firmly on the international agenda. Thirty-four signatory countries, including all the world's biggest economies, have signed the Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and are now implementing tough new legislation against transnational bribery. Regional banks such as the Asian Development Bank (ADB) are now prepared to withhold financial backing from governments and companies accused of corruption. Other international organizations such as the United Nations are undertaking major initiatives against international graft. Nongovernment organizations and bilateral aid agencies are also participating in the efforts of national governments and international organizations to combat and curb corruption.

In a bid to counter the malign influence of corruption in the Asia-Pacific region, ADB and OECD sponsored a workshop on Combating Corruption in Asian and Pacific Economies held at the ADB headquarters in Manila, Philippines, from 29 September to 1 October 1999. The meeting provided a forum for participants—senior policymakers and government officials and leading representatives from the business sector and civil society in ADB and OECD member countries—to share their views on and experiences in fighting corruption on the national and international levels.

Convinced that bribery in international trade and investment is widespread and has many harmful repercussions, and that an effective worldwide policy is best suited

to fight corruption, OECD has been a leader in the global fight against bribery and corruption in international business practices. Making use of OECD Secretariat-wide expertise and cultivating synergies with other international initiatives—both public and private—OECD has provided a unified and comprehensive front against corruption. It addresses corruption from the perspective of both the recipients of illicit payments, through work on public service ethics, and the providers of illicit payments, by taking actions against bribe givers.

ADB has long been aware of the dangers of corruption for Asia-Pacific governments and economies. In July 1998, the ADB Board unanimously adopted a tough anti-corruption policy targeted at ensuring sustainable and equitable development. ADB's objective is to combat corruption through its general work on market liberalization and public sector reform by providing explicit support for selective anticorruption initiatives and by ensuring that its own staff and projects adhere to the highest levels of integrity.

This publication covers a broad set of issues ranging from corruption as a challenge to good governance and economic development to anticorruption actions at national, regional, and international levels. It provides policymakers, businesses, civil-society organizations, and other stakeholders with an assessment of specific anticorruption strategies already in place and explores new approaches. Moreover, it serves as a key element in the network building and information sharing which is essential to successful coordination and cooperation among key players in the reform effort.

ADB and OECD believe that this publication will broaden the debate on anticorruption strategies and contribute to strengthening initiatives to improve integrity and transparency in public governance and corporate behavior. Both organizations wish to express their gratitude to

the authors and conference participants for their excellent contributions, without which this publication would not have been possible. They also wish to express their thanks to the partner organizations: the Konrad-Adenauer-Stiftung, the Pacific Basin Economic Council, Transparency International, the United Nations Development Programme, the United States Agency for International Development, and the World Bank Institute. These key players in the international fight against corruption contributed valuable insights gained from practical, hands-on experience in assisting countries in developing credible anticorruption programs.

The project was directed and coordinated by Robert P. Beschel, formerly ADB strategy and policy officer and now senior public sector management specialist for the South Asian region at the World Bank, and Frédéric A. Wehrlé, coordinator for Anti-Corruption Outreach Activities in the OECD Anti-Corruption Unit of the Directorate for Financial, Fiscal, and Enterprise Affairs. Copy editing by Annette Goh, under contract to OECD, and Muriel S. Ordoñez, under contract to ADB, and research and editorial assistance by Marilyn Pizarro, are gratefully acknowledged. Lorna del Rosario, ADB, and Wendy Prince-Lagoutte, OECD, handled the logistical arrangements of the workshop on which this volume is based.

The views expressed in this publication do not necessarily reflect those of the ADB Board and member countries or of OECD and its member countries. It is published on the responsibility of the director, Strategy and Policy Department, ADB, and the director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD.

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Executive Summary

Bribery and corruption are damaging the Asia-Pacific region, undermining the political process, hampering economic and legal reforms, distorting the allocation of resources and undermining fair competition in the marketplace. In a bid to counter the malign influence of corruption in the region, the Asian Development Bank (ADB) and the Organisation for Economic Co-operation and Development (OECD) organized a workshop on “Combating Corruption in Asian and Pacific Economies” in Manila, Philippines, from 29 September to 1 October 1999.

The workshop was sponsored by ADB, the OECD Centre for Co-operation with Non-Members, the OECD Anti-Corruption Unit of the Directorate for Financial, Fiscal and Enterprise Affairs (DAFFE), and the OECD Public Management Service. Associated partners in the workshop included the Konrad-Adenauer-Stiftung, the Pacific Basin Economic Council, Transparency International, the United Nations Development Programme (UNDP), the United States Agency for International Development (USAID), and the World Bank Institute. These key players in the international fight against corruption contributed valuable insights gained from practical, hands-on experience in assisting countries in developing credible anticorruption programs.

A STRONG CONSENSUS TO FIGHT CORRUPTION

The workshop sought to raise awareness of the seriousness of the corruption problem and to identify effective anticorruption strategies. Participants from more than 35 ADB and OECD countries¹ discussed ways to (i) improve

integrity and transparency in government, (ii) combat corruption and bribery in international business transactions, and (iii) mobilize the mass media and the civil society to join in these efforts.

The workshop revealed a strong consensus to fight corruption. There is an urgent need for an effective program to combat corruption, involving the public and private sectors, the mass media, and civil society. In the public sector, stronger law enforcement and greater integrity and clarity in the structures of state administration are called for. Regulatory reforms should remove bureaucratic obstacles and reduce administrative delays in order to curb the discretionary authority available to government officials and provide for competitive public procurement procedures in order to improve the investment climate. In the private sector, further efforts should be made to develop and implement business ethics programs and codes of conduct, with a view to encouraging self-regulation. The mass media and civil society should implement education programs aimed at (i) fostering an anticorruption culture, (ii) establishing informal partnerships to monitor good public governance, and (iii) enabling the mass media to effectively exercise public scrutiny.

Keynote addresses were made by the vice president of region east and chairman of ADB's anticorruption task force Peter Sullivan and by OECD deputy director Rainer Geiger. In session one, participants reviewed anticorruption programs in selected Asian and Pacific Economies as illustrative of the general issues involved in combating corruption and discussed international instruments developed in different international forums to support national efforts to combat corruption and other illicit transactions. The second session was organized around three main themes: (i) integrity, accountability, and transparency in public governance; (ii) transparency and integrity in business operations; and (iii) civic participation in the fight against corruption.

During the third session, strategies and effective approaches to implement anticorruption programs were examined. At the final session, participants identified and discussed measures conducive to a sustained effort to stamp out bribery and corruption.

REGIONAL STRATEGIES AND INTERNATIONAL INSTRUMENTS TO FIGHT CORRUPTION

Today, corruption is internationally recognized as a major problem that is capable of endangering social stability and security; undermining democracy and morality; and threatening social, economic, and political development. With the growing globalization of markets, services, goods, and people, accompanied by the internationalization of illegal activities, the international dimension of corruption gains in significance. As a result, reducing corruption has become a priority both nationally and internationally.

Regional Anticorruption Strategies

The book's first section discusses the anticorruption programs in India, Philippines, and Papua New Guinea as illustrative of the general issues involved in fighting corruption. Although these programs are mainly concerned with public sector corruption, the essays also highlight the importance of private sector involvement.

The scope of corruption, qualified as endemic and systemic in many Asian countries, is underlined. In many cases, anticorruption measures are ineffective, especially those involving public officials, and elected officials who are not accountable to a statutory party. Since corruption has become a well-organized activity, government or administration measures must be comprehensive and able to address corruption committed by public servants as well as by high-level politicians.

Comprehensive measures include organizing an anti-corruption system and increasing transparency through reforms in public sector management and the legal system. For instance, it is necessary to introduce new laws in procurement, foreclosure, and bankruptcy, and new regulations for central banks. In the Republic of Korea, some of these reforms were introduced after the Asian financial crisis, since corruption is believed to have provoked it. However, deep-rooted changes in the Korean legal system require training and the establishment of an incentive structure for judges, whose existing number is not even sufficient to deal with corruption issues.

Apart from establishing or enabling a legal framework, the creation of a special anticorruption organization is necessary for putting in place an efficient anticorruption strategy. Such an organization can play a key role in carrying out anticorruption activities. This is evident, for example, in Papua New Guinea. In India, Parliament is the most effective guardian of such an anticorruption institution.

Another effective anticorruption strategy is the decentralization of the decision-making process in procurement or licensing. However, dismantling the power of the central Government and breaking up the bureaucracy should be accompanied by training of local officials, who are expected to be scrutinized by the people. Scrutiny is considered an expression of civil society's involvement in anti-corruption activities, and is essential for the creation of an anticorruption environment. Such involvement must be supported by independent mass media. Both decentralization and privatization have positive effects in the fight against corruption.

The anticorruption campaign is not confined to individual countries but has spilled over into the international community. International organizations such as the World Bank, ADB, and OECD should provide technical assistance

apart from financial assistance in the development of anti-corruption mechanisms. It is important to coordinate anti-corruption legislation and to strengthen international links to prevent cross-border bribery as corruption in Asian developing countries is boosted by the opportunities provided by developed economies that induce spiraling borrowing.

International Instruments to Fight Corruption

In recent years, several anticorruption instruments have been developed in different international forums to combat bribery and other corrupt activities. These instruments vary in their scope and content and in how they can be applied in the Asian and Pacific Economies. A key point is that corruption is not confined to a particular part of the world or to countries at one stage or another of development. It is clear that corruption most affects the world's poorest by making people pay for government services to which they may be entitled free of charge (e.g., education, health). Corruption denies the least advantaged opportunities for improved prosperity.

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was adopted in December 1997. The convention obliges parties to adopt wide-ranging rules:

- National legislation should make bribery of foreign public officials a crime.
- “Bribery” and “foreign public officials” should be defined broadly to take account of the fact that functions exercised by the State vary from country to country.
- Penalties must be “effective, proportionate, and dissuasive,” comparable to penalties applicable to domestic public officials (including prison terms).

- Territorial jurisdiction should be interpreted broadly and national jurisdiction established if this accords with national legal principles.
- Where there is no criminal liability of companies, countries should impose dissuasive noncriminal sanctions, including monetary fines.
- Accounting and auditing standards are required to prohibit the establishment of off-the-book accounts and other techniques for hiding bribery.
- Mutual legal assistance must be provided in connection with criminal investigations and other proceedings.
- “Bank secrecy” may not be asserted to deny mutual legal assistance.
- Extradition should be provided for.

The legislation adopted by countries to implement the convention is subject to a rigorous monitoring process to ensure that it meets the standards set by the convention.

Although the convention is the centerpiece of efforts to promote good corporate behavior in international business, it is not the only anticorruption instrument available. Signatories of the convention are also committed to implementing the 1997 Revised Recommendation on Combating Bribery in International Business Transactions, which imposes significant additional requirements aimed at motivating corporations to change their attitude.

The 1997 Recommendation also incorporates the 1996 Recommendation on Anticorruption Proposals for Bilateral Aid Procurement, according to which signatory countries of the convention should do the following:

- Require anticorruption provisions in bilateral aid-funded procurement.
- Promote the proper implementation of anticorruption provisions in international development institutions.

- Work closely with development partners to combat corruption in all development cooperation efforts.

Parties to the convention also pledge to abide by the 1996 Recommendation aimed at ending the tax deductibility of bribes to foreign public officials.

While the OECD convention and related instruments make it clear that the international business community plays a key role in the fight against bribery, the corresponding responsibility of governments in the prevention of solicitation of bribes is not ignored. The 1998 Recommendation on Improving Ethical Conduct in the Public Service provides an instrument—a set of management principles—for governments to check their national institutional circumstances.

Other international instruments include the Council of Europe's legal instruments: the Criminal Law Convention of 1998 and the Civil Law Convention on Corruption of 1999. These conventions differ from the OECD approach in that their definition of the offense refers to the country of the recipient on essential points, whereas OECD's defines the official and the breach of duty in an autonomous way.

The European Union (EU) has adopted three main instruments against corruption:

- the Treaty on the Protection of Financial Interests of the Community of 1995, which is the basis for the First Protocol of 1996, focusing on criminalization of transnational bribery in Europe, which, however, is limited to bribery endangering EU's interests and to its geographical area;
- the Supranational Law against corruption that deals with the tax treatment of bribes and rules on accounting and auditing; and
- the draft instrument on transnational and supranational bribery in the context of EU, which aims to

unify criminal law and could eventually develop into a unified core criminal code for EU.

Addressing the issue of money laundering of illicit proceeds, the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs contains provisions for signatory states to criminalize money laundering from drug trafficking, and for mutual legal assistance and extradition to be applicable to money laundering. Other instruments are the following:

- the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime;
- the June 1991 Council of European Communities Directive on Prevention of the Use of the Financial System for the Purpose of Money Laundering; and
- the 1992 Resolution and Report of the International Organisation of Securities Commissions (IOSCO), which encourages members to take measures to curtail money laundering in securities and futures markets.

The Financial Action Task Force (FATF) was established in 1989 and plays a key role in combating international money laundering. Caribbean countries have established the Caribbean FATF, and countries in the Asia-Pacific region have established the Asia/Pacific Group on Money Laundering. Both structures provide participating countries (i) information, (ii) assistance in drafting workable laws, and (iii) assistance in training investigators and prosecutors.

The business community and nongovernment organizations (NGOs) advocate establishing a system to raise the profile of the anticorruption struggle. NGOs and business associations can perform a vital role by putting pressure on governments to take action against corruption in com-

pliance with international instruments. Professional associations such as those of accountants or auditors can help enforce international standards.

MEASURES TO COMBAT AND PREVENT CORRUPTION

Comprehensive legal systems that address corruption and bribery are key in the fight against corruption but are not enough to eradicate it. Integrity, transparency, and accountability in the awarding of government contracts and permits, in regulatory matters, and in judicial and legislative proceedings are necessary elements for a productive economy and an open and predictable trade and investment climate.

Integrity, Transparency, and Accountability in Governance

The book's second part addresses issues related to efficient, effective, accountable, and transparent public institutions. It discusses in particular how public and private efforts may strengthen information systems and the capacity of governments to monitor their (i) expenditures, (ii) public sector reforms (such as making procurement rules and deregulation more transparent), and (iii) efforts to (a) improve the capacity of parliamentary institutions such as supreme audit agencies and (b) enhance the independence and professionalism of the judiciary.

Reforming Government Processes and Procedures

The papers on key regional problems and solutions are by experts from the public and private sectors. The Bureau of Customs in the Philippines is presented as a case study of an agency that has streamlined its operations and significantly reduced the opportunity for corruption. A second case study presented by a procurement attorney high-

lights the framework and experiences of countries that have developed a sound public procurement system and successfully used procurement procedures built around this system. International initiatives to help ensure integrity in procurement actions, including anti-bribery pacts among competitors, as well as international activities promoting better procurement regimes, are also presented in relation to the actual public procurement legislation, rules, and methods in Asia-Pacific countries. The key role of the private sector in curbing corruption in procurement is also addressed.

Strengthening Public Institutions and Enforcing Laws

With legal and institutional reform in the public sector, and complementary actions by private enterprise and individuals, a tipping point against corruption can be reached. This section deals with current efforts in selected countries of the region in containing corruption through legal and institutional reform. A paper written by an international expert on the region presents a general survey of the costs and consequences of corruption, as well as specific observations about the value of public-private partnerships. By addressing the nexus of the public and private sectors and the important role of civil society in combating corruption, the paper provides the framework for the remaining discussion of the effectiveness of various accountability mechanisms such as anticorruption agencies, supreme audit institutions, and ombudsmen offices. The role of such institutions in promoting efficiency and cost effectiveness and in preventing corruption are highlighted in the other papers, including a discussion on international initiatives to help ensure accountability and transparency in relation to the actual needs of the countries in the region.

Promoting Disclosure, Transparency, and Integrity in Business Operations

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions requires corporations to (i) maintain adequate accounting records and internal company controls, (ii) undergo external audits, and (iii) adopt effective codes and compliance programs. In addition, to promote good corporate governance and discourage bribery, provisions have been developed in the framework of the convention to rule out bribes as business expenses. The OECD convention and other anticorruption initiatives by treaty makers and legislators are thus important steps in the movement to discipline corporate behavior in the sensitive area of international corruption. However, it is equally important that corporations take a proactive role in complementing and reinforcing international instruments and government regulations. Enterprises have a pivotal role in ensuring the integrity of business conduct.

This part deals with both the requirements imposed by the OECD convention on corporations and initiatives developed within or between enterprises in encouraging good corporate behavior and promoting business integrity. It also examines how trade unions—which have a major stake in the fight against and corruption—can promote good corporate behavior and ensure basic workers' and trade union rights.

Denying Tax Deductibility of Bribes and Promoting Disclosure of Corporate Operations

The tax treatment of bribes can make a major difference in corporate behavior. When the tax laws treat bribes as tax-deductible business expenses, the message is that bribes are considered a legitimate business expense. While

deductibility encourages bribery and further distorts competition, disallowing deductibility of bribes discourages bribery and serves as a strong and politically visible symbol of the common international commitment to combat bribery, especially if combined with the criminalization of such action. Tight accounting, auditing, and financial controls can also make a major difference in preventing illegal bribe payments. This section addresses the tax treatment of bribes and the tightening of accounting requirements, concentrating on rules and policies in two OECD countries (Republic of Korea and the United Kingdom). It also addresses company and business accounting requirements and practices, external audit and internal controls, and legal sanctions for violations of these requirements.

Encouraging Good Corporate Behavior

The interest of governments is not to prosecute individuals or companies for bribery, but rather to create an environment that will stimulate companies to take the necessary measures to ensure that officers or employees do not engage in bribery. Thus, the role of ethical standards, compliance programs, and other initiatives developed by the business community to improve the functioning of markets and to strengthen competitive forces and curtail rents will also be examined. This section addresses the role of rules of conduct and charters of standards for transactions between business and government developed by business organizations such as the International Chamber of Commerce as means to fight corruption. Companies' self-regulatory measures to combat fraud and promote integrity are presented. The development of these measures aims to complement government actions. The role of organized labor and trade unions in exerting pressure on businesses is also discussed.

Raising Public Awareness and Promoting Civic Participation

Corruption is a global problem concerning not only public servants but also society as whole. It is therefore necessary to raise public awareness and promote civic participation in the fight against corruption. The experience of some developing countries illustrates how action-oriented civic organizations can be effective in raising public awareness.

For example, a survey carried out in India measured public satisfaction with public services delivery, focusing on its quality and accountability. Citizens' feedback, similar to market signals, was used as a grading system to stimulate competition. Thanks to the survey, which was supported by the cities' mayors, the usually substandard services improved. Unfortunately, it appeared that improving the quality of services did not diminish corruption. However, the survey encouraged citizens' participation and made them aware and sensitive to problems caused by corruption. It demonstrated that civil society, provided with research and analytical methods, can be involved in monitoring public works projects, usually considered too sophisticated for simple citizens. The development of these methods can actually empower civic action.

Independent, professional mass media are valuable tools in raising civil-society awareness about corruption. The local press can be effective in stirring interest in local corruption cases. However, the media themselves must be free of corruption. Nongovernment organizations could assist the media, but few in the region work directly on corruption. The Indonesian experience, for example, indicates that the press lacks investigative reporting skills and the ability to do the thorough research that is necessary to allow the public to fully understand corruption.

In some Asian societies, eradicating corruption may involve cultural reform. Public awareness may be raised through the educational system, by introducing students to new values and making them sensitive to corruption and abuse of authority. A low literacy level is a serious problem in some Asian societies and requires remedial measures.

DEVELOPING ANTICORRUPTION STRATEGIES

Fighting corruption is by no means an easy task. It uncovers many sensitive issues, and countries may lack the political will to address the problem. Problems also exist in relation to the absence of proper structures and incentives; resources, both human and financial; and the knowledge required to develop anticorruption strategies.

There is no one sure approach to eliminating or reducing corruption. Over the years, different strategies have been implemented under different conditions with varying success. One conclusion is that a multi-pronged and sustained approach is essential. This chapter presents three comprehensive strategies developed and implemented by countries in the Asia-Pacific region as well as some regional initiatives developed by donor institutions. It addresses the question of how to develop anticorruption strategies and how to best implement and execute them.

A Review of National Anticorruption Strategies

In Hong Kong, China, the history of the fight against corruption is closely associated with the Independent Commission Against Corruption (ICAC), which started operating in 1974. ICAC concentrated on the following:

- investigation, by encouraging people's voluntary reporting of corruption and guaranteeing the confidentiality of the reports;

- prevention, by simplifying procedures; and
- community education, which was the most important measure in the long run, by using the mass media (television and the internet), with special attention paid to young people, businesspersons, newly arrived immigrants, and civil servants.

ICAC also launched a newspaper to encourage further public participation. It was concerned with all levels of officials as well as private sector corruption. The Prevention of Bribery Ordinance was used effectively to (i) encourage companies to adopt codes of conduct, (ii) set up the Hong Kong Ethics Development Centre, and (iii) carry out surveys on ethics and the public's perceptions of corruption.

Pakistan focused on preventing corruption by reducing opportunities in the judiciary. The importance of laws and conventions was emphasized (e.g., on drug trafficking and money laundering), as well as international cooperation. However, political, commercial, and bureaucratic corruption still seems to be widespread in Pakistan since it lacks a professional investigative force and principles of good governance at the Government level. The Pakistan strategy is also hampered by the lack of freedom of information, deficient administrative procedures, lack of accountability in the public sector, and the absence of dialogue between society and the bureaucracy. All these factors diminish the effectiveness of the laws. There is, furthermore, a need to publish annual reports on performance and evaluation and to underline the responsibility of donor organizations in providing technical advice, training, etc.

In the Republic of Korea (henceforth, Korea), despite the introduction of such measures as public service ethics laws, disclosure of information by public agencies, and the protection of confidentiality, anticorruption efforts are still not efficient enough, concentrating too much on punish-

ment without sufficient prevention measures and political will. However, after the financial crisis of the late 1990s, which was provoked in part by corruption, a preventive infrastructure was set up, including the special committee that will evaluate the implementation of Government policies and support the anticorruption efforts of domestic and international nongovernment organizations (NGOs). Special investigation headquarters were also set up within the Supreme Public Prosecutor's Office. The reforms seek to raise the awareness of civil society through the mass media. Citizens are being encouraged to participate in Government commissions and committees. Korea hopes that its involvement in the OECD anti-bribery convention will contribute to fighting corruption. The Korean experience highlights the necessity of strong political leadership supported by activities of NGOs such as Transparency International.

The "Asian particularity" and the attitude toward gifts as an expression of personal gratitude were alluded to as one of the possible reasons of flourishing corruption in the region. This is why it is necessary to make a precise legal distinction between what is bribery and what is not. It was emphasized that leadership itself is not sufficient and that anticorruption efforts should be systemized and institutionalized (e.g., through ICAC). Despite the sensitivity and complexity of the corruption problem, significant progress has been made. This kind of conference, for example, would have been impossible five years ago. Asian societies are also now more prepared and open to dealing with the issue of corruption in their midst.

Regional and Donor Anticorruption Initiatives

The United Nations Development Programme developed the Paragon Regional Governance Programme to promote sustainable human development through three inter-

related components: (i) rights and development; (ii) public and private sector accountability; and (iii) decentralization and local empowerment. As part of this program, participating countries will take actions in three stages: (i) policy analysis and advocacy; (ii) implementation support to innovative projects; and (iii) learning experiences. The targeted public of this program consists of parliamentarians, media personnel and State officials, civil society, and the private sector.

Since the 1990s, International Monetary Fund (IMF) guidelines have promoted “good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption.” The guidelines, however, are limited to the economic aspects of governance. As regards individual instances of corruption, IMF will continue raising them with the authorities where they could have significant macroeconomic implications. In practice, IMF does address corruption issues in its policy advice in the context of its surveillance activities and technical assistance, and in the conditionality attached to its programs, as in Korea, Thailand, and Indonesia. In this respect, financial assistance could be suspended or withheld unless corrective measures are taken. The other instances of corruption, which do not meet this threshold, are best addressed through IMF’s efforts to promote transparency.

The World Bank’s anticorruption work consists of four “pillars.” The first is preventing corruption in World Bank projects. The second involves helping countries that request assistance from the World Bank in curbing corruption at the national level. For example, the World Bank helped the People’s Republic of China to develop a bidding law and Papua New Guinea to create the Independent Commission Against Corruption. The third involves integrating anticorruption concerns in the World Bank’s country assistance strategies. Indonesia, the Philippines, and Thailand are

among the countries in the region where current assistance strategies specifically mention anticorruption as objectives of the World Bank's assistance. The fourth pillar concerns supporting international efforts such as the OECD anti-bribery convention and other initiatives.

The USAID has long been active in the fight against corruption by devising aid programs that encourage economic restructuring, the rule of law, open and accountable government, free media, and civil society. In the Philippines, its work focuses on policy and regulatory reforms to reduce the scope for discretionary decisions on the part of officials in areas where corruption incentives have traditionally been strong: (i) abuses in public procurements; (ii) unfair taxation and customs; (iii) inefficient regulation of key infrastructure and general business; (iv) nonfunctioning and incompetent judiciary; and (v) contested local elections. USAID was influential in supporting the reform to strengthen customs operating systems and controls to provide cost-effective and efficient services.

Developing Effective Approaches to Implementing Anticorruption Strategies

Actions by the Public Sector

A key objective in any anticorruption strategy is to promote good governance in the public sector, where corruption is often seen as a political, economic, and moral question closely related to education. The fight against corruption therefore requires a holistic approach and a collective effort at both domestic and international levels. International cooperation is indispensable as transnational corruption becomes more and more frequent. Domestically, it is imperative to introduce law-enforcement mechanisms, with a special role for the judiciary. Witness protection programs are also required to encourage reports of wrongdoing.

ing. Transparency can be enhanced by establishing competitive public procurement procedures and encouraging adoption of relevant international rules. Simplification of government procedures can help improve the conditions for international investment.

Actions by the Private Sector

From a business perspective, the cost of corruption for companies far outweighs the benefits of one short-term result. In the private sector as elsewhere, there are no one-shot solutions; corruption on the part of both the recipients and providers of illicit payments must be attacked. Action should be taken on many fronts by doing the following:

- Encourage private sector initiatives, such as corporate codes of conduct, and stricter accounting, auditing, and corporate disclosure rules.
- Make bribery of foreign officials a crime, in accordance with the OECD anti-bribery convention, and by more effectively enforcing existing laws prohibiting bribery of domestic officials.
- Fully support government efforts to end tax deductibility of bribes.
- Support public sector reform, such as making procurement rules more transparent.
- Actively engage civil society and business organizations and thereby require greater accountability from public officials and the business community.

Actions by Civil Society

Mobilizing NGOs and the mass media is critical to raising public awareness. Civil society needs to assume greater responsibility for monitoring good governance and integrity in business operations. Regional and national networks

for civil society as well as increased cooperation with international organizations can help prevent the abuse of the international financial system. These networks should be accessible by parliaments and the judiciary.

Donor institutions, NGOs, the private sector, and governments need to share the burden of the anticorruption effort. In individual countries, the focus must be on action at the national level; nevertheless, international organizations have an important supporting function. Comprehensive information on actions to fight corruption should be widely disseminated, including success stories. The publication of best practices illustrating strategies used to fight corruption would be very useful for practitioners. Proactive measures to prevent corruption should focus on improving education as well as training investigators and enforcement agents to fight criminal activities. Fostering an anticorruption culture could also include actions that improve professional standards for journalists and promote training in investigative journalism.

ENSURING THE SUCCESS OF ANTICORRUPTION STRATEGIES

Corruption has many pernicious effects. It erodes confidence in political institutions and endangers public sector reforms. It exacts a disproportionate cost on the poor, who may be deprived of basic public services. It distorts the allocation of resources and undermines competition in the marketplace. Even more seriously, it results in a deterioration of the ethical standards in society and in the loss of citizens' confidence in government, business, and democratic institutions.

Workshop discussions culminated in the adoption of an action plan for follow-up activities at both the national and regional levels.

Strategy

Workshop participants did the following:

- Agreed on the necessity to fight all types of corruption at all levels and recognized the progress made in some countries in developing effective anticorruption programs.
- Recognized the need to address the international dimension of corruption, organized crime, and money laundering.
- Identified priority measures to fight corruption, including the following:
 - strengthening State institutions by improving enforcement and monitoring;
 - providing for transparency and accountability;
 - enabling independent investigative and judiciary bodies;
 - building public-private partnerships and networks to monitor anticorruption activities and underpin reform efforts;
 - establishing participatory and proactive strategies to enhance all anticorruption efforts;
 - empowering civil society and the mass media to galvanize community action, generate political commitment, and create a pattern of honesty in business transactions; and
 - improving basic education and literacy levels, and educating society on the costs of corruption;
- Agreed that anticorruption programs must be supported by political will and that building private-public sector coalitions is critical to developing and sustaining reform measures.
- Noted the need to change the business environment because corruption interferes with competition on

the basis of price, quality, and service, and erodes the integrity of managers and employees.

- Stressed the importance of promoting ethical standards in business and good corporate governance.
- Recognized the value of international instruments to encourage and strengthen anticorruption programs at national and regional levels and to provide a benchmark of best practices.
- Encouraged donor organizations to develop synergies in program design and implementation on the basis of long-term partnership.

Implementation Strategies

To promote action at the country level, participants agreed on the need for a three-pronged approach consisting of actions taken by (i) Asia-Pacific governments, (ii) the private sector, and (iii) the mass media and civil society. In discussing possible follow-up activities, they called upon the conference organizers, partner institutions, and other donors and/or interested parties to organize a regular forum on anticorruption activities in Asia and the Pacific.

The Public Sector

Participants reached consensus on the need to do the following:

- Develop comprehensive national strategies for combating corruption.
- Strengthen law enforcement mechanisms and the role of the judiciary, and provide witness protection programs.
- Increase transparency by establishing competitive public procurement procedures and encouraging the adoption of international rules in this area.

- Improve conditions for international investment by simplifying government procedures.
- Improve transparency and accountability in budget preparation, execution, and oversight of expenditure.
- Develop codes of ethics in public administration to be enforced by strong sanctions.
- Strengthen procedures for an effective and merit-based civil service, particularly recruitment, promotion, and pay.
- Adopt “freedom of information” laws and provide access to public information.
- Strengthen parliamentary oversight, independent audit, and investigative bodies to be backed by sufficient human and financial resources.

The Private Sector

Workshop participants stressed the need to do the following:

- Establish public-private partnerships to develop anticorruption strategies, goals, and processes.
- Promote good corporate governance on the basis of international standards and principles.
- Elicit the strong commitment by top management of companies to implement anticorruption strategies.
- Develop and implement codes of ethical conduct and ensure their effectiveness through internal control mechanisms, training of personnel, and sanctions.
- Have accounting and auditing rules and standards to ensure transparency in business transactions.
- Build coalitions for business integrity, including business-ethics centers.

International Organizations and Donors Community

Given the importance of corruption in the region, the role of international organizations and the donor community in combating it is crucial. Participants did the following:

- Recognized the value of international instruments to encourage and strengthen anticorruption programs at national and regional levels and to provide a benchmark of best practices.
- Urged international organizations and donor organizations to develop synergies in program design and implementation on the basis of long-term partnership.
- Called upon the conference organizers, partner institutions, and other donors and/or interested parties to consider ways for advancing a regional anti-corruption agenda.

The Mass Media and Civil Society

Participants recognized the urgent necessity to do the following:

- Mobilize civil society (mass media, NGOs, business, labor, and professional associations) to monitor good governance.
- Create an anticorruption network of NGOs to share information on regional and country anticorruption initiatives.
- Conduct surveys of businesses, consumers, and public opinion to provide feedback for delivery of public services and fostering competition.
- Implement education programs aimed at fostering an anticorruption culture in society.

- Enable the mass media to effectively exercise public scrutiny.
- Improve ethical and professional standards of journalists and promoting training in investigative journalism.

Follow-up Activities

Participants called upon the conference organizers, partner institutions, and other donors and/or interested parties to consider ways of advancing a regional anticorruption agenda, including the possibility of organizing a regular forum on anticorruption activities in Asia and the Pacific. The forum would do the following:

- Exchange information and experience on national, regional, and international programs to measure progress and encourage further actions.
- Analyze issues relating to anticorruption activities and develop recommendations.
- Monitor the progress achieved in the implementation of the recommendations.

Participants urged that another meeting be held within one year to review progress on the basis of country reports.

The participants also urged the conference organizers, partner institutions, and other donors and/or interested parties to actively pursue bilateral contacts, strategies, and programs of mutual assistance for advancing integrity and combating corruption.

NOTE

1. Australia; Bangladesh; Bhutan; Cambodia; Canada; People's Republic of China; Taipei, China; Czech Republic; Fiji; Finland; France, Hong Kong, China; India; Indonesia; Japan; Kazakstan; Republic of Korea; Kyrgyz Republic; Malaysia; Maldives; Mexico; Mongolia; Nepal; Netherlands; Pakistan; Papua New Guinea; Philippines; Singapore; Sri Lanka; Switzerland; Thailand; United Kingdom; United States; and Viet Nam.

Keynote Address

PETER H. SULLIVAN

Future historians will no doubt view the Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Public Officials in International Business Transactions as a watershed in the struggle against corruption and as a major step toward addressing the "giving side" of the corruption equation. We're delighted to be able to work with OECD in exploring the relevance of the treaty for Asia and in considering a host of other measures that can help reduce corrupt and illicit behavior. Until recently, many were relaxed in their attitudes toward corruption in Asia, a region used to high levels of growth, where corrupt or illicit behavior has been tolerated or even justified as a so-called lubricant for economic growth.

However, few would now deny that it is not a lubricant, but rather a heavy cost dragging down economic growth. Two developments have forced a radical reassessment of corruption:

- the Asian financial crisis and the fact that corruption, cronyism, and nepotism greatly contributed to the currency turmoil in the region's stock markets; and
- the rapid expansion of solid analytical work on the consequences of corruption, which underscores just how costly, widespread, and systematic corruption can be.

Various studies have shown that corruption can add 20-100 percent to the cost of procurement of goods and services. It has cost governments as much as 50 percent of their tax revenues. Estimated losses due to corruption can total more than a country's foreign debt. Corruption diverts foreign investment. Reduced expenditure on social services such as health and education in favor of the military or large capital projects shortens asset life. Corruption undermines the creation of a professional merit-based civil service. It is a highly regressive tax, as its burden falls disproportionately upon the poor. Reducing it will therefore help the Asian Development Bank (ADB) achieve its own goal of poverty reduction.

As a number of recent tragedies have revealed, the cost of corruption is not only measured in terms of dollars, but also in terms of human lives. Behind the thousands and thousands of lives lost each year to fires, landslides, collapsed infrastructure, and ferry sinkings, there are often assorted tales of building codes violated or safety standards overlooked by officials willing to turn the other way. And in extreme cases, corruption can contribute to political instability and the collapse of regimes. Corruption is indeed a cancer.

Over the past three decades, ADB has become a major catalyst in promoting development in the world's most populous and fastest-growing region. It seeks to combat graft and corruption as part of its broader work on governance and capacity building. Its board of directors unanimously approved an anticorruption policy on 2 July 1998. The policy has three objectives:

- Support competitive markets and efficient, effective, accountable, transparent public administration, as preventive measures will ultimately be the most effective in the long run.

- Support promising anticorruption efforts on a case-by-case basis and improve the quality of ADB's dialogue with its developing member countries on a range of governance issues, including corruption.
- Ensure that ADB's projects and staff adhere to the highest ethical standards.

We are now working hard to implement the anticorruption policy. I chair a task force responsible for overseeing its execution. Yoshihiro Iwasaki, who will be chairing the first session today, is the task force's secretary. We have formulated new staff guidelines, which have been presented to the ADB President and should be effective shortly. We have changed our procurement guidelines to allow for stricter rules on loan cancellation, blacklisting of firms or individuals, and the right to audit in connection with possible instances of corruption. We have set up an internal unit within the Office of the General Auditor to investigate cases of fraud and corruption, and a hotline that people can contact with information about corruption in ADB operations.

ADB has long supported measures to enhance transparency, predictability, and accountability in our lending technical assistance operations. We are now giving many of these initiatives a stronger anticorruption emphasis. Let me cite just a few examples. Our \$1.5-billion financial governance loan to Indonesia, approved in mid-1998, has a number of key anticorruption provisions that were worked out in consultation with the Government. These include the strengthening of the audit agency and revising Indonesia's anticorruption legislation. Our loan to the Indian state of Gujarat has sought to improve public procurement and financial management and to level the playing field for the private sector. Our public sector loan to the Republic of the Marshall Islands envisions the creation of

an ombudsman's office to mediate citizens' complaints, including those related to corruption.

We are now moving to address anticorruption issues in country programming and to improve project monitoring and supervision, which are difficult and complicated tasks. It's easy to initiate them, but it's hard to do them well and make sure that they are effective. But we are committed to moving forward and ensuring that our deeds match our words. To this end, collaboration with other international financial institutions, particularly the World Bank, has been a valuable asset. We look forward to hosting the next Multilateral Development Bank Working Group on Governance, Corruption, and Capacity Building in Manila in November 1999.

ADB is concerned about the unholy alliance that often exists between corrupt officials and corrupt foreign firms, many of which are based in ADB's donor countries. Our policy requires ADB to focus on both the bribe givers and the bribe takers. In this context, our collaboration with OECD takes on particular relevance. OECD has been the driving force behind efforts to end tax deductibility of bribes and to criminalize the bribery of foreign officials—efforts that culminated in the signing of the OECD anti-bribery convention in Paris in December 1997. No other organization has done more to halt the flow of corrupt money from individuals and corporations in the developed world to the developing world.

Not all are convinced that the convention is applicable to the Asian context, and we recognize that individual member governments must decide for themselves whether or not to ratify the convention. However, we believe strongly in the need to explore the relevance of the convention for our Asian developing member countries, and the ways in which it can be adapted to Asian circumstances. It is to this end that we are delighted to collaborate with OECD in hosting this workshop.

I would like to conclude with an offer of partnership. As the multilateral development bank community moves to address questions of corruption more comprehensively, we are discovering that we know much less about the topic than we thought we did. There are many proposals on how to combat corruption. The participants at this gathering will no doubt put forward a number of excellent suggestions, but one finds a relative lack of solid, empirically grounded research that can help donors such as ADB prioritize their interventions to ensure that scarce anticorruption resources are utilized to best advantage. We are currently collaborating with other donors in supporting research on topics such as strengthening accountability mechanisms and improving public expenditure management. We welcome the opportunity to exchange information and findings in forums such as this, so that we can advance our collective knowledge about how best to combat corruption.

We look forward to working closely with many of you, particularly with officials from our developing member countries, and to strengthening your anticorruption efforts. As I noted earlier, we strongly believe in prevention, and we have been active in areas of market liberalization and public administration reform for some time. We are also now beginning to work on explicitly anticorruption issues such as the crafting of anticorruption legislation and the strengthening of audit institutions.

We recognize all too well that the struggle will be difficult. Corruption has a long history in Asia. For over two millennia, Hinduism, Confucianism, and Buddhism have warned of the dangers of corruption and bribery. Yet history also provides reason for hope: Singapore and Hong Kong, China, for example, demonstrate that much can be done if the proper legal and administrative systems are in place. We should not conclude that corruption is an inherent part of Asian values. With improved professionalism in the public sector and enhanced accountability, transpar-

ency, and predictability, countries can be transformed to the point where incidents of corruption are no longer widespread but rather isolated and rare. It is to this task—so important to the future economic health of both Asia and the world—that this conference is dedicated.

We are particularly grateful to the OECD Directorate for Financial, Fiscal, and Enterprise Affairs and to the OECD Public Management Administration Directorate for their hard work and substantive inputs in helping to organize the conference. We are also thankful for the assistance of our many partner organizations. The Konrad Adenauer Stiftung played an important role in putting together the sessions on the media and civil society. The Pacific Basin Economic Council provided invaluable assistance in identifying appropriate private sector participants. Other donors and nongovernment organizations, including Transparency International, the United Nations Development Programme, the United States Agency for International Development, and the World Bank Institute also provided assistance and advice.

We are pleased to provide a forum for considering anticorruption issues in greater detail and for advancing our common objective of ensuring that, while the problem of corruption may indeed always be with us, it need not be an overwhelming concern. With improved transparency and accountability, and strong pressure on both those who would give and receive bribes, we hope that the future will witness greater public and private sector integrity than that which exists today. With guarded optimism, I am delighted to join and start these proceedings.

Opening Remarks

RAINER GEIGER

The Organisation for Economic Co-operation and Development (OECD) is engaged in a wide-ranging dialogue with emerging market economies on issues of economic and financial cooperation, investment, and trade. Governance, both public and corporate, is an important part of this dialogue.

This conference brings together OECD and Asia-Pacific countries, governments, business, and civil society for a discussion on a wide range of issues related to national and international anticorruption programs. We hope to develop recommendations for our continued cooperation in the fight against corruption not just in the region, but also throughout the world.

Corruption is a cancer that destroys society, democracy, and the market economy. Many empirical studies demonstrate that it is a serious impediment to economic development and an obstacle to economic reform. The recent international financial crisis that hit Asia-Pacific demonstrates the devastating effect of corruption on investment and growth. The region's countries, which depend greatly on trade and foreign direct investment, have much to gain from cooperating against corruption.

Corruption is much debated and attracts a great deal of media attention. A couple of years ago, I read a cartoon where a bureaucrat receives a big envelope full of cash from a businessman and says, "Well, I'm against corruption. I should not have accepted this money, but corruption is a global phenomenon." How can we prevent countries from

competing to see who can most violate business and government ethics? How can we break the vicious circle of crime, corruption, and money laundering? The simple answer is, say no. To those who tell you that there is no alternative to corruption, and that corruption is deeply rooted in socioeconomic and cultural patterns, say no. To those who tell you that corruption is indispensable for success in business, say no. To those who pretend that corruption is inevitable and acceptable in poor and underdeveloped societies, say no. To government officials soliciting bribes, say no. To companies offering bribes to compete for markets, say no. And to those who attempt to silence the mass media and to put a lid on investigative journalism, say no.

We can do three things to encourage people to take a stand against bribery and corruption: (i) level the playing field; (ii) act comprehensively; and (iii) build coalitions.

Leveling the playing field is precisely what the OECD anticorruption instruments attempt to do. The OECD anti-bribery convention, for example, addresses corruption in international business. It is designed to (i) deal with the supply side of corruption, (ii) dry up the sources of corruption, and (iii) set an example among industrialized countries accounting for a large share of international trade and investment. It aims to (i) harmonize anti-bribery laws among signatory countries on the basis of functional equivalence of these laws, (ii) promote effective enforcement procedures against bribery and corruption, and (iii) lift obstacles to mutual legal assistance.

Implementation and monitoring are essential features of OECD instruments. They are open to all countries, whether OECD members or not, that are willing and able to accept the instruments' obligations and to participate in the monitoring process. However, criminal law enforcement is not enough. Action must be taken on a much broader agenda:

- Make business operations transparent.
- Make corporations more accountable.
- Make public procurement rules transparent.
- Prohibit tax deductibility of bribes.
- Streamline licensing and registration procedures, which are often a source of and temptation for engaging in corruption.
- Include anticorruption clauses in project contracts funded by official development sources.

We must also continue to build coalitions among developed and developing countries; business leaders; governments, business, and civil society (including citizens' groups and investigative journalists); and international organizations, which can coordinate action against corruption.

We have taken the initial, important steps, but this is just the beginning. The war has not yet been won. This conference demonstrates a strong commitment to move forward. It shows how organizations can join forces for a common objective. The outcome of this conference can be a sustained and continuous effort within a structured program for exchange of information, coordinated action, and monitoring of progress. I'm confident that Manila will be a landmark in this continuous and sustained effort.