

Prepared for Delivery

AMBASSADOR STUART E. EIZENSTAT
UNDER SECRETARY OF STATE FOR ECONOMIC,
BUSINESS & AGRICULTURAL AFFAIRS
“AN ANTI-CORRUPTION & GOOD GOVERNANCE STRATEGY FOR THE TWENTY-
FIRST CENTURY”
FEBRUARY 24,1999

Good afternoon. It is my pleasure to be with you today to chair this panel discussion on economic governance, the private sector and corruption. Corruption is an issue of enormous significance to both the future of the global economy and the development of open economic systems and democratic institutions. I commend the Vice President for convening today's conference and devoting the full force of his office to this endeavor. Over the past six years it has been my unique honor to work with Vice President Gore on a number of foreign policy issues and I couldn't be happier that he is taking an active, leadership role on this issue.

The very convening of this conference highlights the fact that the global fight against corruption and the promotion of good governance and transparency, especially in developing and transitional economies, has now become a significant priority of U.S. foreign policy

And, for the first time in recent memory, there is a genuine sense of optimism about the fight against corruption. The attendance of so many governments at this conference reflects a fundamental sea change in international attitudes. Today, governments around the world recognize that corruption is a malignancy on their economies and political institutions that can only be combated by the creation of transparent and accountable economic and political systems firmly grounded in the rule of law. Today our goals must be clear: beginning the difficult process of translating the commitments made in the fight against corruption into tangible results.

The Corruption Problem. Secretary of the Treasury Rubin has eloquently discussed the corruption problem and its corrosive impact on investment, economic growth, political stability and the development of market-based and democratic political institutions. Plainly, all nations have a genuine interest in preventing corruption and promoting good governance. In particular, emerging and transitional economies will find that unless they address this issue their efforts to attract investment and maintain sustainable development will hit a brick wall.

Corruption thrives in emerging and transitional economies where legal systems are incomplete or evolving. The very complexity, over-regulation and lack of predictability serve as fertile incubators for corruption to grow. Paradoxically, as economies liberalize and open their doors to foreign investment and trade, the very processes of change -- privatization, procurement, the sale and licensing of economic rights, and the like -- become areas where corruption tends to flourish. Moreover, the legacy of corruption, combined with low government wages and oversized bureaucracies, also creates significant incentives for corruption to prosper.

To be sure, the need for transparency and accountability is not the exclusive province of the public sector. The recent international financial crisis highlights the debilitating consequences of crony capitalism and insider lending in the private sphere and the need for reform in areas such as corporate governance and bank lending rules. Bottom up, market driven approaches will be vital to ensuring sound and effective solutions to the corruption problem.

New and powerful empirical work pioneered by Daniel Kaufmann and others at the World Bank provide us with precise analysis of the adverse economic consequences of corruption. The new research confirms that corruption particularly hinders the development of small and medium business - the engine of jobs and growth in emerging markets. For example, data from a World Bank survey indicates that in one transitional economy in 1996 a typical small company employing less than 30 people paid about \$30,000 US dollars a year in bribes.

Such costs not only force small companies into the unofficial sector or shadow economy but they also undermine the ability of governments to collect tax revenues and balance budgets. Not surprisingly, World Bank data also indicates that corruption disproportionately hurts the poor, who can end up paying a higher share of corrupt "economic rents." Not surprisingly, it is the poorest and least well off in developing societies that often bear corruption's greatest burden.

The Vice President's Global Forum. Today, however, there is an emerging international consensus around a series of important norms in the anti-corruption fight:

--First, establishing open and accountable economic governance practices, including vigorous enactment and enforcement of anti-bribery laws and transparent economic decision-making;

--Second, safeguarding integrity among justice, security and financial regulatory officials;

--Third, promoting openness and accountability in the private sector; and

--Fourth, strengthening institutions that ensure public and private accountability, including strong and impartial judiciaries, as well as a free and open press.

I am pleased to announce today that the United States will pursue a series of specific diplomatic steps to translate these fundamental norms into results. We invite all of you to join us in this campaign.

Supply-Side Efforts. On the supply side, our focus will be to seek ratification and full implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. We will also seek the Convention's extension to other key states whose companies compete for international contracts.

This agreement can serve as an effective model for how global cooperation on corruption can help force a “race to the top,” whereby nations commit themselves to ensuring that globalization raises, and not lowers, global standards.

We must move forward with implementation through the Convention’s important mutual evaluation process, which will examine the written laws and regulations of ratifying countries to determine whether they are in compliance with the Convention. We will then seek to examine whether in practice compliance is occurring; prosecutions are being made and new laws are being enforced. It is our expectation that this rigorous mechanism will become a powerful tool in our anti-corruption toolbox. As the Secretary said this morning, no country has a monopoly of wisdom on addressing corruption and by working together we can maximize our efforts to achieve zero tolerance.

We also believe that implementation of the Convention and mutual evaluation should be conducted out in the open and not behind closed doors. We must explore ways to engage civil society in this effort.

On the supply side, we also will seek to extend the Convention to cover bribery of foreign political parties, party officials, and candidates for political office, which are currently not directly covered. We will also seek a complete end to the practice, tolerated in some countries, of allowing the tax deductibility of bribes. When the OECD issued its recommendation calling for elimination of the practice in 1996 at least 14 OECD countries allowed tax deductions in various forms. This has now been reduced to 8 countries, but our ultimate goal must be zero.

Demand-Side Efforts. Under the leadership of the Vice President and Secretary Albright, we also will accelerate our demand-side efforts -- that is, to promote the rule of law, transparency, and good governance in developing nations and, in so doing, limit the opportunities for corruption to grow in these dynamic and transitional environments.

Our efforts are focused in three specific areas:

--First, by promoting adoption of developing global standards that promote transparency and accountability in governance and the private sector;

--Second, by encouraging regional approaches to addressing the corruption problem; and

--Third, by supporting key structural reforms in emerging markets directed at removing incentives to corruption and fostering favorable climates for investment, trade, and economic growth.

Global Standards. True transparency and accountability requires specific and detailed standards in a wide range of areas affecting economic life. Rhetoric alone is insufficient; the devil is in the details. This is why it is critically important that we work together to develop and seek a broad application of globally accepted standards in key areas like accounting, budgetary transparency, bank lending and supervision, corporate governance, and ethics, among others.

Moreover, such standards cannot be set and applied by OECD nations alone. Transitional and emerging market countries must be made stakeholders in this effort. This is an area where governments, multilateral institutions, private sector and NGOs must work together.

The draft OECD Guidelines on Corporate Governance is a good example of this effort. The OECD has sought broad participation in this effort and is opening up its comment process. Today, the guidelines are available on the Internet and the OECD is engaging in outreach activities. We must continue to work together in perfecting and implementing these important standards, but our efforts are made easier by initial broad-based participation.

Region-by-Region Approach. We also will intensify our efforts to support regional approaches for addressing corruption. Already, we are working with the U.S. Senate to seek ratification of the Inter-American Convention Against Corruption and, through vigorous diplomacy, we will work with countries in the Hemisphere to ensure its full implementation. The Convention charts a new direction in the fight against corruption by obligating countries to take specific steps on the demand-side, including the establishment of sanctions against government officials who accept bribes, as well as the persons making bribes.

To date, twenty-five OAS countries have signed the Convention, and 14 have deposited instruments of ratification. Already some OAS countries are working to implement the Convention. For example, the government of Argentina has created an office of Government Ethics, which is preparing Argentina's first code of ethics. There is, however, far more work that needs to be done and we are pleased that the countries in the region are committed to working together in developing a hemispheric approach for addressing corruption and promoting good governance.

Africa. Let me report on an exciting and important new development concerning Africa. Just yesterday Ministers and senior officials from 11 African nations met here in Washington, under the auspices of the Global Coalition for Africa, and adopted the African Ministerial Declaration -- a series of 25 sound, realistic and enforceable principles on corruption, economic governance and accountability. I am pleased to have worked with them in laying the groundwork for an African anti-corruption convention, and look forward to their efforts in adopting national strategies to implement these important principles.

Asia. In the wake of the Asian financial crisis business interests from around the region are beginning to discuss a wide range of anti-corruption issues ranging from legal and regulatory transparency to customs and corporate governance. The goal is clear: enhance good governance, restore market confidence and lay the groundwork for new foreign direct investment.

Bilateral Approaches. Finally, the US will intensify our work with emerging economies to encourage the structural reforms needed to promote transparency and accountability.

There is often a predisposition by many countries to focus on the crime and law enforcement elements of the corruption problem. While these are clearly important, we must also recognize that corruption is a broad systemic problem with many economic aspects. The need for change in emerging and transitional economies is about more than just new laws or even the building of institutions. It requires nothing short than the creation of civil societies and open economic governance in nations long dominated by non-democratic, autocratic traditions. In order to eradicate the culture of corruption we must replace cynicism about the rule of law with a renewed sense of optimism.

In considering this issue, countries have begun to “de-bundle” the corruption problem, and address its key elements separately. Specifically, the types of reforms necessary to break the culture of corruption fall into a number of discrete areas:

-Economic policy reform including, in particular, deregulation. This includes, the removal of onerous and unnecessary licensing requirements, the reduction of discretionary authority over business matters, which breeds corruption, and the introduction of more competition into the economy. This involves fundamentally reshaping the interaction between government and business to an arms-length relationship.

-Transparency reforms, including efforts to streamline and make more predictable administrative processes, such as procurement, privatization, and customs. This includes steps such as public notice, deadlines, and explicit criteria for decision-making. In particular, the need for procurement reform --the establishment of fair and open procedures for public purchasing with WTO norms -- is essential. Similarly transparent procedures and criteria in the sale, licensing, or other disposition of economic rights must also be a high priority. All too frequently firms competing to acquire telecommunications spectrum rights or an oilfield concession encounter serious problems in this area.

-Public sector/civil service reform. The outright downsizing and streamlining of government agencies is important for reducing the risk of corruption and shrinking the role of the state in day-to-day business matters. This includes the establishment of a professional civil service and a merit-based system. We need to address the fact that there are countries where positions in government are “purchased” -from customs inspectors to revenue agents -- simply to

obtain the lucrative rewards of bribery.

-Public finance reform. Again, as we saw in the Asian financial crisis, the failure to establish financial management controls, accounting, auditing, and transparency in public finance can be a recipe for disaster.

-Judicial reform and the enforcement of judicial rulings. I cannot emphasize enough the role that an independent and impartial judiciary can play in the development of both democratic and market-based institutions and in encouraging foreign direct investment.

-Commercial law reform and the establishment of appropriate regulatory institutions. This covers areas ranging from securities law and shareholder rights to real estate, intellectual property, bankruptcy, antitrust, and environmental law. The establishment and implementation of a fair, predictable and flexible set of commercial legal rules is vital to generating economic development.

-Public oversight and participation. These efforts include improved public education and civic awareness programs, and active support for human rights and citizen advocacy groups as well as an independent media.

--Finally, ethics reform. The establishment of codes of conduct for government and judicial officials and financial disclosure rules is critical for developing popular confidence in public officials and democratic institutions.

Tools in the Anti-Corruption Toolbox. Significantly, there now are a number of important tools available to governments in tackling these issues and developing and implementing a concrete and integrated anti-corruption strategy - which can be used effectively in an integrated fashion.

--First, Diagnostics. As you will learn this afternoon from Daniel Kaufmann, countries can now conduct -- through their own institutes and NGOs -- sophisticated diagnostic surveys of private firms, as well as public and government officials, in order to document the costs of corruption in areas such as customs, business licensing, and procurement.

These cutting edge survey techniques allow nations to highlight priority areas for reform. Based on this research, countries can develop serious, results-oriented "action plans" rather than the typical anticorruption plans of the past, which often spent more gathering dust than garnering results. As Vice President Gore announced this morning, the United States plans to work in close partnership with the Bank and other countries, donor organizations and civil society in support of such diagnostic approaches. When a country is committed to rigorous diagnostics as a means of shaping real reforms, we at the State Department and US AID will look for ways to

support their efforts.

I challenge all countries to consider empowering their own publics through undertaking these diagnostics and making the findings public. Only through a true and public accounting and participation by all elements of society can the work of shaping remedies proceed.

--Second, work with the Private Sector. As Maria Cattai will discuss, the private sector can and should establish its own internal corporate compliance programs on bribery, corruption and transparency and follow these standards in all its business dealings.

The idea of strong voluntary codes of conduct is now gaining currency. The “leveling up” of global standards of business conduct is an innovative bottom up approach to fighting corruption. In this connection, I applaud and welcome the personal, and not government sponsored, efforts of Reverend Leon Sullivan to develop the Global Sullivan Principles. Reverend Sullivan, whose efforts on the original “Sullivan Principles” played a key role in mobilizing the private sector against apartheid over twenty years ago, stands out as a beacon for change. He recently briefed us on his ongoing work to develop new global principles that would support anti-corruption efforts and establish best practices in sustainable development, fair treatment of workers and support for community development. We look forward to cooperating with Reverend Sullivan and others in initiating these types of private sector efforts.

Governments must be willing to work together with the private sector in public/private partnerships and make them stakeholders in your anti-corruption efforts. Establishing a dialogue with both local firms and foreign investors can help governments to highlight corruption problems that seriously affect the business and investment climate and shape appropriate priorities for a transparency agenda.

Secretary of State Albright recently highlighted the need for a “private sector peace corps” which could “harness the expertise of the private sector to provide hands-on advice on how to attract reliable long-term investment and incorporate best practices.” We are now examining new people-to-people approaches for operationalizing the Secretary’s vision and marshaling our private sector resources and talent to provide training on transparency and accountability to private sectors in emerging markets hit by the financial crisis.

One example of this is the training programs being run by the Kenan Institute Asia in Thailand. The Institute is supported by the Kenan-Flagler Business School at the University of North Carolina, US AID and the Royal Thai Government. Working together with a private group of firms - the American Corporations in Thailand, the Institute has provided an intensive accounting and auditing training course to out-of-work Thai managers in order to smooth their transition to new jobs and encourage good corporate governance. This type of joint public/private effort is particularly important in seeking broad application of the new and evolving rules

of private sector governance.

--Third, Results-Oriented Policy Dialogue & Technical Assistance. When countries indicate a willingness to adopt specific reforms in combating corruption the United States stands ready to support these efforts and will consider targeted technical assistance either bilaterally or in conjunction with other donor countries and institutions. Where necessary, we will work to establish donor coordination mechanisms and private/public partnerships to support these efforts and leverage available resources. Countries should seriously consider the experience of other countries in their region in addressing these issues, and should seek to identify regional best practices of particular relevance.

--Fourth, Work with International Financial Institutions. I hope you will join the United States in calling on the Fund, the Bank and other institutions to fully take corruption, economic governance and rule of law into account in their lending operations - both in determining whether to make loans and also in establishing loan conditions. The future credibility of our multilateral development institutions may very well depend on their sensitivity in dealing with these important issues.

--Fifth, Mutual Evaluation and National Implementation. As work progresses in this area, it is important that we develop international and national approaches for ongoing evaluation and monitoring. Mutual evaluation can be a very powerful tool for building momentum for our anti-corruption efforts.

--Finally, Work with NGOs. Transparency International, which has conducted AID-funded workshops in various countries, and other NGOs can play important roles in encouraging and working to support demand-side reforms -- in providing "local" policy advice to governments and helping to build business community and other grass roots support for change.

As we move toward the twenty-first century it is absolutely essential that governments, the private sector and NGOS join together in taking on the challenge of ensuring that popular confidence in democratic reform and economic liberalization is not undermined by corruption. Ensuring good governance and transparency will not be simple, but by working together I believe we can-- working in partnership-- make this goal a reality. Thank you and good afternoon.