

1.2 State of Fraud and Corruption

Session Overview

Fraud and corruption has been the area of particular concern for both developed and developing countries in Asia and the Pacific region. Although differences may exist in the nature and scope of fraud and corruption and the extent to which anticorruption measures are enforced, the phenomenon can be found at all times and within virtually in both the government and the private sector.

This session will present the state of corruption in the Asia Pacific region based on the Transparency International Indices 2003 and 2004 and the Anti-Corruption Action Plan of the ADB-OECD Anti-Corruption Initiative for Asia-Pacific. It should be noted that neither the Transparency International Indices nor the Anti Corruption Policy Initiatives of ADB and OECD, do not mention fraud but this does not necessarily mean that fraud is not covered since ADB's definition of corrupt practices includes some fraudulent acts and activities which other experts specifically defines as fraud.

Learning Objectives

By the end of this session, participants will be able to describe the state of fraud and corruption and Anti-Corruption Policy Initiatives on the basis of the Transparency International Perception Index to the extent that these are in accordance with the ADB-OECD Anti-Corruption Initiative, as evaluated by the instructor.

State of Fraud and Corruption

1.2.1. State of Corruption based on Transparency International Corruption Perception Index 2003 and 2004

Transparency International, an international organization, conducts annual surveys on the perceptions of the degree of corruption as seen by business people and country analysts. The survey shows Corruption Perception Index (CPI) which ranges between 10 (highly clean) and 0 (highly corrupt). There were 18 surveys and expert assessments used in 2003 and 2004 and at least 3 surveys were required for a country to be included in the CPI.

Appendix 1.2-A Table 1 shows the State of Corruption in Asia Pacific Region 2003 as extracted from the Transparency International Corruption Perceptions Index 2003 (Handout 1.2-A). As shown in this table the top ten countries ranked in Asia Pacific in 2003 as highly clean with CPIs ranging from 5.3 to 9.5 are the following: New Zealand was on top of the list with a 9.5 CPI; followed by Singapore with a 9.4 CPI; Australia with a 8.8 CPI; Hong Kong with 8.0 CPI; Israel and Japan with both a CPI of 7.0; Oman with a CPI of 6.3; Bahrain and Cyprus with both a CPI of 6.1; Taiwan with a CPI of 5.7; Qatar with a CPI of 5.6 and Kuwait with a CPI of 5.3.

On the basis of the global transparency survey, out of the 133 countries which were ranked, New Zealand ranked 3; Singapore ranked 5; Australia ranked 8 Hong Kong ranked 14; Israel and Japan both ranked 21; Oman ranked 26; Bahrain and Cyprus both ranked 27; Taiwan ranked 30; Qatar ranked 32; and Kuwait ranked 35.

The ten Asian countries least ranked in 2003 with CPIs ranging from 1.3 to 2.5 are the following: Pakistan and Philippines both had a CPI of 2.5; Kazakhstan and Vietnam had both a CPI of 2.4; Iraq had a CPI of 2.2; Kyrgyzstan and Papua New Guinea both had CPIs of 2.1, Indonesia had a CPI of 1.9, Azerbaijan had a CPI of 1.8, Myanmar had a CPI of 1.6 and Bangladesh had a CPI of 1.3.

On the basis of the global transparency survey in 2003, out of the 133 countries which were ranked, Pakistan and Philippines both ranked 92; Kazakhstan and Vietnam ranked 100; Iraq ranked 113; Kyrgyzstan and Papua New Guinea both ranked 118, Indonesia ranked 122, Azerbaijan ranked 124, Myanmar ranked 129 and Bangladesh ranked 133.

Appendix 1.2-Table 2 shows the State of Corruption in Asia Pacific Region as extracted from the Transparency International Corruption Perceptions Index 2004(Handout 1.2-B). This table shows the same top ten countries ranked in Asia Pacific in 2004 as highly clean with CPIs ranging from 5.4 to 9.6. New Zealand still topped the list with a CPI of 9.6; followed by Singapore with CPI of 9.3; next by Australia with CPI of 8.8; next by Hong Kong with a CPI of 8.0; Japan with CPI of 6.9; Israel with a CPI of 6.4; Oman and United Arab Emirates with both a CPI of 6.1, Bahrain with a CPI of 5.8; Taiwan with a CPI of 5.6 and Cyprus with a CPI of 5.4.

On the basis of the global transparency survey in 2004, out of the 145 countries which were ranked, New Zealand ranked 2; Singapore ranked 5; Australia ranked 9; Hong Kong ranked 16; Japan ranked 24;. Israel and Oman both ranked 29; United Arab Emirates ranked 29; Bahrain ranked 34; Taiwan ranked 35; and Cyprus ranked 36. We see that New Zealand, Singapore, Australia, Hong Kong, Japan, Israel, Oman, Bahrain, Taiwan and Cyprus remained in the top ten list for both 2003 and 2004. Kuwait which was in the top ten list in 2003 was replaced by United Arab Emirates in 2004.

The same table shows the ten countries as the least ranked in 2004 with CPIs ranging from 1.5 to 2.6. Philippines and Vietnam both had a CPI of 2.6; Yemen had a CPI of 2.4; Kazakhstan and Kyrgyzstan had both a CPI of 2.2; Iraq and Pakistan both had CPIs of 2.1, Indonesia had a CPI of 2.0, Azerbaijan had a CPI of 1.9, Myanmar had a CPI of 1.7 and Bangladesh had a CPI of 1.5.

On the basis of the global transparency survey in 2004, out of the 143 countries which were ranked, Philippines and Vietnam both ranked 102; Yemen ranked 112; Kazakhstan and Kyrgyzstan both ranked 122; Iraq and Pakistan both ranked 129, Indonesia ranked 133, Azerbaijan ranked 140, Myanmar ranked 142 and Bangladesh ranked 145. We see the same countries to be on the lowest 10 bottom of

the list. The ranks of these countries all slid down in 2004 compared with their 2003 ranks and Bangladesh remained at the bottom most of the list.

The survey shows that for the developed countries like New Zealand, Australia, Singapore, Hong Kong and Japan there was an increase in CPI from 2003 to 2004. Although the developing countries likewise had increased CPIs from 2003 to 2004, majority had a lower ranking in 2004 compared with the 2003. The decline in ranking indicates that analysts perceive that most of the developing countries are highly corrupt.

Anti-Corruption Policy Initiatives

Historically, concern about corruption has tended to run in cycles, in which revelations of official abuses prompted anticorruption campaigns and administrative countermeasures that subsequently faded from view until the next round of scandals provided further impetus for the reform. The desire to reduce or eliminate corruption was at the core of many enduring innovations for good governance.

1.2.2 Anti-corruption Policy Initiatives – Global

In response to the desire to reduce if not totally eradicate corruption, many international organizations are adopting more robust anticorruption measures:

1.0 At the summit of the Americas in May 1994, the Organization of American States (OAS) pledged to outlaw cross border bribery and the “illicit enrichment” of officials in the hemisphere. In March 1996, 21 member states of OAS signed the Caracas Convention, which calls for energetic collective action in four principal areas: preventive measures and international cooperation, trans-national bribery, illicit enrichment, and extradition. The Caracas Convention is now in force between the countries that have ratified it: Bolivia, Costa Rica, Ecuador, Mexico, Paraguay, Peru and Venezuela.

2.0 The Organization for Economic Co-operation and Development (OECD) Ministerial Council approved a resolution encouraging its member states to end the tax deductibility of foreign bribes and commissions for their multinational corporations in May 1996. A year later, it approved a full set of recommendations for criminalizing trans-national bribery, enacting stricter accounting requirements and external and internal audit controls, tighter public procurement, and enhanced international controls. In December 1997, OECD ratified a convention making the bribery of foreign officials a criminal offence, on a par with the bribery of local government officials in the country where the corporation is based.

3.0 The International Chamber of Commerce approved revised rules of conduct that prohibit bribes and recommended that its member

associations around the globe, and their member corporations, adopt and apply these tighter rules.

4.0 In December 1996, the United Nations General Assembly passed the declaration Against Corruption and Bribery in International Commercial Transactions.

5.0 In the World Bank and International Monetary Fund (IMF) annual meeting in October, 1996, a working group was established under the Development Economics Vice Presidency of the World Bank to develop an integrated anticorruption strategy. The final report, along with accompanying staff guidelines, was endorsed by the World Bank's Board of Executive Directors on 2 September 1997. The World Bank's approach envisions a balanced strategy to combat corruption resting upon four pillars: (i) preventing fraud and corruption in World Bank-financed projects; (ii) helping countries that request World Bank support in their efforts to reduce corruption; (iii) taking corruption more explicitly into account in country assistance strategies, policy dialogue, analytical work, and the choice and design projects; and (iv) adding voice and support to international efforts to reduce corruption.

6.0 In August 1997, IMF took the unprecedented step of suspending the second tranche of an Enhanced Structural Adjustment Facility when one of its member countries failed to demonstrate that it was pursuing adequate measures to reduce the problem of corruption. The World Bank has strongly supported IMF's move and warned that its own lending will be "substantially reduced" failing decisive action on the part of the government. At the annual meetings of the World Bank and IMF in Hong Kong, China in September 1997, the commitment of both institutions to combat corruption was strongly reaffirmed.

7.0 The 1997 summit of the Group of Seven industrial nations in Denver, United States, placed particular emphasis upon the role of the Multilateral Development Banks (MDB) in combating corruption. The communiqué from the preliminary meeting of finance ministers and central bankers maintained, "in view of the corrosive effects of bribery and corruption generally on the achievement of sustainable economic development, growth, and stability, we welcome the increased attention to these problems on behalf of international financial institutions and the OECD". The final summit statement urged IMF and the MDBs to strengthen their activities to help countries fight corruption, including measures to ensure the rule of law, improve the efficiency and accountability of the public sector, and increase institutional capacity and efficiency. The international financial institutions were also encouraged to promote good governance in their respective areas of competence and to collaborate fully with the World Bank's effort to establish procurement guidelines that meet the highest standards for transparency and rigor.

1.2.3 Anticorruption Policy Initiatives – Regional

1.0 As a major multilateral development institution and one of the leading sources of development funding in Asia, the Asian Development Bank has encouraged many of the developing member countries (DMCs) to combat corruption. At the broadest level, ADB's stance on anticorruption issues is intended to reduce that widespread, systematic corruption exacts upon in governments and economies of the region. More specifically, ADB's approach is centered upon three objectives:

- (i) supporting competitive markets and efficient, effective, accountable, and transparent public administration as part of ADB's broader work on good governance and capacity building;
- (ii) supporting promising anticorruption efforts on a case-to-case basis and improving the quality of dialogues with the DMCs on a range of government issues, including corruption; and
- (iii) ensuring that ADB projects and staff adhere to the highest ethical standards.

2.0 The ADB's Anticorruption Policy, approved in July, 1998, designated the Office of the Auditor General(OAG) as the initial point of contact for allegations of fraud and corruption among ADB-financed projects or its staff. The ADB established an Anticorruption Unit(OAGA), within OAG in September 1999 to handle all matters related to such allegations. Pursuant to the Policy, OAGA contributes to strengthening key institutions, such as supreme audit institutions, to advance transparency in developing member countries. In addition, OAGA works to strengthen its own capacity to address anticorruption issues and fulfil its mission effectively. OAGA also publishes information materials to describe the policy and anticorruption procedures.

3.0 Asian Development Bank (ADB)-Organization for Economic Co-operation and Development(OECD) Anti-Corruption Initiative for Asia and the Pacific

The AntiCorruption Action Plan for Asia and the Pacific is the Initiative's main instrument. It defines the participating countries' objectives in building sustainable legal and institutional frameworks to fight corruption. The Implementation Plan, an integral part of the Action Plan, determines the approach to put these goals into practice.

The Action Plan has been agreed upon at the 3rd annual ADB-OECD Anti-Corruption Conference for Asia Pacific in December 2000. Today, 23 countries of the region have formally endorsed the Action

Plan and committed to its goals. Each of these countries has assigned a contact person to coordinate the reform process under the Plan and to participate in the Initiative's Steering Group Meetings.

The Plan encompasses, beside its Preamble, three pillars, each addressing a particular field of action. Pillar I outlines the objectives regarding the public service. Pillar II addresses the business sector, and Pillar III encompasses action with regard to civil society and the public at large. In order to meet these objectives, participating governments in the region endeavour to take concrete steps under the following pillars of action with the support as appropriate, of ADB, OECD and other donor organizations and countries.

Pillar 1 - Developing effective and transparent systems for public service: integrity in public service; accountability and transparency .

Pillar 2 - Strengthening Anti-Bribery Actions and Promoting Integrity in Business Operations: effective prevention, investigation and prosecution; and corporate responsibility and accountability.

Pillar 3 - Supporting Active Public Involvement: public discussion of corruption; access to information; and public participation.

According to the Implementation Plan, countries having endorsed the Action Plan shall "endeavour, in consultation with the Secretariat of the Initiative, to identify priority reform areas which would fall under any of the three pillars, and aim to implement these in a workable timeframe." At the beginning of each implementation cycle, every endorsing country identifies up to 3 priority areas for reform under any of the Pillar's three pillars of action. The country then develops concrete implementation projects that aim to achieve reform in the respective selected area. The implementing projects are then reviewed during a Steering Group meeting.

Under the 1st Implementation Cycle 2002-2003, the following countries submitted their country's priority areas for reform and the related implementation project that aim achieve reform in the respective selected area: Cook Islands, India, Indonesia, Japan, Republic of Korea, Kyrgyz Republic, Malaysia, Mongolia, Nepal, Pakistan, Papua New Guinea, Philippines and Singapore. Bangladesh, Fiji Islands, Samoa, and Vanuatu have not selected reform projects under the first implementation cycle. Countries that have endorsed the Action Plan in the course of the first implementation cycle – Australia, Cambodia, Kazakhstan, Hong Kong and China – will select reform areas and projects under the second implementation cycle.

In the 2nd Implementation Cycle 2004-2005, the following countries presented priority reform projects to the Steering Group at the occasion of the 5th Steering Group Meeting in Manila in July 2004: Australia, Fiji Islands, Japan, Republic of Korea, Nepal, Pakistan, Papua New Guinea, Philippines and Vanuatu.

Review of progress made in implementing the Action Plan in each country is based on self-assessment reports prepared by endorsing countries and relies on a procedure of “mutual plenary examination”. This review exercise takes place in the framework of regular meetings of the Steering Group. Furthermore, the Steering Group is in charge of identifying and analyzing a number of issues of specific, region-wide importance, where the exchange of experience and close collaboration between a number of countries is considered particularly beneficial.

The Steering Group is composed of representatives of each endorsing country from the region, the Secretariat of the ADB/OECD Initiative, and an Advisory Group. The role of the Advisory Group is to support endorsing countries in mobilizing resources for technical assistance programs and to advise on priorities for each country in the implementation of the Action Plan. This group consists of representatives from civil society(Transparency International) and business organizations(Pacific Basin Economic Council) as well as the international donor community actively involved in supporting endorsing countries in implementing the Action Plan.

Summary

Transparency International Perception Indices 2003 and 2004 have shown that most developing countries are ranked as highly corrupt. Corruption has strongly affected development efforts negatively. International organizations and lending institutions have adopted policy initiatives to reduce the burden that widespread, systematic corruption exacts upon the economies of the region. The ADB Anti-Corruption Policy and the ADB-OECD Anti-Corruption Initiative for Asia and the Pacific have well laid action plan for implementation by the participating countries. The implementation of the Action Plan aims at offering participating countries regional and country-specific policy and institution building support. This strategy will be tailored to policy priorities identified by participating countries and provide means by which participating and partners can assess progress and measure the achieved results.

References

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3. Asian Development Bank, Anti-Corruption, Our Framework Policies and Strategies, July 2, 1998
4. Office of the Auditor General, Asian Development Bank, Annual Report on the Major Activities of the Anti-Corruption Unit 2004, January 2005