

Combating Global Corruption – The Never-Ending Task

I. How would you characterize Transparency International's (TI) mission, and ability to affect change?

The mission of Transparency International is the same as it has been from the beginning: to create a world free from corruption. TI works with all sectors of society: the public sector, private sector, and other civil society actors, recognizing that corruption is an all-pervasive ill. In highly corrupt environments, we focus on individuals who are fed up with the state of corruption, and would like to do something about it. This could include village leaders, government ministers, and corporate employees, to cite just a few examples. Alternatively, we could work with combinations of individuals and institutions, in what we refer to as “collective action”. The principle behind our work is to create “islands of integrity”, which grow larger and larger over time. Simply put, it’s a never-ending task

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II. Broadly speaking, how does corruption in developed countries differ from corruption in developing countries?

All countries have corruption problems; it can be dangerous to generalize, as the issues are typically specific to the individual country. The major difference is that petty corruption, such as facilitation payments, is much more prevalent in developing countries. In developing countries, infrastructure is less strong; the police may be underpaid and prone to take small bribes. This trickles down to all public services, from tax offices to customs. Petty corruption tends not to occur in developed countries. Unfortunately, however, large cases of corruption are just as common as they are in developing countries.

III. Severe criticism of prevailing corruption might damage TI's relationship with government officials, and jeopardize progress that has been made. On the other hand, insufficient criticism from TI would enable bad behavior. In your experience, what is the best approach for dealing with flawed, but improving anti-corruption regimes?

What you described is one of the most difficult issues TI faces. We try to position ourselves in between cooperating with very corrupt governments and harshly criticizing individuals. Maintaining dialogue with flawed institutions enables us to explain the damage inflicted by corruption on society, and individuals in government and industry. Alternatively, being overly critical would mean that those individuals are not willing to talk with us.

We can be critical of specific governments, and large cases of corruption, such as Siemens in Germany, and Petrobras in Brazil, which require TI to make public statements attacking the parties. For instance, we're working on an "against impunity" campaign; we don't want corrupt officials to benefit from feeling safe from prosecution. TI is committed to rule of law, enforcement of the law through the courts, and we can be critical of governments that don't follow through on these principles.

Another problem that we have in dealing with extremely corrupt companies or public sector individuals is that they call TI in to "whitewash" their record, and demonstrate that they are making reforms for the better. Therefore, we have to be extremely careful that we're not being exploited, by applying due diligence. I tend to reach out with senior management when I hear that a company is implementing reforms, to test if they are genuine. However, this is not a one-off solution. It's easy for companies to make promises, but difficult for them to maintain their promises when local market conditions are working against them.

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In summary, we believe in due diligence, and consultation, in determining our response to corrupt behavior. We try to reach a consensus within our organization, and draw from our substantial experience in this area.

IV. TI is widely known for its annual indices which track perceived levels of corruption in countries around the world. Given the largely hidden nature of corruption, what are the tools TI analysts must use to compile data on the prevalence of corruption?

TI studies the "perception" of corruption because it is incredibly difficult to obtain "hard data" about the actual prevalence of corruption. We have developed several methods for measuring perceived corruption, each of which has a different function.

The best-known is the Corruption Perceptions Index (CPI), which covers up to 180 countries, and is a rebasing of at least three existing indices produced by other organizations. We rebase outside data to avoid the criticism that TI has any prejudices regarding specific countries. There must be at least three third-party evaluations to work with for each country, and for many countries we have more than ten. Naturally, some countries will criticize the CPI by challenging the results, claiming that TI is hindering their reform efforts. In some cases we then go into more detail in discussion with the countries that have contested the CPI. There is no case I'm aware of in which TI has been proven substantially wrong.

The second best-known tool is the Corruption Barometer, which surveys individuals on a country-by-country basis to determine: 1) if corruption is getting better or worse 2) which areas

have seen change, and 3) why the change has occurred.

Lastly, TI has developed a new tool in the last couple of years to study the corruption environment faced by private-sector companies when they invest in a country. The purpose is to give direction to companies, and also, to create an advisory group in each country studied, which can propose a reform agenda to be adopted by both the government and the private-sector. This has been tried in Mozambique, and is in-progress in other countries.

V. Much of your professional focus has been in combating money laundering, having participated in developing the Wolfsberg Anti-Money Laundering Principles. Please give us an overview of what these principles are, and how money laundering works.

Money laundering is simply the process by which “black money”, money not officially earned, is entered into the official banking/monetary system. This could be tax-free money, stolen money, proceeds from drug dealing, human trafficking, as well as other illegal activity. Anti-money laundering efforts attempt to stop financial institutions from being used for this process of washing dirty money clean through the banking system.

Tax avoiders and criminals use complex techniques, unfortunately aided by lawyers and accountants. For instance, large amounts of money will often be moved in-and-out of bank accounts up to 100 times, so that it becomes almost impossible for investigators to find out what’s going on, particularly if the banks do not do their own due diligence.

Due diligence for banks is known as “know your customer” (KYC), and becomes increasingly complex further down the supply chain (know your customer’s customer, etc.). However, if the promise of future earnings is large enough, most banks will usually accept the customer and not ask probing questions. If a PEP (politically exposed person) customer comes in with one billion dollars, the bank will unfortunately often choose not to ask how he has this money on a salary of, say, one hundred thousand per year. Most of the major banks, including those that belong to the Wolfsberg Group, have been fined hundreds of millions of dollars for inadequacies in their anti-money laundering practices, demonstrating the magnitude of the problem.

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VI. Are there technological developments (artificial intelligence, software, etc.) that have helped investigators in tracking suspicious transactions?

Certainly. During the KYC process, banks are supposed to create a profile of the customer: how

much money will be deposited, as well as what kinds of transactions will be conducted with whom. Artificial intelligence can then be used to track whether the profile compiled matches reality. There are quite sophisticated programs; many of the largest banks are spending tens of millions of dollars per year on anti-money laundering technologies.

VII. How did you come to work in this field?

I am a professional accountant. While working for PricewaterhouseCoopers (PwC) I was drawn into giving lectures on fraud and corruption prevention issues for various organizations, including the European Union and European Parliament. I was giving a lecture to the OECD on good governance, and Peter Eigen, the founder of Transparency International, was in the audience. He convinced me to work for TI during my retirement, at first in a part-time capacity. At the time (in 2000) TI was a very organization, and I helped professionalize the finance and administration. I've continued ever since, and it's been a fascinating journey.