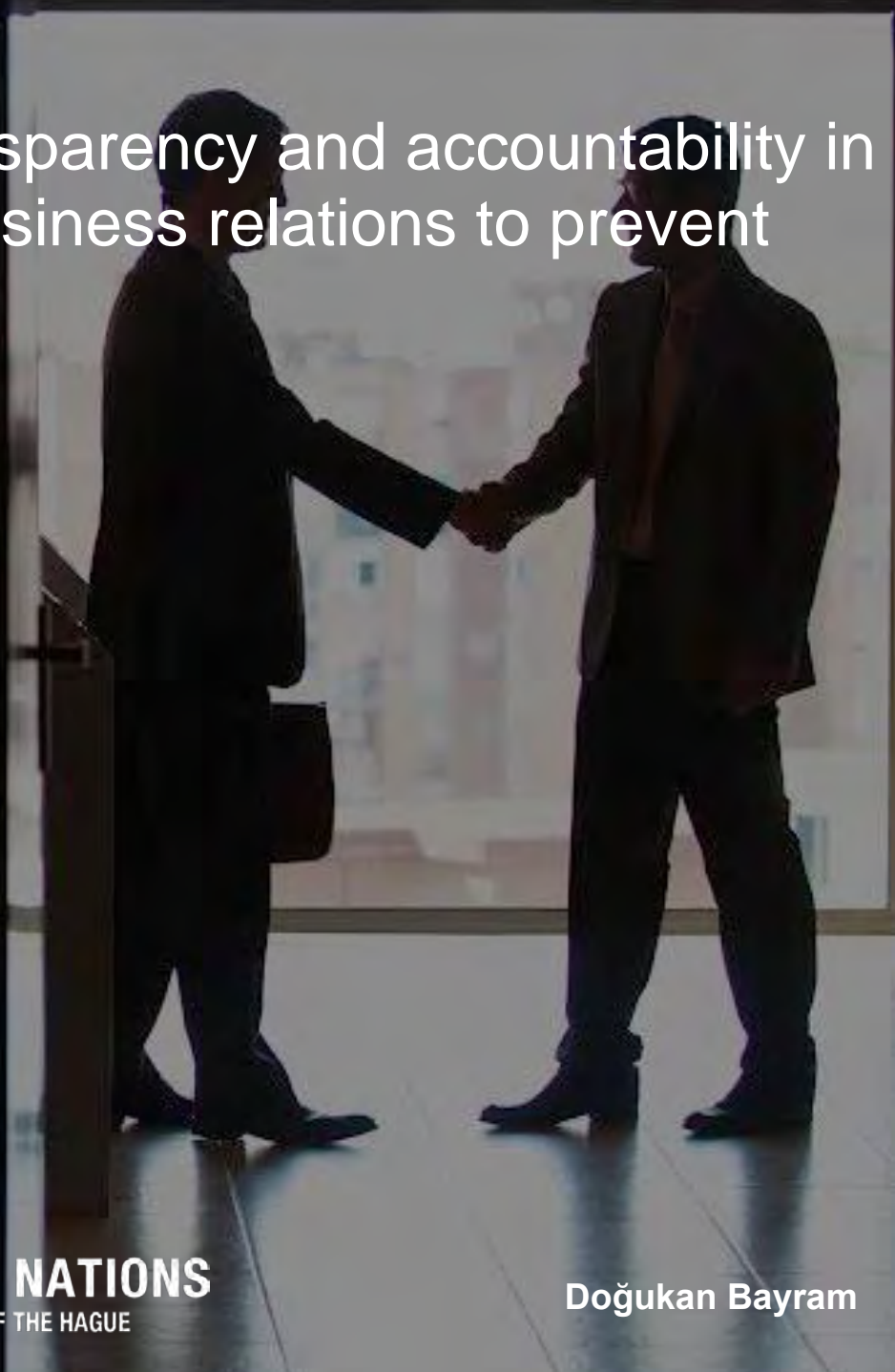


Group of Twenty

Promoting transparency and accountability in government-business relations to prevent corruption



Forum:	Group of Twenty
Issue:	Promoting transparency and accountability in government-business relations to prevent corruption
Student Officer:	Doğukan Bayram
Position:	President

Introduction

Corruption is a leading issue of the modern times. It is a cause as well as a result of poverty, which is why developing countries tend to have much higher rates of corruption than developed countries. Corruption affects the poorest people of the population the most, however; all elements of the society are affected as corruption undermines economic and political development.

Other than customers, governments are likelier to affect the valuation of the company more than any other group of stakeholders. With the expectation of governments being consistently involved in the major industries of the country, corruption is an unwanted by-product that needs to be taken under control.

Sub-Saharan African as well as certain East Asian countries appear to be the biggest sufferers of corruption, with billions of dollars getting lost to bribery every year. Sub-Saharan Africa loses an estimated 5,7% of its GDP to corruption, compared to the global average of 3,9%. An estimated 946 Billion Dollars in total have been lost to corruption and tax evasion in 2011, and the numbers are steadily growing. The world has seen a 13% increase in the money lost to corruption in past years. To prevent this, transparency and accountability are necessary elements in government-business relations. “In other words, those hundreds of billions of dollars could have been used to fund anything from food security to health care to education. Instead they have been squandered in shady trade deals, illegal tax havens and crooked investments.”

Definition of Key Terms

Gross Domestic Product (GDP)



Gross Domestic Product: The monetary value of all goods and services produced within a nation's geographic borders over a specified period of time.

Transparency (in this context)

The state in which all relevant information is fully and freely available to the public. Nearly every analyst agrees that transparent markets are desirable because they lead to greater efficiency. Laws and regulations exist in most jurisdictions encouraging or mandating transparency.

Corruption (in this context)

As shortly defined by Transparency International, and the Corruption Perception Index, "the misuse of public power for private benefit." Corruption is not necessarily but most often linked to bribery.

Less Economically Developed Countries (LEDCs)

As the acronym suggests, LEDCs are countries which aren't very economically developed. In simple words, LEDCs are relatively poorer countries. An example could be Ethiopia, Vietnam, Zimbabwe etc.

More Economically Developed Countries (MEDCs)

Similarly, these are countries that are more economically developed. Again, these are countries that are relatively wealthier. An example could be Denmark, USA, Japan etc.

Corruption Perception Index

An index published annually by Transparency International since 1995, ranking countries by their perceived level of corruption. For the most part, Denmark tops this list followed by New Zealand and Scandinavian countries. Countries must be assessed by at least three sources to appear in the CPI. The 13 surveys/assessments are either business people opinion surveys or performance assessments from a group of analysts. Early CPIs used public opinion surveys.

Sub-Saharan Africa

Sub-Saharan Africa is, geographically, the area of the continent of Africa that lies south of the Sahara Desert.



Figure 1 Sub-Saharan Africa

Sub-Saharan Africa. Digital image. Wikipedia. Wikimedia Foundation, n.d. Web. 20 Aug. 2015.

Research <https://en.wikipedia.org/wiki/Sub-Saharan_Africa>.

Politically, it consists of all African countries that are fully or partially located south of the Sahara (excluding Sudan, even though Sudan sits in the Eastern portion of the Sahara desert).

General Overview

Nowadays, businesses can be as powerful as or even more powerful than some governments. The annual revenue of the world's largest company is greater than the GDP of nearly half the countries in the entire world. Private companies and businesses are more powerful than ever, and this means governments have less control over businesses and must remain stronger ties than before. The power businesses have nowadays has inevitably increased corruption rates in government-business relations.

Corruption in numbers

As mentioned in the introduction, nearly a trillion Dollars are lost to corruption every single year. That money is

significant enough to be able to solve some of the major issues countries are facing today, such as the lack of access to fresh water or education of minors. As we can see from the graph to the right, and as mentioned before, sub-Saharan countries suffer the most from corruption. The

worlds' highest rate of corruption is in Democratic People's

Republic of Korea as well as Somalia according to the Corruption Perception Index (CPI) data of 2014, with both countries scoring only 8.

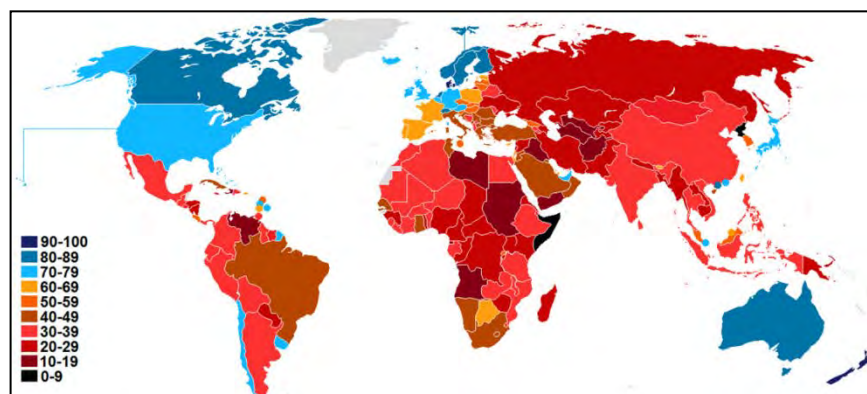


Figure 2 CPI Map - Transparency International

CPI Map 2014. Digital image. Transparency. N.p., n.d. Web. 20 Aug. 2015. <<https://www.transparency.org/cpi2014/results>>.

A basic calculation by the Center for Strategic and International Studies (CSIS) Project on Prosperity and Development shows that in 2012 the cost of private-sector corruption was over \$500 billion in 105 developing countries. The private sector included in this number covers the formal, private sector economy, excluding agriculture and extractive industries, with five or more employees.



A recent event that reportedly has been involved with a lot of corruption is the FIFA 2014 World Cup, hosted by Brazil. The exposed corruption led to mass protests against the government, with the people being angry at the fact that the “estimated US\$15 billion price tag for the competition was used and misused. They are angry the money did not go to fund schools and healthcare.” This event is not necessarily very influential over how corruption is perceived, but it is a good example that displays the importance of fighting corruption.

Cost of corruption

With the estimated annual total lost to corruption amassing one trillion dollars, the costs of corruption to the society are more apparent than ever. Transparency International divides the cost of corruption into 4 categories: Political, economic, social, and environmental. The following is directly taken from the report of Transparency International:

- On the political front, corruption is a major obstacle to democracy and the rule of law. In a democratic system, offices and institutions lose their legitimacy when they're misused for private advantage. This is harmful in established democracies, but even more so in newly emerging ones. It is extremely challenging to develop accountable political leadership in a corrupt climate.
- Economically, corruption depletes national wealth. Corrupt politicians invest scarce public resources in projects that will line their pockets rather than benefit communities, and prioritise high-profile projects such as dams, power plants, pipelines and refineries over less spectacular but more urgent infrastructure projects such as schools, hospitals and roads. Corruption also hinders the development of fair market structures and distorts competition, which in turn deters investment.
- Corruption corrodes the social fabric of society. It undermines people's trust in the political system, in its institutions and its leadership. A distrustful or apathetic public can then become yet another hurdle to challenging corruption.
- Environmental degradation is another consequence of corrupt systems. The lack of, or non-enforcement of, environmental regulations and legislation means that precious natural resources are carelessly exploited, and entire ecological systems are ravaged. From mining, to logging, to carbon offsets, companies across the globe continue to pay bribes in return for unrestricted destruction.

CleanGovBiz states that corruption should be fought as:



- Corruption increases the cost of doing business. First, bribes and drawn-out negotiations to bargain them add additional costs to a transaction. Second, corruption brings with it the risk of prosecution, important penalties, blacklisting and damage to one's reputation. Third, engaging in bribery creates business uncertainty, as such behavior does not necessarily guarantee business to a company; there can always be another competing company willing to offer a higher bribe to tilt the business in its favor.
- Corruption leads to waste or the inefficient use of public resources. As a result of corruption, investments are not allocated to sectors and programs which present the best value for money or where needs are highest, but to those which offer the best prospects for personal enrichment of corrupt politicians. Thus resources go into big infrastructure projects or military procurement where kickbacks are high, to the detriment of sectors like education and health care.
- Corruption excludes poor people from public services and perpetuates poverty. The poor generally lack privileged access to decision makers, which is necessary in corrupt societies to obtain certain goods and services. Resources and benefits are thus exchanged among the rich and well connected, excluding the less privileged. Moreover, the poor bear the largest burden of higher tariffs in public services imposed by the costs of corruption, as they have no alternative to the public offers. They might also be completely excluded from basic services like health care or education, if they cannot afford to pay bribes which are requested illegally. The embezzlement or diversion of public funds further reduces the government's resources available for development and poverty reduction spending.

On top of that, corruption undermines the public trust and the rule of law. Such a society is anything but healthy, and history has proven that countries where the people do not trust those above them are bound to fail. Corruption comes in many forms, from a politician redirecting investments to his hometown rather than where it is most needed, or it could be a multinational company executive bribing the officials to ignore the tax evasions, etc. It seems almost impossible to eradicate corruption as a whole since it isn't always possible to detect and monitor corruption, but in order to eliminate these damages corruption does to the society as much as possible, urgent measures have to be taken.

Major Parties Involved and Their Views



Transparency International (TI):

Transparency International is a non-governmental organization that publicizes & monitors political and corporate corruption in international development. Transparency International states their vision as: “As a global movement with one vision, we want a world free of corruption. Through chapters in more than 100 countries and an international secretariat in Berlin, we are leading the fight against corruption to turn this vision into reality.”

International Monetary Fund (IMF):

Quoting directly from the official IMF website: “The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.” They state their stand on this issue as: “The IMF places great emphasis on good governance when providing policy advice, financial support, and technical assistance to its 184 member countries. It promotes good governance by helping countries ensure the rule of law, improve the efficiency and accountability of their public sectors, and tackle corruption. In so doing, the IMF limits itself to economic aspects of governance that could have a significant macroeconomic impact. The IMF also has strong measures in place to ensure the integrity of its own organization.”

World Bank (WB):

The World Bank is an international financial institution that provides loans to developing countries for capital programs, and aims to “End extreme poverty by decreasing the percentage of people living on less than \$1.25 a day to no more than 3%” and “promote shared prosperity by fostering the income growth of the bottom 40% for every country”. The view of World Bank, directly quoted from its official website, is: “The World Bank views good governance and anti-corruption as important to its poverty alleviation mission. Many governance and anti-corruption initiatives are taking place throughout the World Bank Group. They focus on internal organizational integrity, minimizing corruption on World Bank-funded projects, and assisting countries in improving governance and controlling corruption.”

Independent Commission Against Corruption (ICAC):

Quoting directly from its official website: “The Independent Commission Against Corruption (ICAC) was established in 1989 as an independent organization to protect the public interest, prevent breaches of public trust and guide the conduct of public officials in the



NSW public sector.” Its objectives include investigating and exposing corruption in the public sector and actively prevent corruption through assistance as well as advice.

Organization for Economic Co-operation and Development (OECD)

OECD is an international non-governmental organization, founded in 1961 to stimulate world trade and economic progress. OECD launched the CleanGovBiz program to further fight against corruption.

Timeline of Events

Date	Description of event
1989	Independent Commission Against Corruption was founded
May 4 th 1993	Transparency International was founded
1995	Corruption Perception Index established
December 17 th 1997	The OECD Anti-Bribery Convention, signed
December 9 th 2003	United Nations Convention Against Corruption, signed

UN involvement, Relevant Resolutions, Treaties and Events

- General Assembly Resolution 55/61 Convention against Corruption, December 4th 2000
- United Nations Convention Against Corruption, signed December 9th 2003
- General Assembly resolution 58/4: United Nations Convention against Corruption
- ECOSOC Resolution 2006/24, International cooperation in the fight against corruption

Evaluation of Previous Attempts to Resolve the Issue

As can be seen in the section above, there have been many attempts to resolve the issue of corruption in general, with various resolutions and organizations made focusing on eradicating this issue. That being said, corruption rates are still on the rise, and the amount of money lost to corruption is still significantly rising, even when accounting for inflation.



Rising income disparity and polarization between social groups could be contributing factors, but regardless of what exactly the cause is, previous attempts to solve the issue have proven to not entirely be effective.

The United Nations Convention against Corruption (UNCAC) is considered to be one of the biggest steps towards a world without corruption. Even though corruption is almost certainly almost going to exist due to the often selfish human nature, with decreased poverty and increased overall well-being, corruption could possibly become insignificantly small. UNCAC covers five main areas: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. It includes both mandatory and non-mandatory provisions. The convention isn't meant to fix corruption overnight, but with its several provisions and measures, it is trying to get there. Some of the reasons why UNCAC may not have been as successful as it could be, are (quoting): "Ratification of UNCAC, while essential, is only the first step. Fully implementing its provisions presents significant challenges for the international community as well as individual States parties, particularly in relation to the innovative areas of UNCAC. For this reason, countries have often needed policy guidance and technical assistance to ensure the effective implementation of UNCAC. The results of the first years of IRM have shown that many developing countries have identified technical assistance needs. The provision of technical assistance, as foreseen in UNCAC, is crucial to ensure the full and effective incorporation of the provisions of UNCAC into domestic legal systems and, above all, into the reality of daily life."

Possible Solutions

A recent study found that the executives of companies aren't good at engaging with governments, even though that engagement is prioritized. First and foremost, this has to change and the relations between governments and businesses should improve. The lack of such measures is a contributing factor to tax evasions as well, which can be easily observed in Greece, for example. All countries have different views on the market and therefore it is impossible for a single solution to be proposed and forced down as an ideology which may fall against the economic policies of many countries. Delegates will have to come together and come to a solution which they believe suits everyone as well as it can. "Further, in a majority of companies, key functions and businesses are not involved in supporting government relationships. For example, only 26 percent of respondents say business units are consistently involved in planning or executing their companies' government-facing



activities—even though our experience shows that the government issues companies face are often driven by individual businesses.”

While this is entirely the responsibility of the country itself, raising the punishments for the act of corruption could be an effective way to reduce corruption. In certain countries, the rate of bribery is as high as 80% (meaning that 80% of the population has bribed at some point in the past year) and this is mostly because the punishment for this is not intimidating or is not properly enforced. Again, this is a sensitive matter since it involves UN involvement into national legislation, and therefore, the steps taken from this perspective must be seriously considered.

Of course, economic improvements such as little economic disparity and increased living standards will significantly help fight corruption. The countries with the highest Human Development Index scores as well as greatest rates of wealth at the same time have the lowest corruption rates, and vice versa. However, these do not inherently promote transparency and accountability between business-government relations. It is important to distinguish between which clause would be relevant and which ones would be not – to a certain extent, yes, we should pay some attention to corruption as a whole but do not forget that the real focus is promoting transparency and accountability between governments and businesses to prevent corruption.

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Appendices

Appendix I

Resolution 58/4 United Nations Convention against Corruption:

<http://www.issafrica.org/cdct/mainpages/pdf/Corruption/International%20Instruments/Resolutions%20and%20Declarations/UN%20resolution%2058-4%20Corruption.pdf>

Appendix II



ECOSOC Resolution 2006/24 International cooperation in the fight against corruption

<http://www.un.org/en/ecosoc/docs/2006/resolution%202006-24.pdf>

Appendix III

Government-Business Relations in the United States (not used in this Research Report, this is simply to give an idea about the government-business relations. Although it is US focused, it gives a good perspective on the matter as a whole)

http://www.hks.harvard.edu/m-rcbg/Conferences/us-eu_relations/porter_government_business.pdf

Appendix IV

Illicit Financial Flows from Developing Countries: 2002-2011

http://iff.gfintegrity.org/iff2013/Illicit_Financial_Flows_from_Developing_Countries_2002-2011-LowRes.pdf

Appendix V

The Costs of Corruption

http://csis.org/files/publication/140204_Hameed_CostsOfCorruption_Web.pdf

