

ADB

Governance

Thematic Group



*iACT to fight corruption!*

## Governance Thematic Group and iACT Learning Event

# ***Can Corruption be Tackled? Making the Case for Good Governance***

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*The views expressed in this presentation are the views of the author/s and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequence of their use. The countries listed in this presentation do not imply any view on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.*



## *Presentation Outline*

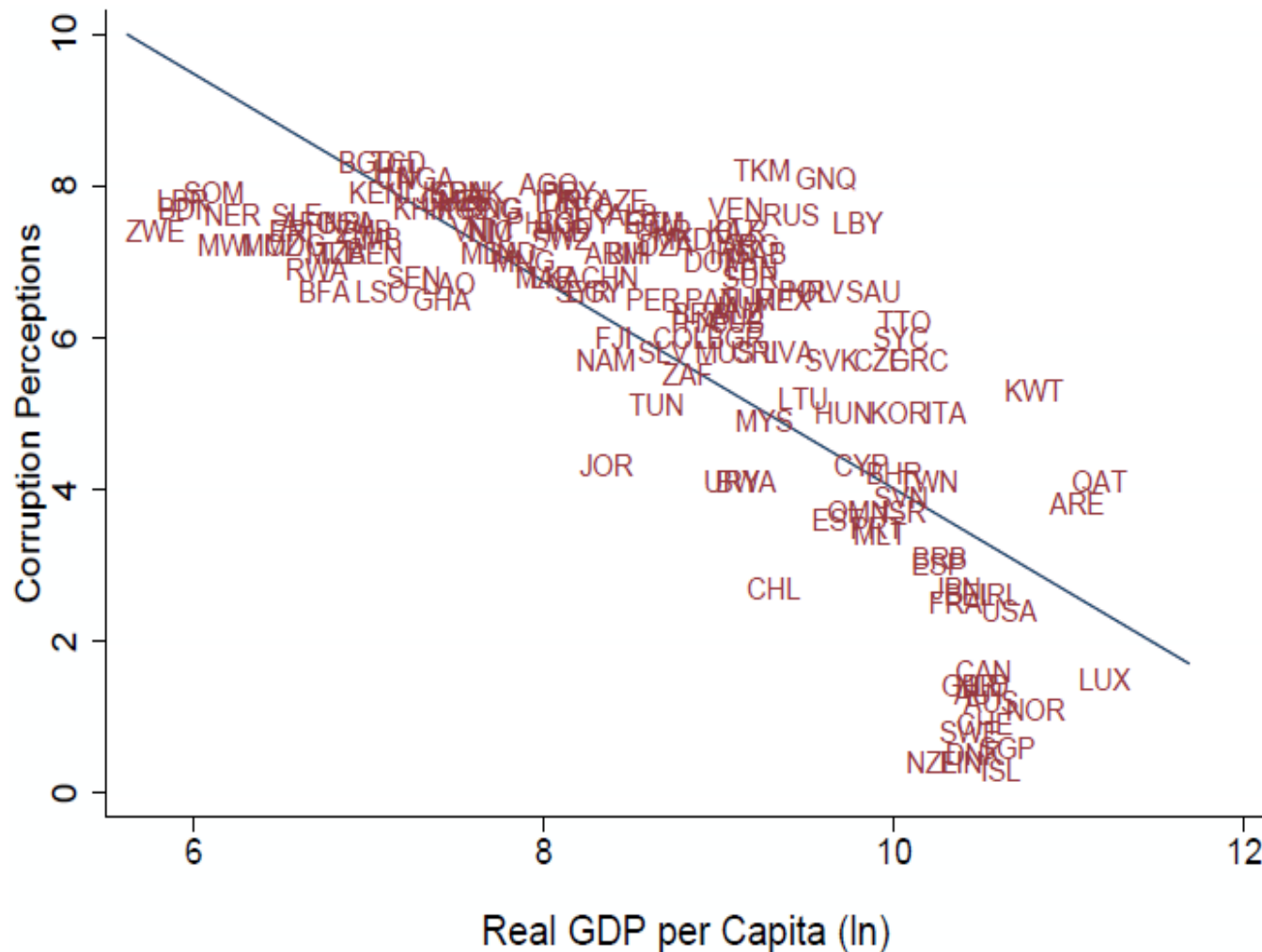
- 
- Measuring Corruption**
  - State of our DMCs**
  - Strengthening Anticorruption and Integrity in ADB Activities**
  - A Case Study of Bhutan**



# Measuring Corruption

# Why look at corruption? *Because it matters*

Figure 1. Cross-country relationship between GDP and corruption



*There is a strong negative correlation between a country's per-capita income and the level of reported corruption*

The UN estimates that corruption, bribery, theft, and tax evasion cost about US \$1.26 trillion for developing countries a year.



## There are many global indices to “measure” corruption...

- ***“... because it is usually a covert activity, it is notoriously hard to measure”\****
- Two main global indices:
  1. Transparency International’s CPI
  2. Worldwide Governance Indicators’ Control of Corruption



# WHAT IS TRANSPARENCY INTERNATIONAL?

**Secretariat in Berlin**  
**Established in 1993**  
**>100 chapters**

***Advisory Council (33 members)***

- Includes, among others, 5 former heads of state, PMs, and several Nobel Prize winners***



**Board Members**



# WHAT IS TRANSPARENCY INTERNATIONAL?

Transparency International e.V.  
Financial Statements for the year ended 31 December 2014

## *Funding sources for TI?*

### Notes to the Financial Statements (continued)

#### 11. Donor Commitments

	31.12.2014	31.12.2013
	Euro	Euro
<b><u>Governmental Agencies</u></b>		
Ministry of Foreign Affairs, The Netherlands	240,000	0
Department for International Development, United Kingdom (DfID)	207,001	159,200
Foreign and Commonwealth Office (FCO), UK	103,160	522,660
Financial Mechanism Office (FMO)	42,689	160,331
European Commission, NIS	21,827	359,031
U.S. Agency for International Development (USAID)	15,989	209,900
Islamic Republic of Mauritania	94	0
Ministry for Foreign Affairs of Finland	0	857,628
Government of Tunisia	0	296,122
Swiss Agency for Development and Cooperation SDC	0	3,340



*... generally well-regarded...*

## Top Think Tanks Worldwide (Non-US)

Table 2

1. Chatham House (United Kingdom)
2. Bruegel (Belgium)
3. French Institute of International Relations (IFRI) (France)
4. International Institute for Strategic Studies (IISS) (United Kingdom)
5. **Transparency International (TI) (Germany)**
6. Amnesty International (AI) (United Kingdom)
7. Centre for European Policy Studies (CEPS) (Belgium)
8. Korea Development Institute (KDI) (Republic of Korea)
9. Danish Institute for International Studies (DIIS) (Denmark)
10. Japan Institute of International Affairs (JIIA) (Japan)

**14<sup>th</sup> worldwide**



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## Top Transparency and Good Governance Think Tanks

Table 26

1. **Transparency International (TI)** (Germany)
2. Freedom House (United States)
3. Mo Ibrahim Foundation (MIF) (United Kingdom)
4. Oxford Council on Good Governance (OCGG) (United Kingdom)
5. Amnesty International (AI) (United Kingdom)
6. Brookings Institution (United States)
7. Human Rights Watch (HRW) (United Kingdom)
8. Open Society Foundations (OSF), FKA Open Society Institute (United States)
9. Carnegie Endowment for International Peace (United States)
10. Natural Resource Governance Institute (NRGI), FKA Revenue Watch Institute (United States)

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## Think Tanks with the Most Significant Impact on Public Policy

Table 46

1. Brookings Institution (United States)
  2. Carnegie Endowment for International Peace (United States)
  3. Council on Foreign Relations (CFR) (United States)
  4. Chatham House (United Kingdom)
  5. Amnesty International (AI) (United Kingdom)
  6. Center for Strategic and International Studies (CSIS) (United States)
  7. Peterson Institute for International Economics (PIIE) (United States)
  8. Heritage Foundation (United States)
  9. **Transparency International (TI)** (Germany)
  10. Cato Institute (United States)
-



TI's CPI, since 1995...

*“most widely used indicator of corruption worldwide”*

1. Methodology changed in 2012; allows time-series comparison
2. Draws upon several sources; a composite index
3. A country has to be included in  $\geq 3$  CPI data sources
4. Focus of corruption in the public sector
5. Must be comparable across countries
6. Must be a multi-year dataset

Main criticism of the CPI...

***“vicious cycle of perceptions”***



NEWS & IDEAS ▾

REGIONS ▾

CHANNELS ▾

GALLERIES ▾

VOICES ▾

# Corrupting Perceptions

Why Transparency International's flagship corruption index falls short.

BY ALEX COBHAM

JULY 22, 2013 - 4:31 PM



# Perception is Not Reality: The FCPA, Brazil, and the Mismeasurement of Corruption

[Stuart Vincent Campbell](#)

University of Minnesota - Twin Cities - School of Law

February 21, 2013

[Minnesota Journal of International Law, Vol. 22, No. 1, p. 247, 2013](#)

## Abstract:

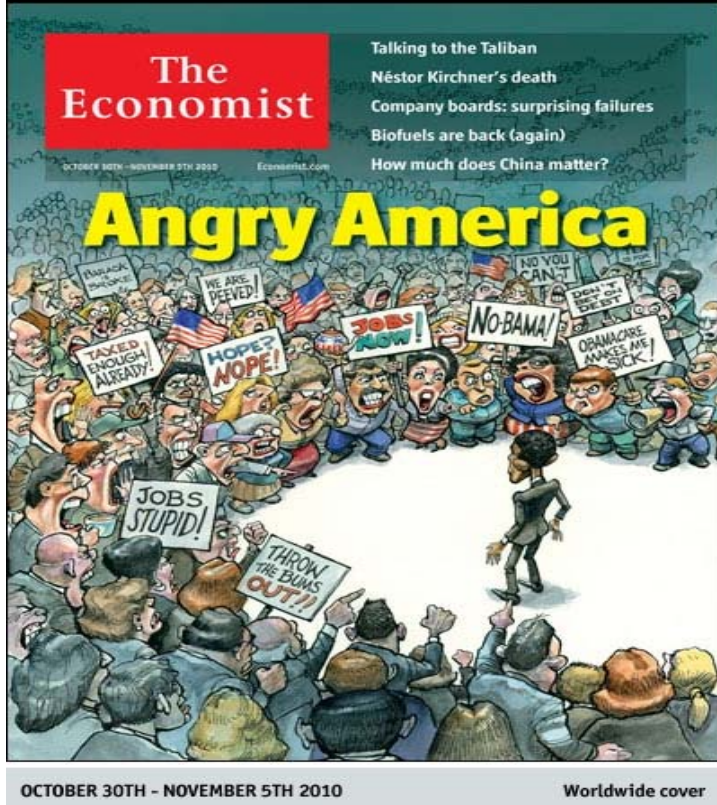
Recent years have seen an explosion in the number of Foreign Corrupt Practices Act ("FCPA") enforcement actions by the U.S. government. International corporations have been faced with the challenge of complying with the FCPA in nations whose cultural and legal treatment of corruption can vary widely. Unfortunately, it is difficult for corporate compliance programs to compare FCPA risk between countries because there are no valid quantitative measure for corruption. Instead, corruption researchers have looked to statistical proxies such as the perception of corruption. A growing body of literature suggests that biases which influence corruption perception statistics prevent them from forming a valid basis for comparison between countries or over time. In spite of the limited validity of these corruption perception statistics, many lawyers in the United States advise their clients to use them to help calibrate FCPA compliance programs in their international operations. The use of corruption perception to compare risk between nations is a misuse of these statistical measures, and potentially increases the economic distortion generated by the FCPA.

**Number of Pages in PDF File:** 35

**Keywords:** Foreign Corrupt Practices Act, FCPA, Corporate Compliance, Corruption, Bribery, Brazil, Transparency International, Corruption Perceptions Index

**JEL Classification:** F23, G38, K14, K20, K22, K29, K30, K42, M14

**Perceptions →  
“reality”; correlations  
between various  
components run  
between 80-100%,  
because the same  
kinds of people are  
being asked for their  
perceptions**



The  
Economist

World politics

Business & finance

Economics

Science & technology

Culture

Transparency International

## Murk meter

The best-known corruption index may have run its course

Oct 28th 2010 | BERLIN | From the print edition



CORRUPTION takes many forms; in some countries it is blatant, in others it is barely visible. So the idea that it can be quantified on a simple scale is appealing; it gives the impression that an elusive aspect of behaviour can be pinned down.

No wonder, then, that the annual corruption perceptions index (CPI), which orders countries according to the perceived degree of graft, is closely watched. But when its compilers—Transparency International (TI), an organisation based in Berlin—released their 16th annual ranking on October 26th, there was criticism as well as curiosity.

To be sure, TI has done a lot for the anti-corruption cause. The group has had an “enormous impact”, says Richard Boucher, a deputy secretary-general at the OECD, a rich-country club. The CPI was the first index comparing corruption globally.

**Global Corruption Barometer  
“much more appealing” – more  
focus on corruption climate than  
on a hard ranking that CPI implies\***



**Measuring Corruption**



**State of our DMCs**





## State of our DMCs

- ADB DMCs vis-à-vis TI Ranking
- Is TI Ranking accurate?
- Corruption vs poverty and human development
- Is ADB money vulnerable to illicit money?
- How OAI helps DMCs to improve governance

**“ASIA PACIFIC: HOW LEADERS ARE BIG ON TALK BUT LITTLE ON ACTION”\***

***CONCLUSION OF TI REPORT FOR 2015***



## Scope of the Review

No	Country	TI Rank 2015 (1-167)	Freedom from Corruption 2015 (score 0-100)	Ease of Doing Business 2015 (1-189)	Poverty Line	Cumulative Illicit Financial Outflow 2004-2013	Total ADB Assistance as of December 2015	Complaints	Investigations	Sanctions		Total Seminars	PPRRs
										Firms	Indiv		
1	Afghanistan	166	12	183	36.5	1,331,000,000	4,195,662,700	27	24	2	1	1	1
2	Turkmenistan	154	17	na	na	178,000,000	126,565,000	0	0	0	0	0	0
3	Uzbekistan	153	18	141	14.1	na	4,990,790,000	31	38	4	11	2	1
4	Cambodia	150	21	135	18.9	15,086,000,000	2,574,326,245	33	52	13	12	2	3
5	Myanmar	147	21	177	25.6	6,840,000,000	1,578,466,000	2	1	0	0	0	0
6	Lao PDR	139	25	148	23.2	6,638,000,000	2,232,903,582	18	19	4	4	1	3
7	Bangladesh	139	25	173	31.5	55,877,000,000	18,116,786,171	152	158	70	67	2	3
8	PNG	139	25	133	28	4,724,000,000	2,047,875,423	13	13	1	3	2	2
9	Tajikistan	136	23	166	35.6	934,000,000	1,369,748,057	8	23	10	5	2	0
10	Nepal	130	29	108	25.2	5,674,000,000	4,976,698,594	115	65	18	16	1	4
11	Kazakhstan	123	29	77	2.9	167,401,000,000	4,223,243,000	6	7	1	1	0	1
12	Kyrgyz	123	27	102	37	1,010,000,000	1,493,280,400	20	34	33	55	3	2
13	Azerbaijan	119	29	80	5.3	94,999,000,000	1,813,622,000	15	8	7	6	1	1
14	Viet Nam	112	31	78	9.8	92,935,000,000	15,009,693,017	83	58	12	11	2	4
15	Pakistan	117	29	128	12.4	1,917,000,000	27,192,411,899	133	110	33	29	0	3
16	Armenia	95	37	45	32	9,833,000,000	922,365,000	6	5	4	1	1	1
17	Philippines	95	38	95	25.2	90,250,000,000	15,646,859,482	122	110	34	57	4	6
18	Indonesia	88	34	114	11.3	180,710,000,000	30,885,961,716	77	240	151	147	3	3
19	PRC	83	36	90	8.5	1,392,276,000,000	31,639,970,318	83	74	99	57	2	3
20	Sri Lanka	83	38	99	6.7	19,967,000,000	7,462,128,100	84	69	14	9	3	3
21	India	76	38	142	21.9	510,286,000,000	33,601,190,855	167	67	29	15	0	2
22	Mongolia	72	39	72	27.4	1,478,000,000	1,825,319,650	28	38	20	9	3	6
23	Georgia	48	52	15	21.4	14,945,000,000	1,596,681,000	3	3	0	0	0	0
24	Bhutan	27	65	125	12	318,000,000	763,982,415	5	6	1	1	1	1





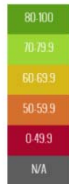
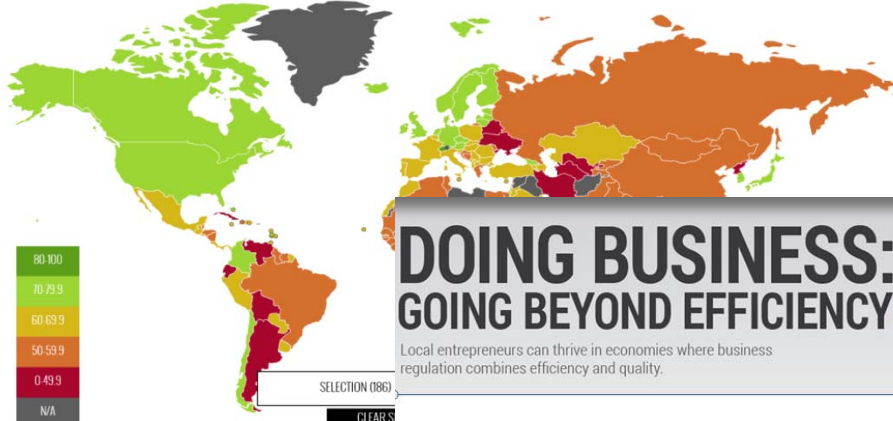
# Sources

- ADB Statistics
- OAI Statistics
- Transparency International Ranking 2015
- 2016 Index of Economic Freedom
- Doing Business 2015
- Global Financial Integrity (2004-2013)

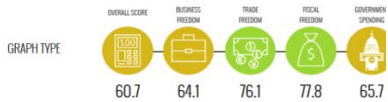
# INTERACTIVE HEAT MAP

SELECT YEAR: 1995 2016 INSTRUCTIONS

- WORLD
- ISA & THE PACIFIC
- EUROPE
- NORTH AMERICA & MIDDLE EAST
- SUB-SAHARAN AFRICA
- SOUTH & CENTRAL AMERICA
- NORTH AMERICA
- COUNTRIES BY LIST



SELECTION (86) CLEAR



## DOING BUSINESS: GOING BEYOND EFFICIENCY

Local entrepreneurs can thrive in economies where business regulation combines efficiency and quality.



WORLD BANK GROUP

## Country tables

AFGHANISTAN		South Asia	
Ease of doing business rank (1-189)	183	Overall distance to frontier	
Starting a business (rank)	24	Registering property (rank)	
DIT score for starting a business (0-100)	93.54	DIT score for getting credit	
Procedures (number)	3	Procedures (number)	
Time (days)	7	Time (days)	
Cost (% of income per capita)	15.1	Cost (% of property value)	
Minimum capital (% of income per capita)	0.0	Getting credit (rank)	
Dealing with construction permits (rank)	185	DIT score for getting credit	
DIT score for dealing with construction permits (0-100)	30.14	Strength of legal rights in	
Procedures (number)	11	Depth of credit information	
Time (days)	323	Credit bureau coverage (%)	
Cost (% of warehouse value)	574	Credit registry coverage (%)	
Getting electricity (rank)	141	Protecting minority investors	
DIT score for getting electricity (0-100)	61.09	DIT score for protecting minority investors	
Procedures (number)	5	Extent of conflict of interest resolution	
Time (days)	114	Extent of shareholder litigation	
Cost (% of income per capita)	3,373.9	Strength of minority investor protection	
		Paying taxes (rank)	
		DIT score for paying taxes	
		Payments (number per year)	
		Time (hours per year)	
		Total tax rate (% of profit)	

GLOBAL FINANCIAL INTEGRITY

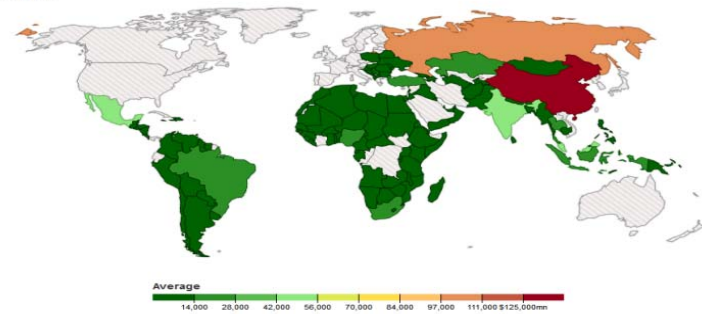
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## Data by Country

Average Annual Illicit Financial Outflows: 2004-2013 (in millions of U.S. dollars, nominal)



Source: Global Financial Integrity. Get the data.

Created with Datawrapper

## Search Illicit Financial Flows by Country

- Illicit Financial Outflows (HMN+GER)
- Trade Misinvoicing Outflows (GER)
- Hot Money Outflows (HMN)

Illicit financial outflows from 2004 through 2013.



# Country Focus

- Afghanistan
- Bhutan
- Central Asia (economic transition)
- Myanmar, Vietnam and Indonesia (political transition)

Country	TI Rank 2015 (1-167)	Freedom from Corruption 2015 (score 0-100)	Ease of Doing Business 2015 (1-189)	Cumulative Illicit Financial Outflow 2004-2013	Total ADB Assistance as of December 2015	Poverty
Afghanistan	166	12	183	1,331,000,000	4,195,662,700	36.5
Turkmenistan	154	17	na	178,000,000	126,565,000	na
Uzbekistan	153	18	141	na	4,990,790,000	14.1
Myanmar	147	21	177	6,840,000,000	1,578,466,000	25.6
Tajikistan	136	23	166	934,000,000	1,369,748,057	35.6
Kazakhstan	123	29	77	167,401,000,000	4,223,243,000	2.9
Kyrgyz	123	27	102	1,010,000,000	1,493,280,400	37
Viet Nam	112	31	78	92,935,000,000	15,009,693,017	9.8
Indonesia	88	34	114	180,710,000,000	30,885,961,716	11.3
Bhutan	27	65	125	318,000,000	763,982,415	12

# Corruption and Human Resources and Development

**% OF POPULATION WHO PAID A BRIBE IN THE PAST YEAR\*\***

LESS THAN 30%

30% - 60%

MORE THAN 60%

**WOMEN DYING IN CHILD BIRTH**

Average maternal mortality rate per 100,000 live births in 2010.



57 women

220 women

482 women

**YOUNG PEOPLE WHO CAN'T READ**

Illiteracy rate of 15-24 year olds (%) in 2010/2011.



3%

8%

11%

**PEOPLE WITHOUT TOILETS**

Proportion of the population who did not have access to sanitation in 2011.



11%

44%

61%



# Findings

- ✓ TI Ranking is supported by other sources
- ✓ Positive correlation between TI ranking, poverty and human underdevelopment
- ✓ Unfavorable environment for doing business and attract investments in countries with lowest TI ranking
- ✓ ADB assistance is very vulnerable to illicit financial outflow

Country	TI Rank 2015 (1-167)	Total ADB Assistance as of December 2015	Inv.	Sanctions		Top Three Risk Sectors	Seminar/ Workshop	PPRR
				Firm	Ind			
Afghanistan	166	4,195,662,700	24	2	1	Transport, Energy, Multisector	1	1
Turkmenistan	154	126,565,000	0	0	0	NA	0	0
Uzbekistan	153	4,990,790,000	38	4	11	Water, Transport, Agriculture	2	1
Myanmar	147	1,578,466,000	1	0	0	NA	0	0
Tajikistan	136	1,369,748,057	23	10	5	Transport, Agriculture, Multisector	2	0
Kazakhstan	123	4,223,243,000	7	1	1	Transport	0	1
Kyrgyz	123	1,493,280,400	34	33	55	Multisector, Transport, Agriculture	3	2
Viet Nam	112	15,009,693,017	58	12	11	Agriculture, Transport, Education	2	4
Indonesia	88	30,885,961,716	240	151	147	Education, Agriculture, Public Management	3	3
Bhutan	27	763,982,415	6	1	1	Transport	1	1



***“Increase lending, scale up operations, and continue to grow the number and volume of approvals and increase disbursements with emphasis on poor countries”.***

**The President's remarks on ADB's 2016 Agenda  
2 February 2016**

**Should ADB consider these  
“corruption” indicators in designing  
programs and projects?**





**Measuring Corruption**



**State of our DMCs**



**Strengthening Anticorruption and Integrity in ADB Activities**





# *Proactive and Preventive Activities*



**NEPAL: Decentralized Rural Infrastructure & Livelihood Project  
(\$62.3 million)**

***NRM Moving Forward***

**Collaborated with Ministry of  
Finance and Executing  
Agencies**

**Enhanced procurement and  
financial management integrity  
and transparency**

**Prepared Action Plan**



## Anticorruption Seminars

### Coverage

- ADB's Anticorruption Policy
- Red flags in procurement/contract

**Between 2006 and 2015  
39 seminars, workshops,  
and presentations  
20 DMCs**

### Coverage

- Fraud prevention and detection techniques
- Financial reporting and audit requirements

**Audience: SAIs, ACCs, private sector audit firms**





# *Due Diligence*



*“Adequate due diligence should be carried out to ensure that integrity-related risks are addressed in the course of project processing”*

– Paragraph 12 OM C6/OP

### Integrity Due Diligence for...

**Sovereign Operations and Cofinancing (Staff Instruction)**

**Nonsovereign Operations (Guidelines)**

**Due diligence is the responsibility of each of us**

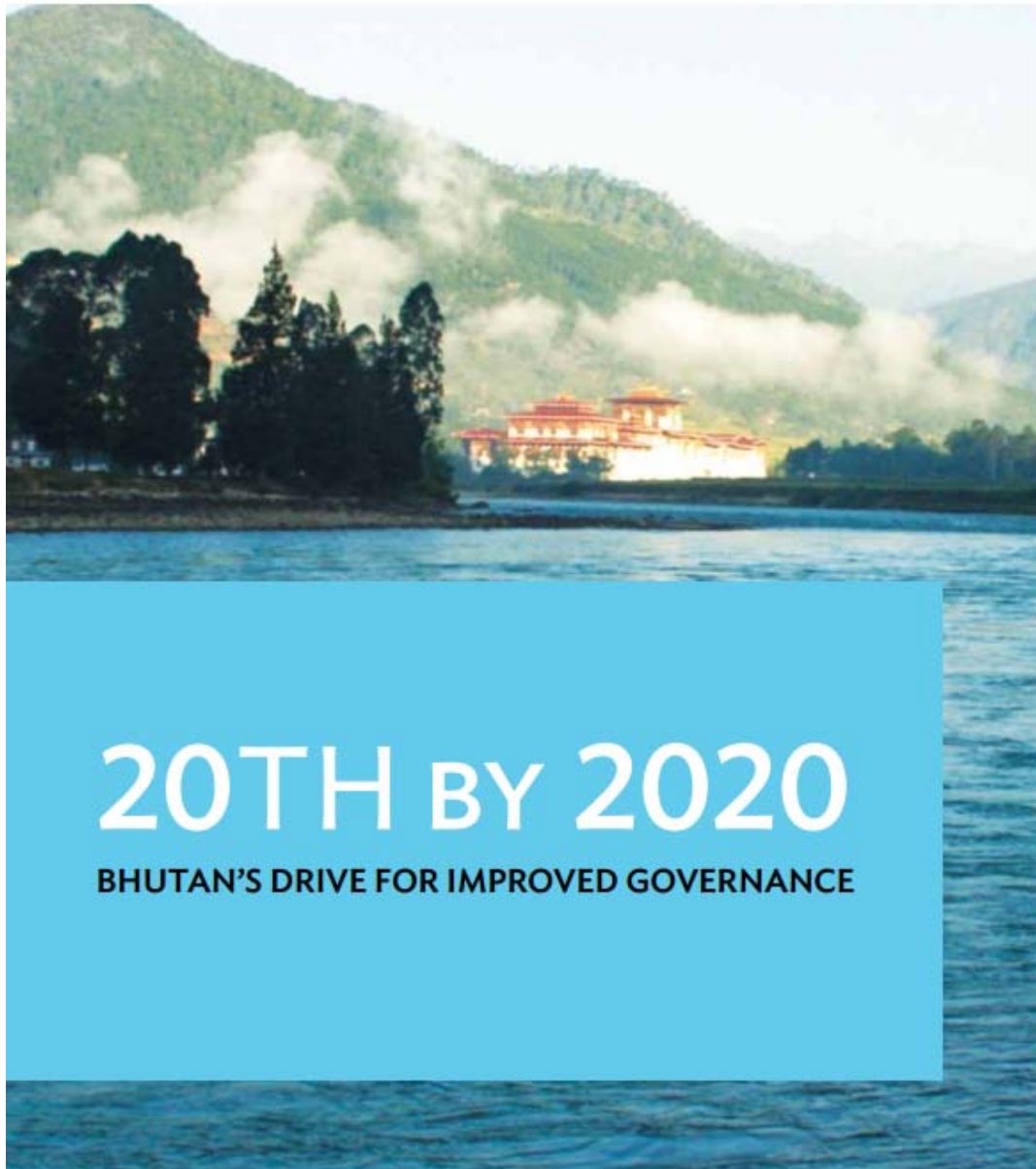


**Do not assume that someone else is doing it.**



## *Presentation Outline*

- 
- Measuring Corruption**
  - State of our DMCs**
  - Strengthening Anticorruption and Integrity in ADB Activities**
  - A Case Study of Bhutan**



## Bhutan as the “fourth fastest growing economy in the world” (in 2011-2013).(1)

(1) John Berthelsen. 2013. *Booming Bhutan: The Happiest Place on Earth? Foreign Affairs*. Washington, D.C. (Data used was from IMF's 2012 report *World Economic Outlook: Coping with High Debt and Sluggish Growth*. Washington, D.C.

### Significant achievements:

- Number of poor reduced by about half to 12% of total population in 2013 in a span of 5 years
- Per capita GDP one of the lowest in the world at \$51 in 1961 → approximately \$2,611 (2015)
- Average life expectancy increased from 37 years in 1960 to over 68 years in less than half a century



Australian Government  
Department of Foreign Affairs and Trade





***“Happiness is a very serious matter”***

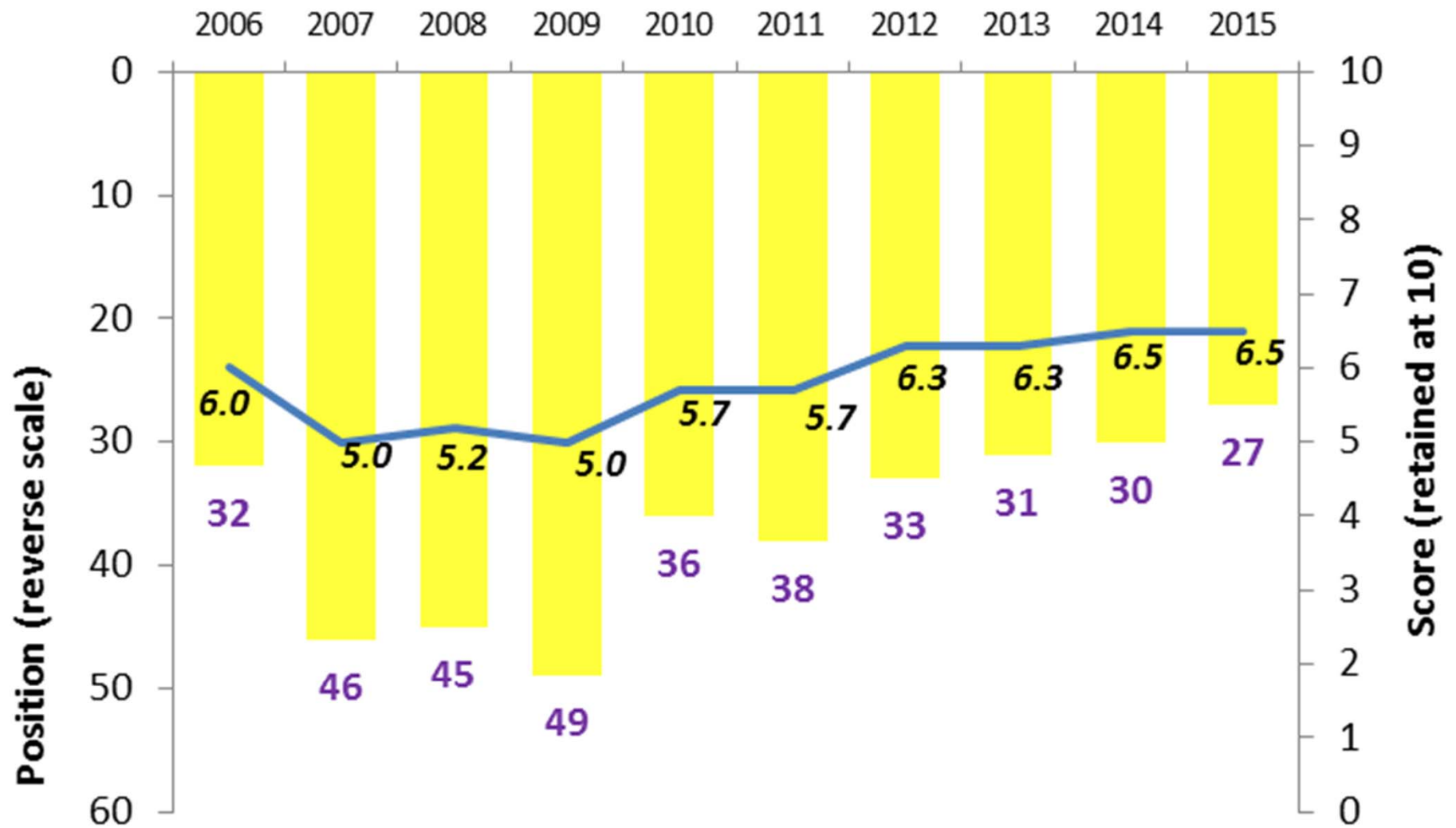


**GROSS NATIONAL  
HAPPINESS**



**Good Governance as a Key Component**

# CPI Trends - Bhutan



Source: TI, CPI (various years)

Position CPI Score

# Bhutan's performance on the CPI rating

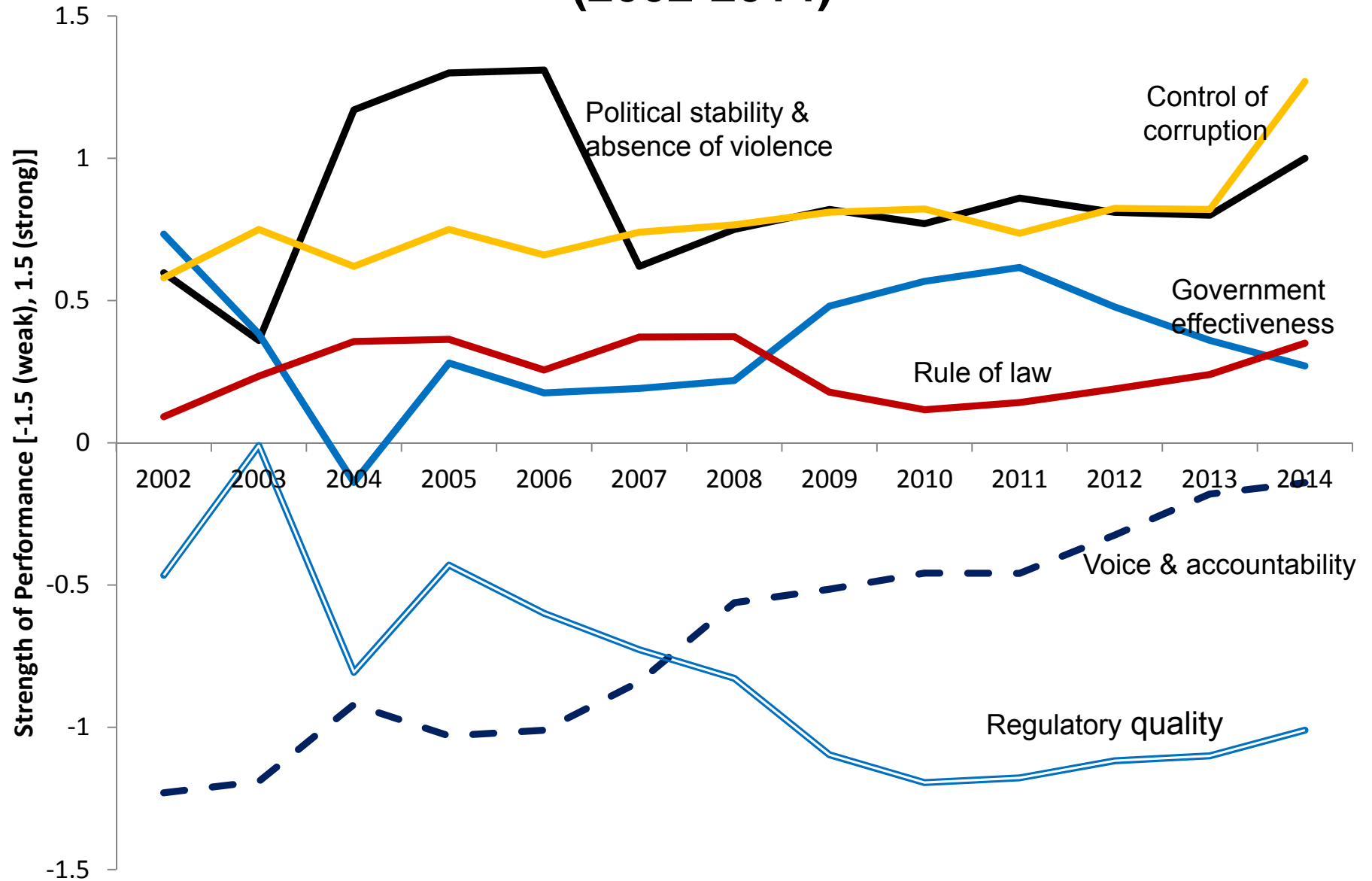
- 1st among countries of South Asia
- 6th in the Asia Pacific region
- 8th in all of Asia

Source: Transparency International,  
CPI, 2015

## *Countries in Asia above Bhutan in CPI ranking in 2015*

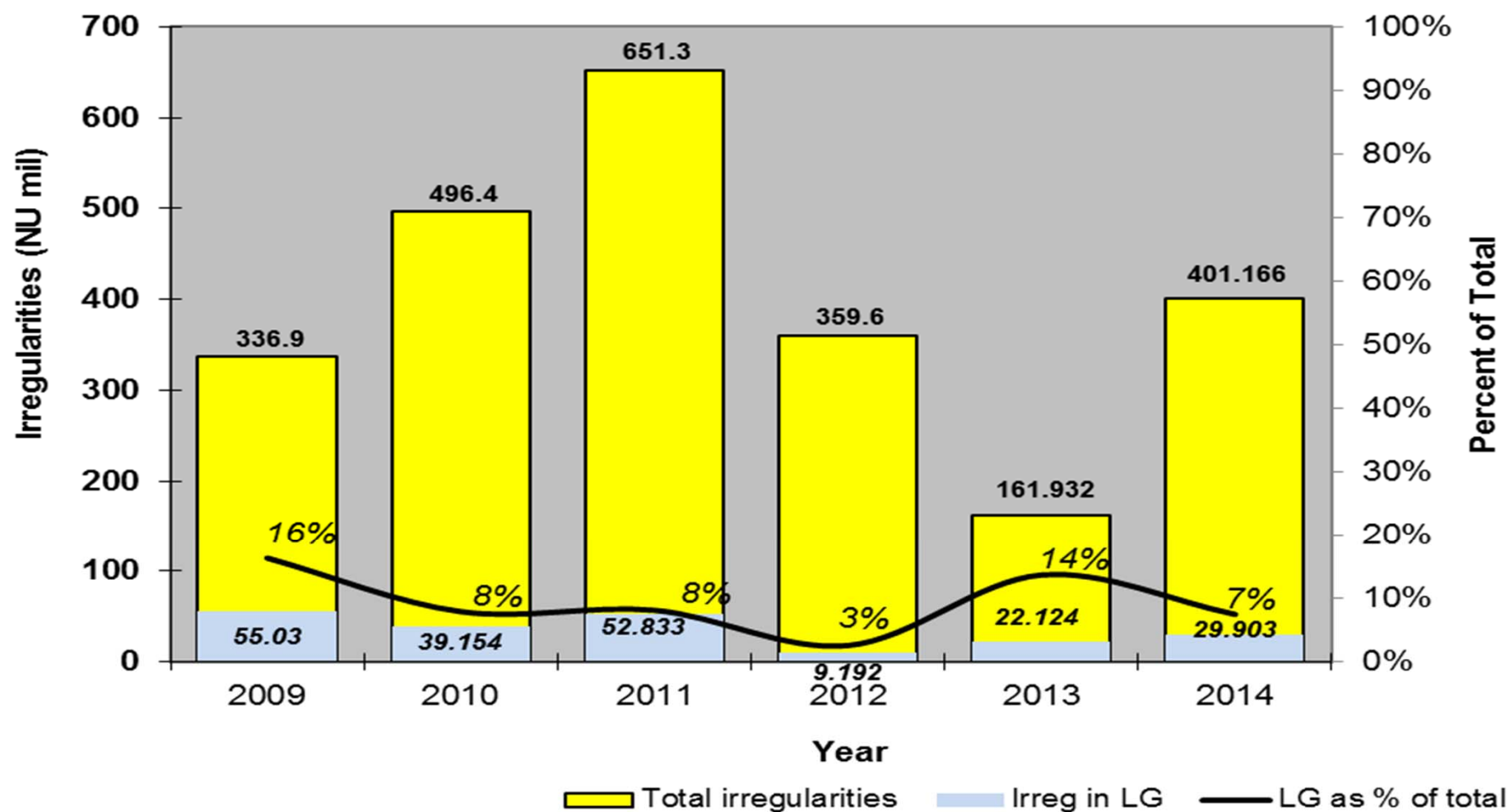
- 4 *New Zealand*
- 8 *Singapore*
- 13 *Australia*
- 18 *Hong Kong, China*
- 18 *Japan*
- 22 *Qatar*
- 23 *UAE*

# Bhutan - Trends in Governance Indicators (2002-2014)



# Level of irregularities...

**Figure 6. Bhutan - Level of Irregularities and Share (Total and in Local Governments (LG), 2009-2014)**



Source: RAA Annual Reports, various years

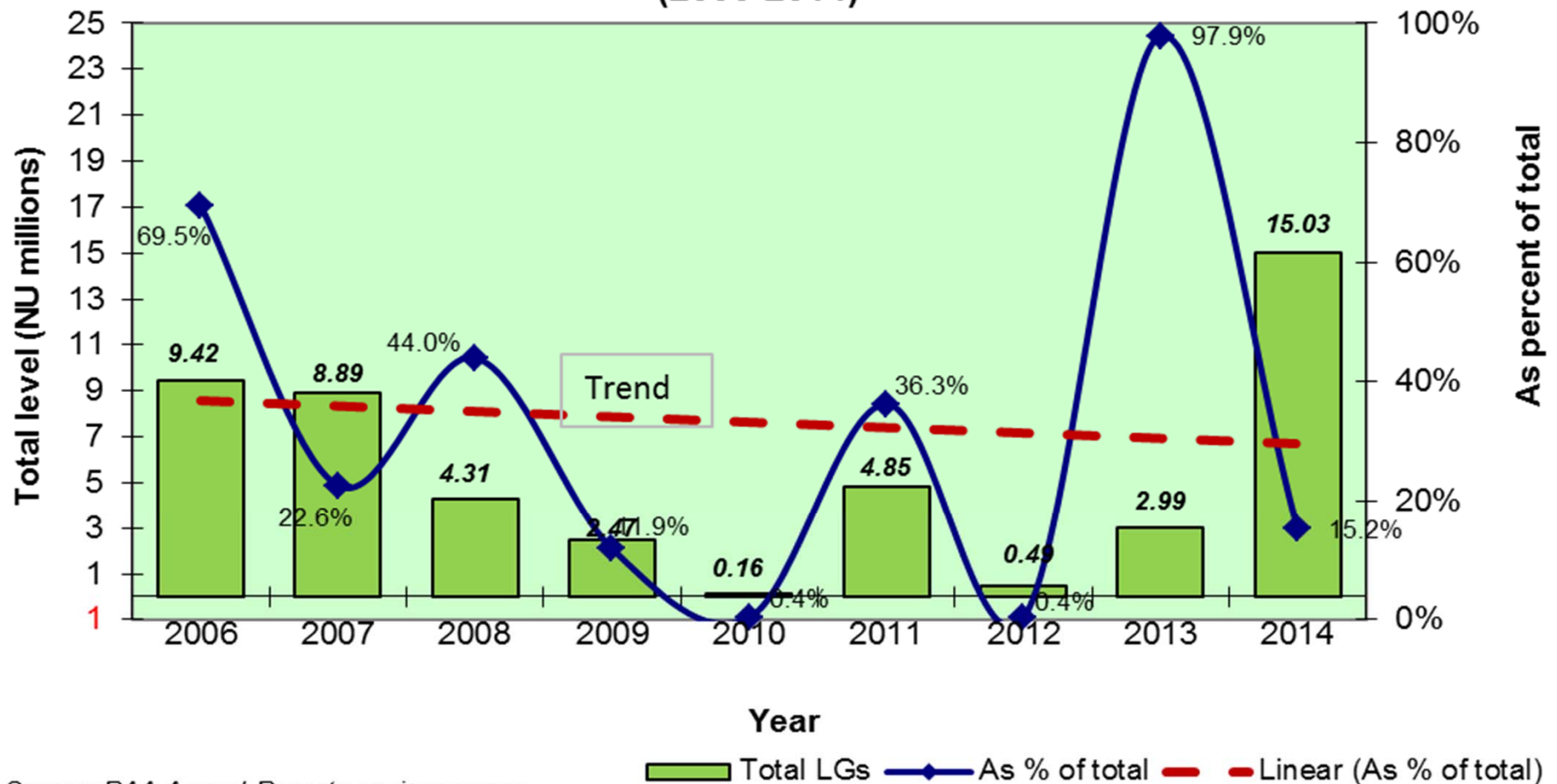
## Fraud, Corruption, and Embezzlement at National Level... (in NU mil)

Year	FCE in Total	Total LGs	As % of total
2006	13.56	9.42	69.4%
2007	39.28	8.89	22.6%
2008	9.79	4.31	44.0%
2009	20.77	2.47	11.8%
2010	43.42	0.16	0.3%
2011	13.35	4.84	36.2%
2012	130.40	0.48	0.3%
2013	3.05	2.99	97.8%
2014	98.92	15.03	15.2%

Source: RAA, annual reports, various years

# Fraud, Corruption, and Embezzlement at local level...

Figure 7: Bhutan - Fraud, Corruption, and Embezzlement in Local Governments (2006-2014)



Source: RAA Annual Reports, various years

## Bit of the past debates: Debates and frustrations (tussle with Parliament)

***“Is tobacco more harmful than corruption that they raised penalties for tobacco control and reduced those for corruption?”\****



**Dasho Neten Zangmo**  
Former Chairperson  
Anticorruption Commission of Bhutan



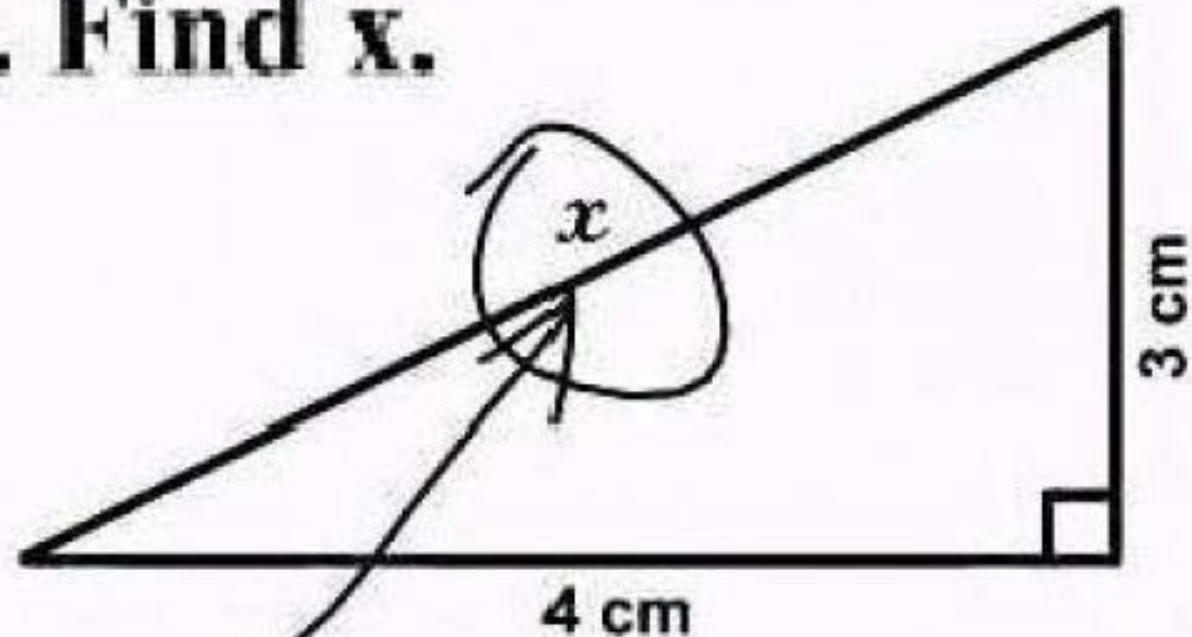
## So, what's happening in Bhutan more broadly?

- Legal changes: (i) ACC Act; (ii) Civil Service Act; (iii) RTI Act
- ACC getting assertive but *“public servants are reluctant to join the ACC...”*; debate on independence of ACC
- RAA also assertive (*“The government is still soft on bureaucrats involved in corruption...”*)\* [But also “aggressive” and “robust” RAA]!
- **Two areas of concern: *“political corruption and public procurement”...***

## Some lessons from the work of ACC & RAA

3. *It's not as easy/simple as it appears*

3. Find  $x$ .



*Here it is*

## 2. Tell it the way it is...



"But Grandmother! What big eyes you have," said Little Red Riding Hood.

"The better to see you with, my dear," replied the wolf.

1. *Be wary of “Frankly, my dear, I don’t give a damn...”*

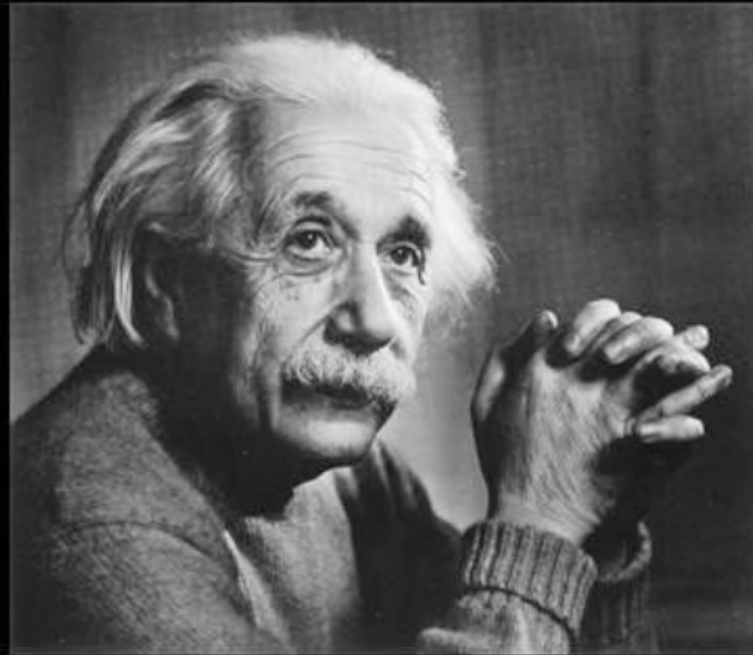


**Political commitment as a necessary  
and sufficient condition**



## Conclusion

- **Corruption is worsening in Asia** – across major indices
- **Political will is key** – encourage governments to strengthen good governance and address corruption
- **ADB must ACT** – consider “corruption” indicators in designing programs and projects



**"The world will not be destroyed by those who do evil, but by those who watch them without doing anything." - Albert Einstein**

ADB

Governance



Thematic Group

*iACT to fight corruption!*

***Thank you!***