Corruption and public services

by

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**November 2012**

This report was commissioned by Public Services International



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# Introduction and summary

Corruption is much more than a moral issue. It undermines public services and democracy. When citizens have to pay bribes to get healthcare or fair policing, or contracts are awarded to those who pay bribes, it threatens society as a whole. Corruption wastes public money by diverting it into the hands of corrupt politicians, businesses and their agents. It perverts public policy decisions, by buying decisions which suit the interests of the rich and powerful elite. It steals wealth from countries and places it in tax havens for the benefit of corrupt individuals.

One set of problems concerns the extent to which individual public employees demand bribes from the public to provide the service they are entitled to. This undermines public services. It needs to be eradicated by implementing employment practices, including pay, which minimise the temptations to corruption and maximise the incentives to ethical behaviour.

The bigger problems concern the corrupt networks of senior officials, politicians, and domestic and foreign businesses. Government contracts and privatisations are at the heart of these systems. Policies which favour privatisation also create the conditions which are most favourable to corruption.

Corruption is often discussed as though it was a problem only in developing countries. It is blamed on the countries themselves for having poor ‘cultures’ which tolerate corruption. This is contrary to the evidence which shows that the overwhelming majority of people in all countries are strongly intolerant of corrupt practices.

Donors and international institutions like the World Bank like to portray themselves as supporting ‘anti-corruption’ initiatives. In practice, their policies favouring privatisation provide greater incentives and opportunities for corruption. Moreover, donor countries and the World Bank have actively discouraged developing countries from prosecuting multinational companies for corruption.

Ending corruption requires public and political organising to demand that political leaders represent public interests, not the interests of rich individuals and powerful companies, and to hold them accountable. Transparency, accountability and public participation are key elements in this, as are strong and independent systems of audit, and courts prepared to prosecute, fine and ban corrupt companies and officials.

1. Interfaces of corruption



# ‘Petty’ corruption: bribes for services

One kind of corruption is when people are expected to pay bribes in order to get the service they are entitled to from a public employee. The employee is making use of his or her position to get extra income, at the expense of citizens or the service itself. Typical examples are the payment of bribes to water workers to record false meter readings; to health workers for providing treatment at an earlier date; or to customs officials to allow goods to be smuggled without paying duties.

This is sometimes described as ‘petty corruption’ to contrast it with the ‘grand corruption’ of large-scale fraud by politicians and companies. It seriously damages public services. Citizens are cheated. It breaks the principle of fair and equal treatment. It undermines the integrity of public servants. Those who most need services find themselves having to pay as if the service was just a matter of private profit. What should be a public service is converted into another commercial transaction. It also weakens public resolve to tackle bigger corruption. It must be eradicated.

The best-known picture of corruption is the index published by Transparency International (TI) which ranks countries “according to their perceived levels of public-sector corruption.” [[1]](#endnote-1) Developing countries consistently appear as the most corrupt, and OECD countries as least corrupt. The problem of corruption is thus presented as a problem of the third world, and specifically of corrupt public employees. It is often incorrectly attributed to the culture of these countries being much more tolerant of corruption than the cultures of the OECD countries.

The index – and the analysis – are unsatisfactory. The index is not based on actual experiences or documented cases of corruption. It is based on the perceptions of people who participate in surveys. The survey participants consist almost entirely of business executives, consultants, or unspecified ‘experts’ many of whom are foreign, and businessmen some of whom may themselves have paid bribes or be part of corrupt networks. The perception of international business executives is not a reliable indicator of the culture of ordinary people.[[2]](#endnote-2)

In fact, surveys of the public in various countries show that very few people, in any country, believe that corrupt behaviour is acceptable. Overwhelming majorities in Eastern Europe, and over 90% of Africans believe it is unacceptable.[[3]](#endnote-3) By contrast, there is clear evidence of a corrupt culture amongst executives themselves in rich countries. A 2012 survey found that 24% of financial sector executives in the USA and the UK believed that they had to engage in illegal or unethical activity in order to be successful.[[4]](#endnote-4) The evidence does not support the view that there are distinctive corruption-tolerant cultures in developing and transition countries.

The great majority of people surveyed in developing and transition countries do think that corruption is a big problem in their country.[[5]](#endnote-5) In many states, people have anything but good experiences with the authorities when it comes to securing their and their families’ basic needs. In these countries people are often forced to give and receive assistance from relatives, friends, or members of their community. Without good governance, without functioning, transparent public services equally accessible to all, giving gifts or money is often the only way people can obtain health care, building permits, court decisions and so on.

There is strong evidence that the most important factor affecting the extent of petty corruption is the pay of the workers concerned. When pay is too low to provide the necessities of life, or where it is significantly lower than the pay of other people with similar qualifications, then corruption is used as a way of making extra money. Studies in countries as diverse as Madagascar and Ukraine show that inadequate civil service pay is linked to petty corruption. In a number of Asian countries, water meter readers demanded bribes when their pay was below subsistence levels, but not after their pay was increased substantially. This has been known for a long time – customs officials in 18th century England were accepting bribes from smugglers because they were paid so little.[[6]](#endnote-6) (See annexe)

This basic material factor is key to reducing the incentive for corruption. Effective disciplinary and criminal sanctions provide further deterrence. Building and maintaining confidence in effective and democratically accountable public services depends on more political actions – especially addressing the problem of ‘grand corruption.’ Where there is a lack of confidence in the state itself, people may fall back on informal mechanisms, including reliance on friends, family and the economic reliability of petty corruption.[[7]](#endnote-7)

# State capture and privatisation

‘Grand corruption’ by political and business elites is a significant threat to democracy and sustainable development. It involves the payment of bribes to gain contracts and the purchase of political influence. There are three key features that set it apart from ‘petty corruption’:

* It involves systematic networks as well as individual bribes.
* Privatisation, including outsourcing of government contracts, forms a core part of business - politician relations.
* Multinational companies, based in the rich countries which are supposedly ‘clean,’ are playing a huge and extensive role in the corruption process.

## State capture and legal corruption

The concept of ‘state capture’ was introduced by two World Bank researchers to describe the situation in some of the former communist countries of eastern Europe. They found that firms were deliberately adopting strategies of networking to influence government officials and politicians to change the laws and regulations in their favour, and partly accomplished this through corrupt payments.[[8]](#endnote-8)

One example of this kind of network developed in Italy in the 1990s. Politicians from various parties, on the one hand, and groups of companies on the other hand, agreed to allow the companies to share out the contracts amongst themselves, and decide on the prices. The companies agreed to pay enough money to keep the politicians happy, and for the money to be shared amongst all the parties involved. Middlemen were brought in to launder the money and keep the payments secret. The whole system was a way of gaining and sharing power and money, at the expense of democracy, transparency and public accountability.[[9]](#endnote-9)

1. Networks of corrupt exchanges



Source: Della Porta and Vanucci (1999), p. 22

There is evidence of similar systems in other countries. In Ireland, an inquiry found that Charles Haughey, prime minister between 1979 and 1992, had “devalued the quality of a modern democracy” by accepting about €11 million in cash from wealthy business people over a period of 17 years, concealed through a network of offshore bank accounts.[[10]](#endnote-10) Such networks also exist in a number of developing countries, including Nigeria, where governments have developed corrupt relations with both local businesses – who are favoured with the proceeds of privatization – and multinationals, such as oil and electricity companies.

The interface between politicians and businesses is now seen as similarly corrupt in many more countries.

Nearly three-quarters of Europeans think corruption is a major problem in their country, and in the institutions of the European Union itself. They have clear views on where the corruption is taking place: 47% think that the most corrupt actors in the system are those who award contracts. The most frequently cited explanation for corruption is that “there are too close links between business and politics.”[[11]](#endnote-11)

In India, according to a 2011 report by KPMG, even Indian businesses agree that the major problem in India is not petty corruption (‘bakshish’) but rather:

* “Scams to the tune of thousands of crores (one crore = 10 million rupees) that highlight a political/industry nexus ……a web of companies and middlemen,” based on the willingness of the private sector to pay bribes.
* More than two-thirds of businesspeople (68%) admit that corruption in India is initiated by the private sector, and 42% say that bribery is considered ‘acceptable’ in their sector.
* The sectors identified as most corrupt were those where government contracts or privatisations are at stake – construction, followed by telecoms, with public services in third place, just ahead of the financial sector and defence.

These networks use illegal payments (bribes), but also build ‘networks of influence’ through legal payments – donations to political parties, or employing lobbyists to convince politicians to adopt certain policy positions. For the companies, it is a rewarding business strategy. It “involves efforts on the part of private interests to rent access and influence within well-institutionalized policy processes, often through political figures acting as middlemen.”[[12]](#endnote-12) In developing countries, firms which spend money on lobbying get a bigger boost to their profits than firms which simply pay bribes.[[13]](#endnote-13) In the USA, companies with political connections get more contracts after an election in which they backed the winner. In the UK and USA, banks have spent tens of millions on lobbying to prevent tighter regulation.[[14]](#endnote-14)

These legal ways of buying influence work in the same way as illegal ‘corrupt exchanges’ such as bribes: “conceptually, legal corruption may be quite close to its illegal counterpart…. [and] many rich countries (G7 and OECD members) seem to be challenged cases as far as legal corruption is concerned.”[[15]](#endnote-15) The *UN Convention against Corruption* includes ‘trading in influence’ as improper, but so far many states – including the Netherlands and Switzerland – have opted out of treating it as a criminal offence.[[16]](#endnote-16)

State capture is thus not just a matter of criminal behaviour – much of what happens is constructed to be legal. It is a political problem, whereby public decision-making structures are captured for commercial interests. Government contracts or other assets are the focus of such processes, and privatisation is a central part of the system.

## Privatisation

Privatisation, in all its forms, provides great incentives and opportunities for corruption and state capture.

* The sale of state-owned industries is a one-time opportunity to buy a profitable business, so investors have an incentive to pay bribes to increase their chances of getting it, and for a lower price.
* A long-term concession for water services, or a power purchase agreement for a private power station, or a PPP, is also a one-off chance to win a stream of government-backed revenue lasting 25 or 30 years, and so there are the same incentives to pay bribes.
* In all forms of outsourcing, whether it is refuse collection, construction, cleaning or medical services, contractors may pay bribes or form cartels or both in order to win profitable business.

Bribes or political donations form the currency with which these benefits are obtained, as summarised by the Nobel-prize winning economist Paul Krugman (talking about the USA): “As more and more government functions get privatized, states become pay-to-play paradises, in which both political contributions and contracts for friends and relatives become a quid pro quo for getting government business… a corrupt nexus of privatization and patronage that is undermining government across much of our nation.” [[17]](#endnote-17)

The author of a recent book on corruption in the EU says liberalisation is playing a similar role in Europe, where EU policies of extending the internal market have created more opportunities and incentives: “What the EU has done is allow corruption through its policies of increasing economic competition within the single market, including regulation of competition in the public procurement sector.”[[18]](#endnote-18)

These links between privatisation and corruption exist in a range of different public services, in various countries.

### Healthcare

The influence of the pharmaceutical companies on political processes is visible at global and national levels. This has a direct impact on health services. The effect is to divert large sums from public budgets for healthcare, and to undermine democratic policy-making.

At the global level, the multinational GSK persuaded the United Nations’ World Health Organization (WHO) to declare that swine flu had reached the level of a ‘pandemic’ – even though the WHO’s own rules did not justify this – and to recommend the use of Tamiflu as the best form of prevention. This led many countries to purchase huge quantities of Tamiflu, made only by GSK. In some cases they spent 1% to 3% of their national public healthcare budget to purchase the drug. The WHO had been advised by academics and others who had financial interests and connections with GSK.[[19]](#endnote-19)

In Bulgaria, the pharmaceutical company, Sopharma was privatised in September 2000. Its owner became a member of the supervisory board of the National Health Insurance Fund (NZOK). Another manager became health adviser to the cabinet and helped draft a new law which created more favourable conditions for the privatised company. By 2011, Sopharma supplied more than 70% of the medicines to public hospitals. It charged three times more for its drugs in Bulgaria than it did in Turkey.

In the USA, three multinationals have been fined huge sums of money for corrupt marketing or mis-marketing of their drugs. AstraZeneca paid $520 million, Pfizer paid $2.3 billion, and GSK $3 billion in fines. (See annexe)

### Central government

Privatisation by outsourcing has become widespread in central government, and in the process increased the problem of corruption. The size of many central government contracts, especially in defence procurement and construction, creates greater incentives for companies to operate corruptly in order to get business.

SGS has been used by the World Bank and others to spearhead the privatisation of customs and other central government functions – despite this company itself being involved in high-level corruption. In 1996, it emerged that SGS had paid bribes to obtain a government contract for inspection services in Pakistan. Benazir Bhutto and her husband were convicted of paying bribes, and they fled the country. No action was taken against SGS. In 2012, the Pakistani Supreme Court demanded action to prosecute SGS, but still no case has been brought. The company was even a panellist at Transparency International’s anti-corruption conference in 2010, under the title of ‘[Business principles for countering bribery: An effective tool for the private sector?](http://iacconference.org/en/archive/document/business_principles_for_countering_bribery_an_effective_tool_for_the_privat/)’[[20]](#endnote-20)

There is extensive corruption associated with USA contractors in Iraq in relation to security contracts funded by the USA federal government. Senator Leahy tabled a new bill on 4 January 2007 to combat war profiteering and public corruption, citing “mounting evidence of widespread contractor fraud and abuse in Iraq…. At least 10 companies with billions of dollars in U.S. contracts for Iraq reconstruction have paid more than $300 million in penalties since 2000 to resolve allegations of bid rigging, fraud, delivery of faulty military parts and environmental damage. Seven other companies with Iraq reconstruction contracts have agreed to pay financial penalties.”[[21]](#endnote-21) The scale of losses from this USA-led corruption is significant. Nearly $9 billion in Iraqi oil revenues could not be accounted for. The cash was flown into the country by the USA in shrink-wrapped bundles and then distributed without any adequate accounting.[[22]](#endnote-22)

The UK government has even proposed to outsource procurement services in the Ministry of Defence, so that a private company would handle all the tendering for defence equipment. This provides obvious further opportunities and incentives for corruption. In January 2012 four employees of a private company providing procurement services were convicted of fraud because they had sold confidential information to companies tendering for work. One of the multinational companies which advertises itself as a manager of procurement services is KBR – a company which has had to pay $579 million to settle a prosecution in the USA for corruption. Major defence contractors, such as Babcock, see this as an opportunity to by-pass normal procedures of competitive bidding and instead become long-term ‘partners.’ As Geoff Allum, analyst at Arden Partners states, “A radically different MoD procurement structure will provide Babcock with a once in a lifetime opportunity. There is every chance that the MoD will move away from self-delivery and towards outsourcing, coupled with a preference for closer, partnership-style relationships with the private sector. No one is better placed than Babcock. This could be transformational.”[[23]](#endnote-23)

### Local government

Municipal and local governments globally have outsourced various functions. These include refuse collection, where contracts have been the subject of long-term systematic corruption by private companies in a number of countries, including the USA and Italy. Outsourcing is now often introduced on a wider scale, which encourages further corruption.

For example, Malawi introduced the so-called ‘new public management’ as advised by international institutions, in the belief that it would foster accountability, transparency and good governance. In practice it has created a breeding ground for corruption at the local government level, as a result of greater contracting-out, decentralisation, user fees, public-private partnerships (PPPs), and local discretion in spending without accountability. Contracts were awarded to senior officers and councillors and their relatives and friends, even when the service was not needed. Councillors used decentralisation to justify paying themselves larger expenses, or to simply embezzle money. ‘User fees’ were taken as personal income, as though they were bribes, and used as a pretext for extorting bribes. Public–private partnerships were created as networks to give privileged information about contracts.[[24]](#endnote-24)

Local government is also vulnerable to corruption by multinational companies. The largest USA retail multinational Wal-Mart is subject to a number of court cases and investigations over corruption of local government planning officials in Mexico to gain a commercial advantage. According to the New York Times:

“Wal-Mart de Mexico had orchestrated a campaign of bribery to win market dominance. In its rush to build stores the company had paid bribes to obtain permits in virtually every corner of the country.” [[25]](#endnote-25)

### Electricity and water

Valuable long-term contracts and concessions in the electricity and water sectors provide a powerful incentive for corruption. There have been widespread payments of bribes by companies to gain power purchase agreements for independent power producers (IPPs), as well as bribes by water companies, on every continent.

* The ‘Gorilla’ file is a transcript of lengthy eavesdropping by the Slovak Intelligence Service (SIS) during 2005 and 2006. It was leaked at the end of 2011. It records a series of meetings involving leading Slovak politicians and executives of the private equity firm Penta, and others. The meetings largely concerned the payment of bribes by the multinationals involved in various privatisations, and the allocation of these bribes to individuals and parties. The discussions mostly focused on the privatisation of electricity and gas, but also involved healthcare, district heating, airport, and water. The energy multinationals mentioned include RAO UES (Russia), Enel (Italy), E.on and Siemens (Germany) and EDF (France). Regarding the latter, the transcript says, “The problem is that EDF as a state company cannot pay the commission [bribe] directly, but through the consultancy firm EPIC.” [[26]](#endnote-26)
* In the water sector, courts in France have convicted executives and public officials for bribes paid by Suez and Veolia subsidiaries in the cities of Grenoble and Angouleme and the island of Reunion. A 1997 report by the Cour des Comptes, France’s national audit body, said that the system of ‘delegated management’ on which Suez and Veolia built their national dominance was systematically flawed. “*The lack of supervision and control of delegated public services, aggravated by the lack of transparency of this form of management, has led to abuses.”* In Milan, Italy, in 2002 a senior executive of Vivendi (now Veolia) was convicted of planning to bribe local politicians in both the majority and opposition parties of city council in order to win the tender for a wastewater treatment plant in the south of Milan. The evidence included a floppy disk containing a letter by the Vivendi executive Alain Metz statingthat he has “excellent contacts” within the right wing majority coalition (Polo delle Liberta, whose leader was Silvio Berlusconi), and planned to pay about €2 million to politicians, half of which would go to the majority parties, and the rest to the opposition and other “experts” and “mediators” whose names were not revealed.[[27]](#endnote-27)Both groups “have come under scrutiny in a host of criminal and civil cases, with accusations that include bribery of public officials, illegal political contributions, kickbacks, price fixing, operating cartels and fraudulent accounting.”[[28]](#endnote-28)

## Multinationals

The role of multinational companies in these corrupt networks is already obvious from the examples above. The table below, listing the companies which have had to pay the largest penalties under the USA anti-corruption law, shows that they include some of the biggest companies in the world. One remarkable feature of this table is that, according to Transparency International, the Netherlands, Switzerland and Germany are three of the supposedly ‘cleanest’ countries in the world, yet each one has two companies in the list of top ten settlements for international bribery charges in the USA.[[29]](#endnote-29)

1. Multinationals charged in USA with international corruption: largest settlements

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1 | **Siemens**  | Germany |  $800 million  |  2008 |
| 2 | **KBR/Halliburton**  | USA |  $579 million  |  2009 |
| 3 | **BAE**  | UK |  $400 million  |  2010 |
| 4 | **Snamprogetti Netherlands/ENI SpA**  | Netherlands/Italy |  $365 million  |  2010 |
| 5 | **Technip SA**  | France |  $338 million  |  2010 |
| 6 | **Daimler AG**  | Germany |  $185 million  |  2010 |
| 7 | **Panalpina** | Switzerland |  $82 million |  2010 |
| 8 | **ABB Ltd**  | Switzerland |  $58 million |  2010 |
| 9 | **Pride**  | USA |  $56 million |  2010 |
| 10 | **Shell**  | UK/Holland |  $48 million |  2010 |

Source: <http://www.fcpablog.com/blog/2010/11/5/in-new-top-ten-eight-are-foreign.html>

1. Multinationals from OECD countries recently barred or sanctioned by the World Bank

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Macmillan** | UK | 6 year ban | 2011 |
|  | **Oxford University Press** | UK | Probation, subsidiaries banned for 3 years | 2012 |
|  | **Alstom** | France | Probation, subsidiaries banned for 3 years | 2012 |
|  | **Crown Agents** | UK | 6 month ban | 2011 |

Source: World Bank [[30]](#endnote-30)

Source: Trace database <https://secure.traceinternational.org/Knowledge/Compendium.html>

It is no surprise to see Siemens at the top of this list. It has been repeatedly prosecuted in the last 15 years in Germany, Singapore and elsewhere for both corruption and cartels. While it paid a large penalty in the USA, the World Bank decided it was ‘too big to debar’ from contracts, and so only asked for a donation to anti-corruption causes. But Singapore did debar Siemens for five years, in 1996.

The case of Siemens demonstrates that corruption by a multinational company can be a systematic part of their business strategy over many years. Secondly, this is made easier by the assumption that a company from a country perceived as ‘clean’ could not behave in such a way. Thirdly, the enforcement mechanisms of international institutions and northern countries are not effective against such a company – it is ‘too big to be punished.’ Fourthly, the enforcement mechanisms of southern countries are more likely to be applied to such a company.

# The limits of existing initiatives

In dealing with the problems identified above, existing ‘anti-corruption’ initiatives by international institutions have limitations. These international initiatives share an overwhelming concern with achieving a ‘level playing field’ for international business, where no single corporation should be at a competitive advantage by paying a bribe which its competitors cannot, or will not, match. Reducing the role of public services is not a concern for them, indeed privatisation provides greater business opportunities. Nor are they principally concerned with weakening democratic decision-making because companies can obtain better deals from weaker governments. In attacking corruption, they often do not want to see national legal systems used to sanction multinational companies, but rather to keep such powers of sanction for the home governments who can often be persuaded to take a light touch approach.

This difference in approach means that many of the existing initiatives fail to solve the problems. Some of the policies of these institutions worsen the situation, in particular by promoting further privatisation.

## World Bank

The World Bank advertises itself as a leading anti-corruption actor. The empirical research by the World Bank Institute into state capture and corporate bribe-paying has provided valuable evidence on the processes of state capture. Its power to debar companies from bank projects is a significant potential deterrent to corrupt activities.

There are three major problems with the bank’s activities in relation to the problems identified above.

The first is that it promotes privatisations, and provides loans linked to these privatisations. This creates conditions favourable to corruption and increases the amount of money available to be captured, as in the case of Nigeria. “There was evidence to show that an estimated US $36 billion in annual revenue from the sale of petroleum and gas and annual huge loans from the Western lending agencies continued to be used for corrupt purposes. Despite this evidence, the World Bank and the IMF, in particular, violated their lending policies by continuing to lend more money to successive corrupt Nigerian regimes (see African Forum and Network on Debt and Development, 2007).”

This problem also arises from the activities of other international financial institutions and donors. The implementation of conditions can itself require corruption. A former president of Argentina, Fernando de la Rua, was put on trial in August 2012 for allegedly paying $5 million in bribes to senators in the year 2000 to pass a bill allowing companies to cut the hours and working conditions of their employees. The IMF had made this law a condition for the continuation of its loan to Argentina.[[31]](#endnote-31) The UK government’s Department for International Development (DFID) uses the Commonwealth Development Corporation (CDC), which acts as a private equity fund, to promote privatisation. The Crown Agents, another UK state body, acts as a private contractor to run public finance systems in developing countries. Both bodies have been implicated in corruption and fraud.

Secondly, international institutions have discouraged developing countries from using their own legal systems to punish multinationals. Two key episodes occurred in Pakistan and Indonesia, where donors and development banks actively insisted on the sanctity of contracts, and fought (successfully) to prevent legal action against corrupt privatisations. In Indonesia, after the overthrow of the dictatorship of Suharto, the USA and the World Bank fought hard, successfully, to prevent Suharto’s corrupt private energy deals from being terminated, and instead insisted that these corrupt contracts should be honoured in full. They threatened to withhold further aid or loans until Indonesians backed down. In Pakistan, the IMF, World Bank and the British government all threatened to withhold loans or aid unless the country dropped its prosecution of a mainly British-owned private electricity company. (See annexe)

Thirdly, the World Bank has failed to use its full power to debar corrupt firms from working on its contracts. These debarments have been applied to many firms, with substantial effect, but when it was faced with the prospect of debarring Siemens in 2009 it took the view that the company was too big to punish. Siemens was instead allowed to make generous donations to anti-corruption NGOs.

## OECD

The OECD anti-bribery convention commits member countries – that is, the richest countries in the world – to introducing legislation to criminalise bribery practiced overseas by companies based in OECD home countries. The convention was most strongly supported by the USA, which believed that its companies were at a disadvantage in competing for international business from governments, because they were deterred from paying bribes by the USA’s own Foreign Corrupt Practices Act (FCPA), while those from other countries were not inhibited by similar legislation.

The major problem with the OECD initiative is that the member states have limited incentive to convict and punish their own multinational companies. There have been long delays in introducing legislation required under the convention, and little effective use of such legislation. The decision by the UK government in 2008 to abandon its prosecution of BAe, and instead accept a payment from the company, illustrates this weakness. BAe successfully lobbied government ministers to drop the case, arguing that it was in the UK national interest that they should be free to carry on their business globally.[[32]](#endnote-32) The fact that the USA has used its own FCPA to prosecute many multinationals based in other countries – including BAe –indicates that the USA also does not believe that other OECD countries are effectively applying the legislation required under the OECD convention.

The OECD initiative was intended to demonstrate that developing countries do not need to prosecute multinationals for corruption, because the home countries of the multinationals would do so themselves. The initiative has failed to achieve these objectives because the level of prosecutions, outside the USA, is very low. One indication of this failure is that the USA itself has started to use its own legislation to prosecute non-USA multinationals.

## USA

The USA introduced the Foreign Corrupt Practices Act in 1977 in reaction to scandals over bribes paid by its companies abroad. The act and prosecutions under its provisions have had a positive impact in affecting the behaviour of USA firms. Since 2009, the number of such prosecutions has increased, and been extended to cover USA subsidiaries of European multinationals.

The greatest weakness is that the great majority of cases are settled by the company paying large sums to the courts in exchange for the case being dropped. It means that the evidence collected for these cases is rarely heard in public, companies are not debarred from future contracts, other governments do not see evidence which they could use to debar the companies, and the payments made by companies are often quite small in relation to the economic gains from the bribes.

Major USA companies, led by the USA Chamber of Commerce, are currently lobbying to weaken the law, specifically so that bribing officials of state-owned companies is not an offence.

## Transparency International (TI)

Funded by the World Bank, donor countries, and a number of multinational corporations, TI bills itself as an “international movement.” It is the best known organisation dealing with corruption, and organises an annual anti-corruption conference.

The most publicised product of TI is its ‘Corruption Perceptions Index’, which ranks countries. The weaknesses of this have been discussed above. TI now also publishes a ‘Bribe payers index.’ This focuses on the businesses that pay bribes. This index suffers from the same limitations and some new ones. The report does not name companies in its index. It simply ranks the countries in which companies are based, according to the perceived tendency of businesses from that country to pay bribes.

This leads to absurd results. The 2011 index said companies from the Netherlands are the least likely to pay bribes, only one year after the largest Dutch multinational – Shell – paid a $10 million fine in Nigeria over corruption charges, and admitted to US diplomats that oil companies pay bribes to top Nigerian politicians. The same index rated the fourth cleanest country as Germany, only a year after the largest German multinational – Siemens – paid hundreds of millions of dollars to both the World Bank and the USA over widespread corruption for many years.[[33]](#endnote-33)

TI’s connection with multinational companies severely limits its credibility. Its supporters originally included Enron and Arthur Andersen, both of whom collapsed as a result of non-transparent accounting and Enron’s corrupt activities. For example, Shell is one of TI’s ‘supporters.’ The TI reports for 2011 do not mention any of the major corruption cases involving Shell during the previous two years.

The same shortcomings are evident in the structure and practice of the Water Integrity Network (WIN), which was set up in 2006 by TI and others to promote anti-corruption activity in the water sector. There have been many cases of corruption in this sector, most of them involving the water multinationals Suez and Veolia, a number of them in their home country of France. WIN then accepted a new member and sponsor, Aquafed, a global lobby organisation representing the water companies. The 2008 annual report of TI, jointly prepared by WIN, had a special focus on corruption in the water sector. In 288 pages, this report does not once mention either Suez or Veolia. Its country chapters do not cover France, the scene of the greatest concentration of corruption investigations in the water sector in the previous 15 years.[[34]](#endnote-34)

## Other approaches

### Self-regulation and private auditors

Companies consistently prefer self-regulation on corruption, and reject outside scrutiny. They argue that their accounts are already externally audited, and that internal systems will be sufficient to prevent the company from paying bribes.

However, the track record of accountants in this role is poor.

Company accounts are scrutinised by external auditors, who are expected to identify and report serious financial problems. But they have a strong incentive *not* to do so, because the company is their client, and they fear losing business if they report or publicise problems, including bribes. German prosecutors have been investigating whether KPMG Germany ignored questionable payments on Siemens’ books. They suspect that employees at Siemens funnelled hundreds of millions of dollars into slush funds over several years to bribe potential customers.[[35]](#endnote-35)

The failure of company auditors was also highlighted in the financial crisis of 2007 and 2008, when major banks and financial institutions became insolvent and were rescued at huge expense by taxpayers. Not one of these disasters had been spotted in advance by their auditors. Over 28 financial companies – in the UK, USA, Germany, Iceland, The Netherlands, France or Switzerland – received clean bills of health from their auditors just days before they were demanding state aid to protect them from bankruptcy. The cases involved all the big international accounting firms, who subsequently were paid by governments for advice on how to be alerted to such problems in future.[[36]](#endnote-36)

## Whistle blowing

A number of countries have introduced legal protection for whistle-blowers. Whistle-blowers are seen as key sources of information for public prosecutors. Protecting them creates a deterrent because companies are aware of the risk of exposure from inside. The USA has strengthened this further by providing rewards for whistle-blowers where their information leads to prosecutions.

However, whistle blowing depends on individuals making decisions, in isolation, based on the individual person’s conscience. It does not systematically develop greater accountability, transparency or public participation in the political process as a whole. The individuals themselves also remain vulnerable, even when there is legislative protection. In the USA, the whistle-blowers who exposed fraud committed by the private companies such as WorldCom have said they feared for their lives.[[37]](#endnote-37) The UK Department for International Development inadvertently publicised the name of a Nigerian who exposed corruption connected with UK funds; as a result he had to flee Nigeria. An employee at the Central Bank of Kenya (CBK) who revealed massive corruption at the bank spent the rest of his life poor and frequently unemployed.[[38]](#endnote-38)

While whistle blowing is a valuable source of information, the protection of the individuals themselves remains weak and should be strengthened.

## Women and corruption

In 2001, an academic study found that a higher proportion of women in parliament was linked to lower levels of corruption. Another found that women were more likely to condemn bribery and less likely to offer bribes. The same year, a World Bank report argued that societies where women have greater rights and a greater presence in public life are less corrupt and more efficient, and so gender equality was itself a way of reducing corruption. Another more recent study, published in 2011, also found that a higher proportion of women in a country’s legislature and labour force is linked to a lower level of corruption. This evidence has been used to argue that women are intrinsically more altruistic than men. The Finnish government has argued that its low level of corruption is partly due to the prominent role of women in Finnish society. [[39]](#endnote-39)

These findings can also be explained by the fact that stronger democracy results in greater participation by women, and suggest that it is the democratic improvements which reduce the level of corruption – not the gender of the individuals involved. It is true that women are less involved in corruption, but this too can be due to the fact that they have fewer opportunities to be corrupt, and have much less access to the powerful networks which are the vehicle for most corruption. Where public employees demand bribes, it is usually linked to inadequate pay. For that reason, hoping that the employment of women will by itself reduce corruption is another way of saying that women are more likely to accept pay below subsistence levels[[40]](#endnote-40)

The anecdotal evidence is not consistent. It is easy to find examples of women standing up against corruption – for example, Dilma Roussef, President of Brazil, has been prepared to operate a ‘zero tolerance’ policy against leading members of her own party who are corrupt. But it is also easy to find examples of extremely corrupt practices by women. For example Shirley Porter, a former leader of Westminster Council in the heart of London, deliberately used municipal loans to persuade voters for opposition parties to move out of the council’s area.

A new study, using data from countries with more than 99% of the world’s population, has now established the distinction between the political and gender factors very clearly. Better democracy – stronger rules of law, and stronger political rights – are very strongly linked to lower levels of corruption. When these institutional effects are taken into account, the higher proportion of women in public life is not by itself statistically significant:

“Achieving an advanced state of liberal democracy and/or strengthening liberal and democratic institutions over time are both validated explanations of corruption prevalence and consistent predictors of changes in corruption over short periods of time…. The association between women in government and corruption constitutes a typical example of spurious correlation.” [[41]](#endnote-41)

Greater transparency, stronger law enforcement, greater democratic rights are thus the keys both to improving gender equity and reducing corruption.

# Better approaches

This section sets out a series of measures to deal with the problems of public service corruption, state capture and corrupt multinationals described above. They are evidence-based. There are well-established examples of their use and effectiveness. They include a much stronger dimension of social, political and union organisation than is usual in international institutions’ initiatives.

## Payment

The single most important solution to the problem of corruption by public service workers is paying a proper living wage. As noted earlier, successful attempts at reforming water services where corruption was a problem, for example in Cambodia and Bangladesh, have included doubling the wages of the workers responsible for meter readings and household connections.

The same point was made in the 18th century by Tom Paine, when he submitted a pay claim for the customs officials of England. He pointed out that corruption and incompetent staff were leading to a loss of revenue and argued, “the most effectual method to keep men honest is to enable them to live so…. An augmentation of salary sufficient to enable them to live honestly and competently would produce more good effect than all the laws of the land can enforce…. The officers would be secured from the temptations of poverty, and the revenue from the evils of it; the cure would be as extensive as the complaint, and new health out-root the present corruptions.”[[42]](#endnote-42)

## Worker-community links

Relations between workers and communities, and the status of workers in relation to communities, can play a crucial role in improving a service and reducing the incidence of petty corruption. It increases mutual respect and confidence, and by-passes the senior officials and contractors who are often the driving force behind corrupt practices.

There are examples of the positive effects of this approach:

* Water and sanitation workers on a slum project in Ahmadabad (India) were exposed to regular contact with local communities and NGOs. This public exposure strengthened community scrutiny of possible attempts at corruption, and also created stronger commitment by the workers to supplying poor households with network services. The level of corruption was far lower as a result, with contractors complaining that they cannot get contracts on the project from bribery, and the relationships generated a positive cycle of gratitude from local inhabitants, and consequent pride by employees: “At the end [of each project] we feel that we have really accomplished something. People give us so many blessings. We see and feel this sentiment.” [[43]](#endnote-43)
* Workers on a rural water supply project in Azad and Jammu (Pakistan) were expected to work unusually closely with the communities, and formed close bonds with them: villagers reciprocated by calling them ‘‘heroes’’. One junior engineer said that “we will go where no one else will go. We will work late into the evenings, we work on Sundays, we work with the people, we don’t exclude them. This is how we are seen by the people”. There was very little corruption, with attempted bribery rejected by workers both because of project rules and because of “the trust that had developed between the staff and villagers”. [[44]](#endnote-44)
* A great improvement in public service delivery in Ceara, Brazil, in the 1990s was based on the same approach. Instead of following the cynical view of neoliberalism that “the public servant is presumed guilty of self-interest unless proven otherwise”, the government deliberately built on the commitment of its workforce. Workers were given a larger and more varied set of tasks than normal, especially in developing closer connections and responsiveness, which created trust and respect , “contrasting with traditional development advice which restricts workers’ discretion to the programme specification.” The process also professionalised the public service, appointing new employees by open competition, not by patronage. As well as improving services, these new relationships almost eliminated corruption, sharply reducing the re-election rate of mayors known to be corrupt. The government actively promoted the public image of the workers, and at the same time encouraged communities to expect the best and most honest performance between workers. The process was a complete contrast to the treatment of workers encouraged by ‘new public management’:

“Government itself fed the high dedication of these workers with repeated public demonstrations of admiration and respect for what they were doing. It publicised the programmes incessantly, even their minor successes. It gave prizes for good performance, with much pomp and ceremony…All this contributed to a new respect for these workers by the public – remarkable in a time of widespread contempt for government…..Communities were actively encouraged to make demands on public authorities and their workforce…. the government urged communities to act as monitors: “this programme is yours and it is you who will determine its success… make sure that those who are chosen abide by the rules … if these rules are breached … we want to hear about it.” [[45]](#endnote-45)

## Meritocracy and civil service

The creation of an independent civil service – appointed on merit to ensure that policy advice and public services were provided objectively, and not by politicians – was a crucial step in building European and other states in the nineteenth century. It has been equally important in building effective states and public services in developing countries today. The economic successes of Asian countries such as South Korea were made possible through an effective state system based on a meritocratic civil service which was ‘embedded’ in government but at the same time ‘autonomous.’ Countries such as Brazil and India have also built success with some level of meritocracy in the civil service.[[46]](#endnote-46)

The absence of this is a problem, especially in countries where the state lacks public confidence. Central European countries including Poland, Hungary, Slovakia and Slovenia have failed to establish an independent civil service, and deliberately made political appointments easier, so that each party which comes to power expects “to staff the most important public administration offices with party members and associates as well as their own friends and acquaintances, without examining their professional qualifications.” [[47]](#endnote-47)

Changing such conduct by enforcing merit-based recruitment is an important way of protecting and advancing quality public services. It is also important to promote sustainable development and to oppose corruption:

“A competent and meritocratic core civil service, autonomous from clientelistic networks and at the same time responsive to society characterised by… long-term career outlooks. These traits make civil servants more professional and more detached from powerful rent-seeking groups attempting to influence them. A competent, meritocratic and ‘results-oriented’ core bureaucratic system is a key ingredient in avoiding state capture and other forms of predatory behaviour.” [[48]](#endnote-48)

The use of consultancy contracts, exchanges, and units staffed partly by business representatives within government all have similar effects. They undermine the integrity of the civil services and provide greater opportunity for legally-engineered influence and capture of key government policies. Examples include:

* In the UK, the management consultancy McKinsey & Company has gained £14 million in contracts to advise on health service reforms which will open up the health service to even more work for private firms. McKinsey staff move in and out of the Department of Health, and the firm offers hospitality to government officials including hosting meetings of government policy teams.[[49]](#endnote-49)
* In Germany a ‘staff exchange programme’ between civil servants and private businesses was introduced in 2004, initially without public knowledge, so that civil servants could “increase understanding of their concerns and interests.” [[50]](#endnote-50)
* In many countries, there are now PPP units within finance ministries, which include business representatives, endowed with powers to promote the use of PPPs by government. Such practice gives business interests excessive influence over decisions, with major long-term implications for public finances.

Building an independent civil service committed to national and public interests, with appointments based on merit, free of political patronage, with a secure career structure and pay and conditions reflecting their responsibilities, remains key to dealing with corruption. Such a civil service is strong enough to resist the demands of corrupt networks. The privatisation of policy-making must be ended.

## Resisting privatisation

The connection between privatisation and corruption reinforces the need to oppose privatisation. Both the sale of public companies and the outsourcing of public work create further opportunities for corruption.

There are already many cases of successful anti-privatisation campaigns around the world, in a wide range of sectors. The most successful campaigns have involved broad-based movements where unions and social movements have worked together to prevent or reverse privatisation efforts

Investment in quality public services provides the strongest inoculation against privatisation.

## Public audit and freedom of information

A strong public audit function is of the greatest importance in fighting corruption. A good example is the recent work of the audit commission of India, the CAG. This body has played a key role in exposing the cost of the corrupt sale of coal and telecoms licenses to private companies, including Essar Power, part of one of the biggest companies on the London Stock Exchange. In 2012, CAG reported that the government allocated coal licenses for $36 billion less than their true value – equivalent to an entire year’s income tax revenues. In 2010, it reported that a similar amount had been lost by corrupt allocation of private telecoms licences.

The need for strong public audit is actively promoted in Latin America by the ‘Iniciativa TPA’, an international body that actively encourages civil society organisations to promote transparency, public participation, and accountability in public audit systems in Latin America.[[51]](#endnote-51) It has identified key problems with audit institutions, including the common refusal by audit institutions to release information publicly, partly due to a culture of secrecy and partly through fear of disclosing information.[[52]](#endnote-52)

Audit reports must be disclosed and published to unleash democratic political demands for action against corruption identified by auditors, and to protect the auditors themselves:

“Through the peer pressure of societal control and increasingly assertive civil society organizations … *mobilizing political power is often more important than increasing technical capacity …* [an]external audit can be a dangerous endeavor in inauspicious political contexts.” [[53]](#endnote-53)

Ending corruption thus requires strengthening democratic participation, and protecting the independence and integrity of audit institutions and their staff. Unions and Public Services International are well placed to contribute to both elements, through participating in active campaigns for information and protecting workers involved in audit. “We must provide a shelter for the work of public auditors and protect them from the usual custom of ‘shooting the messenger.’” [[54]](#endnote-54)

The Iniciativa is supported by ULATOC ([www.ulatoc.org](http://www.ulatoc.org)), an organisation of workers involved in public sector audits in Latin America. Founded in 2004, it has members from countries across Latin America, including Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Paraguay. Many PSI affiliate unions are members of ULATOC. The organisation has formed links with similar organisations in Spain, Italy, France, Belgium and Luxembourg, and with representatives of workers in the EU Court of Auditors. It works with other organisations to strengthen the role of auditors, and to protect the professional independence and integrity of workers in public audit institutions, including the network of Latin American experts in public control.[[55]](#endnote-55)

Freedom of information legislation plays a similar crucial role. In this case, it is the public who are empowered by the ability to expose actual or potential corruption.

## Effective sanctions

Effective legal and disciplinary sanctions are necessary to deal with all forms of corruption. Singapore is not a model of democracy, but it does provide an example of a series of policy measures which are effective. These include the creation of an independent civil service, whose salaries were repeatedly increased to keep pay in line with the private sector, on the grounds that “the government has to be able to persuade talented Singaporeans to join politics and the civil service and to motivate them to behave ethically and rationally for the national interest.”

At the same time there is an extremely strict and firmly enforced regime of penalties for corrupt behaviour, which applies to both top-level and ‘petty’ corruption, and to both public employees and private companies, foreign as well as local. The anti-corruption agency has powers to investigate bank accounts and expenditures. The penalties include five year jail sentences and fines of $100,000.

These laws have been enforced rigorously against multinationals. In 1996, a middleman was convicted of paying bribes totalling US $9.8 million on behalf of his multinational clients. The government reacted by banning all five companies – Siemens, Pirelli, BICC, Tomen, and Marubeni – from bidding for any government contracts for five years. “The ban applies to all government projects. Firms associated with the five companies, any new company that the firms may jointly set up, and firms that share the same directors as the five are also debarred.” [[56]](#endnote-56)

These systems of sanctions can be replicated elsewhere. It requires a commitment to building and supporting a strong public service, and a readiness to apply powerful sanctions against the most powerful politicians, officials, and businesses, including foreign companies.

## Popular action and campaigns

The problem of state capture requires a political response. Technical solutions are not by themselves sufficient if the government which controls the administration is itself captured by the interests these mechanisms are supposed to control.

There is a wide range of political actions that may address the issue of capture. The most striking recent examples are the uprisings of the Arab Spring, in which privatisation and corruption were key issues. Other actions include broad-based campaigns, especially those which try to mobilise the public around the issues of democracy, transparency and accountability.

### Uprisings against corrupt privatisations: the Arab Spring

The Arab Spring uprisings of 2011 were prompted, in part, by widespread popular reaction against corrupt privatisations carried out by the ruling elites over many years. These privatisations were encouraged by international financial institutions and the EU. Years of trade union actions against privatisation laid the foundations for the popular revolts in Egypt and Tunisia.

A top army general, quoted in April 2011, attributed anger at Egypt’s privatisation programme, involving the transfer of billions of dollars worth of public assets to private hands, as aiding the Egyptian revolution that toppled the Western-backed Hosni Mubarak from power.[[57]](#endnote-57)

In Egypt, the first massive demonstrations in Tahrir Square, on 25 January 2011, were sparked by a plan to privatise social insurance. A series of strikes by public workers and workers in privatised companies organised by independent unions of the newly-formed Egyptian Federation for Independent Unions (EFIU) were pivotal in forcing Mubarak to step down. This was followed by a strong campaign to stop the privatisation program and reverse the corrupt deals which had already been carried out, including a series of court cases brought by the Egyptian Centre for Economic and Social Rights (ECESR) over corrupt privatisations. [[58]](#endnote-58)

In July 2011, the interim Egyptian government terminated the privatisation programme. By September 2011 the courts had renationalised four companies: Omar Effendi, Egypt’s “flagship” department store, Shebin El-Kom Textile Company, the Tanta Company for Linen and Derivatives, and the Steam Boilers Companies. The courts noted that these corrupt privatisations had been made because they were required by international financial institutions in order to secure loans. The [court found](http://english.ahram.org.eg/News/22500.aspx) that the companies were sold at prices far below their true value. In June 2012 the courts convicted Mubarak himself of corruption but acquitted his sons – to widespread public outrage.[[59]](#endnote-59)

The international financial institutions continue to promote privatisation. In early 2012, the European Bank for Reconstruction & Development (EBRD) strategy declared that privatisation and liberalisation under the Mubarak dictatorship had been successful, and promoted further privatisation of water, roads and electricity. Egyptians, including the new independent unions, continue to oppose this.

### Tax havens campaign – ATTAC Norway (& global chapters) and Fagforbundet

In order to avoid detection by tax authorities or criminal investigations the proceeds of corruption need to be hidden and tax havens are frequently used for this purpose because of the secrecy they provide. An innovative campaign on tax havens is emerging in Norway and in many other countries that can help make corruption more difficult as well as reducing tax avoidance. ATTAC Norway is working with the public service union Fagforbundet and municipal governments in a new campaign demanding that multinational suppliers sign a disclosure that they don’t put profits into tax havens. Apparently some suppliers have already dropped out of procurement bidding on these grounds. The Norwegian Finance Minister is supporting the campaign with a pledge to require companies to file country-by-country financial reports by 2014.[[60]](#endnote-60)

### South African unions campaign against corruption

In 2012, the Congress of South African Trade Unions (COSATU) launched a public campaign against corruption together with affiliates and civil society organisations. The municipal workers’ union, SAMWU, had long argued for this. Its members have been active in exposing corruption at the municipal level across the country “because corruption has been a decisive factor in thwarting effective service delivery to many of our most impoverished communities.” [[61]](#endnote-61)

Corruption Watch runs an interactive website, [www.corruptionwatch.org.za](file:///%5C%5C193.60.77.220%5Cpsiru%5CWorking%5CProjects%5CCorruption%5Cwww.corruptionwatch.org.za%5C), an SMS-line and a call centre to report corruption in both the public and private sectors in South Africa. It focuses on exposing and ending corruption in service delivery – for example, police extortion of money from motorists – and the grand corruption of private contractors and officials swindling money out of government works contracts worth millions.

# Conclusions and summary of recommendations

## Defending public services against corruption and capture

This analysis of corruption finds different conclusions from the official international bodies. Instead of being concerned with creating a low cost ‘level playing field’ for international business, the focus should be on creating quality public services and preventing public policy from capture by commercial interests.

Fragmenting, minimising and under-funding the public sector is part of the problem of corruption in service delivery. The solution involves recognition of the value of civil and public services and the workers who provide these vital services.

The ‘culture of corruption’ which is so prominent in the minds of international businesspeople is angrily rejected by the majority of public opinion everywhere. It is privatisation, and the uncritical support for it by donors and development banks, which systematically creates unnecessary opportunities and incentives for corruption and policy capture. In addition, the commercial capture of the state through ‘legal’ corruption via political donations, influence trading, lobbying and infiltration of public institutions, undermines the power of democratic decision-making. It corrupts public policy decisions and public resource allocation.

Exposing corruption requires extra powers and autonomy for public audit bodies, strong freedom of information legislation to empower civil society organisations, and concerted campaigns for democratic financial decision-making, transparency and accountability. Relying on individual whistle-blowers or an improved gender balance, or self-regulation by the corporate sector or its private accountancy firms are not viable solutions on their own.

National courts should be able to apply powerful legal sanctions – including imprisonment and debarring from tendering – against corrupt elites and local and multinational companies alike, rather than simply excluding northern companies from the rule of law in countries where they operate, permitting companies to buy off prosecutions by making donations, or suppressing information of value to the public interest by confidential court settlements. International bodies and donors should support these powers by closing down the tax havens that protect the corrupt and the public monies they have stolen.

Finally, technical solutions are not the full answer. The effectiveness of combined actions against corruption depends on strengthening democratic and community organisations within every country, and developing strong links between unions and allies who support strong public services.

## Recommendations

Public service workers and political integrity:

* All public service workers should be paid a decent living wage sufficient to remove incentive for corrupt exploitation of their position.
* Appointment, career progression, discipline or dismissal of civil and public service workers should be immune from political decisions,
* All public employees should be subject to a disciplinary code which includes strong sanctions against corrupt practices.

Commercial capture of public interests:

* Public policy-making should not be outsourced to consultants. Private consultants or business interests should not be appointed to bodies responsible for public policy decisions or assigning public contracts, such as PPP units.

Privatisation, outsourcing and procurement:

* International banks and donors should not require any form of privatisation as a condition of aid or loans.
* Procurement processes for goods or services should be completely public and transparent.
* A company should be banned from tendering for any public contract if it, or its parent or subsidiaries or associates, has been convicted of corruption in any country, or uses tax havens.

Public audit and freedom of information:

* Public audit bodies and their staff should have strong protection from political or commercial interference.
* Public audit bodies should have strong powers to require disclosure.
* Public audit bodies should be enabled and required to publish and publicise their findings and encourage public responses.
* Freedom of information legislation should require disclosure to all citizens of all categories of information about public finances, including civil service salaries and the terms of all contracts.

Legal sanctions:

* National courts should have power to sanction any multinationals operating in the country.
* Sanctions for corruption should include long-term barring from contracts of companies and any parents, subsidiaries, associates or successors, for long periods of time.
* The use by nationals or companies of tax havens should be banned, and/or any company which is part of a group that uses such tax havens should be excluded from future tendering.
* All corruptly-gained monies should be recovered and returned to the public treasury.

Democracy and community:

* Open interaction between public service workers and communities and civil society organisations should be encouraged and promoted.
* Increased public participation should be systematically developed to promote gender equity and financial accountability in public service budgeting and policy decisions.

Some of these strategies can be pursued at the international level, including:

* Demanding that the World Bank, IMF and other development banks and donors drop all privatisation conditions.
* Supporting international initiatives e.g. member states of the OECD to facilitate prosecution of multinational companies for corruption offences, including prosecutions in home countries such as USA or Netherlands.
* Working with campaigns such as those led by ATTAC and the Tax Justice Network to close down tax havens.
* Joining with national and international campaigns to implement strong whistle-blower protection legislation.

# Annexe: sources of information and readings

Chartered Institute of Purchasing and Supply (CIPS) <http://www.supplymanagement.com/fraud-corruption/>

 *News and discussion, with international scope, on corruption in procurement and outsourcing.*

Corruption - Special Eurobarometer 374 (2012) <http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf>

Jennifer Davis: Corruption in Public Service Delivery: Experience from South Asia’s Water and Sanitation

Sector World Development Vol. 32, No. 1, pp. 53–71, 2004 <http://www.sciencedirect.com/science/article/pii/S0305750X03001979>

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Global Financial Integrity <http://www.gfintegrity.org> (2011), Illicit Financial Flows from Developing Countries: 2008-2009, Global Financial Integrity, Washington, <http://iff-update.gfip.org/>

Hellman, Joel S, Geraint Jones, and Daniel Kaufmann, ‘Seize the State, Seize the Day: State Capture and Influence in Transition Economies’, Journal of Comparative Economics, 31 (2003), 751–773 doi:10.1016/j.jce.2003.09.006

OECD (1997), Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, OECD, Paris, [www.oecd.org/bribery](http://www.oecd.org/bribery)

SEC FCPA Investigations list <http://www.sec.gov/spotlight/fcpa/fcpa-cases.shtml>

*List of cases brought in USA under the FCPA*

Hellman, Joel S, Geraint Jones, and Daniel Kaufmann, ‘Seize the State, Seize the Day: State Capture and Influence in Transition Economies’, Journal of Comparative Economics, 31 (2003), 751–773 <doi:10.1016/j.jce.2003.09.006>

Supreme Audit |Institutions in Latin America: report on transparency, participation and accountability <http://iniciativatpa.files.wordpress.com/2010/10/tpa-in-sais-in-latin-america.pdf>

Trace <https://secure.traceinternational.org/Knowledge/Compendium.html>

 *Compiles information on corruption cases brought against companies*

U4 Anticorruption Resource Centre, [www.u4.no/index.cfm](http://www.u4.no/index.cfm)

Wall Street Journal corruption stories <http://blogs.wsj.com/corruption-currents/>

Warner, C.M., 2007. The Best System Money Can Buy: Corruption in the European Union, Cornell University Press.

# Notes

1. Corruption Perceptions Index 2011. Transparency International. http://www.transparency.org/whatwedo/pub/corruption\_perceptions\_index\_2011 [↑](#endnote-ref-1)
2. The data sources for the TI index are described in ‘Corruption perceptions Index 2011: Long Methodological Brief’, which is in a zip file at <http://files.transparency.org/content/download/313/1264/file/CPI2011_DataPackage.zip> [↑](#endnote-ref-2)
3. Razafindrakoto, Mireille, and François Roubaud. 2010. ‘Are International Databases on Corruption Reliable? A Comparison of Expert Opinion Surveys and Household Surveys in Sub-Saharan Africa’. World Development 38 (8) (August): 1057–1069. doi:10.1016/j.worlddev.2010.02.004. <http://www.sciencedirect.com/science/article/pii/S0305750X10000239> ; Rose, Richard, and William Mishler, ‘Experience Versus Perception of Corruption: Russia as a Test Case’, Global Crime, 11 (2010), 145–163 <doi:10.1080/17440571003669175> <http://www.tandfonline.com/doi/abs/10.1080/17440571003669175>; Anne Cockcroft , Neil Andersson\* , Sergio Paredes-Solís , Dawn Caldwell , Steve Mitchell , Deborah Milne , Serge Merhi, Melissa Roche , Elena Konceviciute and Robert J Ledogar 2008 An inter-country comparison of unofficial payments: results of a health sector social audit in the Baltic States BMC Health Services Research 2008, 8:15 doi:10.1186/1472-6963-8-15 <http://www.biomedcentral.com/1472-6963/8/15> [↑](#endnote-ref-3)
4. Labaton Sucharow 2012 United States & United Kingdom Financial Services Industry Survey

July 2012 <http://www.labaton.com/en/about/press/upload/US-UK-Financial-Services-Industry-Survey.pdf> [↑](#endnote-ref-4)
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