Corruption and Public Services

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Annexes

[1. Empirical evidence of the levels of corruption 2](#_Toc343510814)

[1.1. Africa 2](#_Toc343510815)

[1.2. Latin America 3](#_Toc343510816)

[1.3. India 3](#_Toc343510817)

[1.4. Russia 4](#_Toc343510818)

[1.5. Baltic states 4](#_Toc343510819)

[1.6. Europe 4](#_Toc343510820)

[2. Pay levels 6](#_Toc343510821)

[3. State capture 7](#_Toc343510822)

[3.1. European views 7](#_Toc343510823)

[3.2. India 7](#_Toc343510824)

[3.3. USA and UK lobbying and the financial crisis 8](#_Toc343510825)

[4. Some cases by sector 9](#_Toc343510826)

[4.1. Health: global and national state capture by pharmaceutical companies 9](#_Toc343510827)

[4.2. Central government: corruption, customs and SGS 11](#_Toc343510828)

[4.3. Local government 11](#_Toc343510829)

[4.4. Electricity 12](#_Toc343510830)

[4.5. Water 13](#_Toc343510831)

[4.6. Other 15](#_Toc343510832)

[5. Discouraging the rule of law: power in Pakistan and Indonesia 19](#_Toc343510833)

[5.1. Pakistan: Donors and IFIs prevent corruption proceedings against Hubco, SGS 19](#_Toc343510834)

[5.2. Indonesia: World Bank and donors protect corrupt private electricity deals 19](#_Toc343510835)

[6. Examples of action against corruption 22](#_Toc343510836)

[6.1. Prosecutions within developing countries 22](#_Toc343510837)

[6.2. Auditors actions 22](#_Toc343510838)

[6.3. Singapore 22](#_Toc343510839)

[6.4. Jordan 22](#_Toc343510840)

[7. Endnotes 24](#_Toc343510841)

# Empirical evidence of the levels of corruption

## Africa

A comparison between the views of a panel of ‘experts’, and reliable data from household surveys in eight African countries in 2006 found that the experts’ estimates (52%) were four times higher than data on actual experiences (13%). The experts’ scores had no correlation whatsoever with reality – countries were ranked in the wrong order, and the errors were worst for those countries ranked lowest in the international indices. The only consistency was that in every country nearly all experts made inaccurate overestimates. [[1]](#endnote-1)

The study also showed that the results were strongly affected by the ideology of the experts. Those experts who expressed support for neoliberal policies of more liberalisation and a weaker state, and smaller civil service were significantly more likely to over-estimate the extent of corruption.

The experts are also wildly wrong about a ‘culture’ of corruption. In the household surveys, less than 5% of citizens, on average, considered that receiving a bribe in the exercise of one’s duties is acceptable behaviour. The experts however expected that 32% would have thought so – based on their incorrect belief that Africans are more inclined to accept corruption.

Nevertheless, the Africans in the household survey overwhelmingly believed that corruption is a major problem in their country. As in other countries, this perception may rather be a judgment about those at the top of the system.

* **Incidence of corruption in public services in 8 African countries far lower level than estimated by ‘experts’–**

(percentage of people who had been victims of corruption in public services in previous year)

Source: Razafindrakoto and Roubaud (2010) [[2]](#endnote-2)

* **Low tolerance of corruption in 8 African countries – over-estimated by ‘experts’**

(percentage of people who consider bribes for public services acceptable behaviour)

Source: Razafindrakoto and Roubaud (2010) [[3]](#endnote-3)

## Latin America

In Latin America, evidence from Peru and Ecuador shows the same picture of a low level of petty corruption: between 2% and 6% of people had experienced the payment of bribes to workers in public services in the previous year. [[4]](#endnote-4) In India, the data shows a higher level of petty corruption than elsewhere, but it appears to be falling. In 2010, 28% of rural households had to pay a bribe for some public service - but this is half the level among rural households in the 2005 survey. Moreover, there is a wide variation between different states: the lowest level of petty corruption is in Kerala and Andhra Pradesh, which suggests that there may be some features of the political system in these states which helps limit corruption. Kerala for example is noted for its policies of open and public ‘participatory budgeting.’[[5]](#endnote-5)

## India

1. Proportion of rural households in India who paid bribes for public services, 2010

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Schools | Water | Hospitals | Any service |
| Andhra Pradesh | 8 | 5 | 7 |  |
| Bihar | 24 | 38 | 35 |  |
| Chhattisgarh | 22 | 14 | 51 |  |
| Haryana | 22 | 31 | 25 |  |
| Himachal Pradesh | 12 | 13 | 14 |  |
| Karnataka | 10 | 19 | 28 |  |
| Kerala | 6 | 5 | 18 |  |
| Maharashtra | 35 | 34 | 30 |  |
| Rajasthan | 19 | 19 | 25 |  |
| Tripura | 23 | 15 | 20 |  |
| Uttar Pradesh | 18 | 28 | 20 |  |
| West Bengal | 20 | 22 | 32 |  |
| **Average** | 20 | 20 | 24 | 28 |

Source: India Corruption Survey 2010 (CMS) [[6]](#endnote-6)

## Russia

In Russia, there is a similar gap between beliefs and experience, and a similar disapproval of petty corruption. The actual incidence of bribery in each public service was between 2% and 16% - although 23% had paid a bribe in one service or another over the previous 2 years - and over two-thirds said corruption is not acceptable, even if it was the only way to get service. Nevertheless, 86% thought that most public officials are corrupt. This had no connection to their own experience with public employees, but was partly due to media stories about corruption, and partly because of conversations with friends, linked to a perception of “conspicuous consumption by new-rich Russians as proof-positive of corruption.”[[7]](#endnote-7)

* **Russians: actual experience of bribes**



Source: Rose and Mischler 2010 [[8]](#endnote-8)

## Baltic states

A similar picture emerged in a study of 10,000 households and health services in Estonia, Latvia and Lithuania. The proportion who had actually paid bribes to health service workers was less than 1% in Estonia, 3% in Latvia, and 8% in Lithuania in their most recent experience of healthcare, either before or after treatment. Moreover, a large majority regarded such payments as bribes and considered them unacceptable – there was no ‘culture’ of accepting bribes as normal. The belief that there is such a culture has no supporting evidence. A much higher proportion of people - about 13% - had made gifts of flowers, chocolates or drinks to doctors and nurses, but this was clearly distinguished from bribery and seen as part of a positive relationship with health workers: “people overwhelmingly supported the practice of giving gifts to health care professionals, stating that gifts were an expression of gratitude for care”. Despite the actual levels bribery and positive views towards health workers, about half the people in the study thought that there was a high level of corruption in their health services. This may reflect media influence, or a belief that the system is being corruptly exploited by those at the top of the system - for example, the excessive profits made by pharmaceutical firms as in the example of Bulgaria, below. These ‘perceptions’ do not mean that there is a high level of corrupt demands for bribes by health workers.[[9]](#endnote-9)

## Europe

Finally, a similar picture emerges from a 2011 survey of EU citizens who were asked about their actual experience of paying bribes to public service workers.[[10]](#endnote-10) On average, 8% of the population had done so – lower than the average level of 13% in the study of African countries - but the levels were higher in the new member states of eastern Europe (20% on average) compared with the 15 western countries (5% on average). For specific services, the levels were low: only in relation to health services in five countries (Bulgaria, Lithuania, Hungary, Romania, Slovakia) had more than 10% of people had to pay a bribe in the last year.

* **EU countries, percentage of citizens paying bribes to public employees in 2011**



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

# Pay levels

* 1. **Under-payment**

Many public service jobs offer the opportunity for individuals to extort payments. Petty corruption is often observed in particular functions, such as police and tax officials, because there is greater opportunity for extortion – either by threats, or acceptance of bribes. But the nature of the job does not automatically lead to corrupt behaviour.

One crucial factor is the level of pay. If the pay of public employees is depressed below that of other similar workers, or below subsistence levels, then the evidence shows that petty corruption is much higher. A study of 31 developing countries in 2001 found that corruption was worse where civil service pay was low relative to other workers.[[11]](#endnote-11)

This can be vividly seen from the experiences in Madagascar over a ten year period. When real pay for civil servants increased by 50% in the period 1995 to 2001, the proportion of people who paid bribes fell from 42% to 10%. A political crisis in the next two years interfered with the proper payment of wages – and the bribe rate rose again to 44% - before falling to less than 10% in 2004 as normal wage payments were restored. [[12]](#endnote-12)

A study in Ukraine showed that the pay of public sector employees was 24-32% less than the pay of equivalent workers in the private sector - but the spending of both groups was about the same, because the public employees were finding ways of bringing their pay up through bribes and other measures.[[13]](#endnote-13)

The key solution to this problem is paying a proper living wage. Successful attempts at reforming water services where corruption was a problem, for example in Cambodia and Bangladesh, have included doubling the wages of those water 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. Paine was sacked by the government for writing the pay claim, but his subsequent political writings, “Common Sense”, “The Age of Reason” and “The Rights of Man” were international best-sellers. He played a leading role in the American revolution of 1776, and was made an honorary deputy of the French national convention after the revolution of 1789. Paine’s pay claim pointed out that the problems of corruption and incompetent staff were leading to a loss of revenue: *“Scarce a week passes at the office but some detections are made of fraudulent and collusive proceedings…Of late years there has been such an admission of improper and ill qualified persons into the excise that the office is not only become contemptible, but the revenue insecure.”* He argued that a well-paid and well-qualified staff would be less susceptible to corruption and generate more revenue for the state: *“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.”* [[14]](#endnote-14)

# State capture

## European views

In Europe, despite relatively low levels of petty corruption, nearly three-quarters of Europeans think corruption is a major problem in their country, and in the institutions of the European Union itself. People 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, and the most frequently cited explanation for corruption is that “there are too close links between business and politics.”[[15]](#endnote-15)

1. European views of causes of corruption, 2011

(Percentage who identified each factor as a cause for corruption)

Source: Corruption - Special Eurobarometer 374 (2012), answers to question 6C <http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf>

## India

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

* “scams to the tune of thousands of crores 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 businessmen (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 exactly those where government contracts or privatisations are at stake – construction, followed by telecoms, with public services only in third place, just ahead of the financial sector and defence.

Billions are being drained out of the Indian economy as a result of this corruption, which has accelerated since the deregulation and trade liberalization of 1991. [[16]](#endnote-16)

* **Business perception of most corrupt sectors in India**



Source: KPMG India Bribery and Corruption Survey 2011[[17]](#endnote-17)

## USA and UK lobbying and the financial crisis

In the USA companies gain financially from political connections. Appointing a new director who is connected to the party in government causes a rise in the value of the company’s shares: investors expect that company to do better as a result. Following an election, there is a general relative rise in the value of the shares of companies connected to the winning political party, partly because: “companies that are connected to the winning party [following an election] experience a statistically and economically significant increase in their procurement contracts … while those connected to the losing party suffer a decrease in contracts.” These extra contracts were worth on average $120 million per year to each company with the right connections in 1994, for example.[[18]](#endnote-18)

This political influence has also affected the financial crisis.

Some of the largest mortgage lenders in the USA spent over $29 million in 4 years to prevent legislation to regulate their business more tightly. They were successful. The firms which spent most effort on lobbying were more risky in their lending, and so still suffered from a higher level of defaults by borrowers as the crisis hit. But the lobbying still paid off in the end: firms who had done most lobbying were more likely to be bailed out by the USA government. [[19]](#endnote-19)

In the UK, banks spent even more, £92million in 2011 alone, to maintain close control over the economic and financial policies of the UK government. They used 129 different lobbying organisations, employing 800 people including 124 peers, about 16% of all the members of the unelected House of Lords. They made £6.11 million in donations to all three major political parties. Their gains included big cuts in corporation tax, the abandonment of plans for a government regulator of corporate behaviour, and the weakening of a non-profit pension scheme intended to benefit the poor.[[20]](#endnote-20)

# Some cases by sector

This section sets out a number of cases of state capture and corruption in different sectors. These cases demonstrate the extent and impact of corrupt networks, the role of privatisation, and the role of multinational companies. They also show the various ways in which such corruption can be damaging to public services.

## Health: global and national state capture by pharmaceutical companies

Firstly, it looks at the ways in which pharmaceutical companies have perverted public policies, at global as well as national levels. This has a direct impact on health services. The effect is to divert large sums from public budgets for healthcare, as well as to undermine democratic policy-making.

### Global state capture: drug companies and the WHO

The World Health Organization is the international public sector agency for healthcare, set up by the United Nations. It is expected to issue standards and advice on healthcare for all countries.

In 2009 there was worldwide scare over ‘swine flu.’ The WHO monitored this and declared that it had reached the level of a pandemic, although according to the WHO’s own procedures the evidence did not justify this. The WHO also advised that Tamiflu, a drug marketed by a multinational company, GSK, was a safe and effective protection against swine flu. This led many countries to purchase huge quantities of Tamiflu, in some cases spending between 1% and 3% of national public healthcare budgets. But the WHO had been advised by academics and others who had financial interests and connections with GSK, some of which were concealed. The company and the WHO also withheld data and evidence which showed that the drug was neither safe nor effective. [[21]](#endnote-21)

The WHO has also taken the side of the drug companies against the interests of public health. For example in Thailand in 2007 the government decided to authorise generic manufacture of drugs for AIDS and heart disease, a decision welcomed by NGOs and the public, but opposed by the multinational companies who held the patents. The DG of the WHO, Margaret Chan, publicly supported the companies and criticised the government over this during a visit to Thailand.[[22]](#endnote-22)

### Bulgaria: privatised drug company state capture

Sopharma is a Bulgarian pharmaceutical company, previously owned by the Municipality of Sofia, which was privatised in September 2000. In 2011 it supplied more than 70% of the medicines required by state hospitals and more than 50% of prescribed medicines. It is owned by Ognyan Donev, who is also chair of the Bulgarian employers’ confederation, and co-owner of a major media group. In June 2012 he was charged with money laundering.

Sopharma has benefitted from capturing two key political positions. Firstly, Donev was a member of the supervisory board of the National Health Insurance Fund (NZOK) until 2011. Secondly, one of its senior employees, Gergana Pavlova, became the political supervisor in the Boyko Borisov cabinet in charge of medicines and hospital supplies, and was been responsible for a new law with three elements which favour the drug companies by weakening regulation. The law allows hospitals to buy medicines directly from companies, which will result in higher prices than the previous system of buying through a central state purchasing body, and gives a single official the authority to issue drug licences. The company sells drugs in Bulgaria for prices three times higher than in Turkey, according a TV investigative programme. Other problems include “specifications of equipment purchased by the health ministry and a particular supplier” and the destruction of €1 million worth of vaccines.

Pavlova was later dismissed but the law remained unchanged. Sopharma and other drug companies were investigated by the Bulgarian competition authority over allegations of a cartel. In February 2012 the European Commission started an investigation; and the Bulgarian parliament called for an audit.[[23]](#endnote-23)

### Serbia: bribery charges against multinationals

“[AstraZeneca](http://markets.ft.com/tearsheets/performance.asp?s=uk:AZN) has been served with a criminal indictment by the Serbian authorities as part of a widening probe into alleged bribery by several pharmaceutical companies in the Balkan country.

The Anglo-Swedish drug group said it had filed legal objections with the courts requesting them to drop the actions since receiving the indictment in August, which relates to “allegedly improper payments to physicians.” The action follows the arrests last year in Belgrade of senior officials at the Serbian Institute for Oncology and Radiology, as well as the heads of the Belgrade offices of AstraZeneca, [Roche,](http://markets.ft.com/tearsheets/performance.asp?s=ch:RO) Actavis, [Sanofi-Aventis](http://markets.ft.com/tearsheets/performance.asp?s=fr:SAN) and PharmaSwiss, concerning payments of around €550,000 during 2007-09.”

FT October 27, 2011 AstraZeneca indicted in Serbian corruption case

[http://www.ft.com/cms/s/0/d3589da8-0073-11e1-930b-00144feabdc0.html - axzz21FlwtF3A](http://www.ft.com/cms/s/0/d3589da8-0073-11e1-930b-00144feabdc0.html#axzz21FlwtF3A)

### USA: GSK, Pfizer pay billions to avoid prosecution

“[GlaxoSmithKline](http://markets.ft.com/tearsheets/performance.asp?s=uk:GSK) has agreed to pay a [record $3bn to settle US regulators’ charges](http://ftalphaville.ft.com/blog/2012/07/02/1067931/how-to-sound-contrite-as-a-potential-kid-poisoner/) of aggressive marketing and the selective use of data from clinical trials in its promotion of drugs beyond their authorised uses, including an antidepressant that one of its sales reps called the “happy, horny, skinny pill”… Court documents included detailed descriptions of how the group entertained doctors and illegally encouraged the use of products including Wellbutrin, Paxil and Advair. The US Department of Justice legal filings said GSK made use of “cash payments disguised as consulting fees, expensive meals, weekend boondoggles and lavish entertainment.” Doctors who prescribed large quantities of Wellbutrin were invited to a “training session” in Jamaica, the documents showed.

The UK pharmaceuticals company pleaded guilty to criminal charges as part of the settlement, branded the largest case of US healthcare fraud.

FT July 2, 2012 GSK to pay $3bn to settle US charges [www.ft.com/cms/s/0/02eaa328-c468-11e1-9c1e-00144feabdc0.html#axzz21FlwtF3A](http://www.ft.com/cms/s/0/02eaa328-c468-11e1-9c1e-00144feabdc0.html#axzz21FlwtF3A)

**“US drugmaker Pfizer has agreed to pay $2.3 billion (£1.4 billion) in the largest healthcare fraud settlement in the history of the Department of Justice.** It comes after the firm was found to have illegally promoted four drugs for uses which had not been approved by medical regulators, and …..allegations that Pfizer paid bribes and offered lavish hospitality to healthcare providers to encourage them to prescribe four of the company's drugs.”

BBC 2 Sept 2009 Pfizer agrees record fraud fine <http://news.bbc.co.uk/1/hi/8234533.stm>

In 2004 Pfizer agreed to pay $420 million (£265 million) to settle charges that its newly acquired subsidiary, [Warner-Lambert](http://www.pfizer.com/about/history/pfizer_warner_lambert.jsp), had marketed an epilepsy drug, gabapentin, for unapproved purposes. And Pfizer is not alone in failing to change its behaviour in response to large fines. [AstraZeneca](http://www.astrazeneca.com/) paid out $520m (£328m) in 2010 to settle civil charges of illegally marketing its anti-psychotic drug quetiapine. Seven years earlier it had been fined $355 million (£224 million) for criminal and civil charges relating to the same offence -this time involving the prostate cancer drug gosarelin. In 2006 the Tenet Healthcare chain settled several civil fraud allegations for $900 million (£568 million). “We found that in two different instances a particular hospital had paid kickbacks to doctors and had provided medically unnecessary cardiac services to patients.

BIJ Drug Regulation: Bitter pills for drug companies September 27th, 2010 <http://www.thebureauinvestigates.com/2010/09/27/drug-regulation-bitter-pills-for-drug-companies/>

## Central government: corruption, customs and SGS

### SGS and Pakistan

SGS has been used by the World Bank and others to spearhead the privatisation of customs and other central government functions – despite itself being involved in high-level corruption. This undermines the credibility of attempts at eradicating corruption, while allowing such a company to exploit the contracts for its own advantage.

In September 1996, the World Bank announced a number of ‘spot audits’ in selected countries, to try to uncover any corruption that might have been involved in Bank-sponsored projects. The World Bank selected a private company, Société Générale de Surveillance (SGS) of Switzerland to handle the first set of audits. The three countries announced after the memo was circulated were Poland, Kenya andPakistan. A month later, it emerged that SGS had paid bribes in 1992 to obtain a government contract for inspection services in Pakistan:

SGS, the world’s biggest inspection and testing company, has admitted that it paid a substantial commission to a Geneva lawyer to enable it to start up a pre-shipment inspection programme for the government of Pakistan.

In 1998 a Swiss magistrate indicted three individuals, including a former executive of SGS, and asked Pakistan to charge Ms Bhutto with money laundering and accepting bribes. In April 1999, Benazir Bhutto and her husband were found guilty of accepting bribes worth US $9 million from SGS, were sentenced to five years in prison, and banned from holding seats in parliament for seven years. However, the multinational escaped with no punishment, until a prosecutor obtained a ruling barring the government from ‘allocating any business to SGS.’ The case continued to be unresolved even in 2012, when the Pakistan supreme court effectively dismissed the prime minister for failing to pursue the case.[[24]](#endnote-24)

International institutions, such as the World Bank, and official global campaigns such as the IACC and TI, have been very forgiving to SGS. The company was even a panellist at the IACC 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/)’*[[25]](#endnote-25)*

### Outsourcing procurement

The UK government has even proposed to outsource procurement services for the ministry of defence, so that a private company would handle all the tendering for defence equipment. This itself 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. But 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.’ “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.” [[26]](#endnote-26)

## Local government

### New Public Management: making the problem worse

Privatisation is a core element in the set of policies described as ‘new public management’(NPM). Its supporters have argued that NPM will help reduce corruption, but by encouraging privatisation and outsourcing, decentralisation and management discretion over pay and hiring and firing of workers, NPM actually increases the scope for and probability of corruption.

NPM was implemented in Malawi with 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, PPPs, and local discretion. 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 simply embezzle money; ‘user fees’ were used as a pretext for extorting bribes; public–private partnerships were created as networks to give privileged information about contracts.[[27]](#endnote-27)

It also has a negative effect on workers’ morale, and thus undermines a key factor which improves the integrity of a service, as seen with water workers in India: “In those instances in which a NPM-style reform was implemented with no concomitant driver that changed the way employees felt about their jobs, the result was resentment and eventually sabotage of the reform itself.”

### Walmart and Mexico

The largest USA retail multinational Walmart 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.” [[28]](#endnote-28)

Walmart covered up its own internal auditors’ findings by arranging a whitewash report from managers involved in the corruption itself. USA congressmen have complained that the company is obstructing investigations by the USA authorities, and also state that Walmart is trying to conceal evidence of bribery by the company in five other countries, as well as possible tax evasion and money laundering in Mexico.[[29]](#endnote-29)

Walmart has an extreme anti-union policy but tries to promote itself as a highly ethical company.

## Electricity

Thirdly, we look at examples of corruption drawn from the privatisation of electricity and gas, specifically in Slovakia, Kenya and Nigeria.

### The ‘Gorilla’ network of bribery in Slovakia

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 consists of a series of meetings involving leading Slovak politicians, and executives of the private equity firm Penta, which has a central role in the processes. The meetings were largely concerned with the payment of bribes by the multinationals involved in various privatisations, and the allocation of the money to individuals and parties. The discussions especially concern the privatisation of electricity and gas, but also of healthcare, district heating, airport, and water.

The energy multinationals mentioned include RAO UES (Russia), Enel (Italy), E.on and Siemens (Germany) and EDF (France). On EDF it says "The problem is that EDF as a state company cannot pay the commission [bribe] directly, but through the consultancy firm EPIC." [[30]](#endnote-30)

### Africa: corruption and the energy sector

* **Kenya:** Mr Okemo was the energy minister of Kenya between 1999 and 2001 and finance minister between 2001 and 2003. Mr Gichuru was KPLC managing director between 1983 and 2003. Mr Okemo and Mr Gichuru are alleged to have received over USD$10million for contracts and agreements given to foreign companies as part of the privatisation processes which started during that period. According to the evidence, the money was transferred to accounts in the UK tax haven of Jersey, with the help of Knight Piesold, an international consulting firm specialising in energy projects. The case arose because the Jersey authorities wanted to extradite them.[[31]](#endnote-31)
* **Nigeria:** In 1999 Enron set up a 290 MW Independent Power Project at Egbin Power Station in Lagos, with a 13 year power purchase agreement (PPA) with Lagos State. This deal formed part of the prosecutions in the USA for fraud against former Enron executives.[[32]](#endnote-32) In January 2001 Enron sold the project to another USA company, AES, and a Nigerian partner, YF Power, part of the Yinka Folawiyo Group.[[33]](#endnote-33) In 2006, the Peoples Democratic Party (PDP) called on the Economic and Financial Crimes Commission (EFCC) to probe the Lagos/AES power project claiming that it has cost the state over $500 million.[[34]](#endnote-34) Payments under the contract have caused massive losses for PHCN, and there have been continuing disputes between PHCN and Lagos State over who is responsible.[[35]](#endnote-35) The Rural Electrification Agency (REA) was set up under the 2005 Act to fund the extension of connections in rural areas. Leading officials and politicians are now facing trial over charges of defrauding the REA of over NGN 5.2 billion (USD $35 million) through contracts for grid extension or solar electrification which were used as conduit pipes with which funds of the Rural Electrification Agency were siphoned and were awarded to companies either not prequalified to be awarded the contract or were phony or existing companies. The former Chairman of the Nigerian Electricity Regulatory Commission (NERC), Dr. Ransome Owan, and his six commissioners were in 2009 removed from office and charged with 197 counts of fraud involving misappropriating money through fictitious contracts.[[36]](#endnote-36) The cases were dropped in October 2010.[[37]](#endnote-37)

## Water

Finally, there have been a number of convictions for bribery to obtain water contracts, involving executives of subsidiaries of both Suez (formerly Lyonnaise des Eaux) and Vivendi (formerly Générale des Eaux). These convictions have happened in developed countries where institutional strength and the available resources allow authorities to tackle corporate corruption more effectively than in poorer countries.

* **France:** there are three court convictions for corruption in France.
  + In Grenoble, a tribunal found that the corrupt award of a 25-year water concession to a Suez-Lyonnaise des Eaux subsidiary had damaged consumers. The court found that the water service had been privatised in exchange for contributions by Lyonnaise des Eaux to the mayor’s electoral campaign, and other gifts, totalling over FF19 million. In 1995, the regional auditor found that over the lifecycle of the contract the excess costs borne by local consumers and taxpayers would be more than FF 1 billion (US $150 million) (Hall & Lobina, 2001).
  + In Angoulème, the former mayor was jailed in 1997 for two years, with another two years suspended, for taking bribes from companies bidding for contracts, including Générale des Eaux.
  + In St-Denis**,** Ile de la Réunion, Executives of Générale des Eaux were also convicted of bribing the mayor of to obtain a water concession.[[38]](#endnote-38)

* **Italy:** In 2002 a senior executive of Vivendi (now Veolia) was convicted of planning to bribe local politicians in the both the majority and opposition parties of Milan city council in order to win the tender for a wastewater treatment plant in the south of Milan, Italy. The evidence included a floppy disk containing a letter by Alain Metz in which Maetz states that he has "excellent contacts" within the rightwing majority coalition (Polo delle Liberta, whose leader was Silvio Berlusconi), and planned to pay total IT £4 billion bribes to politicians. About IT £2.3 billion would go to the majority parties, IT £300 million to the opposition and other money would reach "experts" and "mediators" whose names were not revealed.

* **USA:** In Birmingham Alabama, in January 2007, a fifth trial started in a series which is: “centered on allegations that high-ranking county officials accepted bribes from businessmen and their companies who were awarded millions in sewer contracts.”[[39]](#endnote-39) In Florida, a former Palm Beach county commission chairman has been charged with obtaining a personal profit of $1.3 million from a land purchase deal by a water authority.[[40]](#endnote-40) Privatised water company PSG was the object of investigations for corruption in New Orleans, Louisiana and Bridgeport, Connecticut. In May 2001, three former PSG executives and a former member of the New Orleans Sewerage and Water Board were indicted with paying and receiving a $70,000 bribe in exchange for the recommendation that the city renew its wastewater treatment contract with PSG for five more years. “Aqua Alliance, PSG’s parent company, agreed earlier to plead guilty to the charge of bribery and pay a $3 million fine.” Although at the time the payments were made PSG was not a subsidiary to Vivendi, PSG was subsequently acquired by U.S. Filter, which in turn would be purchased by Vivendi in March 1999. In June 2001, two close associates of Bridgeport mayor Joseph P. Ganim pleaded guilty to charges of bribery, fraud and tax evasion in connection with bribes totalling US $700,000 allegedly paid by PSG “in order to obtain a contract to operate the city’s wastewater treatment plant” (Tsybine, 2001: 6-7).
* **Argentina:** In 1995, under the presidency of Carlos Menem, and under strict conditions of the IMF, the water service of Buenos Aires was privatised to a joint venture of the water multinationals, Aguas Argentinas. Santiago Soldati, a businessman and close Menem ally, was the lead Argentine partner, who later sold his interest in the water company for $100 million. The Argentine delegation that negotiated the loan included Minister of Economy Erman Gonzalez, later indicted for trafficking arms, and Secretary of Water Affairs Mario Caserta, later imprisoned for 2 years for laundering drug money. The minister in charge of the 1997 tariff renegotiation, Maria Julia Alsogaray, was tried for accepting multi-million dollar bribes in the privatization of the Buenos Aires port system.” (Loftus & McDonald, 2001). [[41]](#endnote-41)
* **Lesotho:** In Lesotho, a major corruption trial concerning a water supply project involves prosecution of companies which were at the time subsidiaries of Lyonnaise des Eaux (now Suez), RWE and Bouygues (Hall, 2002). In May 2002, Masupha Sole, the former Chief Executive of the Lesotho Highlands Water Authority was found guilty on 11 counts of bribery and two of fraud for accepting some GBP 3 million in bribes from a dozen multinational and South African firms in return for contracts worth hundreds of millions of pounds[[42]](#endnote-42). In September 2002, the Lesotho High Court convicted the first company to face trial, Canadian engineering consulting firm Acres International, of paying bribes totalling nearly $266,000 to Mr. Sole.[[43]](#endnote-43)
* **Brazil:** In July 2001, Daniel Lopes, city councillor of Tangará da Serra, state of Mato Grosso, was murdered as he left the city hall in the same day where a vote was held which approved water privatisation. Initial police investigations related the murder to Mr. Lopes’ opposition to the privatisation. Further investigation led to the exposure of a major corruption scandal and the imprisonment of 14 people in March 2002, eight of whom were city councillors. Detained city councillors confessed having received from R$10,000 to R$40,000 each in exchange for voting to put a 30-year concession out for tender (Hall & Lobina, 2002). Tangará mayor Jaime Luiz Muraro was indicted on five charges including bribery and fraud.[[44]](#endnote-44) Investigating authorities found that municipal funds had been used to pay part of the bribes.[[45]](#endnote-45) Mr. Muraro revealed that expressions of interest in bidding for the privatised concession had come from firms based in France as well as in the Brazilian states of Mato Grosso and Paraná.[[46]](#endnote-46)
* **Ghana:** In April 2000, Azurix was awarded a build own operate and transfer (BOOT) project situated in the north of Accra. Azurix denied press allegations that the company had paid a US $5 million bribe to senior officials to secure the contract.[[47]](#endnote-47) The World Bank, which had put up a US $100 million loan, subsequently cancelled the project. In a letter to Ghana’s vice president John Atta-Mills, and published in the Ghana Tribune, the Bank's director in Accra, Peter Harrold, said the choice of Azurix had not been made in a transparent manner. (Bayliss & Hall, 2001)
* **Jakarta, Indonesia:** In 1997, while the country was still under the control of President Suharto, Jakarta’s water supply was privatised, under the auspices of the World Bank. One concession went to a consortium led by Thames Water and another to a consortium led by Lyonnaise des Eaux. Both consortia included partners which were owned by friends of the president. After Suharto’s fall, these contracts were deemed to be corrupt and the two TNCs moved rapidly to negotiate new contracts with Jakarta City Council, to run from February 1999. However, these contracts were also the subject of bitter criticism on the grounds that they were never properly advertised, that the prices contained in them were excessive, and that Suharto’s son continued to hold a five per cent equity stake in the new Thames Water venture.

## Other

### Corrupt construction cartel in Ile-de-France

A clear example of a corrupt network can be seen in France. In the 1990s Suez and Veolia were already the largest water and waste management companies in the world, as they still are today. Together with Bouygues (which then owned the third largest water company in the world), they were also the three largest construction groups in France. In the early 1990s, these three companies and two others formed a cartel, which met with a similar small group of politicians from the major political parties in the Ile de France region around Paris. The meetings concerned building contracts worth €1.4 billion Euros to renovate 300 schools in the region. The companies decided who would get each contract, and at what price, but all agreed to submit bids to maintain the appearance of competitive tendering. In return, the companies agreed to pay a levy of 2% on the value of each contract, which was distributed according to the size of the parties in the region. The right-wing party RPR, the party of Jacques Chirac who later became president, got 1.2%; the socialist PS got 0.8%, and the Communist and other much smaller parties got a small share too.[[48]](#endnote-48)

### Privatisation in Russia

The privatisation of Russia's once state-owned industries is regarded even by supporters of privatisation as deeply corrupt: “some of Russia's most valuable companies were auctioned off to political insiders at knock-down prices.” A recent court case in London revealed that Roman Abramovich, now best known as owner of the English football club Chelsea, paid $2.5 billion to secure political support (“krysha”) from the government of Boris Yeltsin which allowed him “to win a rigged auction in 1995 for an oil company and refinery.”[[49]](#endnote-49)

### Luncheon vouchers in Argentina

Two large French multinationals, Sodexo and Accor, paid $20 million in bribes to a member of the Argentinian parliament to suppress proposed legislation that would have forced employers to pay workers wages instead of luncheon vouchers. Providing luncheon vouchers is a profitable business for Accor and Sodexo – in India they have also been criticised for excessive profiteering by charging 6% commission.[[50]](#endnote-50)

### The channels of corruption: the case of NITEL and Nigeria

An adhoc committee set up the Nigerian Senate to investigate the extensive privatisation programme undertaken in the country since 1999 found that about 80% of these privatised companies have either collapsed or are operating less efficiently than they were as public entities. Numerous problems with the privatisation programme were raised, including pervasive fraud and corruption.[[51]](#endnote-51)

The privatisation of the telecoms company, NITEL, shows how privatisations can be used to corruptly siphon off money.[[52]](#endnote-52)

Firstly, by selling the entity for a price far below its true value, and ensuring that it is sold to members of the governing elite and their associates:

* The then president, Obasanjo, insisted that NITEL should be sold for only $500 million – barely a third of its certified value – to a Nigerian company, Transcorp, in which Obasanjo himself bought a significant shareholding, making improper use of public money to do so. Transcorp also acquired oil production blocks and privatised hotel shares, at prices below their true value: “*Transcorp serves as the opposite arm of the Bureau for Public Enterprises, BPE. While the BPE acts as the sole seller of government enterprises, Transcorp is positioned as the sole buyer.”*

Secondly, by diverting some of the proceeds into hidden accounts, for private benefit:

* In 2009 Nigeria sold $65 million worth of privatised state assets, but only $5.2 million appeared in the public accounts of BPE. Over ninety per cent of the proceeds had gone missing.

Thirdly, by issuing consultancy and other contracts to companies owned by cronies

* Three senior managers of Transcorp were arrested by the Economic and Financial Crimes Commission (EFCC) in 2009 for using different companies owned by friends and cronies, mostly based in the USA, as fronts to siphon off US $127 million by inflating and duplicating invoices for consultancy projects and contracts.

### Ireland

In 2006 an official tribunal reported that Charles Haughey, prime minister of Ireland three times 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.[[53]](#endnote-53) The prime minister of Ireland in 2006, Bertie Ahern, who was minister of finance under Mr Haughey, was obliged to admit that he also accepted gifts from businessmen, and used to “sign blank cheques later used by Mr Haughey for his personal benefit.” Mr Ahern claimed that: “it was a misjudgement, although not in breach of any law or code of conduct."[[54]](#endnote-54)

### EU

Examining corruption in Europe can begin with the EU itself. The 15 members of the European Commission, the highest political authority in the EU, were forced to resign en masse in March 1999, following a report which exposed extensive fraud in EC budgets and found that the members of the Commission had “allowed, or even encouraged, conduct which, although not illegal per se, was not acceptable.”[[55]](#endnote-55) One academic estimates that fraud and corruption take 10-20% of the entire budget of the EU.[[56]](#endnote-56)

The EU budgets vulnerable to this fraud include large ‘structural funds’ to support investment in environmental infrastructure, including water systems. During the 6 year period 1994 to 1999, environmental investment financed from the Structural Funds amounted to over €9 billion, so the possible scale of fraud and corruption in relation to water and other environmental funds of the EU, based on a median of the 10-20% ‘estimate’, could be around €225 million per year.[[57]](#endnote-57)

### Siemens

The giant electrical engineering firm, Siemens, has been exposed by recent German, USA and World Bank investigations as engaging in systematic and widespread bribery throughout the world over many years. For details, see [PBS/Frontline February 13, 2009 At Siemens, Bribery Was Just a Line Item](file:///\\staff.gre-ad.gre.ac.uk\USR\BU\hd39\Documents\At%20Siemens,%20Bribery%20Was%20Just%20a%20Line%20Item) and [the Trace compendium](https://secure.traceinternational.org/Knowledge/Compendium.html). An online map shows the global extent of Siemens’ corrupt activities: <http://www.propublica.org/special/the-world-wide-web-of-siemenss-corruption>

The USA and German cases concerned bribes worth $1.6billion. Siemens paid a record $1.4 billion to settle the cases in the USA and Germany, without full trials. The World Bank accepted that Siemens will pay $100m. to anti-corruption charities over the next 15 years. However, despite the evidence, the confessions, the convictions, and the continuing prosecutions, Siemens was not barred by the German or USA governments, nor by the World Bank, from bidding for contracts. Siemens enjoys contracts from the USA government worth $1billion per year, and expects to double that by 2015. (Wall Street Journal 15 December 2011 [Shrugging off bribery case, Siemens gains favour in US](http://online.wsj.com/article/SB10001424052970203893404577098632947522176.html) ; [World Bank 02 July 2009 Siemens to pay $100m to fight corruption as part of World Bank Group settlement](http://go.worldbank.org/WXRNSDVI40)

Siemens executives have also been convicted for deliberately undermining trade union representation of its employees by paying $30million to unrepresentative associations. ([Seattle Times 24 November 2008 Siemens Feldmayer to get 2 years probation, fine](http://seattletimes.com/html/businesstechnology/2008428948_apeugermanysiemenscorruption.html?syndication=) )

There are continuing prosecutions against Siemens executives for paying over $100m. in bribes to obtain a contract for national identity cards in Argentina in the 1990s. Siemens is alos being prosecuted for beating and torturing a government employee who acted as a whistleblower (Blloomberg 13 Sep 2012 Siemens Is Sued for Rights Violations by Argentine

<http://www.bloomberg.com/news/2012-09-13/siemens-is-sued-for-rights-violations-by-argentine.html> )

Chinese courts passed a death sentence, suspended for 2 years, on a senior executive convicted of receiving fines from Siemens; another was imprisoned for 15 years ([Caixin Online 06.30.2011Siemens Bribery Scandal Ends in Death Sentence](http://english.caixin.com/2011-06-30/100274546.html) )

Press reports in 2006 quoted Transparency International (Germany) as being shocked by Siemens involvement in corrupt behaviour.[[58]](#endnote-58) This was surprising, since Siemens had already been frequently accused, and convicted, of corruption. For example, in 1992 Siemens was on trial for bribing the City of Munich over construction contracts.*[[59]](#endnote-59)* In 1993 there were allegations that Siemens paid $8 million in bribes to get work on a high-speed train link in Spain.[[60]](#endnote-60) In 1994 a $700 million Siemens power project in Gujarat (India) drew allegations of corruption.... America's General Electric (GE) protested at the time that it should have won the contract”[[61]](#endnote-61) In 1996 Siemens was one of five companies banned from government contracts by Singapore after a middleman was convicted of paying bribes on behalf of Siemens and four other multinationals.[[62]](#endnote-62)

### UK development agencies: part of the problem?

The Commonwealth Development Corporation (CDC) is a private equity fund run by the UK’s Department for International Development. In 2012 it was linked to money laundering and fraud by the James Ibori, governor of the oil-rich Delta State in Nigeria, who pleaded guilty to stealing up to £3 billion from the state.[[63]](#endnote-63) According to the Financial Times:

“CDC helped fund three Nigerian companies under investigation for providing a front behind which associates of Mr Ibori could launder money…. The fund put £62 million of money, backed by taxpayers, into Emerging Capital Partners, a US-based fund. ECP has in turn bought shares in Nigerian companies that anti-corruption campaigners say have been used by Mr Ibori’s allies to process money gained through fraud.”

Instead of investigating a complaint about this, DFID denied it and revealed the name of the Nigerian who had complained to ECP.

Another UK institution, the Crown Agents, carries out extensive work for the UK and the World Bank on reforms to public financial systems. It also acts as a private contractor to governments of developing countries, for example by operating procurement, banking, payroll and pensions systems, and is contracted by the UK government to deliver “humanitarian and post-conflict stabilisation services.” A subsidiary, CA-legal, provides services to help deliver privatisations and PPPs, and has set up a specific project, Hanshep, to promote private delivery of healthcare in Africa. Yet in 2011 the Crown Agents was itself barred by the World Bank – but only for 6 months - for fraudulent lying in order to gain a World Bank contract.[[64]](#endnote-64)

### Iraq and the USA

There is extensive corruption associated with USA contractors in Iraq in relation to publicly funded contracts (including water contracts), which has prompted new legislation. 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.”[[65]](#endnote-65) 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.[[66]](#endnote-66)

### USA hedge fund finances bribes in Azerbaijan

A USA hedge fund, Omega Advisors Inc., invested $126 million in a venture bidding for privatised companies in Azerbaijan in the 1990s. The partner pleaded guilty to corruption under the FCPA, but attempts to prosecute the Czech businessman involved have been unsuccessful, because he has successfully claimed asylum in the UK colony of the Bahamas which will not extradite him.

**The FCPA Blog** August 31, 2012 Lewis Sentencing Moves Forward <http://www.fcpablog.com/blog/2012/8/31/lewis-sentencing-moves-forward.html>

# Discouraging the rule of law: power in Pakistan and Indonesia

## Pakistan: Donors and IFIs prevent corruption proceedings against Hubco, SGS

In the early 1990s 16 Independent Power Projects were set up in Pakistan by multinational companies in partnership with local investors, with the backing of the World Bank. The largest of these was Hubco, the largest company quoted on the Pakistan stock exchange, 26% owned by National Power of the U.K. The World Bank and the UK’s Commonwealth Development Corporation also invested by making large loans. These IPPs were given power purchase agreements (PPAs) under which the electricity authority for Pakistan, WAPDA, had to buy electricity at set rates. By the late 1990s WAPDA’s finances were in serious deficit, as the price payable to the IPPs was higher than the price at which electricity was sold to end-users. [[67]](#endnote-67)

In 1997 the then government of Pakistan pursued cases of alleged bribery in relation to these electricity contracts. Two contracts (one involving Southern Company (USA), and one involving National Grid (UK)) were cancelled on the grounds that they had been improperly obtained.[[68]](#endnote-68) It also brought proceedings for alleged corruption against other IPPs, principally Hubco, and issued notices terminating the agreements because of the "kickbacks, overinvoicing and unlawful commissions". The company’s chief executive escaped to the UK, having ‘fled Pakistan following threats that he might be arrested.’ Consumers brought court cases which resulted in the prices paid by WAPDA to Hubco being halved, and the company was ordered to stop paying dividends.[[69]](#endnote-69)

The IMF, the World Bank and the UK government all urged Pakistan to drop its corruption case against Hubco, and in particular to separate it from the issue of the price of electricity. According to the Financial Times: “The future of an International Monetary Fund agreement, currently under negotiation in Islamabad, is also partly tied to the extent to which Pakistan resolves its dispute with the power companies’[[70]](#endnote-70). The British and other governments actively supported the World Bank’s position: ‘Britain and the G7 group of countries are said to be exerting pressure on the international lending agencies to get the Kapco and Hubco impasse resolved before rewarding Pakistan with financial help’[[71]](#endnote-71)*.* A UK government minister emphasised that the action against Hubco was a step backwards for ‘investor confidence,’ rather than a step forward in the fight against corruption. [[72]](#endnote-72)

As a result of all this pressure, the Pakistan government in December 1998 dropped the prosecution of Hubco. A week later, the prime minister instead turned on the Water and Power Development Authority (WAPDA), suspended trade union activities, and handed over control of energy transmission to the army (this was before the military takeover of Pakistan government itself). The union was suspended by presidential decree, which abrogated the right of the union to operate, even as a bargaining agent. One week after the military takeover and the suspension of trade unions in WAPDA. The World Bank authorised the IMF to proceed with a US $1.3 billion bailout package for Pakistan, ‘as it was satisfied with the government assurances for out of court settlement of two-year long row with the Independent Power Producers’ *(The Nation*, 31 December 1998).

The high court in Pakistan continues to make fearless judgments on corruption and other issues, even against or against the wishes of ministers. In 2012 it disqualified the prime minister, after finding him guilty of contempt of court for failing to ask Switzerland to re-open a bribery case against President Zardari concerning SGS. The court had previously ruled against continued power seizures by the military government, and ordered the intelligence agencies to admit they held prisoners in secret custody. [[73]](#endnote-73)

## Indonesia: World Bank and donors protect corrupt private electricity deals

In 1992 the former dictator of Indonesia, president Suharto, with the encouragement of the World Bank, agreed to open the electricity sector to private companies through the introduction of IPPs. [[74]](#endnote-74) These IPPs were set up by mutlinationals in corrupt partnerships with cronies of the Suharto government, supported by PPAs under which PLN undertook to purchase 80 per cent of plant capacity for a minimum of thirty years, at prices well in excess of PLN’s selling price. The currency collapse of 1997 made these prices utterly unaffordable for PLN, and the overthrow of the dictatorship was seen as an opportunity to cancel the corrupt agreements and prosecute those involved for corruption.[[75]](#endnote-75)

For the multinational companies, donors and the World Bank, however, these developments were seen as a threat. The dictatorship was seen as a “stable authoritarian government”, and its overthrow by democratic forces was seen as alarming because it “resulted in an opportunity for lower and mid-level actors to exercise unusual independence and authority.”

PLN’s failure to cancel the agreements was the result of resistance by the multinationals involved in the IPPs, supported by their governments and multilateral agencies. A corruption trial of USA multinational Edison over an agreement with Suharto cronies was dropped, partly at the request of the USA ambassador.[[76]](#endnote-76) Instead, the multinationals pursued claims for breach of contract, including MidAmerican Energy, who won US $573 million at arbitration,[[77]](#endnote-77) and Florida Power and Light who won $241million.[[78]](#endnote-78)

The companies also collected compensation from ‘political risk’ insurance: the World Bank’s insurance agency, MIGA, paid $15 million to Enron on account of a power project that was cancelled, although even MIGA accepted that to proceed with the project was not a viable policy option. According to Luis Dodoro, MIGA's general counsel and World Bank Group vice-president: “*While we understand the circumstances that led to (the Enron) project suspension, international law dictated that the cancellation be compensated*.”[[79]](#endnote-79) MIGA then insisted that the Indonesian authorities had to reimburse them the $15 million, and as an incentive, MIGA refused to issue any more coverage for business in Indonesia until the money was paid.[[80]](#endnote-80)

Under this pressure from the World Bank and the USA, Indonesia dropped the anti-corruption prosecutions, agreed to increase electricity prices to sustain the rates of return guaranteed by the PPAs, and paid compensation to the companies which had withdrawn.[[81]](#endnote-81)

Even the Wall Street Journal, the leading USA business newspaper, published a front-page article in 2004 that was scathing about the role of the USA in protecting corrupt interests: [[82]](#endnote-82)

“protecting the interests of major investors and creditors was at the center of the table in everything we did,” says Edmund McWilliams, who was chief political counselor at the U.S. embassy in Jakarta from 1996 to 1999. “Concerns about human rights, democracy, corruption never made it onto the table at all.”

….. amid talk in Jakarta of canceling business deals that had enriched Suharto friends, American diplomats and legislators strove to protect the contracts. Washington also pressed the Indonesian government to bail out private banks to restore liquidity. Most of the banks were owned by Suharto associates, who had withdrawn large amounts of money, much of which they didn't have to pay back. The moment Indonesians threw out Suharto, we told them they had to honor contracts that favored his cronies. [[83]](#endnote-83) [[84]](#endnote-84)

### France and Canada in Mexico

The 1997 local elections in Mexico City resulted in a landslide victory for the opposition, which had campaigned on an anti-corruption platform. The party promised to review all contracts awarded by the outgoing administration, and cancel those in which irregularities were detected. One casualty was a US $400 million contract for rolling stock for the Mexico City metro, which had been awarded to a French-Canadian consortium. The response of the French and Canadian governments, at the highest possible level, showed little interest in the question of corruption:

“President Jacques Chirac of France and Jean Chretien, the Canadian prime minister, have sent strongly worded letters to Ernesto Zedillo, the Mexican president, protesting at the way a French-Canadian consortium was disqualified from a US$400m tender to provide rolling stock for the Mexico City metro… A new tender for the metro rolling stock is expected only after Cuauhtémoc Cardenas, the mayor-elect, takes office in December and appoints a new management for the Mexico City metro…In his letter to President Zedillo, Mr Chretien lamented Mexico’s inadequate legal safeguards for foreign investors.” (Financial Times, 3 October 1997)

### USA in Czech Republic:

In the Czech Republic in 1998, the US embassy responded to public accusations of corruption not with encouragement to investigate but with a bland statement:

The US embassy told CTK today that it had no information to suggest that the US computer firm EDS had bribed the former Christian Democrat (KDU-CSL) government in order to win lucrative defence contracts for the new army command information system… The embassy also said that it could not confirm claims that EDS had been warned on at least two occasions by embassy officials that it was under suspicion of corruption. (Czech News Agency, 24 July 1998)

Indeed, the embassy invoked the existence of the FCPA as evidence that a US company would not be corrupt:

The embassy added that US firms operating abroad were bound by the 1977 Foreign Corrupt Practices Act, which clearly bans offering of bribes in order to win contracts. If an American firm was found guilty of offering bribes in the Czech Republic it would also have to face responsibility back home in the US, and would at least lose the right to compete for US government orders, it went on. (ibid.)

### Undermining the laws

International business groups attacked court decisions against privatisation processes in the Philippines in the 1990s: *‘*Loud complaints about “terrorists in robes” have resonated in government and business circles in the past month as the courts delivered a series of blows to investor confidence with controversial rulings against the state’s privatisation programme.’[[85]](#endnote-85) In relation to a number of failed privatisations in Argentina, multinationals have consistently attempted to have all issues concerning their contracts determined by commercial arbitration rather than the courts of Argentina. In 2012 Chevron dismissed a decision by the supreme court of Ecuador by saying that “Chevron does not believe that the ruling is enforceable in any court that observes the rule of law. The company will continue to seek to hold accountable the perpetrators of this fraud.” This was criticised by the court for ‘manifest bad faith’ and ‘abusive’ conduct, and by the lawyer for the indigenous communities as racist: "Chevron does not want to ever recognise that indigenous or poor people have the right to access justice."[[86]](#endnote-86)

### The UK

The dangers of a complacent assumption that corruption only exists in the developing countries was illustrated by Kim Howells, then UK minister of state for foreign affairs, in 2006, while on an official visit to Kenya. Howells made a public speech insulting an entire people, in which he claimed that Kenyans "can be bought. From the person who works at the docks in Mombasa up to the government ... You can buy off politicians, you can buy off policemen. The weakness has been recognised by drug traffickers and probably by terrorists too ... and that is very bad news for us."[[87]](#endnote-87)

However, the next two months revealed some quite serious problems in the UK in relation to the possibility of buying parliamentary seats, the suppression of corruption prosecutions “in the national interest,” and payment by a British company of a large bribe to Tanzania, Kenya’s neighbour, in order to obtain an arms sale.

In December 2006, UK prime minister Tony Blair was interviewed for over an hour by police investigating possible illegal donations to the Labour Party. This was unprecedented in the UK.[[88]](#endnote-88) One of the allegations is that Blair, or his party, used the traditional British practice of giving ‘peerages’ – unelected lifetime seats in the upper house of parliament – as a means of rewarding people for services to the country, and also the party. One of the peerages was given to Paul Drayson, who owned a biotech company called Powderject, which gave £50,000 to the Labour party in 2001, and in 2002 was awarded a £32 million contract to provide smallpox vaccines, without open competitive tendering. He had given a total of £1 million to the Labour party by 2005, when he was given a peerage and also made a government minister for Defence procurement.[[89]](#endnote-89) The police investigation into the scandal did not lead to any prosecution. In the UK, this is nearly always legal, as long as the politician gives another reason for the peerages.[[90]](#endnote-90)

The UK authorities have also been investigating Britain’s biggest arms manufacturer, BAe, over bribes it had paid to win a very large arms contract with Saudi Arabia. The company lobbied publicly to get the prosecution dropped – not because it was innocent, but because it would be bad for future business. In December 2006, Tony Blair announced that the BAe investigation was going to be dropped, on the grounds that the national security of the UK might be jeopardised if the company was prosecuted.[[91]](#endnote-91)

# Examples of action against corruption

## Prosecutions within developing countries

The former president of Argentina was put on trial in August 2012 for allegedly paying $5 million in bribes to senators in the year 2000 in order to pass a bill allowing companies to cut the hours and working conditions of their employees. The IMF had made the passing of this law a condition for the continuation of its loan to Argentina.

(**Argentine ex-president appears on corruption charges**  Deutsche Welle 15.08.2012 <http://www.dw.de/dw/article/0,,16168626,00.html> )

In Colombia, a left-wing anti-corruption campaigner, Gustavo Petro, has been elected mayor of the capital city Bogota. The previous mayor and the owners of a construction company were convicted of corruption and imprisoned for 7 years. A new anti-corruption law imposes a 20-year ban against any public contract from being awarded to people who have been convicted of such offences, including partners, parents and subsidiaries. But there are still limitations. The bans do not apply to publicly quoted companies, and the government has passed a new law which encourages PPPs, and allows companies themselves to propose public projects which then have to be evaluated – provisions which increase the incentive and opportunity for lucrative corruption.

(FT May 8, 2012 Train leaves the station, slowly <http://www.ft.com/cms/s/0/358697ac-92da-11e1-aa60-00144feab49a.html#axzz25JcYVkVK> ; FT May 8, 2012 Infrastructure: Pressing need for better transport<http://www.ft.com/cms/s/0/4fd1e216-9441-11e1-bb47-00144feab49a.html#axzz25JcYVkVK>)

## Auditors actions

The audit commission of India, the CAG, 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 it has reported that the government allocated coal licenses for $36 billion less than their true value – equivalent to an entire year’s income tax revenues. Two years earlier it published a report estimating that a similar amount had ben lost by corrupt allocation of private telecoms licences.

## Singapore

Singapore’s effective programme against corruption drew on the British model of an independent civil service. But it was not at all based on the ‘culture’ of northern countries. For Singapore the British (and Americans) set a terrible example to be avoided: “Corruption was a way of life in Singapore during the British colonial period because of the British colonial government’s lack of political will.”[[92]](#endnote-92)

Police and other civil servants were corrupt because of low salaries, opportunities to demand bribes, and ineffective enforcement of anti-corruption laws. The British Military Administration, which took over after 1945, was derided as the Black Market Administration “because of its arbitrary requisition of private property, gross mismanagement of the distribution of rice, financial inefficiency, and scandalous corruption.”

In addition to these problems with the British, the Minister of Education was exposed for accepting a huge bribe of $700,000 from American donors. The determination of Singapore governments to stamp out corruption was despite these experiences with northern cultures, not because of them. [[93]](#endnote-93)

Northern culture has continued to be unimpressive: in 1996 Siemens and a number of other multinational corporations attempted to bribe the Chief Executive of the Public Utilities Board. They were convicted of corruption, fined and debarred for five years from Singapore government contracts.

## Jordan

There has been a similar reaction in Jordan, with campaigns led by trade unions and focussed on restoring cuts in pay, conditions and jobs, and cancelling and reversing corrupt privatisations. Once again the international financial institutions have been identified as encouraging the privatisation process:

“At the start of the last decade, Jordan began introducing a string of liberal economic policies which made the country a showcase of International Monetary Fund-guided reforms. Foreign investors were courted in order to create jobs and obtain hard currency. Substantial stakes in state enterprises were sold to investors including Brunei's sovereign wealth fund, France Telecom, cement maker Lafarge and Canada's Potash Corp of Saskatchewan. But last year's Arab Spring uprisings elsewhere in the Middle East emboldened opponents of the reforms, and their opposition has developed into a broad backlash against economic policies designed to aid the private sector. Members of parliament, union activists and tribal leaders have made demands ranging from the renegotiation of privatization deals, in order to recover billions of dollars in royalties that were allegedly lost, to the repurchase of majority stakes in some companies by the state.” [[94]](#endnote-94)

The government has already halted the privatisation programme, including cancelling the proposed privatisation of the post office and the private building of a new port, and frozen the PPPs programme. It has also had to promise to investigate the past privatisations and consider renationalisation of some. A parliamentary committee has recommended the abrogation of the sale of 37 percent of Jordan Phosphate Mines to Brunei in 2006, and demanded that ministers involved in the sale be referred to the prosecutor-general on corruption charges. A corporate lawyer has complained: "None of the large privatization deals concluded in the last decade have any legal certainty now because of parliament's ability to demand the invalidation of these deals, and this is creating a lot of caution among new investors."[[95]](#endnote-95)

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