

**Towards a Corruption-Free Caribbean: Ethics,
Values, Trust and Morality**

Huguette Labelle

*Chair of the Board of Directors,
Transparency International*

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Excellency, Honourable members of government, ladies and gentlemen

It is a great pleasure for me to be here today. I would like to congratulate the University College of the Cayman Islands to host this most important conference and to recognise the sponsors supporting it.

While our globalised world seems to turn in a constant series of crises evolving in real-time on the internet and 24-hour news, it is important that we take the time at this important conference to consider the underlying issues that are at stake. Corruption being one of the major contributor. And what can be done to prevent and treat this disease?

This conference is an opportunity to better understand how leaders, managers and those who deliver services to our people can anchor their work on a strong set of ethical values. This applies to the public and private sector but starts with individuals.

1. THE COST OF CORRUPTION AND UNETHICAL BEHAVIOR

Corruption today continues to take a great toll on our societies, and threatens to exacerbate wider challenges that our societies face - may these be poverty, inequality of income, the environment, delivering public services to all citizens or maintaining peace and stability.

Contributes to poverty and mortality –

Corruption strikes particularly hard at the most vulnerable in our societies, exacerbating poverty and ultimately taking lives. Corruption reduces access to essential services and means of making a living.

- In July 2013, our Global Corruption Barometer, which covered 114,000 people in 107 countries, exposed the scale of this disease: one person in four around the world pays bribes to access public services. In some countries it is 3 in 4.
- In the poorest and least stable countries, the problem is of pandemic proportions. You have got police asking for a bribe, even if you have done nothing wrong. You have health services unavailable to children; you have absent teachers, or worse, teachers asking for bribes to admit students or give out the best grades.

If you pay 40% of a family annual income of \$ 600 just to access essential services such health, water or keep children in school, you understand the toll on these families and how corruption kills.

- For example, in countries where more than 60% claim to have paid bribes, 482 women die per 100,000 births every year , compared to countries where you have less than 30% claiming to paid bribes where this goes down to 57 deaths per 100,000 births.
- The World Health Organization also estimates that counterfeit drugs are responsible for 700,000 deaths from malaria and tuberculosis due to counterfeit drugs. Counterfeit drugs being a market worth \$32 billion.

Our global corruption survey also warns that bribery plagues **sectors key to setting up a new business**, with one person in five paying bribes to registry their company, seek a permit and land services and more than one in ten having to bribe regarding utilities, tax and customs.

Corruption can become endemic and leave people feeling that the institutions supposed to help them are in fact turned against them:

- In a number of countries the institutions we rely on to stop corruption – **police and judges** -- are considered the most corrupt institutions after political parties.
- 36 countries view police as the most corrupt, and in those countries an average of **53 per cent of people had been asked to pay a bribe to the police**.

The result of justice systems being weakened by corruption for development is that people become disempowered, losing their ability to seek justice in courts or hold politicians to account. This makes them further impoverished, but also sows the seeds of conflict by dissolving any ties of loyalty between people and a state seemingly captured by private interests.

Destroys trust in leaders and institutions

The failure of leaders to tackle corruption can become a self-fulfilling spiral when people no longer take commitments seriously. While elections are often won or lost on the corruption issue, those who profit from corruption can be a barrier to reformers who come to power with a promise to clean up. Early engagement often fizzles as pressure increases to stop the cleaning of the administration.

Leaders act on behalf of the people, who entrust them to uphold basic ethical standards. In many parts of the world we are seeing massive protests because people feel their leaders are not living up to those standards.

People already think global leaders are failing, according to our most recent global survey and many no longer expect their leaders to act in the public interest:

- Political parties are seen to be the most corrupt institution in many parts of the world. In fact our survey found that in 51 countries around the world, out of the 107 surveyed, political parties are seen as the most corrupt of the 12 institutions we asked about.

If you pay a lot of money to a candidate running for election, that candidate owes you something when it comes to deciding the right policies. The question is whether the power of money is greater than the power of ethics?

Many citizens think so: according to our Global Corruption Barometer, 53 per cent of respondents think government is largely or entirely run by large entities acting in their own interests rather than for the benefit of the citizenry.

Keeps investors away

There is much evidence to suggest that investors would rather not operate where there is a risk of corruption.

- In a survey of more than 390 senior business executives, almost 45 per cent said corruption risks led them to not enter a market or pursue a business opportunity (PWC 2008)

Steals assets of countries with the ensuing money laundering and its sophistication.

Corruption siphons money away from public spending, and diverts valuable public income such as that coming from natural resources. It undermines both the availability and quality of these services.

Because this happens in the dark and off books, we may never know just how great the scale of wasted, lost or stolen public money is.

- One 2009 estimate, limited to how much heads of state have stolen, suggests **US \$180 billion**. (*Source: CCFD*) This is only the tip of the iceberg.

One of the major reasons that people in power can continue to get away with corruption is the ease with which they can use the international financial system to hide their ill-gotten gains.

- Global tax evasion could be costing more than \$3 trillion a year, according to research from Tax Justice Network, while as much as \$32 trillion - twice the size of U.S. gross domestic product – may be hidden by individuals in tax havens.

Today the corrupt, the criminal organizations, the drug cartels, and terror networks are able to move their resources and operations across borders almost with impunity, through high technology and complicit networks and because of weak regulatory regimes and poor enforcement. They also have the resources to push back on important legislation aimed at the public good.

- It means that those who want to offer and accept bribes can now turn to facilitators: accountants, financial agents, and lawyers, many of them based in jurisdictions that will ask few questions about where the money came from.

This is exacerbated in countries without the required sophisticated resources to do extensive offshore checks.

This comes at a cost. In an interconnected world, gaps in our ability to sanction corruption anywhere will expose people everywhere to the cost of corruption. As long as this system continues, corruption will undermine all our efforts to transform our institutions and achieve more just societies.

Contributes to illicit trade and organized crime – corruption can bite back to point of origin.

In today's globalised world, international criminal networks are perfectly poised to take advantage of weak states. The globalization of crime means that the scale of international illicit trade is enormous. The World Economic Forum estimates that the trade in arms, cigarettes and other goods is upwards of \$650 billion.

- Such is the scale of illicit trade that it undermines national institutions. organised crime cartels growing so powerful that they challenge official government institutions, create criminal patronage networks sustained by bribery and intimidation, institute parallel government structures or infiltrate state institutions.

Access to this vast illicit wealth, specialist personnel such as accountants and lawyers and the lack of international frameworks to control them gives international criminals what the WEF Global Risk Report calls “*state-like commercial and political power*”.

When you have drug lords with more power than elected leaders, you can talk about state capture. Parliament and parliamentary committees may be influenced or even controlled by members who have conflicts of interest when it comes to policy decisions. Judges may rule in favour of the corrupt when disputes arise, irrespective of evidence and the law.

2. VALUES FUNDAMENTAL TO WELL PERFORMING SOCIETIES

I believe that people in our countries do not wish to see their institutions both state and private being complicit to fraud and criminal activity.

The country that we believe in should be open, free, safe and just with a decent quality of life for all and state institutions that are ethical, transparent and accountable to the citizens, with a clean private sector and educational institutions that prepare their graduates to have a strong moral compass in their professional and private life.

How do we achieve this?

3. PREVENTING CORRUPTION AND PROMOTING ETHICS

Leadership

As a first step it is absolutely vital to have strong and committed leadership at the top setting an example. Leaders who will create a culture of transparency and integrity within institutions with zero tolerance to corruption.

They ensure that people throughout their institutions do what is right. They act by setting codes of ethics for all to follow, setting up policies, training systems, incentives and disincentives.

Rule of law and well-performing justice institutions.

Efforts to tackle corruption have often failed because of corruption in the justice system. When there are factors that encourage the judiciary to take action contrary to the public interest, it can be very difficult to create a strong disincentive to corrupt behavior: politicians, businessmen and criminals can be encouraged to break the law safe in the knowledge that justice can be evaded.

Independent, professional, impartial, transparent judiciary is at the heart of a system that protects the people. It includes a fair and open system for the appointment, promotion, and removal of judges. In an increasing number of jurisdictions there is an independent judicial council responsible for these processes.

Increasingly, all those working in the justice system require a much higher degree of sophistication in dealing with economic crime to at least match the sophistication of criminal networks.

Parliamentarians who show the way

Having a code of conduct sends a message to voters and leaders alike where the line is drawn between acceptable and unethical behavior. Providing for a set of ethical standards, increases public trust in and respect for the institution, as well as establishing rights and responsibilities for parliamentarians. Codes of conducts should include conflict of interest rules and oblige public disclosure of assets and those of immediate family. Avoiding conflict of interest remains essential and when placing one's affairs in a special trust we have to ensure that it is not overseen by the spouse or the children, otherwise making it hardly blind.

As the ultimate body deciding on the legal and regulatory framework of countries, it is vital that voting on laws and rules be aimed at the public good and not at those who contribute to elections. The onus is on decision-makers to publish the interest groups who contributed to decisions.

- The use of lobbyist registers and the publication of “legislative footprints” documenting who gives input to new laws, public registers of

who the lobbyists are and disclosure by political parties of who finances them will also increase trust in politics.

Financing of political parties remains a major issue today. Many countries have taken steps to regulate political party and campaign financing by introducing laws on disclosure of finances and requiring parties and candidates to report on the donations received, including the origin of the donation, the amount and party expenditure. External auditing and publication of results must be part of this transparent framework. A number of countries are now preventing businesses and organisations to contribute to political parties and candidates which means that only individuals can contribute. Some jurisdictions have also capped the amount that can be given. In some countries it is as low as 1200 per individual contribution.

Independent, professional and well-resourced Election Commission with the necessary authority is essential to prevent political parties from manipulating the electoral system to their advantage.

Transparency and integrity in all levels of governments

A starting point to promoting ethics and prevent corruption is to ensure a culture of transparency in the areas where it matters most: at the heart of government, in the institutions that defend the public, offer security, serve the public and manage.

One way to achieve this is the disclosure of assets and interests - clear rules obliging public servants to disclose assets, financial interests, gifts or hospitality received to avoid conflicts of interest.

- Rules for **declaration of assets** can be a disincentive to dubious activities, and help expose them. They can be made more effective

through oversight by an independent body, and by being made easily available to the public.

- The G20 summit has adopted common principles for asset disclosure by public officials, which said that systems should be fair, transparent, target those in senior or high-risk positions, be useful, enforceable and administered by well-resourced and independent officials.

Secondly, to have complete transparency in government, it is crucial to build transparency into every stage of the system; from supply chains to dealings between business and government to service delivery. This allows people to check promises against the reality and gives citizens a higher degree of trust in their government officials and parliamentarians.

Information is not a gift, it belongs to the people. Access to information legislation with systems in place to grant access to that information on request is essential. Indeed, many public authorities are recognising the benefits of transparency and participation and proactively publishing ALL public information.

- The Inter-American Court of Human Rights have confirmed that it is an essential component of freedom of expression, and have called on states to not only guarantee the right to information but also put effective systems in place to give effect to this right and encourage public debate.

When all government revenues, budgets and their disbursements right to the point of delivery a strong message is given to the people. It means that the people know how money is available for their school, for their health clinic for their community and question when the services are not rendered.

- In Brazil online data on budget execution and revenue collection of the federal government is updated on a daily basis. A web portal allows citizens to easily follow up the financial execution of all federal programmes, all federal spending, procurement or contracts for projects and services.

Thirdly, procurement and construction are highly vulnerable to corruption. This is a vulnerable area for all countries. This is especially important for big projects. Growing economies need growing infrastructures, be it water, waste, power, transport or buildings. It is estimated that \$50 trillion of infrastructure spending will be required by 2030.

Much of this massive spending will be contracted out by government offices to private companies. This nexus of public and private sector can be a major corruption hotspot.

- These projects are carried out with the people's money, so the government must show that the process is being carried out ethically.

It is possible to prevent corruption in this area or detect it quickly when it happens.

- The emergence of e-government, making it possible to carry out lucrative public tenders online, is one way to contribute in keeping public spending clean.
- Another approach is to use integrity pacts. Integrity pacts were put into practice in the mid-1990s. The idea was to bring together officials organizing procurement processes and potential suppliers from the private sector under the supervision of an independent observer. However,

bidders agreed that the pact would also be enforced by severe sanctions for anyone breaking the “no bribe” agreement.

- A third mechanism, to prevent corruption in this sector is the use of social witnesses, or independent professional monitors, during the course of a project. In Mexico, such “**social witnesses**” are required by law and have overseen more than 60 billion dollars of public spending and tendering procedures.

Oversight institutions

Oversight institutions can be a first line of defense against corruption within an organization, state or company. They are a vital part of an integrity system's checks and balances, providing an independent assessment, thus promoting accountability and the opening of institutions to scrutiny. In a country, they can take the form of an office of the ombudsman, an anti-corruption commission or supreme auditor, integrity commission or office of procurement management.

These bodies need to be fully independent, professional, properly resourced and have a strong mandate. Anti-corruption commissions for example should receive complaints, conduct investigations and, as is the case in some countries such as Norway, even to prosecute. I understand that Jamaica is heading in that direction with such legislation in front of their parliament.

Private sector – industry based coalition to fight corruption

Given the global nature of corruption, we have seen that it can be very hard to fight back without involving all stakeholders; corruption often occurs at the nexus of business and government, so these need to work together to find sustainable solutions. A number of interesting initiatives have been initiated in the recent past. The following are some examples.

UNGC 10th Principle

While some businesses supported the push for better legal frameworks for fighting corruption, there was also a need to establish common standards for good business behaviour.

- The UN has also ensured that corruption is part of corporate sustainable efforts by having added corruption as the 10th principle to its **Global Compact**. Something that TI lobbied extensively to see happen. The UNGC is the world's largest corporate governance initiative with 10,000 participants including 7,000 companies.

EITI

- One area where cooperation was clearly needed was the extractive sector. Too often, money from extraction of natural resources was not going to the people.
- The Extractive Industries Transparency Initiative has been successful in building voluntary agreements from governments and business to disclose extractive payments, so that people can “follow the money”.
- 25 countries are currently compliant with EITI standards. There are a further 16 candidate countries signed on but not yet meeting the standards.

CoST

- The Construction Sector Transparency Initiative has taken a similar approach to advance on complex issues such as information disclosure, environmental impact and pro-poor investments.
- Under it, both the public and private sector participants to disclose data about public contracts to ensure better value for money in infrastructure

with stakeholders that are better informed about public tenders, leading to more efficient projects and fair competition for contracts.

Although too many companies still feel that they need to bribe their way into getting contracts, an increasing number of companies have decided that it is in their best interests and that of their shareholders and stakeholders to be a clean business. In addition, some of them come together in order to exchange best practices on anti-corruption and compliance measures and training. And some do not hesitate in joining together to go to government authorities where solicitation of bribes has prevailed in order to work with the leaders of these government entities to fix this problem.

Education: fundamental in building ethical behaviour

Education is key in building strong ethical individuals in our society. A huge potential in combating corruption through education lies in incorporating ethics in the education system from the youngest classrooms to the PHD level.

This can happen by making ethics part of regular courses as well as through a separate ethics stream. Inculcating basic ethical values needs to start at the youngest age through appropriate learning activities. A number of institutions are moving in this direction and need to be encouraged to move faster. For example:

- Transparency International's chapter in **Chile** a number of years ago devised a whole year programme of teaching materials for students in grade 3. In agreement with the Ministry of Education, these were sent to 1500 schools up and down the country.

- Our chapter in **Palestine** prepares illustrated children's books that deliver sophisticated ethics messages through the medium of traditional fairy tales.
- Other Transparency International chapters targeted older students by helping teachers design courses in civic education.

There are good examples of ethics courses and cooperation with international organisations at University level.

- Transparency International is engaging with business schools both to promote ethics with future leaders but also to increase the capacity of our local chapters to in turn work with their domestic private sectors.
- For example, Transparency International is working with *CEMS* – the global Alliance in Management Education. CEMS is a result of cooperation of leading business schools and universities with multinational companies and NGOs.
- The UN Global Compact has prepared a course in ethics for MBA students. This is being piloted in 200 universities and hopefully after will be brought to scale.

Teaching ethics throughout the education system will sow the seeds for better societies. With nearly a fifth of the world's population between 15 and 24 years old, young people have the potential to stop corruption both as the citizens of today and as the leaders of tomorrow.

The education institutions must function at the highest level of integrity, without any corrupt practices. If they do not, no matter how much ethics you teach in the curriculum, the students will be conflicted about what ethical behaviour should be and those courses will have little value.

4. INTERNATIONAL COOPERATION AND LEGAL FRAMEWORKS

The measures I have discussed are important steps for promoting the role of ethics in societies. But we should not overlook how interdependent ethics in one society is upon global society.

The opportunity to get away with corruption in one country can undermine efforts to prevent corruption in another. A major priority for the world today is to set higher standards for transparency in important areas like taxation.

Today, there is a greater take up of global standards than ever before, with emerging powers committing to anti-corruption standards through their membership of the Group of 20 leading economies.

- If we could limit the global loopholes that allows money laundering and tax evasion, it would be a significant way of dealing with poverty reduction, fraud, illicit trade and contributing to country fragility and conflicts.

The G 20 has already adopted a number of measures including:

- The adoption of the **OECD Base Erosion and Profit Shifting (BEPS)** plan, which, if implemented, could see a fairer distribution of taxes paid by multinationals.
- Another is the realisation of **automatic exchange of information** as a new global standard, presented in February 2014 and to be finalised mid-2014 with roll-out in G20 countries before 2015. Leaders acknowledge that the next challenge is commitment to and implementation of this

standard. It will be important to find a model that is inclusive for developing countries.

- In this regard, the OECD has recently published a new single Standard for Automatic Exchange of Financial Account Information. This means that it should be easier for tax authorities to work together, so the move will promote financial integrity and help prevent the flight of capital and tax evasion.
- At the moment, many tax revenue authorities have to go and chase information from other revenue authorities if and when they suspect foul play. This new standard means the information will be exchanged automatically on an annual basis between countries that sign up.
- This new global tax transparency standard was endorsed by G20 leaders meeting in St Petersburg last year. The UK initiated a pilot automatic exchange of information programme. G8 members France, Germany, Spain and Italy signed up, as has G20 member South Africa.
- The G20 has pushed forward on the issue substantially in the last few years and this standard, if and when it becomes truly global, will hopefully have a real impact on the global nature of illicit financial flows.

Other governments should support the G20 and encourage them to keep moving on their commitments.

While the G20 has also recognised the need to reduce hidden company ownership, the G8 has moved faster in this area.

- Incorporation of beneficial ownership information into annual, public corporate registries would help tackle the problems of illicit flows.
- The UK has been leading on the publication of beneficial ownership, putting it high on the agenda of the G8 last year. It led by example by

announcing that companies in the UK will have to publish the names of their owners on company registers. We hope to see many other governments follow suit in 2014.

- Earlier this month, the European Parliament voted by an overwhelming majority in favour of Europe-wide public registries of beneficial ownership.

Every country has a responsibility to put in place effective anti-money laundering measures: anonymous firms and secret bank accounts should not be used to launder the proceeds of corruption. It's a question of integrity, investor interest and of reputation for all countries.

Governments and banking supervisory authorities should require banks to go further and improve their Know Your Customer (KYC) procedures. In particular, efforts are needed to improve information sharing regarding politically exposed persons (PEPs), which are at high risk for money laundering and other illicit activities. Minimal regulations leads to a race to the bottom.

- Cayman Islands recently held a public consultation on this important issue, to which Transparency International contributed.

We cannot forget the importance of the international conventions which we now have. Be it the OECD convention against bribery, the UN Anti-Corruption Convention and the regional conventions such as the OAS and the AU conventions.

It has meant that by ratification, countries have had to give themselves legislation and systems that would be vital to prevent corruption and deal with it. What remains important is for all countries to live by their commitments.

CONCLUSION

Ladies and gentlemen

Today corruption is one of the world's most talked about problems.

We need to work together to stop corruption before it becomes the norm and reaches epidemic levels.

The countries of the Caribbean have the energy, the fortitude to show the way in the fight against corruption.

Each one of us can make a difference by leading ethical personal and professional lives and we can all make a greater difference by joining together civil society, academia, governments and business to ensure that life in our community at work and in our country is our free of corruption.

Thank you.