



FIGHTING CORRUPTION THROUGH COLLECTIVE ACTION IN TODAY'S COMPETITIVE MARKETPLACE

Written by Djordjija Petkoski, Michael Jarvis and Kathrin Frauscher

The global economic crisis presents a daunting array of challenges to the private sector, not least of which is how to rebuild public confidence and trust. Improving governance will be key to that process, particularly in the wake of the revelations of large scale fraud in the financial sector. Greed, a focus on short term incentives neglecting value creation, a lack of transparency and the lack of coordinated oversight and leadership have all contributed to the current situation. There is a need for a clear demonstration of ethical business leadership.

However, leadership at the firm level may not be sufficient. In such a challenging environment, it takes a broader effort of cooperation to implement effective institutional and business environment reforms, and to create a climate that minimizes opportunities for corruption. But, how do you get industry peers and stakeholders to come together to set up mechanisms that reduce opportunities and incentives for bribery and corruption? Forms of collective action offer a solution.

Collective action enables companies to collaborate with competitors and stakeholders from the public and civil society sector to create and maintain fair market conditions. In a 2007 survey of global executives, 65 percent of respondents noted

their belief that a level playing field is crucial to their companies' future business activities. Yet no firm on its own can create that process or protect itself from corruption risks. A strong compliance program is not always enough.

In the same survey almost 80 percent said their company had some form of program in place to prevent and detect corruption, but only 22 percent were very confident that it identified and mitigated corruption risks. By working collectively, companies can help level the playing field between competitors, create incentives to avoid bribery among individuals and organizations, and introduce greater transparency and predictability to business transactions in corruption-prone countries and sectors. There are a variety of collective action frameworks that can be utilized to achieve these benefits, depending on the country environment, human and financial resources available.

They include integrity pacts (building off the model pioneered by Transparency International), certifying business coalitions against corruption, and principles-based initiatives. Some collective action frameworks are more appropriate to use for minimizing corruption in specific projects, such as within procurement for a major infrastructure project. Others are suited

for longer-term approaches that seek to strengthen the institutions and regulatory frameworks against corruption. Think of an industry code of conduct that obliges all companies within the industry to comply with anti-corruption policies. Recent examples of collective action in Paraguay and Germany are provided below.

Choosing the collective action framework that is most effective in a given situation, and then deciding how to tailor and operationalize that framework is no easy task. By bringing together highly diverse market players – often including industry competitors – implementing collective action becomes immediately more complex, particularly if industry wishes to enhance their credibility with independent verification mechanisms.

To provide guidance on working with competitors and diverse stakeholders to reduce corruption, the World Bank Institute formed a unique working group of multilateral, private sector and civil society stakeholders, including the United Nations Global Compact, Transparency International, the Center for International Private Enterprise, Global Advice Network, Grant Thornton and Siemens. The working group – in itself a form of collective action - developed practical collective action resources, including a guide and companion

web portal (www.fightingcorruption.org). The guide and portal present proven collective action methods to fight marketplace corruption, a library of international case studies from countries including Ecuador, Germany, South Africa, Pakistan and others, as well as contact points in anti-corruption organizations for more details and implementation support.

“Global corruption costs businesses billions of dollars every year, often forcing companies to choose between winning business through bribes or losing the ability to operate as successfully or at all in certain markets,” said Michael Hershman, a leading member of WBI’s working group and a founder of Transparency International. “Business executives are looking for implementation advice and best practices to solve this problem and I am glad to announce that our working group is organizing the first Executive Development Program on collective action against corruption.”

The Executive Development Program “Fighting Corruption through Collective Action in Today’s Competitive Marketplaces,” designed to offer practical guidance on collective action tools for doing business in high risk situations will bring together corporate decision makers, as well as selected government officials and nonprofit directors at the World Bank Headquarters in June 2009. (Registration and additional information are available at www.fightingcorruption.org)

Collective action is not a silver bullet to end the corruption problem, but it is a useful complement to efforts taken by individual stakeholders. It will require concerted efforts by the business, governments, civil society actors and international institutions to further build understanding of the value of collective action, identify opportunities for its application, and scale up impact. If clean business is to be rewarded in the global marketplace then ensuring fair and transparent market conditions is a necessary precondition.

Djordjija Petkoski is Lead Specialist at the World Bank and the Head of the Business, Competitiveness, and Development team at the World Bank Institute.

Michael Jarvis is a Private Sector Development Specialist at the World Bank Institute. Kathrin Frauscher is a consultant in the Finance and Private Sector Development Unit of the World Bank Institute.

¹*PricewaterhouseCoopers, Confronting corruption - The business case for an effective anti-corruption program, 2008*

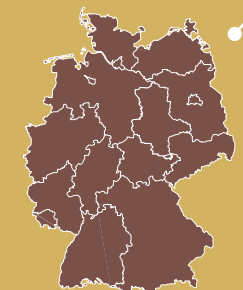


MORE ON THE SUBJECT



CERTIFYING BUSINESS COALITION IN PARAGUAY: PACTO ETICO COMERCIAL PARAGUAY

Paraguay has long had a reputation for corruption and poor governance. However, since 2005 Pacto Etico Comercial Paraguay (PEC) has made significant progress in implementing anti-bribery practices across Paraguay. PEC, a coalition between business, government and civil society initiated by the U.S. Department of Commerce’s Good Governance program, has developed evaluation, certification and investigation processes. Agreements were made with the commerce ministry on the implementation of anti-corruption standards and with member companies on consumer protection. A great incentive for companies to join is that Certified Pacto Etico Commercial members receive “green light” status when clearing their goods through customs. Since its initiation, more than 150 members have signed the pact and there are currently 100 new applicants.



INTEGRITY PACT FOR EXPANSION OF BERLIN-SCHÖNEFELD AIRPORT IN GERMANY

Berlin-Schönefeld Airport (Flughafen Berlin-Schönefeld GmbH) and Transparency International Germany have joined together to introduce a no-bribes Integrity Pact as a mandatory feature for the tender of each product and service for the expansion of Berlin-Schönefeld Airport. The Integrity Pact includes clear rules and obligations that bind bidders and contractors regarding integrity and transparency in their business relations. Independent external monitors oversee compliance with the Integrity Pact. Sanctions come into force if contract conditions are breached. These sanctions include compensatory damages of up to 5 per cent of the contract value and exclusion from bidding for future tenders.