

Combating Corruption by Continuing Campaign of Sensitization

by EIIPD Research Team

Introduction

Corruption is the abuse of entrusted authority for private gain. It hurts all who depend on the integrity of people in position of authority. This definition is taken from Transparency International, which is a non-governmental organization that monitors and publicizes corporate and political corruption in international development. It clearly captures the essence of a problem that has to be comprehended in full, and at the same time examined in all its dimensions as it is within the realm of human activity.

The Ethiopian International Institute for Peace and Development (EIIPD) has taken its cue from this reality to initiate programs of research and awareness generation with the view to diminishing (possibly eliminating) the roots and causes, manifestations and practices of corruption.

An Attempt to Know Corruption

EIIPD was joined by the German think-tank Friedrich Ebert Stiftung (FES) in organizing a seminar to obtain some introductory ideas on corruption in February this year. Four presentations were made. The first presentation; 'Conceptualizing on Corruption' was made by a scholar from Addis Ababa University. The scholar explained that corruption includes bribery, extortion and misuse of inside information. He also noted that corruption can be classified in to two categories, namely petty corruption and grand corruption. According to him, low level officials are highly exposed to petty corruption while grand corruption is perpetuated by high-level officials.

Presenters from the Federal Ethics and Anti-corruption Commission (FEACC) discussed the manifestation of corruption and its impact on the development and democratization process in the country. According to the presenters, it is difficult to define corruption due to its elusive nature; it could be a gift for one person while it is corruption for another. However, the Ethiopian legal system defines corruption as offering, giving, soliciting or accepting of an inducement, promise, or reward; the making of threats or the use of intimidation, in words or in behavior, exerting influence by the abuse of authority or its inconsistent application which may improperly influence the actions subsequently taken, or not taken, by a body, its members, or its officers, for the benefit or advantage of self or a

In their discussion on the causes of corruption in Ethiopia, the presenters classified corruption into three categories.

- Political and institutional causes of corruption, including poor governance, lack of accountability and lack of transparency, low level of democratic culture, lack of clear authorization, weak legal and judicial system and overregulated bureaucracy;
- Economic factors like extreme poverty and inequity, inflation and low wage or income;
- Cultural causes of corruption, mainly including family and ethnic loyalties and obligations, blurred distinction between private and public interests.

A third contribution to the seminar from Transparency Ethiopia looked at the issue of areas of corruption from perspectives of conceptual level and practical level.

At the conceptual level the identification of areas which are prone to corruption should be accepted and be applicable to all countries, irrespective of the status of development or the prevalence of corruption, (e.g. tax collection in one country may not be a problem for another...). However, in practice, the identification of areas which are prone to corruption follows at least the integrity study of that sector and the availability of mechanisms for accountability.

The fourth contribution to the seminar discussion came in the form of anti-corruption experience. Strong political will, the enhancement of frontal assault on corruption, limiting the role of the state and the use of effective communication methods contributed for the success of effective control of corruption as demonstrated by some experience from abroad.

The concluding comment from the EIIPD stimulated enthusiastic reaction from the local press. The comment was to the effect that commitment at policy level in Ethiopia was not matched by comparable level of commitment to deal with the problem.

Another point for the press was lack of clarity in the seminar discussions about the magnitude of corruption in the country, relative to the development endeavors as well as the need to realize good governance.

International Corruption

EIIPD and FES were joined by the Governance and Public Administration Division (GPAD) of the Economic Commission for Africa (ECA) in June for further examination of the subject. A seminar was held on: Illicit Financial Flows and Challenges to Africa.

The objective of the seminar was to compile information of what constitutes international illicit financial flows, the mechanisms and instruments by which

they are operated, what they mean to Africa, and Ethiopia, and generate awareness on the basis of which policy makers are alerted to pay attention to the problem in a meaningful way. Furthermore, it aimed at developing a programme of continuing awareness and sensitization activities with a view to generating public knowledge and interest that influences public action on measures to control and prevent damaging aspects of international financial flows.

Magnitude of the Scourge

A research base overview of illicit financial flows pertaining to Africa was furnished by Dr. Abablla Hamdok, Deputy Executive Secretary of the ECA, who termed such flows as any money that is illegally earned, transferred or utilized, in ways that break laws in origin, movement or use that merits the label. The movement of such type of money is made with clear intention to make it disappear from any records in the country of origin.

Dr. Abdalla said illicit financial outflows drains hard currency reserves; heighten inflation; reduce tax collection, cancel investments; undermine trade; and worsens poverty and widen income gaps. According to a recent survey by Global Financial Integrity, in 39 years from 1970-2008, AFRICA lost US\$ 854 billion in illicit financial flows. If you correct for uncovered aspects, it could even reach US\$ 1.8 Trillion.

Contrary to the established perception that the bulk of Illicit Financial Flows is from the proceeds of bribery and theft by government officials, these represent only 3% of the global total. Criminal proceeds generated through drug trafficking, racketeering, counterfeiting represent about 30-35% of the total. The proceeds of tax evasion, mainly through trade mispricing represent about 60-65% of the total.

An Ethiopian scholar, Yoseph Haregewoin characterized flows as having normal capital flow and illegal capital flow. Normal capital flow is legal capital flow that is recorded on the books of the entity or individual making the transfer, and earnings form interest, dividends, and realized capital gains which normally return to the country of origin. Illegal capital flow is intended to evade any record in the country of origin, and earnings on the stock of illegal capital flow outside of a country do not normally return to the country of origin. Illegal capital flow can be generated through a number of means that are not revealed in national accounts or balance of payments figures. These include trade mispricing, bulk cash movements, hawala transactions, smuggling and more.

Regarding the nature of illegal financial flow, Mr. Yoseph prefers to use the term 'capital flow' in instead of financial flow. Capital flight is a result of high political and economic uncertainty and net illegal conveyance of capital out of the countries, which is not recorded in the national accounts.

According to Mr. Yoseph, capital flight from African economies, especially from countries like Ethiopia, constitutes a serious development challenge for several reasons. In recent decades capital flight has been both sizable and costly in many developing countries. Since capital funds and foreign exchange are scarce in countries like Ethiopia, capital flight is costly. The loss of scarce capital and foreign exchange potentially leads to a loss of investment in countries like Ethiopia that are in great need of more infrastructure, plant and equipment, and human capital.

Damaging Consequences of Corruption

Classified as political corruption, grand corruption, corporate administrative corruption and petty corruption, this abuse of authority has damaging consequences on the development and democratization process of a given country mainly in terms of undermining economic development, threatening political stability and alienating citizens from their government.

In concrete terms, Mr. Sebhat Nega Executive Director of EIIPD, is of the opinion that illicit financial flow has become a major development challenge and is worsening poverty in Africa. The outflow is far serious and higher than normal corruption channels which are common globally.

He noted that the status of illicit financial outflow in Africa is rampant and the destination is developed world. However, the developed countries, under various names such as G8,20. IMF, World Bank pretend to talk about Africa's problem and forward what they claim to be resolutions for our salvation. However, outflow from poor Africa to these countries is 60 billion per year. Given the situation of the mass robbery he asked. Can a sensible person say that, in essence, Africa is fully decolonized?

Mr. Sebhat emphasized the fully understand the causes what he called this shameless and naked looting of the resources of the already poor people of the continent of Africa.

Africa is the source and the developed economies connected with Africa are the destination of the loots. Without any doubt both the source and the recipient are responsible for the drainage of the most needed resources of Africa. Responsibility of the actors in the source, Africa, which is the major cause of illicit financial outflow should be accepted. Externalization of the causes of our problems has never been a helpful for way out. Acceptance of our weaknesses and believing Africans are the major causes will help to look for solutions, said Mr. Sebhat.

Prevention of Corruption and its Consequences

Dr Abdalla spoke of Africa's efforts in combating illicit outflows. He said Africa's response is guided and motivated by the appreciation of the magnitude and the impact of the Illicit Financial Flows from the continent. There is recognition that if checked and addressed properly the result can contribute to funding the entire-infrastructures requirement of Africa, offset Africa's debt and contribute immensely to the achievement of MDGs.

Throughout the last three years Arica was engaged in an elaborate process to address this problem. These efforts were led by the Conference of Ministers of Finance, Planning and Economic Development, which has established a High Level Panel on Illicit Financial flows from Africa to be hosted by the UN Economic Commission for Africa (UNECA)

Dr Abdalla said the primary role of the High Level Panel is to complement and support on-going work on illicit financial flows, and specifically to Sensitize African governments, citizens and international partners on the scale and impact on development; mobilize political support for increased mechanisms to combat illicit financial flows.

Tools to Combat Corruption

Building anti-corruption pressure by informed and organized masses is Mr. Sebhat's recommended tool to fight corruption. It is a universally accepted principle that the basis of democracy, development and peace demands active participation of all walks of life. Likewise, combating illicit financial outflow in Africa demands creation of informed people. He says the active participation of trade unions, universities, associations can be seriously considered. The issue in political terms calls for commitment of legitimate governments.

Dr. Mehari Taddele Maru, a prominent lawyer and commentator, spoke at the seminar on "the African union convention on preventing and combating corruption". The convention was adopted on 11 July 2003 in Maputo, Mozambique, on the back of calls by Heads of State in 1998 [Ouagadougou], 2001 [Durban] in the context of NEPAD (New Partnership for African Development). Dr. Mehari also used several theoretical assumptions to show the relations between corruption with political instability and economic cost.

He enumerated a set of African Union Strategies to prevent and combat corruption:

- Presentation of Corruption
- Promotion of Rules and Institutions

- Protection of Anti-Corruption
- Prosecution of Corrupt Individuals
- Provision for International Cooperation
- Providing Follow-Up Mechanism

Regarding the strengths and weaknesses of the AU convention of preventing and combating corruption, Dr. Mehari mentioned on the strength side Regional Agreement, Comprehensive Framework, Common Standards, Coverage of Supply and Demand Sides, Private and Public Sectors, Wide Range of Criminal Offenses, Whistle-Blower Requirements Weaknesses include: Limited Access to Information Limited Access to Information lack of provision on statutes of limitation, lack of requirement of liability of companies, lack of provision on sanctions, absence of provision allowing for reservations, lack of real peer review process and current lack of resources for follow up mechanism.

The seminar also discussed what the Financial Intelligence on 'Ethiopia in the International System: Illicit Financial Outflows'.

The officer from the center gave an overview of studies on illicit financial flows using a bench mark Resolution 1617 (205) of the UN Security Council, which says:

“Strongly urges all UN Member States to implement the comprehensive, international standards embodied in the Financial Action Task Force’s (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing.

The Center is known to understand the abuse of challenge that the world is facing today, occurring in all countries, from the richest to the poorest. It is a problem that involves all groups and, increasingly, all ages, fuelling cross boundary/global crime.

Ethiopia’s response to the problem is based on article 89 of the Federal Constitution which shows the country has adopted the necessary legal framework to combat illicit financial outflow. That reads, *“Government shall have the duty of formulate policies which ensure that all resources. Government has the duty to ensure that all Ethiopians get equal opportunity to improve their economic conditions and to promote equitable distribution of wealth among them”.*

On the institutional framework, the country has established different institutions such as the Federal Ethics and Anti Corruption Commission and Financial Intelligence Center to combat illegal illicit outflow.

On the other hand there are implementation challenges, including politicization of the process, weak coordination among relevant stakeholders, complexity of the crime, secrecy, transnational dimension and others. Limited effort in international cooperation, particularly in mutual legal assistance, limited public participation and low level of awareness in the area and lack of limited capacity to make an investigative journalism could be identified as additional impediments.

Way Forward

EIIPD is in the process of putting together programmes on combating corruption through sensitization at the level of policy makers, research and awareness scholars, public awareness movements, etc. A three-year programme is agreed with the Governance section of the ECA to which the FES and other interested funding contributors will be invited to participate.