

New Challenges - Corruption, Foreign Aid and Security

Address to the USAID Alumni Association and DACOR

Washington DC. March 10, 2017.

By

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It is an honor to be invited to address such a distinguished group of former US AID and US Foreign Service diplomats. I would like to start by thanking you for the substantial support over many years that US AID has provided to Transparency international and to many civil society organization that are dedicated to curbing corruption. I would also like to express thanks to all of you and your colleagues who have done so much to assist so many governments to improve public procurement systems and strengthen governance in many public institutions.

Michael Elliott, the former head of the ONE organization and for several decades a distinguished journalist who died last year, once wrote: “Corruption is everywhere, and ancient. Mercury probably ran a crooked messenger service on Mount Olympus. Anti-corruption laws are just as old.”¹

Indeed, corruption is universal. It may take different forms in different countries, but it is eroding the fabric of good governance in almost all nations.

Ladies and gentlemen, you are all experts on foreign affairs and development assistance. Many of you have experiences overseas that have brought you face to face with political leaders who abuses the power entrusted to them for personal gain.

Moreover, you have experiences that attest to the reality that in countries where corruption is most prevalent there are high levels of violence, curbs on freedom of the press, freedom of assembly, and freedom to be critical of those holding political power. In addition, in many of these countries the institutions of justice are controlled by the government, particularly the most powerful members of the government who, as a result, enjoy impunity.

Sometimes people say a little corruption greases the wheels and is good for economies. I disagree. Those who get away with a little corruption seek to raise the stakes continually and the result can be disastrous. Those multinational companies who use so-called “facilitating payments” in many countries overseas are breaking anti-bribery laws in those countries and encouraging corruption. And why should we be so arrogant as to suggest that it is OK for our U.S. companies to bribe immigration officials in developing countries when we would be horrified if companies from those countries bribed U.S. officials?

Sometimes people say that nothing can be done about corruption, after all it is human nature and it is culture. Again, I disagree. Over the last 25 years there has been progress, from new international anti-corruption conventions, to extraordinary increases in research, to massively expanded media coverage, to major prosecutions from FIFA’s soccer chieftains to captains of industry, to the introduction by tens of thousands of corporations of compliance systems.

President Trump has called the Foreign Corrupt Practices Act a “horrible law;” he advocates major deregulation of business that will weaken anti-corruption safeguards, and he sees nothing corrupt in doing favors for those billionaires who funded his campaign. For those of us engaged in anti-corruption efforts the challenge is to work to prevent the undoing of all the progress that has been made over many years.

Against this background permit me today to challenge you as well in a search for good answers to complex problems. I want to focus on foreign aid, security and corruption. When I talk about security I refer both to strategic issues that are crucial to peace, as well as human security. One cannot talk about corruption in most developing and emerging market countries without also talking about abuses of human rights.

Corruption is not just a legal matter, is at its core a moral issue.”ⁱⁱ We find so often in reading cases against corporations under the Foreign Corrupt Practices Act (FCPA), or in other Justice Department corruption cases, that there is no mention of the victims of the crimes. But whenever and wherever there is corruption there are victims. This is not a victimless crime.

Media reports have suggested that the Trump Administration’s forthcoming budget will sacrifice foreign aid. I do not know if this will be the case, how large cuts might be and which countries might be most affected. But, I believe that when seen through the lenses of security and corruption it is important that there be a robust debate about how best to use foreign aid.

The immediate challenge is to find ways to make an absolutely compelling case for more aid, not less foreign aid. And in so doing we need to make the case for better uses of aid – ones that explicitly address corruption.

I think we can safely say that not since the start of the Reagan Administration has aid been under such a great threat – back then the World Bank in the words of Beryl Sprinkel, then a top Treasury official, was a “socialist giveaway agency.”

I am going to argue that foreign aid when used wisely can play vital roles in promoting human rights, democracy and peace – especially when it explicitly is used to counter corruption.

So permit now first to talk about human security in this context and then turn to strategic security.

Human Security and Corruption

As I have noted, corruption leaves victims everywhere. When we look, for example, at the countries of sub-Saharan Africa that are endowed with vast valuable natural resources, then we find hundreds of millions of people just surviving in absolute poverty. The resource revenues that flow into these countries could be used by governments to alleviate that poverty, but with few exceptions, those governments decide not to do this. Massive thefts of public funds, mostly related to resource revenues in some 20 sub-Saharan African countries trap the vast majorities of the populations of these countries in lives lacking hope and dignity.ⁱⁱⁱ

We would have a better grip on this particular problem by the way if we had a full public accounting of all the funds that U.S. oil, gas and mining companies pay annually to foreign governments. However, one of the very first acts of the new Congress, which was signed by President Trump, was to cut a provision of the Dodd-Frank Act, promoted by former Senator Richard Lugar and by Senator Ben Cardin, which called precisely for such reporting by the resources firms.^{iv}

When there is “grand corruption” with national leaders finding many ways to divert public funds into their own pockets, then there is also abundant petty corruption. Citizens thus face the combination of inadequate basic social security, health services, decent schools and housing and water supplies because national budgets have been diminished by corrupt officials and politicians; and, citizens face local extortion.

In many countries, low-level public officials including the police are not paid a living wage. They see the securing of bribes as crucial to their basic incomes. Those who pay these bribes accept the fact. They surely do not like it, but the payments are so normal, so ingrained in life’s ways that some people may argue that they have become part of the local culture. I understand this, although I continue to argue that the extortion of bribes, however small, is a criminal act.

The TI Global Barometer reports^v highlight in specific terms the scale of such petty corruption in many countries and the major areas – police extortion almost always comes close to the top of the list – where such corruption is most prevalent. I know of no country where it could be said that there is no “grand corruption” but where widespread “petty corruption” abounds.

Often, the the crime of corruption does not involve the exchange of cash. There are tens of thousands of young women, for example, who are asked by their college teachers to pay to get passing grades in their classes and, when they refuse, then they face demands for sexual favors instead. This kinds of “sextortion”^{vi} is widespread and it is just one aspect of the horrors of vitimization that result from corruption.

The countries where corruption is gravest tend to be those that are in the midst of conflict, or that have recently emerged from conflict. That such countries as Sudan, South Sudan, Afghanistan, Iraq and Somalia are repeatedly at the foot of Transparency International’s Corruption Perceptions Index^{vii} is not surprising – but it is particularly in such countries where the anguish of the victims is greatest.

For too long, many development assistance agencies – bilateral and multilateral – have looked at corruption as just another issue and, quite often, as a fact of life that can not be addressed effectively. While anti-corruption rhetoric has often been loud and clear from aid agencies, it has rarely been a top program and project priority as measured in funds disbursed in this area. All too often aid agency operations on the ground, however, have failed to walk the talk.

I spent quite a few years as an international economics journalist and took an interest in economic development. I was so critical of the World Bank that in 1981 the Bank’s President hired me. One of the great benefits was meeting Alex Shakow, who I had the pleasure of interviewing some years earlier for Voice of America when he worked for US AID. After nine years at the Bank, I started a public relations company with my wife. At about the same time I became involved in discussions with a few friends that were to lead to the founding of Transparency International in 1993 with me as Vice Chairman – TI was and is the leading global NGO concerned with fighting corruption. Today, it has national chapters in around 90 countries.

My engagement in TI and in the Partnership for Transparency Fund, which concentrates on assisting NGOs on capacity building and specific anti-graft projects, is due in large measure to my belief that sustainable improvements in the lives of people in poorer countries are not possible unless their governments are publicly accountable, the actions of their governments are transparent, and unless there is an independent system of justice in place that treats all citizens equally and fairly. This has finally been recognized by the United Nations, which agreed to Goal 16 in the Sustainable Development Goals that explicitly talks about strengthening systems of justice and curbing corruption.^{viii}

The World Bank and other aid agencies have pledged to promote Goal 16 in their work, but we have yet to see concrete major initiatives. We dare not allow fine rhetoric to go unconnected to serious action.”^{ix}

In many cases, the solutions that are essential to alleviate the plight of the hundreds of millions of victims of corruption are long-term. And, the problem is that few foreign assistance programs are sufficiently long. Even when they are quite long we find that too often there is significant staff turnover and program continuity suffers as a result.

More profoundly, British scholar Sir Paul Collier has stated: “We must decisively end our schizophrenic stance of preaching decency while being lackeys for crooks and sharks.”^x

Sir Paul’s quote relates to the expressed public concerns of Western leaders about corruption and good governance, and the frequent lack of actions by Western governments to follow through.^{xi}

President Trump has said we need to put “America First” – I would rather have policies that put democracy, human rights and justice first. I believe that too often outstanding foreign service officers and officials at U.S. aid agencies have wanted to do this, but then had to compromise because of insufficient political support. Too often, I believe, we have not been willing to challenge totally corrupt governments in diplomatic conversations, let alone publicly. Too much aid has gone to regimes that find ways to victimize their citizens.

But, even if we were more openly challenging of corrupt regimes we need to think through what sanctions would be effective. We don’t have that debate. I think we need to – perhaps with some urgency.

Too often, the term ‘nation building’ is denigrated, but the United States has the skills and the resources to assist many countries across the globe to develop the institutional capacities of governance, including justice, that are essential for economic development and sustainable poverty alleviation. To succeed we need long-term aid programs that are run by experts and that partner with local civil society in meaningful and substantial ways.

Allow me to be specific. We need to develop a powerful consensus behind the concept of what Professor Michael Johnston calls “deep democratization.”^{xii} To assist nations to attain this demands four major long-term tasks that I believe can best be attained through local civil society leadership with large and consistent foreign aid support. Johnston summarizes these as:

- ▶ first, increasing pluralism.
- ▶ second, opening up safe political and economic space – where people have opportunities to express their views and seek to influence political decisions without fearing for their personal safety.
- ▶ third, reform activism – encouraging people to state their grievances, to seek to influence public opinion and to press for change.
- ▶ fourth, maintaining accountability – insisting that powerful people and organizations in both the public and private sectors respect rights and liberties, laws, limits to their powers, and their own social commitments, and being able to seek redress when they do not.

How can we build understanding here in Congress, in the Department of State, in US AID, in the White House, and in the World Bank, to support such a course?

If I am somewhat pessimistic these days, then it is because I don't see the willingness of enough people of stature and expertise standing up, being counted, and calling for these kinds of policies.

Finally on human security and corruption permit me to raise the issue of preserving the environment, which gets too little attention in this context. Across the developing world we find that there are highly sophisticated business and criminal organizations raping the forests. Lukas Straumann is a seemingly mild-mannered, low-key Swiss who is the executive Director in Switzerland of the Bruno Manser Human Rights and Rain Forest Protection Fund. He has played a leading role over many years in supporting campaigns by the indigenous peoples in Sarawak to protect the rain forests.

Together with courageous reporters and investigators for Global Witness, Straumann has exposed massive corruption at the highest levels of Malaysian government and enormous environmental destruction. The story is brilliantly told in a new documentary called *The Borneo Case*.

Corruption impacts every aspect of human security: people die as fake pharmaceuticals and pesticides are purchased by criminal government ministers; people are killed as building developers pay off inspectors so that major construction projects evade building to code; human trafficking thrives as border officials take kick-backs; rain forests and natural resources are destroyed because major corporations put top national officials on their payrolls. This must stop. It can be stopped. But it will demand American leadership.

Strategic Security

Now, such policies are not just in our humanitarian interest and beneficial to our broad longer-term foreign relationships, they are also crucial to our strategic security.

In the Cold War the United States provided aid to many governments in developing countries to, in effect, bribe them to be on our side in the geo-political battle. Are we still using aid to bribe governments?

Sometimes it looks like this. We do provide and have provided aid in very large amounts over many years, for example, to Pakistan, Afghanistan, Iraq and Egypt – in each of these countries most citizens live in squalor, they face violence, and their governments are authoritarian. In each of these countries we find grand corruption.

We should really ask what should the right national security and aid policies be, for example:

- ▶ When officials in Pakistan are bribed to provide their country's nuclear secrets to the governments of North Korea, Libya and Iran.
- ▶ When leaders of the military and intelligence services in Pakistan take tens of millions of dollars of U.S. aid and also use such funds to provide support to the Taliban and terrorist organizations that the U.S. is fighting in Afghanistan.
- ▶ When we spend upwards of \$100 billion in economic and military aid in Afghanistan only to find that vast sums are stolen by leading political and military people who enjoy absolute impunity.
- ▶ When we provide large sums of economic and military aid to Kenya, which then falls into the hands of Kenyan military that are bribed to sell arms and other equipment to El Shabah that creates havoc in Kenya.

I could give more examples. I recognize that in this dangerous world there is a great need for developing excellent diplomatic relations and ensuring first class intelligence from governments that do not share our views of democracy and justice. But, has international security benefited from spending staggering sums of U.S. economic and military aid over many years in Pakistan?

New York Times reporter Carlotta Gall and many others have written at length to suggest that the U.S. has repeatedly failed to recognize fully the scale of deceit by the Pakistani authorities and the scale of their support for the insurgencies in Afghanistan.^{xiii}

I have written at some length over the years about corruption in Afghanistan – the country that has consumed more U.S. aid than any other. The Special Inspector General for Afghanistan publishes quarterly reports that attest to not just the failure of many reconstruction programs but, as he concluded, how the vast amount of our aid flows has contributed to making the corruption situation worse. There have been many others who have drawn attention to this problem.^{xiv}

There has been some progress – more civil society discussions of the topic, more acceptance in military and diplomatic circles of the connections between corruption and security. But this key issue has not received sufficient urgency and sufficient recognition. Since that time there has been some progress in this direction. More senior military personnel understand how important anti-corruption is to stabilize situations in difficult countries. I worry about the Trump Administration in this regard. Will the U.S. continue to provide vast sums of foreign aid to totally corrupt foreign governments? I fear that it might.

Conclusion

But these issues are not playing out in isolation from political trends and realities that abound across the world. In many countries we are seeing unprecedented engagement by citizens in support of justice and anti-corruption actions.

We have seen mass demonstrations that forced a political revolution in Ukraine in February 2014. More recently, we have seen extraordinary public demonstrations week after week in Brazil, in South Africa, South Korea, and in Romania. The whole system of justice has been turned around and for the good because of huge and consistent public demonstrations in Guatemala. In Malaysia, despite the vicious actions of the government, masses of citizens are taking to the street to demand justice and full investigations into the plunder of more than \$3 billion from the government-controlled development fund.

As the highly organized multi-year global bribery schemes of Latin America's Odebrecht construction company have come to light, involving bribes of over \$800 million in 12 countries, so public demands for justice have been powerful, for example, in both Peru and Colombia where former presidents are now under investigation.

The fight against corruption aims to secure the basic rights of all people and ensure a world where everyone can live in dignity. This fight will be won by citizens across the world rising up to call for an end to impunity, demanding accountable governments and justice.

Our challenge here in the United States is to find ways to strengthen the public policy dialogue so that foreign aid and indeed the international services of our State Department and military are deployed constructively to add to both human and strategic security across the world. We must win the fight so that every person on this planet can live a life of dignity and hope.

Thank you.

ⁱ Newsweek International, November 14, 1994, “*Money Talks*” cover story by Michael Elliot.

ⁱⁱ Laura Underkuffler, J. DuPratt White Professor of Law, Cornell University Law School – Chapter 2 in *Corruption, Global Security, and World Order* (2009, Brookings), edited by Robert I Rotberg. Professor Underkuffler wrote: “Corruption is an explicitly moral notion; corruption describes, in general parlance, a powerful all-consuming evil.” She added that to say any approach to corruption that fails to reckon with its moral aspect will be both descriptively and programmatically inadequate.

ⁱⁱⁱ African Progress Panel – *Report 2013, Equity in Extractives* - <http://www.africaprogresspanel.org/publications/policy-papers/africa-progress-report-2013/>

^{iv} Frank Vogl’s article on Congressional action to kill transparency legislation - <https://www.theglobalist.com/trump-and-corporate-secrecy-welcome-to-the-dark-age/>

^v Transparency international Barometer surveys - <http://www.transparency.org/research/gcb/overview>

^{vi} According to the International Association of Women Judges, Sex + Corruption = Sextortion.

^{vii} http://www.transparency.org/news/feature/corruption_perceptions_index_2016

^{viii} <https://sustainabledevelopment.un.org/sdg16>

^{ix} Speech in London, UK, May 10, 2016 by World Bank President Jim Kim: “The World Bank Group considers corruption a major challenge to its institutional goals of ending extreme poverty by 2030 and boosting shared prosperity for the poorest 40 percent in developing countries. In addition, reducing corruption stands at the heart of the recently established Sustainable Development Goals and achieving the ambitious targets set for Financing for Development. It is a priority for the institution and many of its partners. About \$1 trillion is paid each year in bribes around the world, and the total economic loss from corruption is estimated to be many times that number. This figure dwarfs the value of all development assistance. The harm that corruption causes to development is, in fact, a multiple of the estimated volume, given the negative impact of corruption on the poor and on economic growth.” <http://www.worldbank.org/en/topic/governance/brief/anti-corruption>

^x The quote is from an article by Sir Paul Collier in The Guardian on “Guinea’s battle against corruption: which side is the West on?” <https://www.theguardian.com/commentisfree/2012/nov/15/guinea-corruption-which-side-is-west-on>

^{xi} For some detailed case examples from sub-Saharan Africa see “*The Looting Machine*,” by Tom Burgis (2015, Harper Collins).

^{xii} Michael Johnston - Chapters 4 - *Corruption, Contention, and Reform: The Power of Deep Democratization* (2014 - Cambridge).

^{xiii} Chapter 8 - Carlotta Gall – *The Wrong Enemy – American in Afghanistan 2001-2014* (2014 - Houghton Mifflin Harcourt) “The war (in Afghanistan) has been a tragedy costing untold thousands of lives and lasting far too long. The Afghans were never advocates of terrorism yet they bore the brunt of the punishment for 9/11. Pakistan supposedly an ally has proved to be perfidious, driving the violence in Afghanistan for its own cynical, hegemonic reasons. Pakistan’s generals and mullahs have done great harm to their own people as well as their Afghan neighbors and NATO allies. Pakistan, not Afghanistan, has been the true enemy... For more than two decades, the Pakistani military has been manipulating the media to hide the truth from its own people and its allies about the depth of its support for Islamist terrorism.”

^{xiv} In 2013, several of us from Transparency International met over two days on the eastern shore with some officials from different offices of the U.S. government and a few scholars. In summarizing our conclusions Sarah Chayes of the Carnegie Endowment for International Peace wrote: “Systemic corruption has an unrecognized bearing on international security. Policymakers and private companies often pay insufficient attention to corruption when deciding what foreign and defense policies to pursue or where to invest. Greater understanding of the nature of acute

corruption and its impact on global security would contribute to a better assessment of costs and benefits and therefore to improved policy and practice.

<http://carnegieendowment.org/2014/06/06/corruption-unrecognized-threat-to-international-security/hcts>

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