



Transparency International New Zealand

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Members' Update

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Transparency International is a not-for-profit, non-government organisation, which aims to counter corruption in international and national business transactions and government decision making.

Transparency International is politically non-partisan and does not undertake direct investigation of alleged corruption or expose individual cases.

There are over 90 National Chapters of TI worldwide. Each chapter is an autonomous body supported by a global Secretariat based in Berlin

NZ Again Scores Highly in Budget Transparency

- but there are some problem areas.

New Zealand again scores highly on its government budget transparency, in an assessment conducted by Transparency International New Zealand (TINZ) as part of an 85-country international study.

However, the study has concluded there are some important areas for improvement.

The survey, organised by the Center on Budget and Policy Priorities (CBPP) in Washington D.C., is based on 123 detailed questions covering all stages of budget preparation and execution. Most of the 85 countries in the sample are developing countries.

New Zealand is one of only five countries that provide extensive information to the public, however, the survey finds there are two main areas where NZ does not meet international standards;

1. There is no process to ensure that findings of the Auditor-General are properly considered and problems raised by the Auditor-General are addressed. Many countries have formal mechanisms to ensure that the government responds to audit findings.
2. Secondly, there is a serious lack of transparency in regard to tax expenditures – special tax breaks and concessions for favoured activities. While the budget now shows any *new* tax expenditures being introduced, it is decades since the government last publicly disclosed how many of these provisions there are in the tax code and their cost to the taxpayer.

It is disappointing that New Zealand fails to meet basic international standards in these areas and TINZ would like to see NZ improve transparency in these areas.

From the Pacific Region, Fiji and Papua New Guinea were the only the other countries included in the survey.

The index scores Fiji very low and comments that the public are provided with scant information on the central government's budget and financial activities during the course of the budget year. This makes it very difficult for citizens to hold government accountable for its management of the public's money.

Papua New Guinea has scored relatively high on the Index where the public are provided with some, albeit incomplete, information on the central government's budget and financial activities during the course of the budget year.

Full information on the CBPP study results, including the completed Questionnaire on New Zealand, is available at www.openbudgetindex.org

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Building transparency and accountability in the oil and mining sectors

Next month in Qatar a curious collection of presidents and ministers, CEOs of major oil and mining companies, and civil society activists will gather to discuss the Extractive Industries Transparency Initiative (EITI – www.eitransparency.org). Any conference which includes the President of Liberia, the CEO of Shell, the financier George Soros, and the founder of Transparency International Peter Eigen (who is now the Chairman of the EITI) raises the obvious question of what their common cause might be.

The EITI was established in 2002 and started as a response to the following question: why is it that the majority of countries rich in hydrocarbon and mineral resources are poorer, more corrupt, and more susceptible to conflict than countries without such resources. This so-called



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“paradox of plenty” or “resource curse” can be seen at play in dozens of countries across the world, including in the Asia Pacific region (think of Nauru’s wasted millions, the Bougainville conflict in Papua New Guinea, and grand corruption and separatist movements in Indonesia, to name but a few).

The causes of this phenomenon are a complex set of intertwined economic and political factors. A massive influx of extractive industries generated foreign exchange can lead to appreciation of the local currency and the subsequent loss of competitiveness of exports or domestic goods and services which become priced out by imports. The oil and mining sectors, although capital intensive, are relatively low labour sectors and are often unable to compensate for the loss of jobs in other sectors.

As the tax base becomes extremely concentrated, with a small number of large corporate tax payers accounting for the majority of government revenue, there is often a decline in government accountability and democracy. Populist measures such as the reduction or elimination of income tax in fact leads to form of government that could perhaps be best summarised as “no taxation, no representation”. As the majority of revenues are captured by a small elite corruption flourishes as the attainment of wealth becomes less about productivity and more about patronage. Although “resource rich” countries account for only 29% of the countries measured by Transparency International’s most recent Corruption Perceptions Index, they accounted for 53% of the countries in the lowest quartile of the Index.

This combination of economic and political factors can help to exacerbate existing regional, religious, economic, or ethnic tensions. And because extractive industry operations are geographically fixed those tensions often cause or sustain conflicts. The wars or secessionist movements in Angola, Indonesia, Liberia, the Niger Delta, Papua New Guinea, and Sierra Leone over the past decade are all vivid examples of conflicts in which extractive resources have played a part.

The EITI was established to try to address one factor that can lead to these kinds of tensions – a lack of transparency over and accountability for government revenues received from the extractive industries.

At its core the EITI is a two-part mechanism with separate “supply” and “demand” processes. Firstly, countries commit to the reconciliation and publication by an independent auditor of information on company payments and government revenues. Secondly, the entire process is overseen by a multi-stakeholder group of government, company, and civil society representatives who are tasked with ensuring that the data that is gathered is comprehensive, credible, understandable, and is used to hold governments to account.

At the international level the EITI now has a supporting UN General Assembly resolution, a high-level board (with government, company, and civil society representatives), and an independent Secretariat. In addition to the countries implementing the Initiative it can count on support from numerous development agencies, the international financial institutions, all of the major multinational oil and mining companies, and civil society groups such as Transparency International, the Revenue Watch Institute, and Global Witness (who, along with more than 300 other civil society groups form the Publish What You Pay Coalition that works on these areas).

While the EITI has been adopted by 24 countries, its impact

Board Members

Brief biography notes on our final three Board Members—the others have been included in our November and December newsletters.

Hugh Templeton

Hugh is a former Rhode Scholar and Cabinet Minister (1975-84), having been elected to Parliament in 1969. He is well known for his instrumental role in negotiating New Zealand's Closer Economic Relationship with Australia in 1979-83. A former diplomat, he has extensive experience in the Foreign Service and as a representative for New Zealand to the United Nations.

Trevor Roberts

Trevor is widely recognised as a specialist lawyer in the fields of trade practices, public and administrative law, insurance law, commercial law and charities. He is an Elder of the Presbyterian Church of New Zealand and is active as an advocate and lobbyist. His principal areas of knowledge are in politics and government, in the provision of financial services and especially insurance and reinsurance, and in overseas investment in New Zealand. He has had a close involvement with Charities and Trade Associations, and was for eleven years Executive Director of the Insurance Council of New Zealand. He is a director of public and private companies and served for nine years as Deputy Chairman of the Earthquake Commission.

Dr Rodger Spiller

Rodger is a Certified Financial Planner and Chartered Accountant. He holds a PhD in business ethics, investment and responsible business and a Master of Commerce (First Class Honours). He was Executive Director of the New Zealand Business Council for Sustainable Development from 2000-2002 and represented New Zealand business at the United Nations World Summit on Sustainable Development. He was previously Executive Director of New Zealand Businesses for Social Responsibility and since 1998 has been Executive Director of the New Zealand Centre for Business Ethics and Sustainable Development, a research and education partnership between leading tertiary institutions.

in the Asia-Pacific region has been limited – only Mongolia and Timor Leste have signed-on to the Initiative. Significant resource-rich countries such as Indonesia, Papua New Guinea, and Vietnam, as well as countries with potential to be resource rich (such as Cambodia and Laos), remain outside of the EITI. With the emergence of seabed mining ventures there is also potential for Pacific Island states to become resource-rich. Whilst the Australian government is a close supporter of the Initiative, the New Zealand government has thus far yet to commit its backing. Next month’s meeting in Qatar might well be a time in which the Initiative’s lack of success in the region becomes acknowledged as an issue that needs to be addressed.

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Transparency International Secretariat Working Papers



There are always a range of Policy and Research issues being considered within the global Transparency International community. If you are interested in making comment on any issue please email us (admin@transparencynz.org.nz) and we will send you the appropriate paper. This month we highlight the following draft policy documents;

Draft Policy Paper -Corporate Governance as a Framework for Countering Corruption

Transparency International (TI) views strong corporate governance structures as an essential element in reducing corruption and responding to abuses when they are discovered. The policy paper focuses on the linkages between good corporate governance, corruption and anti-bribery programmes.

Draft Policy Paper - Ensuring Effective Monitoring of UN Convention Against Corruption

Transparency International (TI) argues that, for monitoring to be effective and viable, there is a need for flexible, fair, transparent and cost-efficient review process, inclusive of civil society views. TI calls on governments to work together to approve a review mechanism.

Corruption and the Global Financial Crisis

*Comment from Danny Kaufmann (reported on
www.forbes.com)*

The financial debacle has many causes and implications, but it would be wrong to underestimate systemic corruption.

It would be very convenient to start this article by stating that corruption is a challenge mainly for public officials in developing countries and that it is unrelated to the current global crisis.

I also wish I could claim that corruption has declined worldwide as a result of the global anti-corruption and awareness-raising campaign, the many effective anti-corruption commissions, and the recognition that poverty and culture are the reasons why corruption prevails.

But none of it is true. For starters, corruption is not unique to developing countries, nor has it declined on average. Some developing countries, such as Chile and Botswana, exhibit lower levels of corruption than some fully industrialized nations. And countries like Colombia and Liberia have made gains in recent years, while others, such as Zimbabwe, have deteriorated. Bribery remains rife in many countries, totalling about \$1 trillion globally every year.

In truth, anti corruption commissions, revised laws and awareness-raising campaigns have had limited success. Focus on petty or administrative bribery has been misplaced at the expense of high-level political corruption.

One neglected dimension of political corruption is "state capture," or just "capture." In this scenario, powerful companies (or individuals) bend the regulatory, policy and legal institutions of the nation for their private benefit. This is typically done through high-level bribery, lobbying or influence peddling.

The cost to society of bribing a bureaucrat to obtain a permit to operate a small firm pales in comparison with, say, a telecommunications conglomerate that corrupts a politician to shape the rules of the game granting it monopolistic rights, or an investment bank influencing the regulatory and oversight regime governing them.

As a country becomes industrialized, its governance and corruption challenges do not disappear. They simply morph and become more sophisticated: Transfer of a briefcase stashed with cash is less frequent.

Instead, subtler forms of capture and "legal corruption" exist: an expectation of a future job for a regulator in a lobbying firm, or a campaign contribution with strings attached. In many countries this may be legal, even if unethical. In industrialized nations undue influence is often legally exercised by powerful private interests, which in turn influence the nation's regulations, policies and laws.

This has dire consequences: Witness the various forms of corruption underlying the current global financial crisis that started in the U.S.

There are multiple causes of the financial crisis. But we can not ignore the element of "capture" in the systemic failures of oversight, regulation and disclosure in the financial sector. Concrete examples abound.

First, the way **Freddie Mac** and **Fannie Mae** spent millions of dollars lobbying some influential members of Congress in exchange for, among other things, lax capital reserve requirements for these mortgage giants.

Second, how **AIG's** "small" derivatives unit located in London managed to obscure its accounts, be governed by lax regulatory oversight, and take inordinate risks that effectively brought down AIG's empire of 100,000 employees in 130 countries, accelerating the global financial crisis.

Third, how giant mortgage lenders such as Countrywide Financial switched regulators so as to fall under the lax oversight of the Office of Thrift Supervision, which was funded by fees paid by the regulated banks (and which also supervised AIG's derivative unit).

Fourth, how in April 2004, during a 55-minute-long meeting at the Securities and Exchange Commission, the largest investment banks persuaded the SEC to relax its regulatory stance and allow them to take on much larger amounts of debt.

Finally, Madoff's giant Ponzi scheme, some of which appears to be plain fraud, though system-wide irregularities also point to subtler forms of corruption and capture. Years ago the SEC knew that Madoff, who had served on the commission's own advisory committee, had multiple violations and was misleading it in how he managed the funds of his customers. Yet the SEC failed in unmasking the Ponzi scheme.

Consequently, the study of corruption ought to include acts that may be legal in a strict narrow sense but where the rules of the game have been bent. Would this broader view of corruption result in different corruption ratings? Absolutely.

Let's look at the U.S. Over the past few years, traditional measures of corruption, such as the Corruption Perceptions Index by Transparency International, have placed the U.S. among the least corrupt nations in the world, currently ranking No. 18 among 180 rated countries.

In stark contrast, when in 2004 I calculated an index of "legally corrupt" manifestations (measured through the extent of undue influence through political finance and powerful firms influencing politicians and policy making), the U.S. rated in the bottom half among the 104 countries surveyed. Countries like the Netherlands, Norway, Denmark and Finland exhibited low levels of "legal corruption" (ranking Nos. 1 through 4, respectively). Yet the U.S. was rated 53rd, a few ranks below Italy. Chile rated 18th. Also rating

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National Integrity System Study

In 2003 TI New Zealand undertook a National Integrity System study and the Board of TINZ has recently exploring ways to update the study. Director, Murray Petrie, was involved in the 2003 study and has agreed to explore options for undertaking the review.

National Integrity System studies are a core document employed by TI chapters to assess the robustness of anti-corruption systems within a country.

A copy of the 2003 NIS Study for New Zealand is available on request from TINZ's office.

All Black Sponsor, Iveco, fined for "Illegal Kickback"

Rebecca Wright of Global Insight reports (23 December) that the Fiat Group has been fined a total of US\$10.6 M by the U.S. Securities and Exchange Commission to settle accusations of "illegal kickbacks" related to trade with the former Iraqi regime under the UN's oil-for-food programme.

Fiat subsidiaries, Iveco and CNH are involved and are accused of having paid a total of approximately US\$4.4 M to the Iraqi government between 2000 & 2002 by inflating the price of contracts by 10% before submitting the contracts to the UN for approval.

Fiat has acknowledged responsibility for the actions of its three subsidiaries, Iveco, CNH Italia and CNH France. The agreement reached with the Securities & Exchange Commission requires the company and its subsidiaries to cooperate fully with the Justice Department's ongoing Oil for Food investigation.

Front Line Risks of Fighting Corruption

Transparency International's Secretariat reports that fighting corruption on the front lines can come at a devastating personal price. In many parts of the world, anti-corruption activists are at constant risk by those who wish to silence individuals involved in the fight against fraudulent ruling powers and corporations.

In Sri Lanka violent threats and murder have been used to silence those who speak out against the political regime. The home of the head of the TI chapter was bombed in September last year and then on 8 January this year the first recipient of the TI Integrity Award, Lasantha Wickramatunga, was assassinated. He was editor of *The Sunday Leader*.

In Gabon, four civil rights activists were detained, refused access to lawyers or medical care and consequently accused of "propaganda".

In Zimbabwe, activists speaking out against the regime this year have found themselves locked up for an indefinite amount of time and denied legal rights.

And even a little closer to home - on 17 January there was an attack on the Publisher of Vanuatu's Daily Post. Police have confirmed that four police officer of the Department of Correctional Service are suspected to be behind the attack.

TI's Secretariat report that violence against front line personnel is escalating in many countries and TI is gravely concerned about the harassment and intimidation of all those involved in the front line fight against corruption.

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better than the U.S. were countries like Botswana, Colombia and South Africa.

Corruption and capture are important causes of the crisis. But it is also urgent to face up to the consequences of "new world order." There is a rapid--unprecedented in peacetime--expansion in the role and scope of government in "market economies." This new overarching role of government, taking place in the U.S. and other large economies, is occurring at five levels.

First, the public sector is reshaping regulation; second, the government is becoming an owner of financial institutions; third, it is bailing out selected private concerns through a quick and massive infusion of funds; fourth, it is to provide almost a huge fiscal stimulus into infrastructure; and fifth, it intends to extend the social (and housing) safety net for millions of vulnerable citizens.

There are governance and corruption risks in each of these areas. Lobbyists are already at the door. These new risks are not exclusive to the U.S., but apply to other G-7 countries: Russia and China, among others. With the U.S. leading, current global estimates of disbursed and planned bailout funds approach \$3 trillion, while cumulative global plans for fiscal stimulus near \$2 trillion.

The new U.S. administration has stated its intention to address the challenges of transparency and accountability in its stimulus plan. The devil will be in the details. Merely creating an oversight institution will not do; system-wide reforms in incentives are required. Deep-seated transparency reforms need to be a cornerstone in the government's plan, and should apply to U.S. public agencies as well as domestic and international financial institutions. Regulations supporting effective disclosure, as well as improved audit, accounting and risk-rating standards, should be preferred to restrictive regulatory controls that block innovation and growth.

Humbly learning from other nations will also go a long way. The situation in the U.S. warrants studying other countries--for instance, Sweden and Chile, which successfully addressed their financial crises long ago. Chile also offers guidance on how to structure less corrupt and effective concessions in infrastructure, where the U.S. is a novice.

In order to restore confidence, citizens, entrepreneurs and bankers need to have renewed trust in the financial system. That way they can be persuaded that it is no longer a giant Ponzi scheme. Transparency is the key.

Daniel Kaufmann, a Chilean citizen, is senior fellow at the Brookings Institution, formerly director of governance at the [World Bank](http://www.worldbank.org). Read his blog at www.thekaufmannpost.net.