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*The importance of good governance in the management of public
affaires especially state enterprise*

As prepared for delivery

Good morning, Excellencies, ladies and gentlemen. It is a great pleasure for me to be here today, particularly as the guest of my friend and colleague Akere Muna and particularly because the subject I have been asked to address today to mark the launch of this important new book is one that not only interests me greatly but has been, in many ways, a focus of my professional life. The importance of good governance and the management of public affairs are central to all that I have done – as a Deputy Minister in the Canadian Government -- and currently do – as an adviser to global organizations like the World Bank and the United Nations and, of course, my contributions to Transparency International.

In all countries citizens entrust governments, the public sector and state enterprises with their tax money and the resources of their country to manage the public good, present and future, and to provide essential services and infrastructure. It is this element of trust that I would like to address first today.

State corporations are the extension of governments: just as citizens rely on governments, they trust state enterprises to manage public resources and provide essential services in today's complex societies. We have come to expect centralized systems for providing water, sanitation, transportation, and power. In many countries, we pay high taxes so we can delegate responsibilities for cleaning our streets, educating our children, paving our roads, tending to our healthcare needs. And in many countries state enterprises manage the natural resources and their extraction– the coal, the oil, the gas and forests – that make up a significant portion of the gross national product.

The importance of these roles and responsibilities, underscores the importance of the trust we place in those who undertake them on our behalf. People have a right to expect that these service providers carry out their duties mindful of those for whom they are in essence working: all citizens.

In this context, trust has a very specific meaning:

It means providing quality services, of ensuring honest and prudent management of financial resources and assets. It means providing these services in a safe way, in a fair, honest and professional manner. And, at the end of the day, it means demonstrating full accountability to the people and to Parliament.

This is a tall order in all parts of the world. Few governments get top marks in all these areas but some do much better than others – as much of the research we undertake at Transparency International shows.

Making sure that the contract of trust between governments and state enterprises with citizens is upheld is not trivial. There are clear internal and external threats that can compromise the management governments and of state enterprises. That is why – and I can't stress it enough -- Governance Matters.

We can see this in all areas and in all corners of the world.

One very topical example is the current financial crisis and its aftermath. This has focused the spotlight on a particularly thorny issue: Government Capture in the area of regulation. This is particularly relevant in the United States where the crisis began, where regulators were most at fault and where industry lobbyists have had significant influence on financial regulations.

In 2009 in Washington DC 13,740 lobbyists spent more than \$3.4 billion on behalf of their clients trying to influence lawmakers. There are 15 countries in Africa that have an annual GDP of less than \$3.4 billion. For the commercial banking industry alone, 443 lobbyists funneled \$50 million to lawmakers; securities and investment companies – the institutions most connected to the packaging and reselling of miss-priced assets– these

institutions hired 821 lobbyists at a total cost of \$93 million in 2009, according to the Center for Responsive Politics using data from the Senate Office of Public Records.

Why so much spending now, after the deluge? Lobbying influences policy decisions and these post-crisis years are crucial to setting the framework for future financial industry regulations. Financial institutions are scared they will have their wings clipped by irate lawmakers spurred on by citizens angered by the bailouts and bonuses. Lobbying clearly worked in the past: it was only two decades ago when the dismantling of the Glass-Steagall Act allowed banks to enter less regulated market and eventually contributed to the sub-prime mortgage crises and the \$700 billion tax-payer bailout.

The arguments are well rehearsed. Many industries have lobbied that self-regulation works and ultimately benefits the taxpayer because less government means less cost. But experience – like the sub-prime debacle -- teaches us that this can be a spurious defense. Self-regulation means less supervision and quite frankly few industries warrant that level of trust. In our globalized world, this financial crisis has had an impact on countries around the world by affecting exports and increasing unemployment.

But it is not just governments that are targets for capture. Governments themselves can be both the capturers and captured. For centuries influence and power has bred nepotism and cronyism in the machinery of state. Governments reward those who support them with either lucrative contracts or by appointing them to government and State Enterprise positions.

Unfortunately this is still all too common. In Italy there is even a word for it: *racomandazione* – a kind of institutionalized patronage that sees the friends of those in power prosper.

When this kind of behaviour becomes systemic, states fail in their responsibilities to their citizens. This happened in Russia after the collapse of communism with the rise of the industrial oligarchs who amassed billions of dollars buying state monopolies at knock-down prices.

Africa is also not immune to this problem –as you are all aware. This resource rich continent struggles to exploit its wealth for the good of all its people instead of the few in power.

Unfortunately, corrupt governments leaders and officials , who rob the resources of their country directly or through the use state enterprises in order to enrich themselves personally, are often abetted by others. In 2001 bank regulators in the UK found that 23 banks in London had handled \$1.3 billion of the huge wealth allegedly looted from Nigeria by then president Sani Abacha. A prestigious bank in the US collapsed earlier this decade in part because regulators found private accounts there held on behalf of former Chilean president Augusto Pinochet and Obiang Nguema of Equatorial Guinea.

There can be very little trust in government, the public sector and state enterprises under these circumstances. But it is, one might argue, even worse when pure criminal elements usurp legitimate government power

completely. This is happening across the world in different pockets of lawlessness, usually fueled by drugs and guns. We see it in Mexico and Afghanistan, in Guinea Bissau and in parts of Pakistan. I recently read a horrendous report from a small community of 26,000 in Mexico called Tancitaro. At dawn one day, gunmen kidnapped the elderly fathers of the town administrator and the secretary of the City Council. Within hours most of the official administration of the city had resigned: both officials, the mayor, the entire seven-member city council, the police chief and 60 police officers.

The narco-state, fueled by guns and drugs, is an extreme example of state capture and is not the most prevalent though it does produce the most

headlines. Unfortunately, in too many countries there is a silent, stealthy slide towards State capture that is harder to detect because of the troubling lack of transparency and accountability in government accounting structures and corporate reporting.

At Transparency International we focus a great deal of attention on this issue. We are a strong partner and supporter of the Extractive Industries Transparency Initiative which was started in 2003 specifically to promote good governance in resource rich countries to ensure the reporting of payments for oil, gas and minerals are recorded transparently. In 2008 TI launched its Promoting Revenue Transparency in the Oil and Gas Industry report that found that many companies, including state-owned enterprises, are not transparent in reporting how much they pay in terms of tax, royalties

or other considerations to exploit natural resources.

The report assessed 42 big companies operating in 21 countries. None were consistently transparent, which leaves room for corruption and misuse of monies that should go to help development and alleviate poverty. What the report did show was that strong regulation has an impact. National oil and gas companies were significantly more transparent if they were publicly listed because it forced them to comply with international reporting standards. Only 12 percent of non-listed state-owned companies were considered transparent in reporting payments. For listed companies, the proportion was significantly higher at 42 percent.

Countries rich in natural resources at times entrust the management of these resources to state enterprises. Governments, therefore, can use state enterprises to keep significant financial revenues off the main budget if they are not transparent. If Governments capture the companies, they have the ability to manipulate the accounts.

In this environment corruption thrives: bribes for contracts go unnoted, bribes for procurement never get reported. Is it surprising then that the culture of bribery makes it down to the man on the street? Bribes become commonplace for everything from securing a connection to the electricity or water grids, to getting a driving license. The Transparency International 2009 Global Corruption Barometer which carried out more than 73,000

questionnaires in 69 countries showed that one in 10 people reported paying a bribe. Many of these bribes were extorted by service providers from governments and from State-owned enterprises.

The scope for bribery in a world without transparency is limitless. Greed can flourish where impunity reigns and it does not take much to spur greed, unfortunately. We see that on Wall Street and we see that in the newly elected local official who readily accepts payments either to turn a blind eye to crime, or reward a “supporter” with a sinecure.

Government capture, nepotism, cronyisms, lack of transparency and accountability, greed: these are some of the internal conditions that

challenge good governance in government and state enterprises. As if that were not enough, there are, of course, external agents too.

Governments and state enterprises face daily pressures from events beyond their control. I am, of course, talking about such things as population migrations, climate change, globalization and its effects on credit markets, cross border civil conflicts, terrorism and increasingly cyber-terrorism. Then there is the cross-border illicit trade in arms, drugs and human beings. Many countries are now becoming highways for illicit trade. And let's not forget natural disasters, which seem to happen all too frequently these days. I am of course thinking of Haiti and Chile. Food security, health and livelihoods are all under threat posing significant challenges to governments that often, as is the case in Haiti, are ill-prepared to cope.

It will take too long to talk about the specific threats each of these poses and although all countries need to cooperate to prevent and mitigate these, it is the internal threats that governments can reasonably work on and achieve results.

What we do know is that these internal threats create poverty, increase the gap between the poor and the rich, incite social unrest and dramatically reduce the capacity for a country to reach better overall levels of development.

Let me just say that understanding these threats and discussing them openly is the first step towards finding solutions to mitigate their effects. It is for the

most part the public sector and state-run enterprises, trusted to provide essential services to citizens, that are at the forefront of this battle.

Looking forward I would like to suggest what I will call A Good Governance Doctrine one which will help governments, state enterprises and those who run them remain worthy of the trust of their citizens.

1. First and foremost there must be **sustained and committed leadership** that embodies the core values of good governance. Direction starts at the top. Leadership can make good governance become a reality. When senior management is committed to transparency, integrity and accountability and lives by these standards, it will set the tone for staff.

2. All organizations need a soul, a compass to guide them regardless of the pressures or turmoil which will come their way. Let me suggest a very short list of **these values**, those that I see as essential:

- **Integrity and Probity** sit above everything. If everyone in an organization acts with integrity and probity there will be no room for corruption. Staff will be hired on merit and professional competence not because of whom they know. All payments will be properly recorded; all decisions will be made based on judgment not graft.
- A strong public enterprise has **a strong sense of public service** -- That almost sounds quaint in the 21st century but it is an important aspect of how well any government department or state enterprise is run. It encompasses

both national and personal pride in providing high quality service to citizens and clients, and it leads on to the next one:

- **Respect** – respect for one’s own work, for one’s client and for one’s co-workers.

- **Transparency and Accountability**

Information is power – an adage often quoted -- and it belongs to the people unless there is a threat to national security. For the majority of state enterprises this will rarely be the case. People should always have the information accessible to hold their institutions to account.

In working with staff over the years, I have discovered that they kept coming back to this set of values as those most important guidelines for them in the delivery of

their responsibilities.

When I arrived in the Public Service Commission of Canada as its Chair, I found the number of procedures manuals had grown exponentially over the years. They purported to guide all Canadian government departments in staffing rules and regulations, not an insignificant or inappropriate function, given the one-quarter of a million positions at the time. It was evident to me, however, that no one really knew what was essential anymore. There was

even, for example, a government rule for determining the margin used for a specific type of document.

Using the essential values of the public service – respect for others, integrity, probity, transparency and accountability – and I have to add a fair deal of common sense – we were able to hone in on the procedures that were essential, cut those that weren't – and thereby make sure that what remained were respected, coherent, and followed.

This cultural indoctrination is not something that happens overnight. There must always be sufficient and regular training and retraining to ensure old and new employees stay the course.

3. This leads me to another very important point. Just as ethical behaviour guides an organization, good governance also requires a **robust legal and regulatory framework**, properly enforced to ensure legitimacy. This includes a clear mandate for State enterprises enshrined in laws that drive operations.

Unfortunately in many countries although these structure are nominally in place, they are often either ignored or not enforced. This leaves people unprotected, and creates the kind of uncertain environment that drives

investors away. If, a State Enterprise for example, cannot guarantee that a contract will remain in force if there is a change of government, investors will think twice before committing resources.

4. Transparency in all areas but in particular in **financial systems** cannot be bypassed to ensure good governance. All revenues, budgets and disbursements need to be published in a form that all citizens and other stakeholders understand. A follow-the-money approach can demonstrate all the leakage points in a program, from the budget decision to the point of delivery, be it a school, a health clinic or road construction. Some of these studies have demonstrated that as little as 1 per cent of the original budget reaches its final destination.

President Toure of Mali decided that the revenue system of his country had

to be reformed. This was a complete overall starting with income tax. It included the introduction of new electronic software, systems changes and massive training and retraining of staff. Within a few years after this reform the revenues from Tax alone, everything else remaining stable, had been quadrupled and I understand that it has now reached a factor of six times the original revenues

5. Transparent and accountable financial systems help prevent corruption. Nevertheless, state enterprises can go one step further and **establish anti-corruption programs and rules** that all employees understand and follow.

Transparency International, working with the United Nations Global Compact has published a series of anti-corruption guidelines that help clarify grey areas and establish ethical ground rules. There are elements against which corporations have to report under the 10th Global Compact principle on corruption. TI is conducting a periodic review of corporate performance in such reporting. We call it Transparency in Reporting on Anti-Corruption or TRAC. The first TRAC report monitored 500 companies. Most were found wanting.

Part of our guidelines look at ways that help companies put in place mechanism that stop corruption before it even starts. For example, when a payment is required, it is important that there are clear published fees for the service in question and a clear customer complaint mechanism. It helps if the organisation can use electronic payments – because it leaves a clear trail of where the money went. If a government office grants any kind of license, perhaps for the transportation of livestock, a strict payment schedule limits the scope for bribery.

6. Oversight institutions

Supreme audit institutions, anticorruption Commissions and Electoral Commissions, for example which are fully independent of the Executive and properly resourced are most important in providing the required checks on absolute power and in being a deterrent to fraud, corruption, cronyism and mismanagement. Well performing State Enterprises find it important to establish an Audit Committee that reports to the Board in addition to either an external Auditor or the Country's Auditor General. In this way management has checks and balances to identify problems at an early stage

– given of course that the audit committees are truly independent. I always found my Audit Committee to be my best possible insurance policy.

7. **Procurement** is a red flag in all countries. Construction and procurement are most vulnerable to corruption. Massive market inefficiencies can also arise from corruption in these sectors, In the extreme, it leads to the destruction of development opportunities.

If corruption in public contracting is not contained, it will grow. It is estimated that systemic corruption can add 20-25% to the costs of government procurement, and frequently results in inferior quality goods and services and unnecessary purchases. With shoddy construction of buildings and bridges, for example, it can also cause death. Examples abound in this regard.

It is argued that, on average, approximately 70 per cent of central government expenditure turns in one way or another into contracts. In 2005 TI estimated that that accounted for \$4 trillion a year.

Contracts are sources of power to those who give them out, and targets of ambition for those who may receive them, making public contracts particularly prone to abuse at the expense of public need. Losses due to corruption in this area are estimated at between 10 and 25 percent. In some cases losses may reach 40 to 50 percent of the contract value.

For all these reasons TI has been working on alerting governments, the business community and civil society worldwide about the importance of

curbing corruption in public contracting and on developing a number of anti-corruption tools including what we call Integrity Pacts to ensure that prices quoted and paid are fair.

For example, Transparencia Mexicana has implemented more than 100 Integrity Pacts. Each pact is attested to and monitored by a so-called “social witness” who is a member of civil society. The social witness is selected based on a high level of personal integrity and public trust and must also be fully independent to avoid any risk of conflict of interest.

8. Corruption risk assessment in governmental departmental programs such as in customs and in State enterprises would go a long way to prevent corruption and establish mechanisms for early detection of misappropriations, fraud and major losses of essential resources. In all organizations there are numerous ways of defrauding the organization.

Neglect in this regard can be very costly and bring down the reputation of and enterprise, something very difficult to rebuild.

The most fundamental element of a Good Governance Doctrine is for all countries to have a well performing justice system with an independent, professional and properly resourced judiciary and with a professional and ethical police force.

Let me just finish by reiterating my very first point. Clearly the principles of good governance and their importance apply to all branches of the state. I could talk about the sanitation department, schools, health clinics and sport. But I think that by now you get my message: there is not one area of

government, the public sector or state-run enterprises where good governance is not crucial.

I have worked in and with governments for so many years now, that I know that this is a message that has to be delivered over and over again. Those in government are there to uphold the rights of the citizens; they hold positions of trust. They need to be worthy of that trust.

It is fitting to talk of the importance of public service here in Yaoundé, the home of the Munas, a family for whom public service has always been a way of life across generations. We would all do well to follow the example of Solomon Tandeng Muna, who said:

“Comme enseignant, je me suis évertué à modeler les jeunes esprits pour leur permettre de grandir et de réussir et pouvoir un jour être des citoyens au service de la société. Comme homme politique je me suis évertué à bâtir une société juste et équitable où les citoyens pourront vivre dans la concorde et la prospérité.”

I thank you, once again, for giving me the opportunity to address you today.