
REPORT

on the workshop

CORRUPTION - HOW, AND WHY, TO AVOID IT

CERGE-EI Prague, 11 November 1998

Prague/Zurich, June 1999

Workshop organised by, or in cooperation with:

- CERGE-EI, Centre for Economic Research and Graduate Education, Charles University - Economics Institute, Academy of Sciences, Prague
- CPA, Centre for Political Analysis, Prague
- CSEE, Czech Society for Ethics in Economy, Prague
- ESCE/WSMO, Economic Forum Switzerland - Central/Eastern Europe / Wirtschaftsforum Schweiz - Mittel-/Osteuropa, Zürich and Prague
- HST, Chamber of Commerce Switzerland - Czech Republic / Handelskammer Schweiz - Tschechische Republik, Prague and Zürich
- TI-C, Transparency International Czech Republic, Prague
- TI-CH, Transparency Switzerland, Rüti ZH and Geneva

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I. THE WORKSHOP

A workshop entitled "Corruption - How, and Why, to Avoid It" took place in Prague on the premises of the CERGE-EI economics institute on 11 November 1998. The workshop was hosted and arranged by various groups from the NGO, academic and private sector (see this reports cover page for acknowledgements).

Opening

The workshop opened in the morning with two key-note speeches by

- JUDr. Pavel Rychetsky, Vice-Chairman of the Czech Government and Chairman of the Government's Legislative Council and
- HE Dr. Walter Fetscherin, Swiss Ambassador to the Czech Republic.

Morning

The opening addresses were followed by a breakfast for all workshop participants prior to beginning a morning session of presentations moderated by

- Petr Grégr, Legal Advisor to the Delegation of the European Commission in Prague.

Workshop speakers included

- Dr. Marie Bohatá, Director of the Czech Society for Ethics in Economics and Chairwoman of the TI-Czech Republic Executive Board
- Werner Schiesser, Lic. iur. HSG CPA; Member of Transparency Switzerland Executive Board and Consultant at PriceWaterhouseCoopers, Zürich
- Tomas Poledna, PD Dr. iur. Attorney at Law - Badertscher Dörig Poledna Zürich; Chairman ESCE/WSMO CH
- Mirko Ros, Dr.iur. LL.M. Attorney at Law, Stiffler & Nater Zürich; Board ESCE/WSMO CH
- Vladimir Rott, MIM ETH, Eur Ing, V J ROTT Zürich, Board ESCE/WSMO CH
- Michal Burian, Executive Director of Transparency International - Czech Republic

Lunch

Guests were invited to a special lunch sponsored by Zurich Insurance where they were addressed by the company's country manager

- Miroslav Bocek, CEO. Mr. Bocek gave a brief commentary on the need of the private sector to actively take part in curbing corruption in their business dealings and to begin setting examples for new market players.

Afternoon

The workshop continued in the afternoon with a discussion plenary moderated by

- Brady Clough, Director of the Centre for Political Analysis.

THIS REPORT

A summary of workshop speeches and discussions follows in the text section of this report with speakers contributions in the report annex. Some material on the international framework and on the media role is included in the last appendices.

WORKSHOP PARTICIPANTS AND SPEAKERS

Max **Ackermann**

Swiss Broadcasting Corp., Praha

Martin **Aeschbacher**, Counselor

Swiss Embassy, Praha

Natasha **Antovic**, Student

AAC Anglo-American College, Praha

Sabina **Basc**, Student

AAC Anglo-American College, Praha

Jaroslav	Bocek , CEO Zürich Insurance, Praha	workshop noon address
Dr. Marie	Bohatá CERGE-EI, Praha	workshop speaker
Michal	Burian TIC Transparency International Czech Republic, Praha	workshop speaker
O.	Cápek , Student VSE University of Economics, Praha	
Biljana	Cukovic , Student AAC Anglo-American College, Praha	
Brady	Clough CPA, Praha	afternoon moderator
S.	Dvoráková , Student VSE University of Economics, Praha	
HE Dr. Walter	Fetscherin , Ambassador Swiss Embassy, Praha	workshop opening address
Petr	Grégr Delegation of the European Commissio, Praha	workshop moderator
Dr. Ernst	Griese , Attorney Schürmann+Partner, Praha	
Marta	Guthová Flow East a.s., Praha	
Rudolf	Hermann Neue Zürcher Zeitung, Praha	
Jirí	Hurta , Student CVUT Czech Technical University, Praha	
Ing. Jaroslav	Jirásek , Dr.Sc. CMC Graduate School of Business, Celákovice	
Michal	Knapp Credit Suisse, Praha	
Bettina	Lobkowicz Melnik Castle, Melník	
Arthur	McAndrew AAC Anglo-American College, Praha	
Ms.	Muchová , Press Aide Czech Governement, Praha	
Doc.Ing. Karel	Müller CSEE Czech Society for Ethics in Economy, Praha	
Stepán	Müller , Academic Dean, Vice President CMC Graduate School of Business, Celákovice	
Valentin	Nocev , Student AAC Anglo-American College, Praha	
Dr. Václav	Nemec Praha	
Caroline	Oliver , Student AAC Anglo-American College, Praha	
Ph.D. Václav	Perich NKÚ Supreme Audit Office, Praha	
Klára	Pipková , Student VSE University of Economics, Praha	

- Djordje **Plecas**
Dresdner Bank, Zürich
- Dr. Tomas **Poledna**, Attorney workshop speaker
Badertscher Dörig Poledna, Zürich
- Daniela **Prenkovska**, Student
AAC Anglo-American College, Praha
- Ing. Jirí **Princ**
CSEE Czech Society for Ethics in Economy, Praha
- Otakar **Procházka**, Chief Manager
Komerční banka, Praha
- Marek **Procházka**, Attorney
Procházka Randl Kubr & Partner, Praha
- RNDr. Anna **Putnová**
CSEE Czech Society for Ethics in Economy, Praha
- Ing. Miroslav **Rehounek**, Director
HST Commercial Chambre Switzerland - Czech Republic, Praha
- Nenad **Radonjanin**, Student
AAC Anglo-American College, Praha
- Dr. Mirko **Ros**, Attorney workshop speaker
Stiffler & Nater, Zürich
- Vladimir **Rott** workshop speaker
V J ROTT Zürich, Zürich
- Dr. Pavel **Rychetsky**, Vice-Chairman workshop opening address
Czech Government, Praha
- Petr **Simunek**
Mladá Fronta, Praha
- Stephan **Schackwitz**
CMC Graduate School of Business, Celákovice
- Werner **Schiesser** workshop speaker
Pricewaterhouse Coopers, Zürich
- Marek **Svoboda**
CSEE Czech Society for Ethics in Economy, Praha
- Ing. Jan **Uhlir**, Chairman
CS KOVO, Praha
- Juraj **Valachy**, Student
CERGE-EI, Praha
- Marie **Volková**
Hospodářské noviny, Praha
- MUDr. Hana **Vrbová**, CSc.
CSEE Czech Society for Ethics in Economy, Praha
- James **Wolf**
Flow East a.s., Praha
- Mitchell **Young**
Praha

II. SUMMARY - OVERVIEW OF SPEAKERS' COMMENTS

COMMENTS OF HE PAVEL RYCHETSKY

(Annex A)

Recent discussions among members of the Tripartite (Cabinet-Employers-Trade Unions) have shown a shift in partners' concerns. It was entrepreneurs who expressed concern, not over the balancing of the State Budget or the allocation of public funds, but rather local conditions for businesses in the Czech Republic. They reported significant distortions in economic competition, corruption, disorder in the administration of public tenders, or in awarding public licences. They lack assurance that the same terms of doing business apply for everyone. They demanded the Government to take steps to minimise corruption. Thus the Government has embarked on its "Clean Hands" campaign.

An aim of this programme is to create a situation where businesses obeying the law will not be in disadvantage and where there will be room for fair economic competition. While these measures might seem revolutionary in the Czech Republic, they are considered commonplace in developed countries.

Examples of such measures include mandatory non-cash payments (either for businesses or for all transactions above a certain threshold), or a system of property reporting (real estate assets), without becoming subject to taxation thereon, in order to monitor money-laundering. A portion of the media and political conservatives are against such measures, which comes off as paradoxical. The Government's ideas are on the contrary very liberal.

It's odd in these our efforts to know that in Germany bribes paid to public officials can be deducted from taxes as business costs. In such cases international co-operation is necessary¹.

As concerns criminal law the problem becomes more noticeable due to concepts founded on intentional blame or cause. It is possible to hand out punishments in specific areas even without proof of guilt (i.e. unmarked bills or bad checks). However there is no clear idea on how to bring a criminal complaint for something which does not yet have an international definition - indeed tunnelling is a phenomenon which developed as a result of the Czech Republic's particular form of privatisation (based on credits issued by reckless Czech banks) and attached to obviously disadvantageous business transactions. Making progress in this area is very difficult. Nonetheless the Government is considering establishing intentional damages to one's own business by engaging in disadvantageous business transactions as a criminal offence.

COMMENTS OF HE WALTER FETSCHERIN

(Annex B)

Public perception of corruption is constantly changing, despite the fact that corruption is an everyday reality. Tackling corruption as a societal ill implies placing guidelines or rules on nations, which hold differing values. This is a difficult task, as varying levels of economic and political development render some countries more capable than others of waging aggressive campaigns against corruption in business and public administrations.

Costs of Corruption

It is necessary to understand and remind the public of the detrimental effects that corruption has on societies (i.e. the costs of corruption). Corruption leads to the deterioration of economies and deprives citizens of public funding that misused moneys might have afforded. Thus it is necessary to put in place programmes to counter the uncontrolled growth of corruption and to reign it in to manageable levels.

Corruption and Switzerland

Fortunately, Switzerland has had minimal problems with corruption. The Swiss parliament has taken moves to incorporate strict punishment into national legislation (in both passive and active forms).

¹ In February 1999 the OECD has adopted a convention against the bribery of public officials, altering the status of tax write-offs for bribes in OECD countries, including Germany.

These laws will pass through the parliament prior to the end of 1999. Beyond legal initiatives the Swiss NGO Sector, and government support arms, are active in helping CEECs to address corruption-related issues. For example, the Swiss Agency for Development and Co-operation (SCD), has, since 1990, administered a series of projects in the Czech Republic, Hungary, Poland and Slovakia, with the aim of developing proper-functioning market economies and democracies.

A sampling of Swiss legislative measures and SDC initiatives include:

- SDC technical aid to develop small and medium enterprise in CEECs
- Establishment of a special Commission by the Swiss National Council to examine corruption in the State Administration as concerns the occupations of former State functionaries and current employees additional business activities (seeking to seek out and minimise conflicts of interest).

COMMENTS OF MARIE BOHATÁ

(Annex C)

Corruption within Teaching on Ethics

Dr. Bohatá addressed the issue of fighting corruption from the point of view of academics teaching in the field of business ethics. There are three main origins of unethical business practice. They include the changes brought about by economic transition since 1989, the vast array of new opportunities calling for market regulation, and the establishment of market economies themselves.

Academics Setting Standards

Many standards which exist to prevent the spread of corruption in modern economies have come from academic circles. Indeed it is academics who teach standards for ethical business practice in undergraduate and graduate business study programmes. Cultivating ethics among new generations of business owners is a key responsibility of educators.

CEECs' desire to enter on to Western European markets and into EU political and economic structures has meant mixed results for these countries' economies as concerns corruption. Research shows that corruption decreases with the length of regional investment: that is, investors who are here for the long-term are less likely to participate in corrupt activities. Yet it still appears that corrupt habits are the norm rather than the exception.

Responsibilities of Businesses and NGOs

Thus there is a need to call upon business to cultivate integrity and accountability in their everyday dealings. This should also be complemented by increased co-operation with the Third (or NGO) sector. A high point in establishing dialogue on ethical codes for business came about with the discussions of the European Business Ethics Network (EBEN) Conference held in Prague in 1997. In subsequent years assessments of fair and honest business practices have concluded with critical, yet positive, evaluations. There is an increase in ethical awareness among business owners. And business has begun to follow best-practice methods and convene roundtables (or other special discussions) to address the establishment of a level playing-field.

Codes of Conduct?

Companies now adopt special codes of conduct. This tool has now been put in place in at least 40 per cent of all companies in the Czech Republic. This however has sparked questions on companies' motivation to set codes for ethical standards: are companies doing this to cultivate ethics as part of their corporate identity or has the adoption of ethical standards become a convenient PR tool? The latter relates to habits and trends in corporate giving and philanthropy.

Domestic and International Networks

The Czech Institute for the Members of Administrative Organs has put in place a country-wide code of conduct for members of its board of directors. It has also supported the increased teaching of ethics in academic institutions, not only as elective but also as requisite courses.

Further support of business' larger role in promoting transparent, ethical business practice is the growing role of international bodies addressing this issue. Several groups such as EBEN, Transparency International, and the Council for Ethics in Economics have seen their memberships grow considerably

over the past couple of years. What's more, co-operation has increased at the regional level with CEE neighbours, Hungary, Poland and Slovakia, preparing a conference during 1999 on the topic: ethical problems of economic transformation.

Discussion - Law, Ethical Norms, Media and International Business

Discussion of Dr. Bohatá's remarks evoked the following thoughts:

- The enforcement of laws and their proper interpretation is not sufficient to combat corruption as a societal ill. Compliance with the law is a first step, but educators and business leaders must go an extra step in establishing norms - and not just at minimum levels. It is simply not enough just to get by.
- Mr. **Miroslav Bocek**, General Director of Zürich Insurance, followed with doubts on these values current existence and the means for establishing ethical norms. Mr. Bocek acknowledged that business ethics and values do exist, but they are too often bent or become flexible in critical situations. He commented the need for real, actual presentations of positive examples of ethical business. Mr. Bocek also proposed co-operating with the media on illustrating such examples.
- Mrs. **Bettina Lobkowicz** also raised the issue of international business having let down local partners by succumbing to corruption simply as being a local rule of the game. Mrs. Lobkowicz remarked that international business has an obligation to set and maintain ethical business standards. The Corruption Perception Index (CPI) issued annually by Transparency International might be used as a yardstick: Why does international business' behaviour change from country to country?

COMMENTS OF WERNER SCHIESSER

(Annex D)

Strong Legal Structure in Switzerland

Mr. Schiesser commented Switzerland's fortunate position in ranking at second place on the Transparency International Corruption Perception Index. He attributed Switzerland's high ranking to the country's strong and respected legal structures which have been effective in keep corruption levels low. These include functioning, effective norms in Switzerland's

- criminal law - persons found guilty of corrupt acts face fines or punishment
- private law - Switzerland's legal code features laws which proscribe the hand out of punishments or awarding of damages in instances of illegal competition (i.e. bribery of public officials - these include instances where officials might be court administrators, judges, government-appointed administrators of State-owned business, and or the military administration)

What is Corruption?

Following his discussion of legal parameters set to curb corruption in Switzerland, Mr. Schiesser went on to address the difficulties associated with defining corruption. The Swiss approach has consisted largely of punishing "active bribery". This includes special gifts, promotions, support of election campaigns, product discounts, or any other special service or monetary gift offered for services that should, in general, be executed for free. What's more, Swiss Law has taken the definition a step further identifying instances where even the willingness to accept bribes might be punishable by law.

At present, the largest obstacle for most persons / organisations wishing to fight or avoid corruption, particularly all forms of bribery, is orienting themselves within their country's legislative structure. Switzerland is no exception. And thus priority has been given to developing more "user-friendly" legislative structures. Mr. Schiesser noted the unenviable position of the Czechs, who still face the building up and completion of these structures.

COMMENTS OF TOMAS POLEDNA

(Annex E)

Corruption - Out of the Hiding, and Handling It

Dr. Poledna opened his presentation with the observation that less than 10 years ago monitoring

the global corruption environment was virtually non-existent. However, the recurrence of graver and more serious corrupt activity has brought this phenomenon to the fore among global concerns. Talk of corruption and fighting against it now features at least 1-2 times per week in news, perhaps even more often.

Switzerland has chosen to develop its national anti-corruption measures by examining the situation both internally and externally. This approach has influenced the elaboration of a "gate-keeper" method for handling corruption issues: to minimise corruption within the country and to not let Swiss actors "export" corruption, nor let foreign actors "import" it.

Bribes and the Rules

Dr. Poledna continued his presentation by discussing a broader definition of bribery. His conclusions, with the general agreement of workshop participants, were that regular tools for business negotiations such as a lunch or a bottle of wine need not be seen as bribes. However, their exaggerated use might be.

Moreover, Dr. Poledna warned that it is important for countries to specify clearly definitions governing state employees. Swiss Law defines a state employee as someone who is paid according to the legislative structures of his/her country, possibly foreign employees (in varied instances), and representatives of international organisations.

Discussion - First Steps, Uncertainty

Following Dr. Poledna's presentation discussions developed around the Czech experience of defining corruption, specifically a definition of bribery:

- Mr. **Petr Grégr**, Workshop Moderator and Legal Advisor to the Delegation of the European Commission in Prague, remarked that the current Government is taking the steps to actively reduce corruption in developing its National Programme for the Fight Against Corruption (NPBK). However, specific definitions of bribery, corruption, the offices of state officials, etc. are all key to refining and rendering useful this working document.
- Mr. **Václav Perich**, Vice President of the Supreme Audit Office, added that foreign investors abhor the uncertainty of legal proscriptions against corruption in this country. They feel that they are fighting against non-definition of corrupt practices and the related uncertainty of subsequent legal action as much as they are looking to fight against competitors' involvement in corrupt practices.

Parliament's Role

Dr. Poledna went on to close his presentation with an illustration from the experience of the Swiss Parliament. The Parliament recently took the position that legislators should have the right to make inquiries into instances of suspected corrupt practice and should likewise inform the public as to why these inquiries are being taken.

What to Do

The question remains how to adapt legislative regulatory roles to the present conditions in the Czech Republic. Heavy consideration must be given to the management or mismanagement of state-owned business. Moreover, planned public service reform should take into consideration the remuneration of state employees, its adequacy, and whether or not low wages render public servants susceptible to bribes.

COMMENTS OF MIRKO ROS

(Annex F)

Getting Rich, Quickly

Dr. Ros spoke on investment fraud and its relation to corruption. He warned that in the developing economies of CEECs, society has a fascination with getting rich quick. One hears of such possibilities almost daily with hundreds of thousands of financial experts around the region promising short-term high profits. This contradicts the warning of banks, which recommend a prudent 5% gain as acceptable. Yet the public mindset is drawn to promises of returns ranging between 50 and 70 per cent.

It is important to remember that banks offer minimal risks along with guarantees. Whereas financial experts are offering a service (selling a product) and arranging your investments for you. This is when investment fraud comes into play. These deals are oft rendered even sweeter with promises of tax holidays or arrangements for further buying options. The immediate lesson is that greed doesn't pay.

Countries and Large Companies

Investment and trading fraud do affect and influence a country's corruption environment. Large companies are particularly susceptible to accusations of non-transparent activity for they have the financial means to overcome bureaucratic hurdles. Ultimately this is largely a question of desired corporate image. Companies have control over what products they offer and can ensure that financial/investment packages are not fraudulent.

Common signs of investment fraud noted by Dr. Ros include:

- false advertising - business' taking advantage of consumer naivete
- brand recognition - firms use/sell their name and use it to manipulate a given situation
- sympathy vs. repair - company's offering a fraudulent product will show sympathy toward the customer's predicament but will not actively seek to remedy the situation.

At the close of Dr. Ros' presentation, Werner Schiesser, of TI Switzerland added that there are four common indicators of investment fraud, which the average citizen might use as a measuring stick:

- high yields
- off shore location
- familiar names
- market yields.

COMMENTS OF VLADIMIR ROTT

(Annex G)

Countries' Competitiveness vs. Corruption

Mr. Rott presented a correlation between countries competitiveness and corruption. Corruption is one of the main, out of the many, factors suffocating emerging economies. Its negative impact on competitiveness clearly shows when comparing a ranking of countries according to their competitiveness to that according to their corruption perceptivity. Four groups of countries may be described:

- highly competitive clean countries (including Switzerland)
- medium to low competitive less clean and rather corrupt countries
- uncompetitive rather corrupt and corrupt countries (including Czech Republic)
- uncompetitive corrupt countries.

Hidden Costs – Hidden Possible Benefits

Everyone doing business in a corrupt country may easily assess the costs of corruption, often allowing for such provisions in company's consolidated accounting data. Almost every Swiss company encountered corruption - and bowed to it in the Czech Republic - in the Swiss "pragmatic" business way. But a new Swiss awareness is emerging - that businesses should try to apply cleaner principles and that it well may pay, after some efforts.

As long as the corruption costs remain hidden in company internal data, the benefits cannot be demonstrated to anyone - the public, politicians, economists, academics. The statisticians efforts to measure "hidden" or "shadow" economy, cannot lead alone to any progress. Businesses - meaning first of all those with both economic power and knowledge of clean ways how to do business - must act. A "coming-out" is necessary, and possible. Yet most Swiss businesses still grossly underestimate their power and impact they may, and should, have on Czech politics - such as actively pursuing, promoting, pressing and pushing for the recovery and implementation of sound social values and of functioning legal and political systems.

"Corruption tax" is being collected with a high effectivity, the Czech tax authorities may only dream of. An assessment - rather low - of this "tax" in the Czech national accounts and data clearly shows the potential of impressive lowering of taxes in a more open, transparent and cleaner economy

than in that which many think to have to preserve today. Moreover, this "corruption tax" flows into hiding, off-shore. A vast investment lost, badly needed for the recovery of Czech economy.

Who pays the "corruption tax"? Everybody does: the small, the big, the rich, the poor, now. And for some time in the future.

What May Be Done?

Everybody knows these days. But taking part in your own things - at last - still must be learned. The information society must lead to an acting society in the Czech Republic as well. Knowledge is one thing, acting according to it the next - both skills are still underdeveloped in the Czech Republic.

The feeling of suffocated chances for the few skilled leads to cash drain, brain drain, people drain. Perhaps a chance - it seems to be the only one in sight - for the Czech society and economy is that they will be "forced" into more developed world. But is (economic) power identical with integrity?

The conflicts of opening are being avoided, and so is the way from a close to an open society, with their benefits and some pains. Classical Popper! And classical is his description - over half a century old - why we do so little. Why we may choose to, prefer to do so little.

COMMENTS OF MICHAL BURIAN

(Annex H)

Fighting Czech Corruption

Mr. Burian gave an overview of local, or Czech efforts, to fight corruption. He spoke of recent research carried out by Transparency International - Czech Republic (TIC) in association with the Czech agency, GfK.

Shifting Bribes ...

He commented trends in bribery and kickbacks paid to civil servants and persons offering public services. The results of the GfK research offer the following observations:

- Over the past 10 years the perceived need to bribe has shifted from offering payments for commercial good to slipping cash to civil servants or public officials.
- The general population has varying ideas as to what constitutes a bribe (examples of what might be considered a bribe ranged from restaurant gratuities to paid trips abroad). All respondents agreed that instances of bribery oftentimes depend on the circumstances, under which a gift might be offered or presented.
- Social sectors believed among Czech people to be the most corrupted, according to the GfK research, are the State Administration, the police force, and health services.

... and Social Function of Corruption

The switch of corrupt activity from the trade/services sector to the public administration, along with the social conditions related to evaluating the necessity to offer bribes, indicates a change in the social function of corruption. In the past, corrupt meetings ensured the soliciting party of a clear advantage in obtaining services and a supply of scarce goods. Today a category of people, who believe that corruption is a working method essential to the performance of their professional functions, has formed. The current, common trend is a concentration of corrupt activity in the state administration and the creation of a category of people, whose existence depends on corruption.

Think Twice ...

Mr. Burian closed his presentation by urging business leaders and other workshop participants to think before engaging in corrupt practice. He reminded the audience that there is a reward for standard-bearers and that with time a majority of non-corrupt players can reduce the amount of space for dishonest players looking to infiltrate the Czech business market. Solidarity in supporting transparent business will close options for non-transparent, corrupt groups.

... Work on Transparency

On TIC's behalf Mr. Burian advised workshop participants to take the following steps in working toward a transparent Czech business environment:

- Set codes of conduct obligatory for all employees.

- Encourage professional associations to examine the adequacy and effectiveness of their codes of professional conduct and that of their means of disciplining those members who facilitate corruption. Disciplining abuses of these Codes must be made mandatory.
- Bidders found guilty of bribing public officials in an effort to win public tenders should be blacklisted from competing to win State/official business for an appropriate period.
- Contribute to the work of and co-operate with the non-profit sector, other NGOs and watchdog agencies active in the fight against corruption. Remember they are trying to help you.

III. SUMMARY - DISCUSSIONS

a) **LEGAL FRAMEWORK FOR TRANSPARENCY**

Access to the Laws

Crucial to legislation's ability to minimise corruption levels in a given country is public access to these laws. Citizens must be able to understand and familiarise themselves with legislative proscriptions for fighting corruption.

The Swiss Experience has been that corruption can be limited by open, mutual agreements to promote transparent practice - the signing of joint declarations or agreement to tax audits or income-assets audits for individuals in most cantons.

Laws' Protection and Openness, Transparency

Switzerland also has a Law on the Protection of Economics which works to foster openness in business transactions and promote transparency. This includes the open transfer of corporate information, transparent declaration of taxes, etc. This law complements and follows from legislation such as Freedom of Information Acts which look to ensure transparency at the institutional level. The only setback for the Law on the Protection of Economics has been some troubles with enforcement.

b) **MAINTAINING ETHICAL CODES**

Locally Clean, Globally Corrupt?

There is a difficulty in maintaining consistent ethical standards across cultures for firms that operate on the multinational level. With norms changing from country to country, companies are tempted to behave according to the local status quo: even if this involves adopting corrupt practice they might never consider in their home country. In such instances companies rarely consider special payments bribery, for they see it as part of the system. It is a question of competition. And oftentimes local companies are left wondering how to compete with big multinationals who have the cash.

Controls, Setting Examples

It is true that Western firms behave exceptionally where the legal systems are weak or ineffective. But this mustn't be so. Were lawyers to band together to monitor the functioning of weak judiciaries and likewise the practice of multinational companies, they could limit - or essentially wave their fingers - and discourage these groups from taking advantage of undeveloped institutions. Moreover, institutions such as ombudsmen or volunteer hot-lines can work to remind multinationals that they are the examples. Business in developing economies takes its cue from role-models in developed countries.

c) **INTEGRITY IN THE JUDICIAL SYSTEM**

Corruption, Remuneration ...

The problem of corrupt judges comes up time and again. Workshop participants agreed, Swiss Attorney Mirko Ros in particular, that in order for them to want to do their work judges need adequate salaries. The payment of public officials has a constant role in instances where bribes are solicited. The

question remains whether bribes are requested due to low salaries or the laziness of individuals.

... Training and Time

However at the same time compensation is not to be rewarded without sufficient effort. Judges should be subject to strict training and rewarded properly provided they capably fulfil the demands of their function. Legal and social norms will take generations to cultivate in CEECs. It will take years to gauge proper salaries for public servants and, moreover, it will take time to develop societal standards for what is or is not corrupt practice.

d) LOBBYING VS. CORRUPTION

Openness or Secrecy

The main feature which distinguishes lobbying from attempts at corruption is the free, open flow of information. Public lobbying demands that all citizens make a contribution. Lobbying becomes corruption when state institutions close themselves off to public input and citizens' pleas for government action fall on deaf ears. Openness and, where possible, a willingness to co-operate are the best defences for limiting the possibilities that lobbying turn into a form of corruption.

IV. CONCLUSIONS

1. Openness and access to information are necessary to promote public involvement in the fight against corruption and to make business aware that its operations are being scrutinised.
2. Adopting international standards through concluding legal treaties with other countries will develop additional legal support for fighting corruption in business (i.e. agreements on double-taxation, asset declarations, etc.).
3. Swift prosecution of court cases and the proper handling of legal precedent will remind business that corrupt practice does have legal consequences. This task would be facilitated by the reform of the State Administration.
4. Businesses should participate and encourage the involvement of other business in pacts to support open information during public tenders or privatisations. This should occur with the NGO sector involving itself in procurement and privatisation procedures in an observer capacity.
5. Business educators must recognise and develop their role in teaching business norms and ethical practice. They should take advantage of student interest in such topics in order to cultivate a new, potentially less corrupt, generation of managers and educators.

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Petr Grégr - for his volunteer work as workshop moderator.

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 - Competitiveness and Corruption (Annex G.3)
 - Corruption "Tax" Estimate (Annex G.4)
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ADDRESS OF DR. PAVEL RYCHETSKY

Annex A

Vice-Chairman of the Czech Government and
Chairman of the Government's Legislative Council

Poznámky z projevu místopředsedy vlády a předsedy Legislativní rady vlády JUDr. Pavla Rychetského v CERGE-EI dne 11. listopadu 1998

Podle P. Rychetského má Česká republika zvláštní tradici vyrovnaných rozpočtů. Nová vláda byla první vládou, která předpokládá deficitní rozpočet. Jeho návrh byl projednán v tripartitě², ale ostré kritiky ze strany podnikatelů se vláda nedočkala; kritiku vznášeli spíše odboráři.

Podnikatelé vyjádřili jinou prioritu: důležitější podle nich je, v jakých podmínkách budou podnikat. Setkávají se s nerovnostmi v hospodářské soutěži, korupcí, nepořádky ve státních zakázkách a v udělování licencí...). Chybí jim základní jistota, že rovné podmínky platí pro všechny. Chtějí, aby vláda realizovala souhrn různých opatření k minimalizaci moru korupce. Vláda proto zahájila akci "čisté ruce".

Cílem této akce je dosáhnout situaci, kde podnikatelé ctí právo nebudou trestáni a kde bude skutečný prostor pro fair hospodářskou soutěž. Opatření se v České republice zdají revoluční, zatímco ve vyspělých zemích jsou považována za samozřejmost.

Jde např. o povinný bezhotovostní platební styk (buď pro podnikatele, nebo pro všechny transakce nad určitou hodnotu) nebo systém majetkových příznání bez vzniku daně z majetku (není možno dohledat špinavé peníze). Proti takovému opatření se staví část médií a konzervativního politického spektra, což se jeví jako paradox. Představa vlády je naopak velice liberální.

Je podivné, že např. ve Spolkové republice Německo snad lze část úplatků státním úředníkům zahrnout z daňového hlediska do nákladů. Mezinárodní spolupráce na tomto poli je nezbytností³.

V oblasti trestního práva vyvstává problém koncepce založené na úmyslném zavinění. Je snad možné trestat v dílčích oblastech i bez prokázání zavinění (např. nekryté směnky či šeky), ale není jasná představa o postihu toho, co zatím nemá mezinárodní název – totiž tunelování, fenoménu, který zřejmě vznikl v důsledku specifické formy privatizace v České republice (privatizace na úvěr od lehkomyšlných českých bank) a je spojen s uzavíráním zjevně nevýhodných obchodů. Pokrok v této oblasti je velice obtížný. Vláda přesto uvažuje o zavedení trestného činu vědomého poškozování vlastní firmy záměrně nevýhodnými obchody.

V Praze dne 31. května 1999.

Mgr. Vít Schorm

² Rada hospodářské a sociální dohody, kde zasedají zástupci odborů, zaměstnavatelských svazů a vlády.

³ V únoru 1999 byla v rámci OECD přijata konvence proti uplácení státních úředníků, čímž takovéto odpisy přestaly být i v Německu legální.

ADDRESS OF DR. WALTER FETSCHERIN

Annex B

Ambassador of Switzerland

on the occasion of the Workshop "CORRUPTION - HOW AND WHY TO AVOID IT" in the Centre for Economic Research and Graduate Education, Charles University - Economics Institute, Academy of Sciences, on November 11, 1998

Ladies and Gentlemen,

It was the American author Graham Greene who formulated the importance of the question which will be the topic of today's workshop, in a very concise way: "Our worst enemies are not the ignorant and the simple, however cruel; our worst enemies are the intelligent and the corrupt". Or, in a more poetic form, William Shakespeare: "Lilies that fester smell far worse than weeds".

Ladies and Gentlemen, with such an interested and knowledgeable public as the participants of this workshop this sounds like carrying coals to Newcastle but I think one can hardly overemphasize the significance of corruption in nowadays world. There were times when the word "corruption" and everything which goes with it was unknown in the vocabulary of most nations of the planet. Bribery and other forms of corruption were just integrated parts of most procedures which involved not only the state sector but also most private economic activities. And in most cases people were not even conscious of the fact that there might be anything wrong with it. People simply considered it to be a kind of a surplus tax, a kind of natural addition to the production costs of a product or a service.

This situation has thoroughly changed in the last few years when nations and economies grew closer together and were increasingly under pressure to adapt their behavioural standards to each other. The world might not yet be a village but definitely a small town. And if one takes into account the social pressure and the common moral principles people have often to comply with in a small town one can understand the international power of coercion which countries are exposed to in these days with regard to corruption.

There is no doubt that one can discuss the individual extent of the fight against corruption in the local framework of each nation. In certain cases one might even consider that the very demanding standards as they have been introduced with the OECD's "Convention On Combating Bribery of Foreign Public Officials in "International Business Transactions" last year are of a typically christian-cartesian nature and have not much in common with moral and cultural values of nations with other cultural roots. Some people might even call it cultural colonialism. But in the end of the day it might become clear even for the most stubborn opponents of international anticorruption measures that in today's integrated business networks tolerance of corruptive behaviour can only lead to a deterioration of the competitiveness of a national economy. And that the continuation of corruptive activities is therefore only to their own and everybody else's disadvantage.

The reasons for such negative effects are obvious. One is of moral nature. Corruption has basically a tendency to soften legal security and to jeopardize confidential relations among partners. In addition it is growing uncontrollably like a virus. Norbert Wiener was right when he said: "A conscience which has been bought once will be bought twice". The other reason is of economic nature.

Even if corruption has in certain societies become such a "normal" phenomenon like taxes, in an open economic system your products and services will simply get more expensive than those of countries

which have abolished this kind of "taxes". Consequently, you lose your comparative advantage and will eventually be compelled to come to grips with the situation.

Switzerland has certainly not been on the top of the countries with regard to the record of corruptive practices. There has been the odd case but it would be an exaggeration to say that the country has a history of persistent and basic problem with corruption. However, not last for the growing international interdependence, the Swiss Government has decided to further improve its own legislation in this regard. So far, active corruption has been less severely punished than passive corruption. The aim of the ongoing revision of the law will be to render the penalties more severe for active corruption, as well as the corruption of foreign officials.

It goes without saying that being a member of the OECD Switzerland has actively participated in the preparation of the new OECD Convention on Bribery and has signed its text on December 17, 1997. Although the ratification of this instrument is still pending there is no doubt that it will pass the Swiss Parliament at the beginning of next year.

There will be certainly room for new fields of cooperation with the Czech Republic as this country, as another member of the OECD, will focus into the same direction.

Another effort in the fight against the negative consequences of corruption is being done by the Swiss Agency for Development and Cooperation which supports good governance and the fight against this evil in carrying out its projects in developing countries.

Ladies and Gentlemen,

Now I would like to give the floor to people who will be much higher qualified to speak about this difficult and complex issue. I wish you fruitful and interesting workshop and thank you for your attention.

CZECH ETHICS AND INTEGRITY

Annex C

Marie Bohatá, Chairperson
 Society for Ethics in Economics, Czech Republic
 Transparency International, Czech Republic

The prevailing paradigm of business ethics in the CR can be characterized as a pragmatic approach reflecting the fact that there are three origins of unethical business practices: some are a heritage of the past regime; some represent phenomena connected specifically to the transformation period with new "opportunities" and temptations which it brings; and finally, some are new phenomena related to the market system itself. Therefore, it may be assumed that many of these problems are only of temporary nature and will disappear when new institutions will be better in place, market experience will grow, and the country will be fully incorporated in European and global structures. Then, the business climate and business practices will be comparable with developed market economies.

At the early stage of transition business ethics activities were driven more by academia than by business. In this context, a civic association called "The Society for Ethics in the Economy" (SEE) should be mentioned. It was set up in January 1994 and with its 40 members it has aimed at:

- supporting the ethical thinking in all spheres of our life, especially in the economy, education and science
- disseminating information from the developed economies
- cooperating with the Czech media
- organizing lectures, seminars, discussions and informal meetings of members.

Since its establishment it has organized several international events, many seminars and discussions. The biggest event was the 10th Annual EBEN Conference titled "How to Make Business Ethics Operational" which took place in Prague in September 1997. This event, celebrating the 10th anniversary of European Business Ethics Network (EBEN), was held under the auspices of Vaclav Havel, President of the Czech Republic.

Transparency International Czech Republic (TIC), a chapter of the world-wide anti-corruption movement, was created in a different climate than the aforementioned SEE. The more or less unregulated market experience and a growing ethical awareness of the whole population have resulted in an increased interest in many ethical issues including corruption. The publicity and media interest in an organization which proclaims to be action oriented seem to be much bigger.

TIC was launched in May 1998 and started working as a civic association in summer. It has some 30 members and an operating office. Our today's workshop is one of its first events (following the press conference on the corruption perception index and a workshop on access to information).

The aim of TIC is:

- to inform the general public about problems related to corruption
- to enhance transparency in doing business
- to monitor cases of corruption and inform the public
- to inform the government, parliament, educational institutions and the public about methods and tools of fighting corruption which are elaborated and implemented abroad, etc.

Despite the fact that companies were aware of ethical problems and the cost they had to pay due to widespread unethical practices, almost no action was taken in the first half of 1990s. This statement was supported by various inquiries showing no interest of top management either in consultancy in the field of business ethics or in training programmes. Step by step the climate has changed and nowadays, positive signs may be observed. Not only prestigious and professional associations have started playing some role but also some companies have already elaborated their codes of conduct. A recent survey conducted by the Confederation of Industry and Transportation has revealed that more than 20% of some 400 responding companies of all size categories have codes of conduct. However, we should not

be overoptimistic about this fact: it is not clear to what extent these codes are ethically motivated and to what extent they represent a fashion or PR tools. The PR motivation may be often attributed to corporate giving. As another survey has shown, advertising is the first aim of corporate giving, followed by a feeling of social responsibility and, again, company image.

Among positive developments, education should be stressed. Many universities have already introduced courses of business ethics into their curricula. So far these courses are voluntary. Experience shows that the interest of students as well as the attendance are very good; however, the motivation is unclear. It may well be also relative easiness of such courses compared to others. In any case, it may be very useful that students go through a deeper analysis of social and ethical aspects of phenomena which they are used to discuss almost exclusively from the perspective of narrowly defined economic rationality.

Business schools already require such courses and a majority of bodies providing management training are ready to do so, if such courses are not yet in place.

These seems to be a consensus that the first step in building an ethical infrastructure of the emerging market is based on formal, i.e. legal infrastructure. The challenge here is not only that the new laws be passed but also correctly interpreted and fully enforced. For some people the compliance with laws is sufficient and this is the way how they understand ethics in business. For others compliance with law represents only the minimal ethical requirement and business ethics is interpreted more or less as self-regulation.

The crucial problem in my opinion is, however, to better understand the nature of the market economy, its determinants and also its limitations. Obviously, this is not only a question of theoretical arguments and principles but also, and more importantly, of results of the market functioning. Given the circumstances, the inevitable stage of "learning by doing" has to be followed by the next step consisting of "taking lessons from mistakes" (be those caused for whatever reason).

SWISS LEGAL FRAMEWORK ON CORRUPTION

Annex D

Werner Schiesser, PricewaterhouseCoopers Zurich / Transparency Switzerland

GENERAL LEGAL SYSTEM

- Swiss Criminal Law
- Swiss Law on Illicit Competition

SWISS CRIMINAL LAW

- Active bribery of officials
- Officials that accept bribes

Active bribery of officials

- Who qualifies as "official"?
- What favours are to be offered?
- When is the crime completed?
- What are the sanctions?

Officials that accept bribes

- Who qualifies as "official"?
- What favours are to be offered?
- When is the crime completed?
- What are the sanctions?

SWISS LAW ON ILLICIT COMPETITION

- Parties involved
- Object of protection
- Possible suits / sanctions

INFLUENCE ON BUSINESS IN SWITZERLAND AND ABROAD

- Ways to measure?
- Court rulings
- Survey of PwC* on white-collar crime
- Publications

ASSESSMENT BY TI SWITZERLAND

- Corruption within Switzerland
- Corruption of Swiss companies abroad
- TI's corruption index

POSSIBLE KEYS TO IMPROVEMENT

- Awareness
- Internal controls
- Codes of conduct / Ethic standards

*PricewaterhouseCoopers

CORRUPTION IN SWITZERLAND

Annex E

Tomas Poledna, Badertscher Dörig Poledna, Zurich / ESCE/WSMO Switzerland

KORUPCE VE ŠVÝCARSKU

- Raphael Huber, Curych
- Klärschlammaffaire, Curych
- Käseunion, spolek
- Militärdepartement, spolek
- zhruba 10 odsouzení ročně
- zvýšená senzibilita v posledních 5 letech
- nebezpečí New Public Management
- internacionální případy
 - Miláno
 - Vídeň
 - Paříž
 - Marseille
 - Německo

SENZIBILNÍ ČÁSTI STÁTNÍ SPRÁVY

- státní zakázky, státní stavební investice
- zbrojařský průmysl
- udělování stavebních povolení
- koncese
- daňová správa
- generelně: široké možnosti pro posouzení ("Ermessensspielräume")

REFORMA TRESTNÍHO ZÁKONÍKU

- stejné měřítko pro aktivní a pasivní podplácení
- zahrnutí umožnění výhod
- kausalita výhody a chování úředníka
- první "krmení" ("Anfüttern")

TRESTNOST PODPLÁCENÍ CIZÍCH FUNKCIONÁŘŮ

- OSN
- OECD
- EU / Evropská rada
- OAS
- WTO
- Švýcarsko:
 - OECD + Evropská rada
- 322septies trestního zákoníku

INVESTMENT FRAUD, AND THE ROLE OF THE INVESTORS

Annex F

Mirko Ros, Stiffler & Nater, Zurich / ESCE/WSMO Switzerland

INVESTMENT FRAUD - INTRODUCTION

- Become a millionaire in a few weeks time?
- Options? Sugar trading? Forex?
- Profits... PROFITS... **PROFITS**
- Super profits, 50%, 70%, ... more
- No risks - bank guarantees
- Financial experts
- No taxes - trades through Panama

INVESTMENT FRAUD - GREED DOESN'T PAY

crime (sometimes) does

- We're sorry - but your investment is lost ...
... unless you invest another \$100.000
- Become a millionaire in a few weeks time?
- **Too good to be true!**
=> someone else did ... with your money

INVESTMENT FRAUD - DANGER SIGNALS

- First contact through telephone
(Why me? How did they found me?)
- Unknown company *(Who?!)*
=> Check references
=> Check register of commerce *(Small share capital? New company? Name changed? Registered in a foreign jurisdiction? Who's on the board of directors? Who are the managers? Are these persons associated with other/many companies? Which ones?)*
- Promise of incredible profits
=> *Too good to be true?! YES!!!*
- Time pressure
=> *Forget it - if you can't check, it will be for a reason!*
- Confidentiality clauses (non circumvention clauses)
=> *There is no reason for such!*
- High provisions for intermediaries (broker, contracting partner), often camouflaged
=> *Analyze contract, calculate!*
- Abundant legal and financial terms
=> *Do you really understand what you sign? If not: get professional, independent advice! (banker, attorney, people working in the industry at stake)*
- Trading of bank guarantees
=> *Does not exist!*
- Commodities (sugar etc.) in huge quantities, well below world market prices
=> *Why should anyone trade under world market prices? Do I know the industry? Do I know whether the cargo really exists? ("Phantom Sugar")*

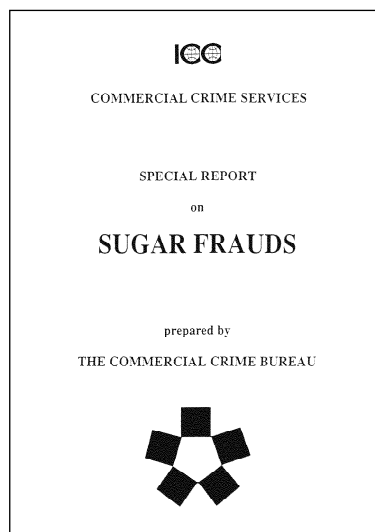
INVESTMENT FRAUD - GREED EATS BRAIN

- The greedy investor doesn't check
 - Who is my partner?
 - What exactly will be bought?
 - Where will the transaction be made?
 - Why should a profit of 70% result?
 - Why is there no risk?
 - The greedy investor doesn't check
 - because he really doesn't want to check
 - because he doesn't know how to check
 - because he doesn't really care
 - because he is just too lazy
- => **his greed is the soil on which crime thrives**

*I keep six honest serving men
they taught me all I knew,
Their names are What and Why and When
and How and Where and Who
R. Kipling*

INVESTMENT FRAUD - SUMMARY

- An investor may prevent fraud by asking clear questions
(Who? Why? How? ...) and by checking the answers
- Remember: Security has a price
(brain, sweat, professional advice)
- The greedy investor who is
neither willing to analyze the proposed deal,
nor to check basic questions
acts unethically and favors crime
- Before you sign: think twice - and get advice
or you may lose your money ... and maybe more



COST OF CORRUPTION / BENEFITS OF INTEGRITY

Annex G

Vladimir Rott, V J ROTT Zurich / ESCE/WSMO Switzerland

COUNTRIES' COMPETITIVENESS VS. CORRUPTION

CORRUPTION

- one of the main (many?) factors suffocating emerging economies

WORLD COMPETITIVENESS (Annex G.1)

- ranking by IMD Lausanne

CORRUPTION PERCEPTION INDEX (Annex G.2)

- ranking by TI / Göttingen University

COMPETITIVENESS AND CORRUPTION (other factors as well) (Annex G.3)

- highly competitive clean countries
- uncompetitive corrupt countries

HOW MUCH DOES IT COST? – WHO PAYS FOR IT?

HIDDEN COSTS – HIDDEN POSSIBLE BENEFITS (Annex G.4)

- easy to assess (?)
- corruption "tax" estimate – a conservative assessment
- National Accounts – statisticians' efforts

EVERYBODY PAYS

- the small, the big
- now, in the future

WHAT MAY BE DONE?

EVERYBODY KNOWS THESE DAYS *

- taking part (at last)
- information society – acting society

WHERE THE PRESSURE COMES FROM

- suffocated chances
- cash drain, brain drain, people drain

INTEGRATION AND INTEGRITY

- a chance to be "forced" into (more) integrity
- is (economic) power identical with integrity?

WHY WE (MAY CHOOSE TO, PREFER TO) DO SO LITTLE (Annex G.5)

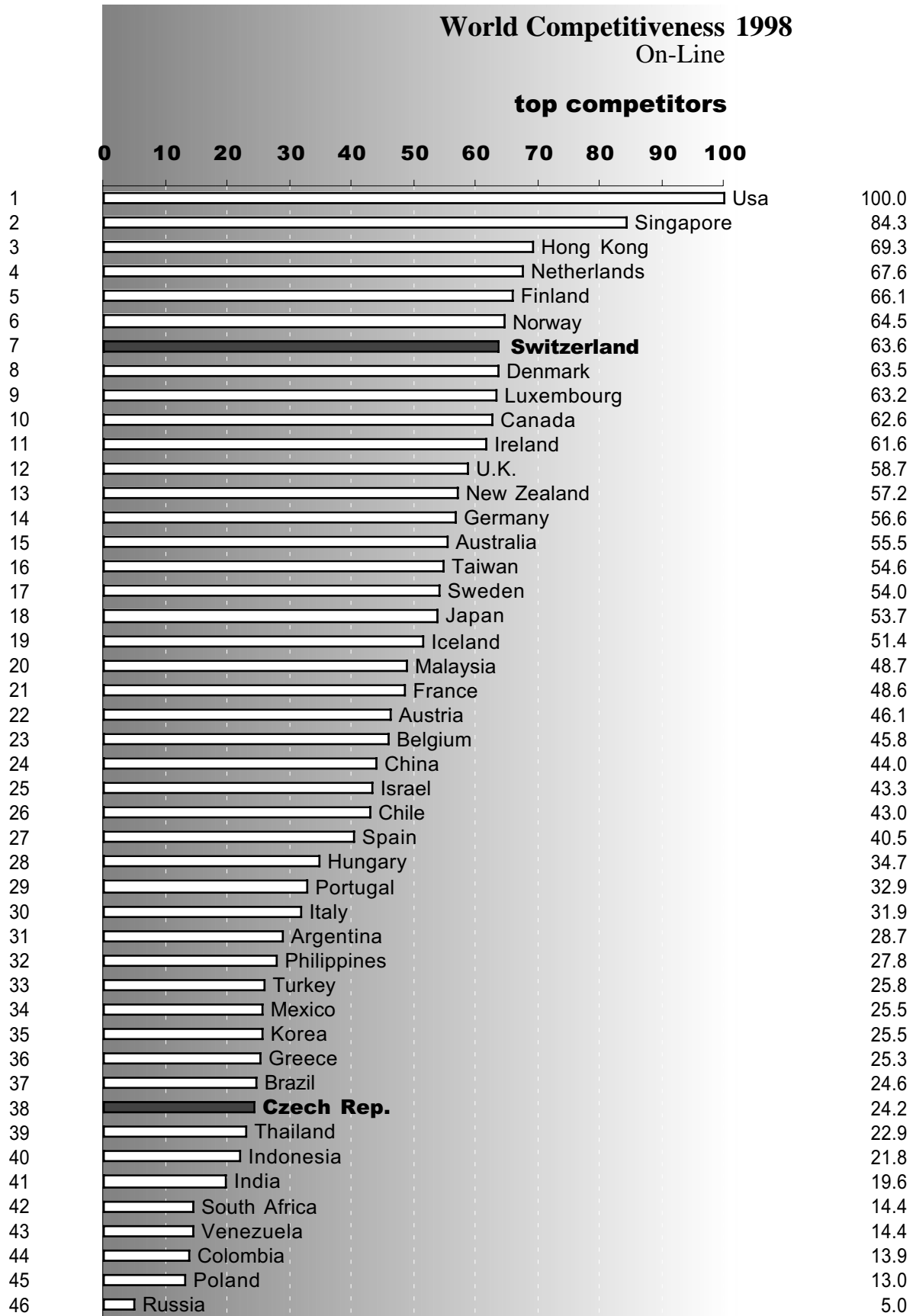
- pains of freedom – Popper (again)

* SOME OF WHAT WE KNOW – AND WHAT WE HAVE JOINED IN (Annex I)

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- Convention on Combating Bribery, Paris, Dec.97
- Protection of the European taxpayer, Brussels, Apr.97
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* MEDIA'S ROLE – JUST A FEW EXAMPLES (Annex J)

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- L'atlas mondial de l'argent sale, L'Express, May 98
- Rundschau, Swiss TV, Apr./May 98



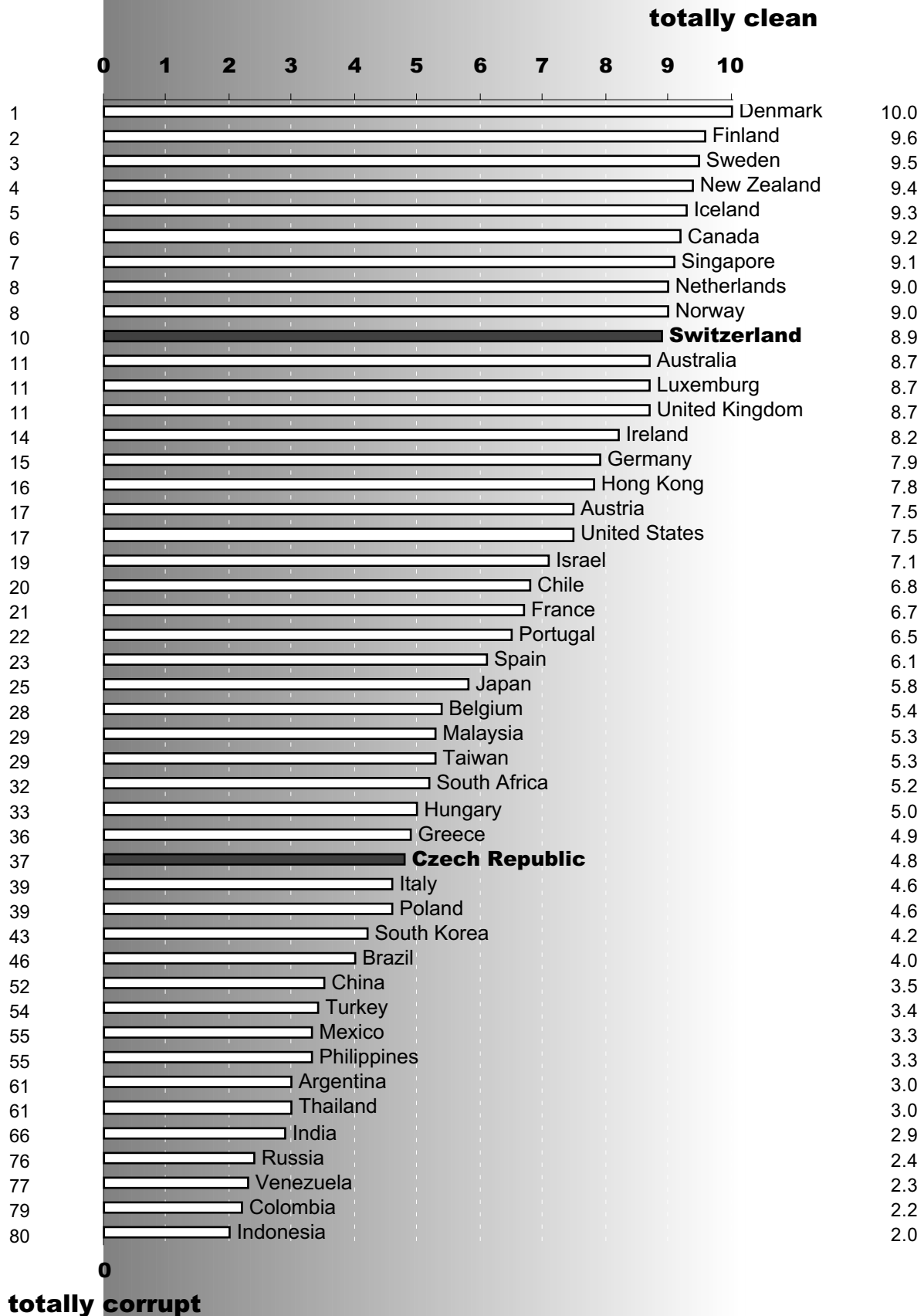
not competitive

THE WORLD COMPETITIVENESS SCOREBOARD

Ranking as of April 19 1998
(c) IMD Lausann

**Corruption Perception
1998**

Selection of 46 countries
also ranked by IMD Lausanne by their competitiveness



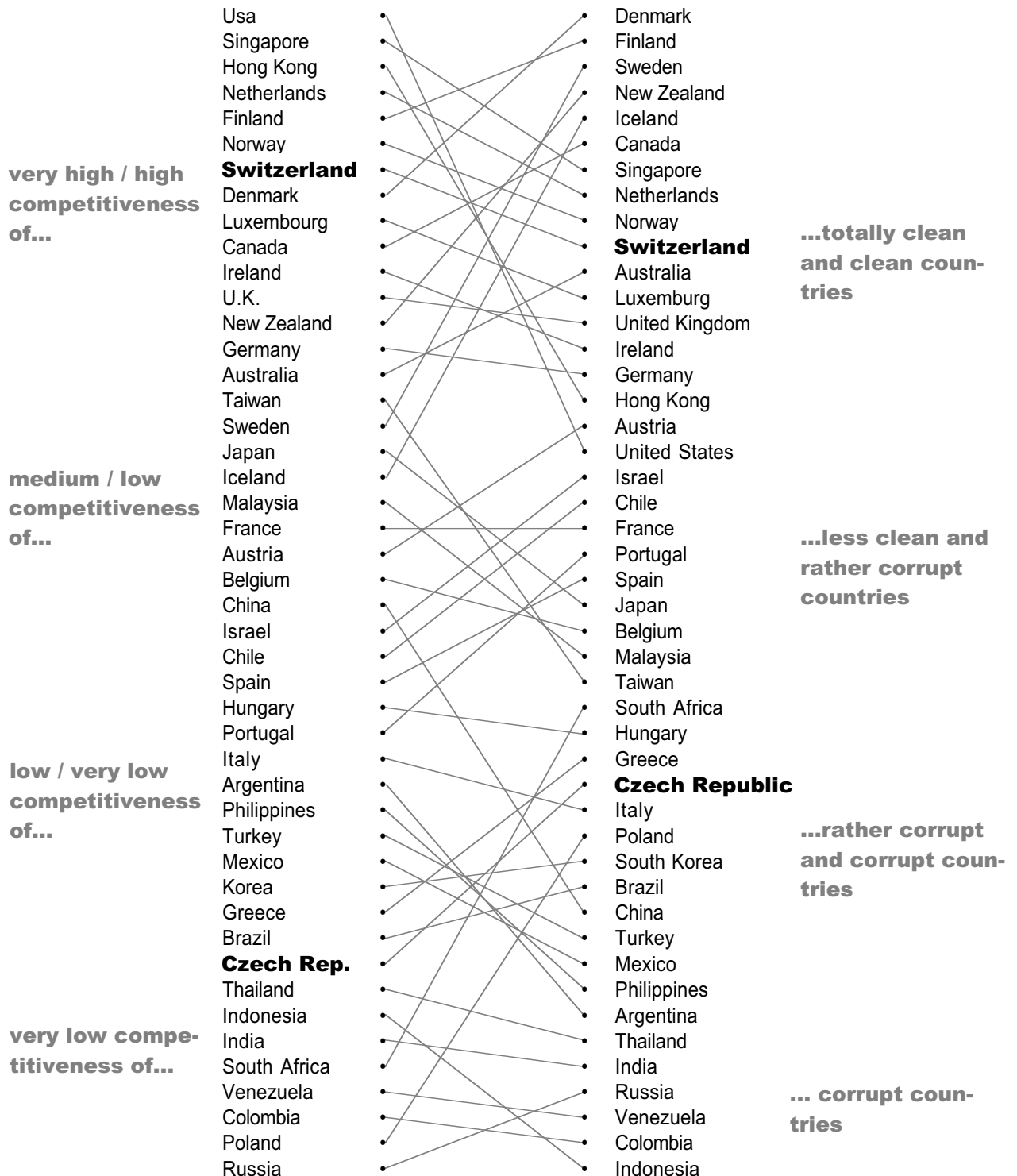
CORRUPTION PERCEPTION INDEX

Ranking as of 22 September 1998

© Transparency International and Göttingen University

COMPETITIVENESS AND CORRUPTION

© V J ROTT Zurich



**WORLD COMPETITIVENESS SCOREBOARD
COUNTRIES' RANKING 1998**
© IMD Laussane

**CORRUPTION PERCEPTION INDEX
COUNTRIES' RANKING 1998**
© Transparency International / Göttingen University

HOW MUCH DOES CORRUPTION COST ? -- WHO PAYS FOR IT ? © V J ROTT Zurich**CORRUPTION "TAX" ESTIMATE**

CZECH REPUBLIC		1990	1991	1992	1993	1994	1995	1996	1997
Nominal GDP	\$ bn	32.3	25.4	29.9	34.3	39.7	50.3	56.6	52.9
corruption "tax" estimate p.a. */		3.2	2.5	3.0	3.4	4.0	5.0	5.7	5.3
cumulative since 1990		3.2	5.8	8.8	12.2	16.2	21.2	26.9	32.1
Exports	\$ bn	5.9	8.3	8.4	13.3	14.9	25.1	27.6	27.1
corruption "tax" estimate p.a. */		0.6	0.8	0.8	1.3	1.5	2.5	2.8	2.7
cumulative since 1990		0.6	1.4	2.3	3.6	5.1	7.6	10.4	13.1
Imports	\$ bn	6.5	8.8	10.4	13.3	14.9	25.1	27.6	27.1
corruption "tax" estimate p.a. */		0.7	0.9	1.0	1.3	1.5	2.5	2.8	2.7
cumulative since 1990		0.7	1.5	2.6	3.9	5.4	7.9	10.7	13.4
Foreign direct investment flow	\$ m	na	na	100	600	700	2'500	1'400	1'300
corruption "tax" estimate p.a. */				10	60	70	250	140	130
cumulative since 1990				10	70	140	390	530	660
GDP per capita PPP	\$	9'526	8'721	8'951	9'273	9'794	10'531	11'211	11'566
corruption "tax" estimate p.a. */		953	872	895	927	979	1'053	1'121	1'157
cumulative since 1990		953	1'825	2'720	3'647	4'627	5'680	6'801	7'957
Average yearly wage	\$	2'191	1'542	1'972	2'395	2'874	3'694	4'277	4'001
corruption "tax" estimate p.a. */		219	154	197	240	287	369	428	400
cumulative since 1990		219	373	570	810	1'097	1'467	1'894	2'295
GDP	% change	-1.2	-11.5	-3.3	0.6	3.2	6.4	3.9	1.0
Industrial production	% change	-3.3	-21.2	-7.9	-5.3	2.1	8.7	2.0	4.5
Budget balance	% of GDP	na	-1.9	-3.1	0.5	-1.2	-1.8	-1.2	-0.5
Unemployment	%	0.8	4.1	2.6	3.5	3.2	2.9	3.5	5.2
Inflation	%	9.7	56.6	11.1	20.8	10.0	7.9	8.7	9.9
Trade Balance	\$ bn	-0.7	-0.5	-1.9	-0.3	-0.9	-3.7	-5.9	-4.6
Current-account balance	\$ bn	-1.0	0.3	-0.3	0.1	0.0	-1.4	-4.3	-3.2
Foreign exchange reserves	\$ bn	1.1	3.9	0.8	3.9	6.2	14.0	16.1	15.0
Foreign debt	\$ bn	6.4	6.7	7.1	8.5	10.7	16.5	20.8	22.0
Discount rate	%	na	9.5	9.5	8.0	8.5	9.5	10.5	13.0
Exchange rate	/ \$	18.0	29.5	28.3	29.2	28.8	26.6	27.1	31.7
Population	m	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3

***/ "collection" of corruption "tax" at country "going rate" of 10%, corruption assessed as rather a part of most business transactions**

sources: WIIW, EBRD, Eesti Pank, FT, ING Barings, JP Morgan, Nomura, Reuters, national statistics
www.bcemag.com (all data, except corruption rate estimate*)

"THAT'S CLASSICAL POPPER!"

closed society	conflicts of opening		open society
people act			
stable, predictable	deterministic	<->	voluntary
social structure			
harmony	homogeneity of interests	<->	plurality of interests
people are			
stable role structure	in a hierarchy	<->	equal
protection of			
safety, order	collective	<->	individual
clearness, sense	error free	<->	trial and error
tolerance, learning			

"nothing for free"

D. Geber, S. Boerner: Abschied von der offenen Gessellschaft?; Frankfurt/Main, New York; Campus 1995 based on Karl. R. Popper's Open Society and Its Enemies

FIGHTING CORRUPTION IN THE CZECH REPUBLIC

Annex H

Michal Burian, TI Czech Republic

I would like to start with small anecdote from 21 November 1997. That day OECD member countries and five non-member countries, Argentina, Brazil, Bulgaria, Chile and the Slovak Republic, adopted a Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Convention was adopted at the conclusion of a three-day Negotiating Conference which was presided over by Ambassador Marino Baldi of Switzerland. It is symbolic that today's workshop (almost precisely 1 year after OECD meeting in Paris) is held in co-operation with our Swiss partners.

I. CORRUPTION ENVIRONMENT IN THE CZECH REPUBLIC

Almost one quarter of the population is convinced that corruption is most widespread among public officials, the state administration and municipalities. Every fifth respondent thinks corruption pervades the police force and every seventh respondent is wary of the health system.

WHERE IS CORRUPTION MOST PREVALENT IN THE CZECH REPUBLIC?

Areas	% of respondents
• public officials, state administration, municipal authorities	24,5
• police, Ministry of the Interior	18,0
• health services	14,6
• banking, finance	10,6
• political sphere – government, deputies	9,8
• privatisation	7,4
• educational system	5,6
• economy - generally	5,0
• judicial system	4,9

*Source: Sofres-Factum, September 1998, number of respondents = 1063, Czech Republic

According to the results of the Sofres-Factum poll more than 20% of all respondents were also coerced into paying bribes (9,5 % of respondents have had one experience, 10,9 % have had more than one experience). Among those respondents having been coerced to bribe, more than 25% paid the bribe for receipt of health services and 23% to a member of the state administration.

Reforms in the political system since 1989 have caused subsequent changes in the corruption environment. That is corruption has grown more quickly in some areas than in others. Corrupt activity has moved from the area of trade and services to the ranks of the state administration. The most marked instances of corrupt activity were found in the area of purchasing long-term consumable goods. In 1989 bribes were given for purchases in this sector by two-fifths (39%) of those persons surveyed (that is 1,371 citizens of the former Czechoslovak Socialist Republic). In 1998 this figure had dropped to only 2 per cent (from a total 967 Czech citizens surveyed). This trend was ultimately to have been expected. Increased competition in the area of manufacturing and the sale of consumer goods left little chance for corrupt behaviour among producers and their customers. The one area where corrupt behaviour grew significantly is that of performing official functions. The amount of those persons admitting to having given bribes grew from 12 to 17 per cent.

In the eyes of the general public the state administration has become the most corrupt section of society. Today almost one-third (31%) of the Czech population reckons that corruption is most pervasive solely in the area of state administration. At the end of the socialist era this opinion was held by only 3% of the Czech population.

 IN WHICH AREAS IS (WAS) CORRUPTION MOST WIDESPREAD? (in % of respondents)

areas*	1989	areas**	1998
1 services	31	public officials, state administration	31
2 retail sales	26	judicial system	15
3 health service	21	health service	15
4 sales and repairs	11	police	9
5 transportation, construction industry .	5	services	9
6 public officials, state administration .	3	educational system	2

*Source: Research Institute of Commerce, 1989, number of respondents = 1643. Czechoslovakia

**Source: GfK - Praha, April 1998, number of respondents=967, Czech Republic.

The average person turns a blind eye to the corrupt behaviour of teachers, doctors, policemen and civil servants because "you never know when you will need them".

 DO YOU PERSONALLY GIVE BRIBES? (in % of respondents)

• never	65,9
• exceptionally	19,9
• from time to time	9,8
• quite often	0,7
• no answer	3,8

Source: GfK - Praha, April 1998, Number of respondents = 967

There is no reason to be an optimist. We cannot clearly say that a positive shift in attitudes towards corruption and a lower degree of day-to-day corruption is the result of a moral revival in Czech society. More likely is the spread of high-principled attitudes towards corruption. This has resulted in a lower amount of corruption opportunities on a day-to-day basis; this is also due to the development of markets and competition. On the other hand changes in the market environment also brought about negative trends in the growth of the number of people who believe that corruption is an indispensable part of life.

 WHAT DO YOU THINK ABOUT CORRUPTION IN THE EVERYDAY LIFE OF PEOPLE IN TODAY'S SOCIETY? (in % of respondents)

Answers	1989 *	1998 **
• Bribes are entirely natural part of the life. Those who want to survive, must give.	8	22
• Bribes are common, but the situation is not so terrible as people say.	26	23
• Certain people bribe, but it is not necessary. With a little bit of patience you can survive without bribing.	27	33
• Bribes are pointless. You can obtain anything in a legal way.	39	22

*Source: Research Institute of Commerce, 1989, amount of respondents = 1643. Czechoslovakia

**Source: GfK - Praha, April 1998, amount of respondents=967, Czech Republic.

The switch of corrupt activity from the trade/services sector to the public administration, along with the social conditions related to evaluating the necessity to offer bribes, indicates a change in the social function of corruption. In the past corrupt meetings ensured the soliciting party of a clear advantage in obtaining services and a supply of scarce goods. Today a category of people, who believe that corruption is

a working method essential to the performance of their professional functions, has formed. The current, common trend is a concentration of corrupt activity in the state administration and the creation of a category of people, whose existence depends on corruption.

In comparison with the other countries there is also no reason to be proud. According to results of the Corruption Perception Index – CPI 1998 (issued annually by Transparency International and Göttingen University), ranked the Czech Republic 37 out of 85 countries. That is fairly well behind the majority of EU countries (Denmark, Finland, Sweden, Netherlands, Norway, Luxembourg, United Kingdom, Germany, Austria, France, and Portugal), the United States and it also lagged behind countries such as Chile, Estonia or Malaysia.

II. HOW TI AND THE PRIVATE SECTOR CAN WORK TOGETHER

According to opinion poll of GfK 31% of entrepreneurs think if man wants to survive must give bribes. The most crucial areas for businessmen and entrepreneurs are probably state administration, public officials, judicial system and banks. These areas should also have the first priority among topics on which TI and private sector would co-operate.

You can ask why you as an individual should start to curb corruption in business sector. It is also very intimidating, namely when you realise that you are maybe one of the first to fight this social ill in your market segment in the Czech economy. You can argue that to be first would mean great disadvantage for you and your company. However I am convinced that in the long-term joining the fight against corruption will be strategic advantage. Sooner or later you will have to face the same questions set before your competitors. Provided your company has taken an early decision not to support corruption, you will be miles ahead of companies now pushed to adopt the same solution as you did long ago. There will also be stricter legislation, clearer and more universal accounting standards without "off the books" or secret accounts. The firms who regularly used bribes as their competitive advantage will not have so many opportunities for such behaviour.

I didn't mention the OECD convention in the beginning of my speech merely by chance. This convention exerts pressure mainly on foreign companies from countries where bribing of foreign officials was not a criminal offence. If all foreign companies would stop giving bribes to Czech officials they would stand in comparison with their Czech competitors at a disadvantage. Certainly not giving bribes is sufficient to avoid criminal sanctions. But you have to do more. You must contribute the fight of NGOs looking to convince your competitors that corruption is not worthwhile. Otherwise the disadvantageous reality of "following the rules" will remain.

Where to start? I have mentioned the first condition – you yourselves must stop giving bribes and obey the law. And what else can be done?

- Your organisation should set their own codes of conduct which will be obligatory for all employees.
- You should encourage professional associations, to which you belong, to examine the adequacy and effectiveness of their codes of professional conduct and of their means of disciplining those members who facilitate corruption. These must be mandatory.
- Bidders who bribes officials in an effort to win public tenders should be blacklisted from competing to win state/official business for an appropriate period.
- You should contribute to the work of and co-operate with the non-profit sector, other NGOs and watchdog agencies active in the fight against corruption. Remember they are trying to help you.