

# chapter 3 supporting good governance internationally

**Incentives for good governance are heavily influenced by the international economy, the behaviour of other governments and the private sector.**

**International co-operation is essential to tackle bribery, corruption and money laundering.**

**Transparent management of government revenue and procurement is vital for good governance.**

## **Governance is an international issue...**

3.1 The global economy offers great opportunities for economic growth and development. Goods, money and people move around the world more than ever before. Transferring money has never been easier. But without suitable regulation, these opportunities can be abused. In too many cases, public money has been diverted for personal gain and the proceeds of bribery and corruption have been hidden away in financial centres around the world.

3.2 The Commission for Africa and the G8 at Gleneagles set out what the international community can do to prevent international

corruption and crime and promote better use of resources. The UK is committed to taking these recommendations forward.

3.3 Chapter 2 set out what needs to be done in developing countries to build better governance. But, where governments do not or cannot regulate, international standards help to:

- Encourage responsible behaviour by companies.
- Tackle corruption by closing the international loopholes that allow people to get away with illicit gains.
- Promote better governance by helping build accountability within states.

## **Democratic Republic of Congo – the origins of bad governance**

The Democratic Republic of Congo (DRC) was initially created as a commercial enterprise by King Leopold II of Belgium and subsequently governed to enable the ruling class to exploit its massive natural wealth. This was either used to buy off opponents or salted away overseas in personal bank accounts. Since the fall of Mobutu, work by organisations such as Global Witness shows that the government still does not ensure that DRC's natural resources are managed in the interests of the people.<sup>1</sup> Some of those in power bolster their positions through exploitation of natural resources in partnership with unscrupulous international investors, sometimes supported by foreign governments. In 2004, government revenue from the mining sector was only US\$15 million. It is estimated that the state lost revenues ten times this amount, money that could have been invested in providing health care and education.

### International standards encourage responsible behaviour...

3.4 Governments need to be able to stop unscrupulous individuals or companies profiting from activities such as paying bribes, illegal trading in natural resources or selling arms that fuel conflict.

3.5 The best solution is for the government of the country where such activity has taken place to have effective domestic legislation and regulation to stop it. However, where domestic capacity is weak, international codes of practice can encourage companies to work legitimately in developing countries. The OECD Guidelines for Multinational Enterprises, for example, set out what companies can do to meet standards on human rights, labour conditions, the environment and corruption. Some countries, including the UK, have found it difficult to respond to allegations of bad conduct under these Guidelines.<sup>2</sup> We are committed to following up specific cases more effectively in future.

3.6 Illegal trade in natural resources like diamonds or timber often pays for and prolongs conflict. In places like Sierra Leone and Liberia, the international community

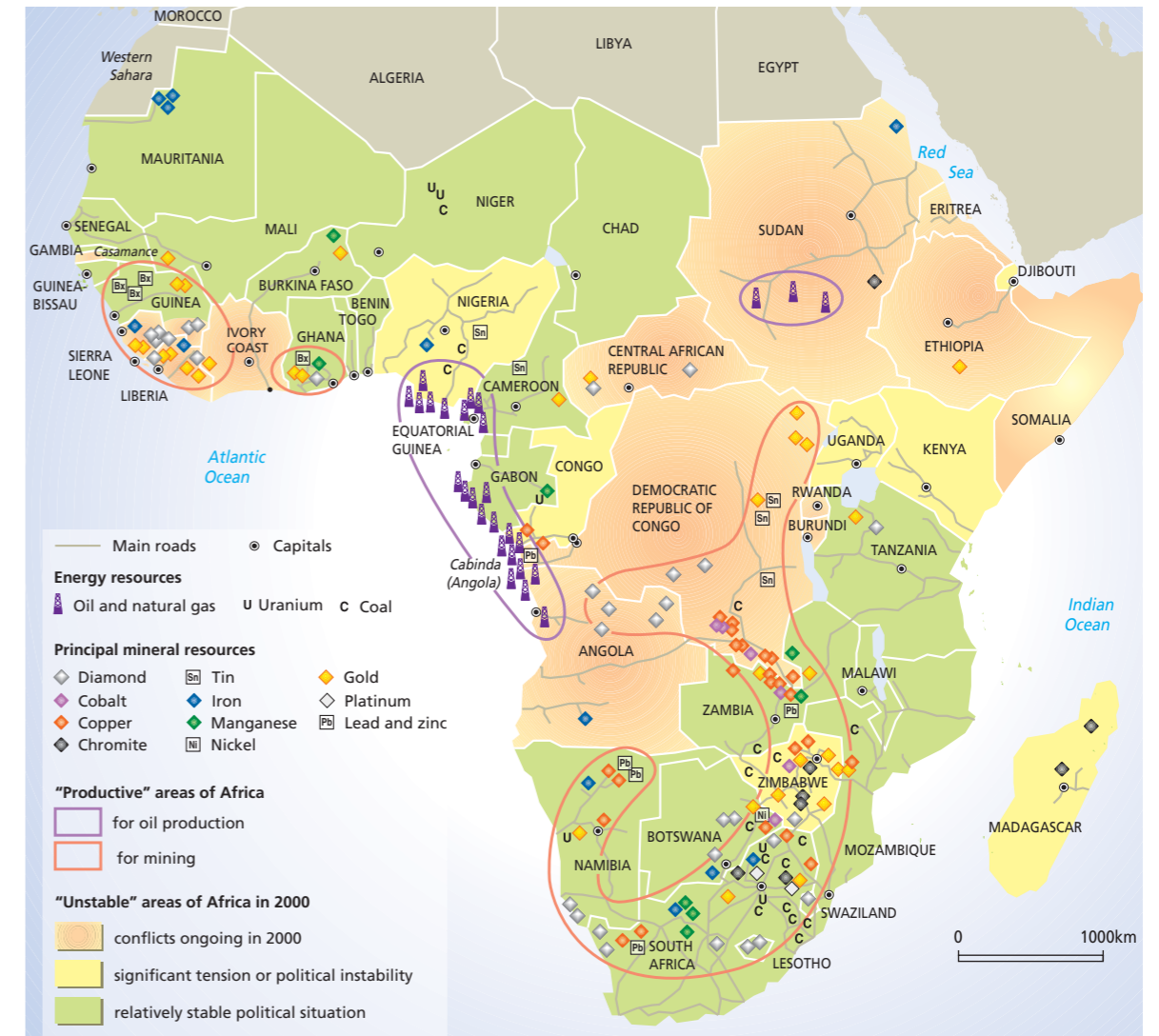
has set up expert monitoring panels to recommend sanctions, but has often been slow to act. Establishing standards on how to manage revenues from natural resources in conflict-affected countries would help address this problem. Stronger enforcement of UN sanctions – including better monitoring – would make international action quicker and more effective at cutting off the money that fuels conflict.

3.7 Export credit agencies are the largest source of public funds for private sector projects in the world. These agencies need to make sure that they are not supporting companies or their agents who may be paying bribes. The UK has recently strengthened the anti-bribery procedures of its Export Credits Guarantee Department. But, because export credit agencies are in competition with each other, their standards and behaviour need to be agreed at an international level.

3.8 Developing countries, like all states, have the right to acquire the means to protect themselves – which means buying arms. But many arms that find their way into conflicts – for example in Somalia – are arranged by unscrupulous brokers exploiting loopholes in national legislation or breaking



### Natural resources are in conflict zones



Source: Adapted from Philippe Rakaciewicz, in Atlas du Monde diplomatique 2003, Paris www.mondediplo.com

arms embargoes. The UK Government is committed to making sure that exporters licensed by us do not contribute to conflict or human rights abuses.

3.9 There is currently no international agreement to regulate the trade in conventional weapons. That is why the UK wants an international, legally binding Arms Trade Treaty that will increase transparency and prevent arms transfers that make conflicts worse. Negotiating such a treaty would give developing countries a say in creating a system which would benefit all countries.

#### Too many guns

“There is lack of security here,” says Elona Krasniçi, a woman from Shkodër, Albania. “No parent is calm about their children going to school... because everyone possesses a gun – without permission in most cases. We can see these people possessing guns in everyday life, we hear it in the news – this person was killed, this other killed himself. So all of this information creates an overall sense of the lack of security in the family, society and everywhere else.”

Source: Saferworld



## The UK will

- Launch a revamped National Contact Point by September 2006 with the involvement of DFID, the Foreign and Commonwealth Office (FCO) and independent experts as well as the Department for Trade and Industry to strengthen our implementation of the OECD Guidelines for Multinational Enterprises.
- Work within the OECD to make the Guidelines more effective in promoting responsible business conduct, particularly in countries with weak governance.
- Press the international community to tackle the trade in conflict resources; promote international standards on the management of natural resource revenues in countries affected by or at risk of conflict; help set up an international expert panel in the UN to monitor the links between natural resources and conflict; and support improvements in the monitoring of UN sanctions.
- Work with governments and civil society to secure agreement at the UN General Assembly in 2006 to start talks on an Arms Trade Treaty that is legally binding, covers all conventional weapons and the world's major arms exporters, includes enforcement and monitoring arrangements, and report progress to the UN General Assembly by 2008.
- Work with others to deal with the misuse and inappropriate export of small arms and light weapons.
- Ensure, when assessing export licences, that UK arms exports do not undermine development, for example by endangering human rights or increasing the risk of conflict.
- As part of the overall review of strategic arms export licensing laws in 2007, examine how well regulations to control the activities of arms brokers are working and whether these need to be changed or strengthened.
- Fully implement a new OECD 'action statement' on bribery that reduces the risk of export credit agencies providing financial support to companies that bribe overseas, and press other OECD countries to take similar action.

## International standards help fight corruption...

3.10 The proceeds of corruption are often spent or saved outside the country. Some notorious leaders, like Presidents Mobutu of Zaire, Abacha of Nigeria and Marcos of the Philippines, looted spectacular amounts from their own countries. But huge amounts of money are now being returned to developing countries. Nigeria, for example, has received US\$608 million from Switzerland and US\$149 million from Jersey.<sup>3</sup>

3.11 The United Nations Convention Against Corruption (UNCAC) came into force in December 2005, and was ratified by the UK in February 2006. It is the first worldwide agreement on corruption. One hundred and forty countries have agreed to co-operate on all aspects of preventing, investigating and prosecuting corruption, returning stolen assets, and supporting each other on

extraditions, investigations, prosecutions and judicial proceedings. The UN Office on Drugs and Crime has been asked to oversee and co-ordinate help for countries to put the UNCAC into practice.

3.12 The UK is committed to tackling corruption, bribery and money laundering. This includes making sure that we rigorously enforce relevant UK laws so that people who pay bribes are prosecuted, and assets are returned to the countries from which they have been stolen.

3.13 Following up allegations of bribery and money laundering is difficult if developing countries do not have the ability to produce evidence of sufficient quality to enable an international investigation. If developing countries request it, the UK will provide help – 'mutual legal assistance' – in tracking down laundered funds and gathering the evidence needed.



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## The other side of the coin<sup>4</sup>

In March 2006 the UK Africa All Party Parliamentary Group issued a report recommending how the UK could improve efforts to prevent and combat corruption in Africa. It also highlighted the UK's responsibility to help the three Crown Dependencies (Guernsey, Jersey and Isle of Man) and fourteen Overseas Territories (such as Bermuda, British Virgin Islands and Cayman Islands), many of which are important financial centres, to meet their international obligations. The report recommends: better co-ordination of the wide range of activities undertaken by different government departments and enforcement agencies; strengthening the ability of the UK and its Dependencies and Overseas Territories to return assets taken from developing countries; and working to reduce the risk of UK businesses being involved in bribery in developing countries. The Government will implement almost all of the report's recommendations.



3.14 Corruption and money laundering are frequently linked to other aspects of organised crime, such as illegal trafficking. Organised crime can corrupt political power and stifle the development of legitimate business. Vulnerable people are often the victims of illegal trade, whether it is drug smuggling or trafficking of human beings for sex. The UK is working to tackle organised crime from developing countries.

## Human trafficking wrecks lives

Arta, 19, is from a small town in Serbia. A tough home life forced her to leave her home town in search of work. But things didn't turn out well. Her new boss sexually harassed her, and she was poorly paid. Arta decided to accept a job as a sex worker in Italy. The man who had offered her the job provided her with a false passport and transportation. As soon as she arrived, he took away all her documents. Arta was forced to work as a prostitute in an area well known for its Serbian, Albanian and Russian mafia links. When she refused, she was beaten and raped. Ten days later a client helped her to escape.

Source: Astra (Serbian NGO)



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## The UK will

- Publish an annual UK Action Plan to tackle corruption affecting developing countries, particularly in Africa. The International Development Secretary will oversee and report progress against this every six months.
- Set up a dedicated overseas corruption unit by the end of 2006, staffed by City of London and Metropolitan police with support from DFID and others, to investigate allegations of bribery and money laundering.
- Press our G8 partners to ratify the UNCAC by March 2007, and work with the UN Office on Drugs and Crime and other partners to ensure that it is implemented internationally.
- Make UK businesses aware of the risks of bribery overseas, and urge them to report instances of attempted bribery to UK embassies, so that they can be investigated by partner governments.
- Help developing countries in response to requests for Mutual Legal Assistance. This will include:
  - Deploying fast response teams from UK law enforcement and other organisations.
  - Supporting countries' ability to track assets and carry out investigations.
  - Drawing up proposals for an international corruption investigation centre which can provide professional help as part of implementing the UNCAC.
- Develop plans to tackle organised crime in a number of vulnerable developing countries.
- Help UK Overseas Territories and Crown Dependencies to put into practice relevant international agreements, such as the UNCAC and the OECD bribery convention, and measures equivalent to the EU directives on money laundering.

## International standards promote better governance...

3.15 The international community must also help by agreeing standards of conduct which strengthen accountability and governance. For example, natural resources create wealth and jobs, but when they are mismanaged they can become a curse. Through the Extractive Industries Transparency Initiative (EITI), launched in 2002, governments make public the payments they receive from oil, gas and mining companies, and companies make public the payments they make to governments. This helps people to see how resources are being used, and to check there is no corruption.

3.16 Four years on, EITI is working successfully in countries like Nigeria and Azerbaijan. We will encourage more countries to join the Initiative, and will work to strengthen its implementation. The UK will push for a UN General Assembly resolution to establish the Initiative as an international standard of good practice. We will also discuss with others how the Initiative could be extended, for example, by covering revenue paid to local authorities, and revenue from pipeline usage.

3.17 Other natural resources, particularly forestry and fisheries, are also major sources of income for many poor countries. Initiatives like the Forest Law Enforcement, Governance

## Fuelling accountability in Azerbaijan

Azerbaijan's future depends on its oil and gas resources, which are being developed by international companies. Azerbaijan joined the Extractive Industries Transparency Initiative in June 2003, as one of the first pilot countries. A National Committee on EITI was established in November 2003. Three EITI reports, published between March 2005 and January 2006, have sparked wide debate – especially where there are discrepancies between the numbers reported by companies and the Government. Azeri civil society is now better able to scrutinise the oil and gas sector and is more closely involved in discussions with the Government and the oil companies. In turn, this has stimulated a wider public debate on how transparency and accountability can contribute to democracy and the rule of law.

and Trade partnerships and the High Seas Task Force on illegal, unregulated and unreported fishing are already trying to ensure that these resources are well managed. Just as EITI has succeeded by bringing together governments, companies and civil society, the UK will support these initiatives to ensure that revenues and exploitation rights are publicly scrutinised.



## How change happens: Stopping the trade in 'blood' diamonds

Diamond mining could help reduce poverty in many developing countries. But stones from diamond-rich countries like Sierra Leone, DRC, Liberia and Angola among others have instead fuelled conflicts and corruption. These stones are often called 'blood' or 'conflict' diamonds.

The Kimberley Process, set up in 2003, is a certification system designed to record the origin of rough diamonds and assure buyers that a particular stone originates from a legitimate source. It now covers the vast majority of international trade in rough diamonds. It has helped to reduce significantly the flows of illicit diamonds and to end trade with countries accused of involvement with them.

As a result, the Kimberley Process has cut the chances of conflict diamonds helping illegitimate governments, warlords and rebels to buy guns and launder money. It has also led to substantial increases in the proportion of rough diamonds exported through official channels – which boosts government revenues that can then be used to fight poverty. The value of official diamond exports from the DRC rose from US\$642 million in 2003 to US\$720 million in 2004 and US\$431 million in the first half of 2005 alone. It is estimated that 80% of diamonds produced in Sierra Leone are now sold on the legitimate market.

But despite this impressive progress, conflict diamonds still exist. More needs to be done to ensure that the Kimberley Process captures all diamond trading, and to strengthen government controls along the whole supply chain.



3.18 Public procurement is also a source of corruption. Transparency International's bribe payers' index suggests that the construction, defence, and health sectors are highly prone to bribery.<sup>5</sup> Using EITI-type principles to strengthen procurement in these areas will help governments manage their finances better. The UK will work with others to take this forward.

## The UK will

- Sponsor a UN General Assembly resolution for EITI to become an international standard of good management; work closely with China, Russia and others to promote EITI; work with others to identify a permanent international secretariat for EITI; and develop a means of verifying whether countries and companies are doing what they promised. We will also propose that EITI is extended to other areas of revenue and spending in the oil, gas and mining sectors.
- Work with partners to develop codes of practice to make it easier to scrutinise forestry and fishery agreements and revenues, building on existing initiatives such as the EU Forest Law Enforcement, Governance and Trade partnerships and the High Seas Task Force.
- Build on the experience of EITI to help developing countries improve transparency and value for money in public procurement, and develop international proposals to increase scrutiny of public spending in the defence, construction and health sectors to help fight corruption.