From:
Handbook of Transnational Economic Governance Regimes edited by Christian Tietje &
Alan Brouder, (Martin Luther University of Halle-Wittenberg, Germany), Martinus
Nijhoff Publishers, LEIDEN • BOSTON 2009, 1073 pages, Chapter *Transparency
International* by Michel van Hulten, p. 243-252, ISBN 978 90 04 16330 0..
Copyright 2009 by Koninklijke Brill NV, Leiden, the Netherlands.

Transparency International

Michel van Hulten

I. *Introduction*

Established in 1993, Transparency International (TI) defines itself as "the global civil
society organization leading the fight against corruption, that brings people together in a
powerful worldwide coalition to end the devastating impact of corruption on men, women
and children around the world".

Its stated goal is "to take action to combat corruption and prevent criminal activities
arising from corruption so as to help build a world in which Government, politics,
business, civil society and the daily lives of people are free of corruption, because of the
potential of corruption to undermine economic development, generate poverty, foster
political instability and create global insecurity". TI is politically non-partisan and does not
undertake investigations of alleged corruption or expose individual cases. It attempts to
combat corruption at the international level, and through its National Chapters at the
national level, by raising public awareness of the occurrence and impact of corruption;
developing coalitions to address it; developing and disseminating tools to curb it;
promoting transparency and accountability in politics and business; monitoring the
control of corruption; and supporting institutions and mechanisms to combat it. TI is
guided by its Charter; its Statement of Vision, Values and Guiding Principles; a Code of
Conduct; and the TI Conflict of Interests Policy. It is registered in Germany as a society
(*Verein*) in the court register of societies (*Vereinsregister*) of Berlin Charlottenburg. TI's
International Secretariat is located in Berlin.

II. *Origins and Development*

Corruption is as old as mankind, as is the fighting of corruption and safeguarding of integrity. Hebrew scriptures, as well as Hindu writings and the writings of Confucius, Buddha, Plato, John the Baptist, Jesus, the Quran, and sayings of the Prophet Mohamed, all condemn bribery and praise integrity in all relations between underlings and those in power. On the other hand, presenting gift s between relatives, friends, and visitors and their hosts is also as old as mankind. In all cultures it is difficult to know what is acceptable, and what is not. Is modern 'lobbying' replacing older ways of exerting influence?

The second half of the 20th century saw a steady increase in intolerance against the practice of bribing people that profit from handling transactions. The use of authority placed in their hands on behalf of the interests of others is now increasingly recognized as abuse of power. An early modern researcher of corruption was the American Susan Rose-Ackerman with her 1978 groundbreaking 'Corruption: A Study in Political Economy'. One of her colleagues in the 1970s, Michael Johnston, published 'Syndromes of Corruption, Wealth, Power, and Democracy' in 2005. These and other authors emphasize both the economic and political nature of corruption. The USA was the first country to modernize legislation against corruption. The Foreign Corrupt Practices Act of 1977 made bribe paying to foreign officials illegal, not because it was deemed immoral, but because it destroys 'the level playing field' which hinders the functioning of the free market.

Against this backdrop, some concerned people met during the years 1991– 1993 under the name 'Working Group on Bad Business Practices' to fight the presence of bribery. Their approach shifted from more a moralistic and ethical one in the beginning, to a more economic and political approach later. They recognized that bribe-paying undermines good governance, distorts public policy, leads to misallocation of resources, hurts the powerless and the poor, and harms the functioning of the private sector. From this Working Group came the original co-founders of Transparency International, who signed the act of establishment of the new association in The Hague in early 1993. The official inauguration took place in Berlin in May 1993, where the International Secretariat was established. The first chairman (1993–2005) was Peter

Eigen, a retired World Bank employee. In 2005, the Canadian Huguette Labelle took over as Chair of TI.

The traditional definition of corruption as 'abuse of public office for private gain' presents four problems: (1) Is illegal behaviour always corrupt, and legal behaviour never? (2) Does bribe-paying and -receiving only take place between public officials and private parties? (3) What about businessmen who claim that their behaviour merely conforms to induced extortion by the public official? (4) Is measuring corruption according to this definition not often biased towards petty corruption?

P.C. van Duyne has redefined 'corruption' as "an improbity or decay in the decision-making process in which a decision-maker consents to deviate or demands deviation from the criterion which should rule his or her decision-making, in exchange for a reward or for the promise or expectation of a reward, while these motives influencing his or her decision-making cannot be part of the justification of the decision".

TI now defines corruption as "the abuse of entrusted power for private gain". The switch from 'public' power or office to 'entrusted' power includes all decision-making processes, in the private as well as in the public sphere. This is important as in the business world a tendency is prevalent to consider corruption between companies and their employees as something that is private and will be handled by the business world itself.

III. *Membership*

TI is a global network including more than 90 locally-established national chapters and chapters-in-formation. These bodies bring together relevant players from government, civil society, business, and the media to promote transparency in elections, public administration, procurement, and business. TI's global network of chapters and contacts also use advocacy campaigns to lobby governments to implement anti-corruption reforms. TI is not a fee-paying membership organization. Unlike other NGOs, TI accepts direct financial support from governments and the business world.

1. Individual Members

The TI Annual Membership Meeting (AMM) of 2004 renamed the Personal Active Members (PAM) as Individual Members (IM). It was also decided to restrict the ratio to a maximum of one IM for every two accredited National Chapters. In 2006 TI had 33 IMs.

TI's objective in appointing IMs is "to avail itself of the competence, dedication and experience of individuals of recognized integrity from diverse geographical, cultural and professional backgrounds, who acknowledge the Charter of TI and are committed to the active promotion and realization of its goals". Individual Membership can be obtained in three ways: (a) self-application in writing supported by two existing IMs; (b) recommendation by a National Chapter; or (c) recommendation from an Advisory Council Member supported by one IM. In all cases, applications will be considered by the Membership Accreditation Committee (MAC), according to the latest updated Appointment Policy (14 November 2006), and submitted for approval to the Board of Directors. The aim of this procedure is to protect the integrity, cohesion, and reputation of TI, and to strengthen and support the National Chapters of the movement.

Since 2005 IMs are appointed for a term of up to five years. For those appointed earlier without an explicit term limit, a calendar of renewals in 2005, 2006, and 2007 was established, so that from 2008 onwards each year IMs could be reconsidered for a next term of five years membership of TI. No limit is set to the number of terms that may be held. In addition, each one of the 75 countries where a TI-accredited National Chapter is established elects from its membership one Official Chapter Representative.

IV. *Organizational Structure*

The authorities of TI are the Board of Directors, the International Secretariat, the National Chapters, the Individual Members, and the Advisory Council. An Annual Membership Meeting, the ultimate decision-making body of TI, brings together the Individual Members and the National Chapters, and elects the Board of Directors.

The Board of Directors is the central governing body of TI and is formally responsible for approval of the budget, the appointment of the Managing Director, and the applications of IMs. The Board decides on (dis)accreditation of National Chapters

and expulsion of IMs. The Board is also responsible for the approval of the latest Annual Report, the financial statements of the previous year and the budget for the next year, decisions on the strategy of the movement, and the election of the Chair, Vice-Chair and Board Members from among the Official Chapter Representatives and the IMs for three-year terms, who are eligible for a maximum of three terms.

The International Secretariat focuses on the global and regional fight against corruption, and assists national chapters in enhancing their anticorruption skills. The Secretariat coordinates initiatives within geographical regions and provides methodological support on the tools and techniques to fight corruption. The Secretariat also serves as the driving force on international issues such as anti-corruption conventions, and other crossborder initiatives. It serves as a knowledge management centre, capturing and disseminating best practice and developing new approaches to tackle corruption. In recent years the Secretariat has employed between 50 and 60 staff members (plus interns) organized in three groups for (a) international affairs (in five sections: Africa and Middle East, Americas, Asia & Pacific, Europe & Central Asia, Global Programmes); (b) advocacy (also in five sections: Communications, Media Relations, Online Communications, Policy and Research, Global Corruption Report); and resources (External, Internal, Human Resources, Office Management Team, IT Team, Executive Support Team, Governance).

National chapters are independent, locally-established organizations that address corruption in their respective countries, implementing their own national programmes as well as agreed global and regional strategies.

According to TI, national chapters are also instrumental in shaping the movement's strategy and policies, and often work together on regional priorities. A system of chapter accreditation review helps to ensure that the quality and integrity of TI's work remains high around the world.

The Advisory Council is a group of individuals with extensive experience in the areas of TI's work and recognized personal integrity from diverse geographical, cultural, and professional backgrounds. The Advisory Council is appointed by the Board of Directors to advise the Board and to support the work of the organization.

V. *Financing*

Transparency International receives funding from governments, corporate donors, individuals, foundations, and other development organizations. Between 2002 and 2006, TI's budget increased from EUR 5,717,000 to EUR 8,375,000. Governments and their agencies remain the largest donors to the organization. In 2006, for example, governments contributed 83 percent (EUR 6,952,000) of TI's total budget. However, there has been a significant increase in contributions from corporate donors; in 2002 less than two percent of total income came from only six companies with the highest contributions coming from Shell International (EUR 33,000) and General Electric (EUR 26,000). In 2006 more than seven percent of total income came from 35 companies with the highest corporate contribution from SAP AG (EUR 90,560).

In September 2006, TI informed all National Chapters, National Chapters-in-formation, and Individual Members that it seeks growing support from the private sector by asking companies to join the Global Corporations for Transparency International (GCTI) initiative and to contribute typically EUR 50,000 annually to TI. This call has been answered by Anglo American, Ernst & Young, Exxon, General Electric, Merck, Nexen, Norsk Hydro, Procter & Gamble, CEEMEA, SAP, Shell International, Sovereign Global Development, and UBS. In addition, Ernst & Young (E&Y), one of the world's leading accounting and consulting services firms, has committed to provide financial support for TI's measurement tools. The E&Y annual contribution of EUR 200,000 started in 2006 and continues for three years. The funds are intended to help TI continue producing, publishing, and promoting the Bribe Payers Index, the Global Corruption Barometer, and the Corruption Perceptions Index.

In 2006, TI introduced a policy that National Chapters receive ten percent of any donation coming from the corporate sector in their country. Under this rule, the 2008 Shell contribution to the Treasury in Berlin resulted in a transfer of Shell money to the Dutch chapter of EUR 5,000, while the members of the Dutch National Chapter contributed only EUR 1,422 in annual fees.

VI. *The Role of TI in Transnational Economic Governance*

TI has broadened its focus over the years. In 1993, its goal was to combat corruption in international business transactions. Because of this rather limited focus, TI's activity was essentially restricted to so-called 'grand corruption'. By 1994, petty corruption had been added to its mandate, and the restriction of tackling only corruption in international business transactions was lifted. In subsequent years, the subject of corporate ethics was added to TI's remit.

In the early years emphasis was placed firmly on corruption in developing countries. Later, corrupt practices in developed economies attracted much more attention. However, of the 32 country reports in the Global Corruption Report 2007, only three are European states: the Czech Republic, Romania, and the UK; the remainder are developing countries.

TI has consistently resisted extending its campaign to so-called 'facilitating' or 'expediting' payments, the purpose of which is to expedite or secure the performance of routine governmental actions. The inclusion of petty and local corruption in TI's programme of action was needed as the small sums that ordinary people have to pay daily to the policeman, the nurse, the schoolteacher, affect their lives directly. Although the problem of international business and grand corruption is of greater importance, and therefore attracted most attention by the TI founders, it does not mobilize the people. This explains also the name changes of TI over the years in its subtitles: In 1993 the name used was 'Transparency International . . . the coalition against corruption in international business transactions'. In the biography of Peter Eigen on the TI website, the organization was later described as 'an NGO promoting transparency and accountability in international development'. In the Annual Report of 1999 we read: 'Transparency International, the coalition against corruption'. In June 2007: 'Transparency International is the global civil society organization leading the fight against corruption'.

1. *TI indices, surveys, and other tools*

TI seeks to provide reliable qualitative and quantitative diagnostic means regarding levels of transparency and corruption ('scores'), both at global and local levels. It does this in six primary ways:

     1. The annual *TI Corruption Perceptions Index* (CPI), first released in 1995, is the best known of TI's tools. It has been widely credited for putting TI and the issue of corruption on the international policy agenda. The CPI ranks more than 150 countries in terms of perceived levels of corruption, as determined by expert assessments and opinion surveys. TI established an Index Advisory Committee (IAC) in 1996. The role of the Committee is to provide technical expertise and advice in the development and strengthening of the methodologies used by TI to measure corruption and governance. The Committee has a consultative role and TI retains the ultimate responsibility in terms of decision-making. The IAC members (see www.transparency.org/policy_research/surveys_indices/) are specialists: economists, statisticians, and social and political scientists, who provide pro bono advice in the development of the various tools. Given the efforts by TI to be truly international in personnel, it is remarkable to see that in this IAC, current members only come from France (3), Germany (3), IMF/USA (1), UK (3), USA (2), and South-Africa (1).

     A growing number of researchers doubts the quality and validity of the methodology used for calculating the scores per country which are subsequently used to rank the countries from least to most corrupt. The ranking attracts global attention every year: did a country climb on the list? This is particularly important, as these rankings influence aid-allocation decisions by several governments, and investment decisions by companies.

     In particular, the bias in the choice of surveys and of respondents means that poor countries inevitably end at the bottom of the list. Neither the TI Board nor the International Secretariat seems to take the criticism seriously (For more on these methodological problems, see 'Ten Years of Corruption (Perceptions) Indices 1995–2005: Methods – Results – What Next?' at www.corruptie.org).

     The research on data which lead to the corruption scores are no more than the perceptions of people from a very small part of society: trade businessmen who make judgements on the basis of their daily experiences.

In 1995, this was acceptable as not much research had yet been done. In 2009 we require a much more stringent methodological approach to measuring corruption. If we only use 'perceptions' of the prevalence of corruption instead of facts, the least that should be done is to include also the perceptions of women, consumers, the sick and the poor, the powerless, public officials, elected politicians, minorities, the old and the young, blue-collar-workers, and investigative journalists. All of these, as well as francophone and lusophone sources, are missing.

2. The *Bribe Payers' Index* (BPI) was introduced as a counterbalance to the CPI. It measures the supply side of corruption, i.e. the propensity of leading exporting firms to bribe abroad while being 'clean' at home. To date, the BPI has only been conducted in 1999, 2002, 2006 and 2008. Bajolle remarks that "the choice of respondents also suggests a risk of bias, since companies which donate to TI or from which members of TI's staff are issued are apparently included in the interviewees" (p. 18, referring to the 1999 BPI framework document).

3. The annual *Global Corruption Barometer* (GCB, since 2003) is a public opinion survey that assesses the general public's perception and experience of corruption in more than 60 countries around the world, implemented on behalf of TI by Gallup International.

4. *The Global Corruption Report* (GCR, first issued in 2001, annual since 2003), is used by TI to give an overview in articles per country and continent, of the extent of corruption. In addition, since 2003, the choice of a special focus, analyzing the subject comprehensively, enhances the importance of these GCRs: 'access to information' in 2003, 'political corruption' in 2004, 'post-conflict reconstruction' in 2005, 'health' in 2006, 'judicial systems' in 2007, and 'water sector' in 2008.

5. *IACC – International Anti-Corruption Conference*. Since 1996 the TI Secretariat is responsible for the programme and logistics of the bi-annual International Anti-Corruption Conference (IACC), the thirteenth installment of which took place in Athens in 2008.

6. *Other TI contributions to the fight against corruption*. Those willing to browse the TI website will find many more initiatives, actions and tools that might help to win this fight in a particular country, trade, or economy. Look for the Integrity Pact (IP), Corruption Fighters' Toolkit, and the Knowledge Center. Other tools include National Integrity

Systems Country Studies, the TI Anti-Corruption Handbook, the TI Source Book, and the Business Principles for Countering Bribery.

Apart from these global indices, surveys, sources and tools, TI National Chapters have engaged in a number of innovative efforts to measure and fight corruption, and to safeguard transparency and governance – often combining objective and subjective data in their analyses. In addition, an important success for TI in its advocacy work was the inclusion in June 2004 of 'the tenth principle' in the UN Global Compact: 'Businesses should work against corruption in all its forms, including extortion and bribery'.

VII. *Trends and Challenges*

In recent years, there has been increasing civil society activism campaigning for transparency and accountability in governance, politics, and administration as well as in business. No longer is TI the sole anti-corruption fighter advocating good governance. An excellent example of NGO activism on transparency is the work that has been done in recent years by the Publish What You Pay coalition of more than 300 northern and southern NGOs (see www.publishwhatyoupay.org/english). The coalition is calling for laws to require extractive companies to disclose their payments to all governments. This crucial first step would help citizens in resource-rich but poor countries to hold their governments to account over the management of revenues.

In addition, by establishing a level playing field through regulation, companies' reputational risks will be mitigated and they will be protected from the threat of having contracts cancelled by corrupt governments. Secrecy provides a perfect cloak to the unscrupulous, on the side of both the host government and the corporations.

In addition, recent years have seen the establishment of two other related initiatives on best practice. The Global Reporting Initiative (GRI), established in 1997, provides guidance on the substantive issues to be included within a sustainability report. The GRI vision is that reporting on economic, environmental, and social performance (including how to handle and prevent corruption) by all organizations becomes as routine and comparable as financial reporting. The GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its Sustainability

Reporting Framework. An international network of thousands from business, civil society, labour, and professional institutions, creates the content of the Reporting Framework in a consensus-seeking process. More than 270 companies and institutions are now using the GRI guidelines. AccountAbility 1000 (AA1000), launched in 1999, provides a framework to guide the establishment of an inclusive engagement process (see www.AccountAbility21.net). However, the principal weakness of all non-governmental activism is that it relies entirely on voluntary response, action, and reporting. In many instances rules should be established that can be enforced and monitored.

Bibliography

Extensive use has been made of information available on the TI website < www.transparency.org >, and on < www.corruptie.org >, the author's personal website; Julie Bajolle, *The Origins and Motivations of the Current Emphasis on Corruption: The Case of Transparency International*, MSc thesis, March 2006, www.essex.ac.uk/ecpr/events/jointsessions/paperarchive/nicosia/ws2/Bajolle.pdf ; Peter Eigen, *Das Netz der Korruption. Wie eine weltweite Bewegung gegen Bestechung kämpft* , Frankfurt a.M., 2003; Michel van Hulten, [available in Dutch only]: *Report on the Genesis of TI in the Years 1991–1993*, for Dutch Office of the Global Coalition for Africa, 3 January 1994.

Contact

Transparency International Secretariat
Alt-Moabit 96
10559 Berlin
Germany
Tel. + 49 30 3438 2000
Fax + 49 30 3470 3912
Email: ti@transparency.org
Web: www.transparency.org