

The Global Scope and Cost of Corruption and Money Laundering

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HOUSE OF COMMONS
CHAMBRE DES COMMUNES



Geo-political context

- Gap between 'have' and 'have-not' nations
- globalization impacts
- Radicalism and terrorism
- Increased migration
- Mobility of investment capital
- Corporate consolidation



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Incidence of Corruption

- Pervasive - exists in all countries of the world.
- Petty and 'big ticket' corruption.
- symptom of weakness in the political, social, legal and economic systems of a country.
- Takes a variety of forms including bribery, nepotism, patronage, theft of state assets, evasion of taxes, diversion of revenues and electoral fraud.



Impact of Corruption

- Effects are far reaching and impact all aspects of a social, political and economic life.
- Reduced quality and stability of governance systems.
- diminishes economic performance.
- Corruption is divisive and makes a significant contribution to social inequality and conflict.



Relationship between poverty & corruption

- Gross National Income for 10 Most Corrupt Nations
- *10 most corrupt nations**
- *(starting with the worst)*

- Bangladesh
- Nigeria
- Haiti
- Paraguay
- Tajikistan
- Georgia
- Cameroon
- Azerbaijan
- Angola
- Kenya

GNI per capita *GNI world ranking*
*(U.S.A. = \$34,280)*** *(out of 208)***

\$1,600	173
\$790	199
\$1,870	166
\$5,180	106
\$1,140	184
\$2,580	148
\$1,580	174
\$2,890	141
\$1,690	171
\$970	190

- *Source: Transparency International: Corruption Perceptions Index 2003
- **Source: World Bank: 03 World Bank Atlas (no GNI per capita figure for Myanmar although in top ten of most corrupt nations)



The Cost Of Corruption

- Corruption : diversion of public assets for private benefit.
- Corruption is pervasive and not limited to developing and emerging economies.
- Case studies in Africa - bribery adds 8% to the cost of doing business.
- In China corruption estimated to comprise 15% of GDP.
- A one unit decline on a ten point corruption index lowers real GDP by 0.3%-1.8%.



Some 'big hitters'

Transparency International's Report of the Ten most Corrupt Leaders

Despot embezzled	Country	Estimate of amount
● President Suharto '67-'98	Indonesia	\$15 billion - \$35 billion
● Ferdinand Marcos '72-'86	Philippines	\$5 billion - \$10 billion
● Mobutu Sese Seko '65-'97	Zaire	\$5 billion
● Sani Abacha '93-'98	Nigeria	\$5 billion
● Slobodan Milosevic ('89-2000)	Yugoslavia	\$1 billion
● J-C Duvalier '71-'86	Haiti	\$300 - \$800 million
● Alberto Fujimori '90-2000	Peru	\$600 million
● Pavlo Lazarenko '96 - '97	Ukraine	\$114 - \$200 million
● Arnaldo Aleman '97 - '2002	Nicaragua	\$100 million
● Joseph Estrada '98 - 2001	Philippines	\$78 - \$80 million
● Source: Transparency International 2004 Report		



The Cost of Corruption

- Undermines public trust and confidence in public institutions.
- Inequitable distribution of national wealth and income can foster political instability.
- Reduces foreign direct investment (added cost and uncertainty).
- Transparency of political decision-making diminished.



The Cost of Corruption

- Introduces inefficiencies in markets.
- Can compromise the achievement of sustainable development objectives.
- Increased risks to health and safety of citizens.



Importance of natural resource revenues

- Countries dependent on natural resource revenues can be particularly vulnerable to corruption.
- Dependence on natural resource revenues
 - E.g. average annual hydrocarbon revenue (2000-2003) as % of total fiscal revenue.
 - Nigeria (77%); Russia (40%); Indonesia (31%); Mexico (32%); Venezuela (53%); Angola (81%)
- Inadequate control systems, lack of transparency in accounting and reporting.
- Often decentralized projects generating significant `hard currency` revenues passing through many layers before landing in national treasuries.



Importance of natural resource revenues

- Many international organizations have recognized the `resource curse` .
 - Extractive Industries Transparency Initiative;
 - Publish What You Pay Coalition; and,
 - Revenue Watch Institute
- GOPAC`s *pitch* to International Public Sector Accounting Standards Board.



Role of Parliamentarians in Combating Corruption

- Parliament and parliamentarians play an *essential* - and a *leadership* - role in combating corruption.
- Four areas of importance: legislative, financial, oversight and representation.
- Legislative: enact laws addressing behaviour; focus on integrity in governance; regimes for financial and public service management; transparency and accountability.



Role of Parliamentarians in Combating Corruption

- Financial Control: Parliament's role in financial management; power of the purse; financial reporting back to parliament.
- Oversight: Auditors and ombudsman; executive reporting to parliament; public questioning of Ministers and Executive; committees.
- Representation: Combination of public deliberation and consensus building within parliament, as well as engagement of citizens on matters of public policy.



What is GOPAC?

- Global Organisation of Parliamentarians Against Corruption (GOPAC).
- Over 800 parliamentarians in 90+ countries of the world organized into regional and national chapters including.
- Global Chair is John Williams MP (Canada), Vice Chair is Dr. Naser Al Sane, MP (Kuwait).
- The Global Secretariat is based in Ottawa, Canada.
- www.gopacnetwork.org



GOPAC: Parliamentarians Fighting Corruption

- Helping parliamentarians to improve their capacity to fight corruption.
- Believe in bringing technical experts together with the *political will* to effect change.
- GOPAC's membership identified 7 areas of focus: Access to Information; Anti-Money Laundering; International Conventions Against Corruption; Parliamentary Codes of Conduct; Parliamentary Immunity; Parliamentary Oversight; and Resource Revenue Transparency.
- Global Task Forces.



Anti-Money Laundering Initiative

- Strong connection between corruption and money laundering.
- Regimes that lack systems of accountability and transparency typically allow for high levels of money laundering and corruption.
- GOPAC's Anti-Money Laundering Initiative (AMLI).



Why is the fight against money laundering so important?

- Size and scope of money laundering.
- Motivation for laundering money pre and post terrorists activities, drug money, corrupt money, tax evasion.
- Corruption and money laundering threats to international security.
- proceeds of crime.



Anti-Money Laundering (AML) Policy and Legislative Design

- Must be tailored to specific needs of each jurisdiction.
- Financial intelligence is essential to detect and deter money laundering and terrorist financing.
- International standards set by Financial Action Task Force (F.A.T.F.)
- F.A.T.F. sets AML standards.
 - 40 Recommendations on Money Laundering
 - 9 Special Recommendations on Terrorist Financing



AML Policy and Legislative Design

- Regular mutual evaluation exercises assess compliance
- Setting a big net
- Privacy issues
- Defining 'suspicious transactions'
- Solicitor/client privilege
- Financial intermediaries



AML Policy and Legislative Design

- Monetary instruments
- Onus - burden of proof re: seizures
- Telegraphic transfers and internet banking
- Domestic/offshore money laundering (offshore banking system)
- Asset recovery



AML Organization structures

- Financial Intelligence Unit (FIU)
- Department/agency
- Responsible Minister
- Agency independence
- Need for rules, regulations and guidelines especially for financial intermediaries



AML Implementation

- Political will
- The role of parliamentarians
- GOPAC anti-money laundering initiatives
- Inter-agency and international cooperation
- Awareness training



AML Implementation

- Financial resources
- Risk management
- Transparency & accountability
- Financial sector - 'know your customer'
- Reporting compliance by financial intermediaries