“Business Case for Anti-Corruption”

“Clean business” - increases your profits

Max Burger-Scheidlin, ICC Austria, www.icc-austria.org
clean business = higher profits?

- case: OSCE conference Vienna – Kazakh
- case: Afghan banker

... I care - everybody makes more money –

...long-term + safe

⇒ workers, officials, business, politicians
talented people = high profits!

- EU - happy to welcome bright brains – from Balkan

- why are many talented young - leaving home?
  - mediocre universities
  - high corruption
  - promotion – according to - connections, political affiliation, „payments“

- EU companies profit...

- Balkan companies struggle - to find top brains
  ... to build world class companies
corruption – a culture / habit?

yes... - everywhere

- problem: ➔ sub-optimal decision
  - not best technical quality
  - too high price

- subsequent production
  - too expensive
  - not very competitive in international market

- result  - ➔ short-term profit max. – of corrupt
  - ➔ reduction of long-term profits
  - ➔ impoverishment - workers, businessmen, public officials, politicians

- ...➔ of corruption ...➔ vicious circle

© M. Burger-Scheidlin – www.icc-austria.org
case: Sudan - machinery

low quality machinery – purchased

- frequent breakdowns
  - low salaries + low profits
  - low morale
  - more theft, corruption

- profit maximisation?
„good governance“

at present ➔ legal approach - only

- Governments ➔ strict regulation ➔ control everything
- fight corruption ➔ with heavy criminal penalties
  - ➔ culture of secrecy + fear
- outcome – „legal approach“ …➔ mediocre
  - governance + admin. cost ➔ high
  - economic growth ➔ low
  - unemployment ➔ considerable
  - ➔ fertile ground for ideological radicalisation

© M. Burger-Scheidlin – www.icc-austria.org page 2
do we measure "cost of corruption" correctly?

- **1999 Izmit earthquake — 17,000 dead**
  - corrupt managers "earn" perhaps some $20 – 30 mill.

- **legal approach**
  - corrupt managers imprisoned + re-pay $20 – 30 mill.

- **commercial approach**
  - cost of re-construction of buildings $200 – 300 mill.
  - dead people "eliminated from workforce" –
    - value added by each - $5 mill./lifetime = $45 bill. loss
  - if tax 10% = **loss for government $4.5 bill**
„profit maximisation“ – human!

- managers, politicians, officials
  ...will always try to max. individual profits

...but how sustainable is their model?
quick profit maximisation

⇒ long-term instability + losses

- **XY country – family & friends**
  - short-term profit max. – „state capture“ + corruption
  - impoverishment + unemployment ⇒ civil war
  - money in many accounts ⇒ blocked;
  - XY country in ruins

- **US sub-prime scandal – 2007**
if „difficult“ government

⇒ unstable economic environment

- ...investors need ⇒ „quick return of money“
  - ⇒ high price + low quality of goods
  - ⇒ no long-term investment ⇒ factories ⇒ little job creation

- „Profits“ made by business, politicians, officials
  ⇒ transferred to „safe“ countries ⇒ hardly re-invested at home
  ⇒ economy stagnant - ⇒ unemployment, ⇒ competitivness
  ⇒ government-stability ⇒ reduced

⇒ long-term income ⇒ reduced

victims ⇒ politicians, officials ⇒ whole country
in many countries - at present...

- corruption = short-term profit maximation
  - „profits“ invested outside country
  - talented experts ➔ leave
  - international competitiveness ➔ low

- business + political climate
  - tense... + fear... + ...blackmail
  - needs strict hierarchy of „sponsors“ – „krisha“

- ➔ neg. bus. climate - little innovation, investment
alternative...

„commercial approach“ to corruption

- OSCE - Tajikistan reaction
  - „we strongly promote compliance…
    ...but nobody understands – „WHY“ ?

„commercial approach“ ➔ a way forward

- Case: Importers Ass. – Eastern Europe
aim - profit maximisation !!!

→ slow, steady, … safe in long-term

Singapore

- → elimination of corruption
- → high salaries for politicians + public officials
- target → economy must flourish → „pie“ must grow
- long-term profit max. → for politicians + all citizens

- **Microsoft – Bill Gates**
  - „a little money“ → from an increasing pie
  - $ 20 from each user – each year → **billions in profit**

- **Unilever**
how to bring in good governance?

-best practices

simplify systems!

Australia 1975 – law on insurance policies - to consumers

- whatever an 18 year old cannot understand
  - is interpreted against the issuer - by law

Peru - real estate taxes

- self-assessment of owner
corrupt system ➔ slower business

...time (=cost) to negotiate a bribe

➔ loss for bribe giver + bribe recipient

- reduced velocity of circulation of money in
  - turnover for business
  - profit opportunities
  - tax income for government

- non-corruption ➔ would invigorate economy
  - quicker sales
  - profits
  - tax income by government
  - salaries for officials + politicians
  - reduced unemployment
easy ➔ ↔ difficult systems

- transport of one container – ...6 weeks
  - Shanghai ➔ Rotterdam $ 1.000.-
  - Mombasa (Kenya) ➔ Kampala (Uganda) $ 3.000.-
  - Income of politicians + officials there ➔ reverse order

- WTO ➔ customs clearance simplification initiative
  - 14% reduction of cost of trade
  - 91% reduction of time
non-corruption ➔ profit max.

- **case:** China – hydraulic ladders for fire brigades
  - company employees ➔ higher salaries
  - municipality ➔ lower cost + higher quality
  - public purchase officials ➔ higher salaries
  - local politicians ➔ increased respect + authority

- **case:** big construction – airport-use at night
summary for business
corruption
– increased business risk

cases

- Odebrecht – Brazil, Latin America
- Siemens 2008 – total cost ≈ € 4 bill.
- Fraport - Manila
non-corruption – wins business

cases

- Myanmar – general – GE
- Russia – pharma
- Siemens – East Balkan - public tender – subway

© M. Burger-Scheidlin – www.icc-austria.org
negotiation for bribe

→ time wasted = loss

- high risk
  - is contract valid?
  - debarment from contract – expulsion from supply chain
  - change of government → criminal prosecution

- ...corrupt can keep - ≈ 30% only
  - but responsible for 100%
  - ≈ 70% paid to friends – „for their silence“

- money not re-invested at home
  → reduced profitability 10 – 20%/y
World Bank

Corruption Increases Costs by 20-25%

- corrupt money ➔ invested in tax havens
  - brings - little or no interest
  - not safe
    - ... money laundering
    - „Panama Papers“

- money wasted = bad business
non-corruption

= long-term profit max. for all

workers + business + officials

those in power
for further questions

Max Burger-Scheidlin

ICC Austria – International Chamber of Commerce

icc@icc-austria.org; www.icc-austria.org