

World Forum on Governance

BROOKINGS

PRAGUE DECLARATION ON GOVERNANCE AND ANTI-CORRUPTION

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I. PREAMBLE

In recent years, the world has been shaken by a series of crises and demonstrations of public discontent, from the most devastating global financial meltdown and economic downturn since the 1930s to the convulsions of the Arab Spring. They have all reflected serious shortcomings in public and corporate governance, with corruption in its many forms being a driving force behind virtually all of them.

In the West, the decade that began with Enron and ended with the subprime mortgage debacle and the collapse of financial institutions and systems has shaken the confidence of investors and policymakers. Stunning failures of both public and private oversight led to systemic breakdowns in disclosure, perverse incentives and risk management that were either distorted or nonexistent. Western political and corporate governance systems, instead of coming together to address these issues, have been sluggish and unable to develop credible consensus solutions.

In the Middle East and North Africa, the self-immolation of a poor trader named Mohamed Bouazizi in response to Tunisian corruption set off a wildfire of popular revolt that quickly spread across the region. Those nations that replaced dictatorships now face massive public and business governance challenges.

Established economies are confronting failures at the most fundamental level. Transitioning and emerging economies are struggling to avoid making the same mistakes while grappling with challenges of their own. The toxic cocktail of corruption, narcotics trafficking and terror financing afflicts multiple nations. In some of them, and also in some post-socialist nations, corruption of the police and intelligence services is a lingering problem. Citizens everywhere are restive, including in the United States, where the Tea Party and Occupy movements alike have been explicit in their criticism (albeit in different terms) of government and corporate dysfunction and dishonesty, and where the political system has been flooded by a wave of cash, much of it anonymous, from wealthy individuals and corporations in the wake of the ill-conceived *Citizens United* Supreme Court decision (and a subsequent lower court decision) allowing such spending.

Governments are not, of course, alone responsible for creating these failings. They also arise from fundamental flaws and deficiencies in economic, social and political systems in country after country around the world. But governments, political institutions, corporations, institutional investors and other actors have failed to address these flaws and deficiencies—or have blocked efforts to initiate change—so that progress on behalf of the overwhelming majority of citizens and stakeholders can be made, including in addressing troubling imbalances in wealth and power which cause public discontent. As a result, those governing institutions are increasingly judged to be non-responsive, ineffective and even dishonest, calling their legitimacy into question.

For industrialized countries, a robust and sustained recovery from the crisis, while averting future crises, depends on improving public and corporate governance, especially as it addresses the challenges of (legal and illegal) corruption and capture. For emerging economies, improved

governance and anti-corruption efforts will be key to ensuring sustained growth with equity and political stability over the coming decades.

II. THE WORLD FORUM ON GOVERNANCE

Participants in the first World Forum on Governance, representing governments, business, investors, media and non-governmental advocacy groups from around the world, convened in Prague in November 2011 to analyze the link between governance and corruption and to find practical solutions that can begin improving the situation. The Forum was unique in bringing together representatives of both the public and private governance communities to discuss the problem of corruption in both its broad and narrow senses and develop an integrated analytic framework reflected in the Ten Principles below.

The Conference established that corruption—the abuse of entrusted authority for improper gain—is a significant contributing factor in the worldwide governance crisis that cuts across cultural variations and levels of economic development and modernization. The key to reinvigorating trust in democracy and the market economy hinges on securing good governance that is both effective and honest. Corruption is a primary obstacle to achieving this aim.

Perhaps the most critical insight that emerged from the conference is that corruption has two forms: the traditional narrow variety and a newer and much broader form. Corruption in the narrow sense consists of conduct that is now widely recognized to be illegal, for example in the form of bribes large and small, shaking down large corporations and average citizens alike. By contrast, corruption broadly defined involves special interest influence peddling and often consists of conduct that is legal, for example in the form of influence through hidden financial relationships, campaign contributions and lobbying to cause government officials to divert resources to benefit the well-connected at the expense of the public interest.

III. THE TEN PRINCIPLES

Distinguished bodies have developed wise and detailed guidance to address these issues. They include the United Nations Convention Against Corruption; the Organisation for Economic Co-operation and Development Anti-Bribery Convention; the Financial Action Task Force Recommendations; International Corporate Governance Network best practices; and materials disseminated by many others, including the Open Government Partnership, Transparency International, the Center for International Private Enterprise, the Global Corporate Governance Forum and the Partnering Against Corruption Initiative of the World Economic Forum.

There is no need to reinvent their good works. But the World Forum on Governance participants see value in integrating guidance on civil and corporate governance into a unified platform aimed at combating corruption. The influence of citizens and capital combined can have more impact than each alone. Further, participants agree that all parties must put best practices into effect.

The following ten principles spell out a practical, measurable, and accountable framework to guide implementation.

1. **BRIBERY.** Bribery of government officials should be aggressively contested, from the grand graft that is sometimes required to win large contracts to the petty demands for cash in exchange for daily services that afflict the lives of average people. Theft from public and private organizations by their leaders should also be fought. More important than just having laws on the books, however, nations should have a demonstrated, quantifiable and non-politicized history of investigating, prosecuting, convicting and punishing those engaged in these classic forms of

corruption. Nations should develop and implement effective and coordinated anti-corruption policies, which include both prevention and prosecution. Governments should guarantee the existence of independent and well-resourced bodies to prevent and prosecute corruption.

2. **PERSONAL FINANCIAL DISCLOSURES AND CONFLICTS.** Politicians and government officials should be subject to financial disclosure rules that expose conflicts of interest and other forms of corruption. Financial disclosures should fully reveal officials' financial assets, income and other financial interests. Associated codes of conduct should be clear and detailed enough to enable practical enforcement. Those disclosures for the highest-ranking officials should be readily accessible to the public on the internet; for other public officials disclosures should be periodically verified by an appropriate body.
3. **THE LAW ENFORCEMENT SYSTEM.** The integrity of police, prosecutors and judges is essential to good governance. They should be well-trained, adequately compensated relative to private sector jobs, and subject to legal structures that balance independence and accountability. No person should be immune from prosecution for corruption, including elected and appointed officials while they hold office.
4. **OPEN GOVERNMENT.** Governments should actively implement open government which, among other virtues, powerfully counteracts corruption. Every government should have and follow a freedom of information law with judicial review available for denied applicants. Government budgets, including both expenditures and revenues, should be fully transparent and take advantage of innovations in integrated financial systems and online disclosure. Public procurement should be subject to laws and regulations that provide for transparent, online and competitive tenders and selection among bidders that is independent, professional, and merits-based. For large bids, an independent and expedited review system should be available to assess appeals by disaffected bidders. We encourage both public and private parties to raise procurement integrity standards through voluntary agreements and monitoring by civil society organizations.
5. **CORPORATIONS.** Companies should have policies in place from the board on down aimed at zero tolerance of corruption. These policies should cover vendors, suppliers and other agents that do business with the firm. Policies should be founded on applicable statutes, international conventions and best practices on measures to combat corruption. They should be publicly embraced by the highest company officials, backed with vigorous management strategies and sufficient resources, and reviewed regularly. Boards should disclose, at least annually, robust information about anti-corruption policies and practices to investors, public authorities and other stakeholders, so as to provide assurance of the strength and effectiveness of such actions. Corporations should develop best practices with respect to disclosure of corporate payments to governments by the extractive industry or others.
6. **INVESTORS.** Investors should fully integrate risk analysis of country and company corruption into their investment decisions. Shareholders investing for the long term should monitor portfolio company boards to test for dynamic and sustained policies and practices aimed at preventing corruption. Investors should also expect and advocate for optimal anti-corruption strategies at companies in which they invest. Where company boards are deemed as failing to adopt and implement best practices, investors should not hesitate to exercise market ownership tools such as dialogue, engagement and voting to achieve remedies. Executive compensation incentives should be explicitly designed to prevent corruption and investors should be prepared to vote out board members who fail to include corruption as an element of risk management and pay. Investors should disclose, at least annually, the policies, practices and resources they rely on to (a) monitor corruption risks at companies in which they invest or consider investing; and (b) apply stewardship tools to promote best practice anti-corruption measures at investee

companies. Investors should also apply rigorous anti-corruption policies and practices to themselves and to all intermediaries touching on the investment chain. They should disclose those policies, together with explanations of governance oversight, management practices and resources used to implement them, at least annually.

7. **CAMPAIGN FINANCE.** All forms of campaign and party finance should be transparent, with prompt and publicly accessible internet disclosure of direct, indirect and third-party contributions and expenditures. States should criminalize official favors provided as quid pro quos for campaign finance; offer a small-donor matching system or other means of public funding of campaigns; and have bans or strong limits on corporate funding of campaigns and parties. In countries in which corporations are permitted to participate financially in elections, corporate and investor rights groups should target corporations' political spending practices to establish accountability for their decisions to allocate resources for political campaigns and to require full disclosure of all such spending to the board of directors, shareholders, and the general public.
8. **LOBBYING.** Professional lobbying should be subject to registration and to full, prompt, and accessible disclosure of each lobbying contact with any politician or public official by those engaging in it. Legal systems should place reasonable limits on individuals going through the revolving door between lobbying and government jobs. Gifts to public officials from lobbyists should also be prohibited. Lobbyists operating in breach of the law should be prosecuted.
9. **WHISTLEBLOWERS.** Whistleblowers should have legally-guaranteed protection from retaliation, as well as access to an independent government body that can investigate their claims and represent the whistleblower if the allegations are supported; the right to due process, in the form of an administrative hearing with real remedies, including reinstatement and damages; the right to engage outside counsel on a contingent-fee basis; and the right to appeal decisions to the courts. Structures should also be in place to discourage false whistleblowers from taking advantage of these protections.
10. **NGOS AND MEDIA.** Non-governmental organizations and media should enjoy strong legally-protected freedom of expression and of association in order to play their proper role in monitoring government and business and shining light on their activities. Those in the media should have tools to utilize disclosures by companies and investors, allowing them to responsibly probe and compare records and practices so as to ensure that parties are accountable for steps they take to combat corruption, and exposed if they fail to do so.

IV. NEXT STEPS

The World Forum on Governance agrees to undertake and support the following practical steps to advance good public and corporate governance around the world in pursuit of progress against corruption:

1. We will develop a dynamic social network to enable attendees at the first Forum and other advocates of good governance to share models, positive examples, lessons, information and opportunities.
2. We will work together to spotlight and acknowledge entities and individuals that stand out for their excellence in governance and anti-corruption, and to encourage others to rise to that same high standard.

3. We will advocate for national and multi-national bodies to adopt comprehensive anti-corruption approaches including in legislation and enforcement, which are based upon the recognized conventions and other authorities that give rise to our Ten Principles.
4. We will work for laws and regulations, along with effective enforcement, to combat corruption in the private sector, and against pressures to weaken those measures that already exist (e.g. the U.S. Foreign Corrupt Practices Act and the Dodd-Frank Act). In the market itself we will urge that state-owned and private enterprises, and investors, have policies in place that implement the Ten WFG Principles and that aim at zero tolerance of corruption.
5. We will work together to support a vibrant civil society and seek ways and means of assisting the many NGOs, trade unions, and traditional, new and social media that are already participating in the movement for good governance in public and private spheres worldwide.
6. We agree to reconvene the Second World Forum on Governance in Prague in 2012 to assess progress, calibrate strategies and hold ourselves accountable for follow-up on our initial discussions. The agenda for WFG2 will be framed by the participants, but they have already made clear that in addition to continuing to spur enforcement of anti-bribery standards, the Forum should continue to focus on corruption in the broader sense. The latter is not yet as well understood and it raises profound issues about our economic, political, social and ideological systems.
7. WFG2 participants will address other public and private governance problems. The next Forum will include further consideration of issues such as the extent to which systemic deficiencies and flaws in economic, political, social and ideological systems have led to power and wealth extremes; the relationship of those inequalities to the worldwide governance crisis; whether global economic, political and social progress is possible unless these flaws and deficiencies are meaningfully addressed; and of course, how to accomplish that progress.
8. We believe there is a strong correlation between these issues and corruption in the broad sense as addressed in WFG1. A second conference is needed to address these relationships and the proper role of governance in the modern world. As at the first Forum, the emphasis will be not only on understanding the problems but on exchanging concrete, practical solutions that can be implemented by attendees. A specific agenda will be established in the coming months by participants through a consultation process, including use of the new social network.

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