

Address for the Inaugural International Anti-Corruption Day
of the Asian Infrastructure Investment Bank
Beijing: Wednesday 6 December 2017

Thank you, President Liqun Jin for those profound words and for your leadership in a difficult sphere of life. Corruption is becoming more pressing for people, government and the business community every day. I was impressed to note that good governance is the AIIB's acclaimed hallmark and that trust and integrity are principles woven into the institutional DNA of a young bank. I commend Hamid and his staff at the Compliance, Effectiveness and Integrity Unit, for the mission they pursue. The AIIB's commitment to high standards of ethics and transparency must live in the hearts and minds of its senior management and personnel, under the watchful eye of the board. Meeting in Financial Street is therefore fitting, as you celebrate International Anti-Corruption Day. I am honored to be here and thank you for your time.

1986 was a true awakening for many of us entering the professional world. At that time, the sobering effect of corruption was captured in the Commission Trial of the Five Families in New York, which disabled the Mafia. Roughly 30 years later, there is a new air of transparency, which often shines its torch on the integrity of financial institutions and assesses the public's faith in the credibility of government. That bright spotlight also extends to international organizations. The proactive stance by the AIIB in placing the issue of corruption as a keynote on its agenda early on, can only cement the Bank's architecture and redound to its credit in future.

A significant body of literature in many cultures is devoted to answering the question "**Why we do it**". My own assessment is that corruption derives from the imperfect nature of mankind, a dose of greed (and selfishness) and the assumption that we can get away with it. The prudent approach is to factor this thinking into any situational analysis. Applied to institutions managing public assets, a good point of departure is to assume that at least 10% of your funds is at risk of corruption, fraud, theft, collusion and wastage.

Reputation is the life-blood of a competitive enterprise. Leading organizations now equate reputational capital with equity capital. The third triple-A credit rating assigned to the AIIB by S&P Global Ratings, the 0-risk weighting it obtained from the Basel Committee on Banking and the counsel expected from an International Advisory Panel, put you in a different league. It's about your track record. These attributes become your brand and trademark. They impress and attract outsiders; and say to those on the sidelines that the AIIB is in positive standing. Nothing warrants a sacrifice of that hard-earned reputation, especially an exposure to corruption in its business. The shareholder and public expectation is that the AIIB shall continue to enhance its

operational set-up, offer the best in financing, throw a veil of protection around its project portfolio, maximize the use of the \$100 billion authorized capital-- and rejoice in that mission.

Government: I was privileged to help create the International Corruption Hunters Alliance with Messrs. Robert Zoellick and Paul Volcker. Amidst the financial crisis, they sensed an increasing understanding of the threats to countries' statehood and economic development, posed by corrupt activities in both the public and private sectors. There also emerged a continent-wide consciousness to win back confidence and integrity. My friends from China tell me that early political philosophers espoused the importance of Decorum, Righteousness, Integrity and Honor, as the four pillars of State. This is as true today as it was yesterday. Many governments respect and appreciate an honest, difficult conversation. As a financier with international clout, the AIIB can grasp the nettle, influence the thinking amongst sovereigns and help to change the calculation of international development.

What we have seen in most **integrity failures** the last ten years, is that the systems we use to organize our affairs, allowed them to happen, audacity got in the way, and someone dropped the ball. On the other hand, good organizations choose ethics and honesty before money, and many corporate leaders now assert that integrity drives up organizational performance. Given the novelty of the AIIB, after a first operational year, it has the power of the purse, prominence in the infrastructure industry, and the moral opportunity to tie its clients and partners to a new social contract that will reduce the incidence and mitigate the impact of corruption.

Risk-taking played a critical role in catapulting the world to where we are today. Risk evokes success and profit, and there are even some psychologists who argue that risk-taking generates happiness. On the other hand, we cannot embark on that course, if we fear and distrust. This equation means that expertise always outweighs wrongdoing: if we know the business we are in, the quality of product and the price of service, much of the battle is won. At the same time, The Thesaurus defines "risk-taking" as, "a daring deed or over-boldness," something we should guard against. The AIIB's edge is that it can graft reflective decision-making and assurance into its operational paradigm. The AIIB's challenge will be to accelerate infrastructure development, whilst driving between two white lines; and push out a narrative that clean business is smart business; and that profiting from integrity is achievable.

When things go wrong, it can lead to a meltdown, derail our best intentions and cause untold harm. We have seen businesses come apart at the seams, share-prices plummet, and major corporations engaged in endless crisis management. Banks are ordered to overhaul money-laundering procedures and upgrade their controls. Boards and senior management are under

pressure to balance business judgment against the duty to monitor, the duty to prevent harm, and the duty of corporate good faith. Thought-leaders call on international organizations to audit corruption. We have all had a “big case” moment, that goes to the heart of an institution. The test is not whether it will come, but when it does, will the full AIIB converge around that cause and clearly say: this is an attack on our institution and corruption affects all of us.

Can we prevent this? In my view, with the benefit of hindsight, up to 50% of the knavery I have seen in the last two decades, could have been avoided or prevented. Similarly, half of the legal combats we fought could have been settled, legally. Along the same line, a large majority of integrity lapses can be ascribed to inadequate due diligence and the limitation of precautions we have employed. Experts argue that a major contribution to the financial crisis, was that compensation systems corrupted incentives. The fact that business entities get exposed for prohibited transactions and criminal concealment, should mean we can correct malpractices through reverse engineering. It is an area that the AIIB can invest in with conviction.

Innovation and Technology: Many moons ago, professionals I was privileged to work with, studied the movement of ships to pre-empt drug-trafficking, tracked SWIFT-transfers before holiday weekend nights to hone in on suspicious transactions, and disrupted tax evasion by interdicting the flow of counterfeit commodities. It was an early exercise in predictive analysis. A few years ago, the head of the UK’s Serious Fraud Office called on companies that encounter corrupt overseas officials, to expose them on Twitter, as a way of stamping out the practice. Machine learning, artificial intelligence and automation seem to be the modern catalyst. This past November, I watched in amazement as companies in China used drones and robots, to perform shipping and delivery on Singles Day. It begs the question whether we can employ the wonders of technology with greater impact to predict, detect and prevent corruption. Creativity is our future currency; and the AIIB can step into this space with aplomb.

Looking ahead: The United Nations Convention Against Corruption, the most comprehensive instrument on corruption, which entered into force in October 2003, came about because of a belief by the global community that there was a demand for greater international coherence. People hope that tomorrow will be better than today. As we contemplate a corruption-reduced future, it is worth embracing the bright side of life. Sometimes, preparedness invites fortune. The AIIB has moved rapidly and is well-positioned to be a pioneer and friendly force in the anti-corruption arena. My congratulations to you; walk tall in executing your mission. I thank you.