

THE ROLE OF TRUST IN THE FUNCTIONING OF INSTITUTIONS

EBRD Annual Meetings, Nicosia, 10 May 2017 (11:30) level 1, room Halki

By Marin Mrčela, President of GRECO

Ladies and Gentlemen,

Good morning and thanks for inviting me as President of GRECO to this important Annual Meeting of the EBRD. GRECO is the Council of Europe's anti-corruption body. It comprises all 48 European States, plus the United States of America. Our job is to monitor compliance of these States with our anti-corruption standards and the extent to which they are effectively implemented in practice.

Since its creation in 1999, with some 200 evaluation visits carried out, and 500 evaluation and compliance reports adopted, GRECO has made a real difference in the life of over 1 billion people living in our geographical space: laws have been changed, practices improved, institutions set up or reformed, and the authorities are now better able to cope with corruption at all levels than ever before. In short, GRECO has gradually become a benchmark for anti-corruption efforts across Europe and the US.

Yet, public perception surveys suggest that corruption remains one of the biggest challenges facing our countries today and that governments are not doing enough to stop it. In fact, our latest Report on the State of Corruption in Europe and the US - which we will publish next week - shows clearly that countries are being slower than before in implementing our recommendations: the closer we reach the core of the functioning of the State, the more complex it is to make change happen. This is a concern and is relevant to the topic of "trust" which we are discussing today.

Lack of trust in the functioning of institutions has an impact on slow economic growth and, in turn, causes populism and extremist behaviours. In other words, corruption – in all its forms and manifestation of unethical and dishonest behaviour – feeds into the surge of populism and extremism which surfs on the wave of growing dissatisfaction as to the way public affairs are run. The reaction to trickery and cheating – which benefit the "happy few" to the detriment of "everyone else" – is producing a boomerang effect which, if not reversed, may threaten the very values on which our societies are built. This is why we care.

When corruption becomes the norm, trust in the proper functioning of institutions disappears, resulting in economic crisis, in the inability of the state to exercise its democratic functions and in the rise of populists of all types. In fact, all these issues are linked but I would argue that

corrupt behaviours in all sectors of the state are the principal cause to be looked at for the ensuing negative events.

We all recognise that corruption has economic costs that increase as the corruption levels rise. These costs are both direct and indirect. Direct costs of corruption include the weakening capacity of states to collect taxes, its effects on spending programmes and on the country's monetary policy. The indirect costs include discouraging financial development and inclusion, weakening financial oversight and stability, increasing costs and lowering the quality of services and of investments. Corruption also has social costs, reflected in issues like poor education and health indicators, high unemployment rates and inefficiencies in social services. All these "corruption effects" lead to mistrust in the "political elite" which triggers political instability, promotes conflicts among different sectors of the society and fuels social reactions. Only in recent years in Europe, for instance, countries as diverse as Greece and Ukraine have witnessed the negative social and economic impact of corruption.

GRECO has so far completed four evaluation rounds. These focused on such issues as national anti-corruption bodies; immunities; criminal law and procedural matters; public administration; misuse of legal entities; tax and financial legislation; organised crime; transparency of political party funding; and prevention of corruption in respect of members of parliament, judges and prosecutors. We are starting this year our 5th evaluation round focusing on the prevention of corruption and the promotion of integrity in central governments (including the top executive functions) and law enforcement agencies. As you can see, we are touching all the relevant aspects of a well-functioning, democratic state governed by the Rule of Law. As such, all these evaluations have given us a pretty clear picture about where countries stand in their anti-corruption efforts.

All of our reports are public – except those on Belarus which refuses to publish them – so you can look at every country's situation for yourself. You may even wish to use our findings and recommendations in the context of your work, as other international financial institutions, such as the IMF, are doing.

In my second intervention, I will give you a flavour of a few findings by GRECO which are relevant to today's discussion on "trust".

So, what are GRECO's findings.

First, countries tend to underestimate the strength and effectiveness of preventive mechanisms – which are either too weak or absent. GRECO has called for a range of preventive measures aimed at avoiding various forms of conflicts of interest. The establishment of codes for ethical conduct and asset declarations in respect of public officials (e.g. MPs, judges and prosecutors) serves such a purpose, for instance.

Second, the transparency of the legislative process needs further attention and, in this connection, political financing rules and the regulation of the growing phenomenon of “lobbying” are areas of particular concern. It is also critical that the independence of the judiciary, as the ultimate protector of justice and the rule of law, still remains high on member states' agendas. Measures to guarantee judicial independence are urgently needed in certain countries. GRECO has also expressed concern about the need for preventive measures against potential undue influences over prosecution systems, whether these are part of the judiciary, independent bodies or part of the executive powers.

Third, the issue of “revolving doors” justice-politics was identified as a source of concern in some states. The issue of direct participation of magistrates in political life is particularly sensitive, due to the inevitable risk of, both real and perceived, politicisation among the judiciary. Magistrates should not be isolated from the society in which they live, nor deprived of the right to participate in social and political life, as any other citizen. Having said that, the particularities of the judicial functions require a reasonable balance to be struck between the degree to which magistrates may be involved in society and the need for them and for the judiciary as a whole to be – and to be seen to be – independent and impartial in the discharge of their functions.

Addressing these three issues will be key to strengthening *public* trust in the way *public* affairs are managed.

Ladies and Gentlemen, let me conclude.

The old saying that “*trust is hard to gain and easy to lose*” remains more than ever valid today. The connections between corruption, lack of trust in and ill-functioning democratic institutions, slow economic growth, extremism and populism are quite clear to me. It is not an accident that when GRECO recommendations are not swiftly addressed by governments, perception indices tend to show a growing dissatisfaction of the public in their authorities' ability to counter corruption. At the same time, not coincidentally either, economic indicators point to slow economic growth.

The bottom line is that our political leaders have to lead by example: their integrity and honesty, and their determination to counter corruption, are instrumental for gaining and retaining people's trust in their institutions. The alternative is our collective failure.

Thank you for your attention and I remain at your disposal to answer any questions.