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Background paper

DAC Revised Principles for Donor Action in Anti-Corruption

**Submitted by the OECD Development Assistance Committee (DAC) Network on
Governance (GOVNET)**



REVISED PRINCIPLES FOR DONOR ACTION IN ANTI-CORRUPTION

The International Context

1. Recent developments have advanced international understanding and cooperation regarding the need to combat corruption, including efforts by the OECD¹, the Council of Europe, the European Union, and more recently, the United Nations with the signature in December 2003 of the UN Convention against Corruption (UNCAC). By setting out an international framework of binding rules and standards for addressing corruption, these institutions, together with the OECD, are today recognized as being among the key fora of the global anti-corruption architecture

2. Specifically, the **level of consensus around the issues of donor action in anti-corruption has increased tremendously** in the international community over the last few years. Donors all acknowledge that corruption is a major impediment to development and growth and represents a universal threat to social cohesion, undermining public confidence and good governance in all countries and directly impeding progress towards the Millennium Development Goals.

3. The OECD's Development Assistance Committee (DAC) and its Network on Governance (GOVNET) have a unique position on the international donor assistance arena, as the only inter-governmental international forum, where members all speak in one voice to improve the effectiveness of aid. The **DAC's strong commitment to tackle corruption in all development co-operation efforts** over the last decade has already contributed to strengthening and harmonizing donors' efforts in aid-funded procurement. **The DAC's further work on anti-corruption could contribute to developing a global framework for donor action.**

Donor Principles: Background

4. In 2003, the DAC Network on Governance (GOVNET) developed a report on "*Synthesis of lessons learned of donor practices in fighting corruption*": The report reviewed both direct and indirect donor approaches in combating corruption, and highlighted that donors' efforts were characterised by limited capacity, competing priorities and piecemeal approaches, which hindered the fight against corruption. **The need for donors to do more collectively within existing mechanisms** (without introducing parallel dialogues and additional structures) was emphasised.

5. The findings of this report were addressed at a GOVNET workshop on Lessons Learned in Anti-Corruption (18-19 February 2004), where participants agreed that, as practitioners, it would be essential to have 'principles for action' which are meant to guide and help shape approaches rather than dictate action.

6. In March 2004, **the GOVNET agreed on the importance of the "Draft principles for donor action in anti-corruption"** that had emerged from the lessons learned of donor practices in anti-corruption and informally approved them. A small group of GOVNET members decided to form a Task Team to take

¹ Since the entry into force of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 1997, the OECD has attained recognition as setting the standard for excellence among international anti-corruption instruments and laying the groundwork for effective anti-bribery systems in its member countries.

forward work on the draft principles and to test with a selection of their country programmes whether the principles filled a gap in current donor approaches².

Draft Principles for Action

7. The GOVNET draft principles embrace the key activities that donors are, or could, be doing to assist partner countries with the implementation of the main anti-corruption conventions. The rationale for these principles is that **donors should work together to ensure that corruption is systematically addressed in partner countries** including implementation of international conventions and regional equivalents. This enhanced collective action should lead to a more effective use of national financial resources and an increased chance of meeting Millennium Development Goal targets.

Testing the Principles with the Field

See section II of this document

Next Steps

8. **The Draft Principles have been revised** to reflect comments and inputs received from GOVNET members at the 6th GOVNET meeting.

9. In addition to the feedback received from the field (see section II), the Principles have been presented at the *DAC Partnership Forum on Improving Donor Effectiveness in Combating Corruption* in December 2004, where they **received very positive informal feedback**. Comments were also received from other OECD Directorates working on corruption and from selected GOVNET members.

10. These draft principles will serve as a basis to develop a DAC Policy-Oriented Paper on Enhancing Donor Effectiveness in Fighting Corruption. This will be a GOVNET output and will be finalised in 2006.

² Members of this informal task team, led by the UK (DFID), include Canada (CIDA), Germany (BMZ), the Netherlands (Minbuza), Norway (NORAD), Switzerland (SDC) and UNDP.

Principle No. 1

We will collectively foster, follow and fit into the local vision

Meeting the MDGs requires, inter alia, a commitment to fighting corruption and to meet commitments agreed in relevant international and regional conventions including the UN Convention Against Corruption (UNCAC) and the recommendations of the Financial Action Task Force (FATF) on anti-money laundering. Whenever feasible, these endeavours should be led by the host government.

At the country level, donors should:

Collectively:

- Promote with government the development of a shared government-donor vision/strategy and collaborative mechanism(s) for anti-corruption dialogue and action, ideally based on government commitment to implement the UN Convention (or other relevant instrument).
- Share diagnostics, knowledge and analysis through such mechanism(s), identifying gaps and reviewing progress.
- Engage with other key actors through such mechanism(s) (e.g. civil society, media and the private sector).
- Support and strengthen the capacity of civil society for strengthening the demand for reform, and promoting and monitoring transparency and accountability in the fight against corruption.
- Work, where government commitment is weak, with local and international civil society and private sector actors as the primary alternative, but recognising that strengthening government commitment is the essential objective in the long term.
- Take time to understand local political, economic, social and historical contexts and challenges, and develop responses that are appropriate to them.
- Favour long-term responses over short-term, reaction-driven inputs, but without losing the capacity for making quick responses to support new initiatives and emerging reformers where these opportunities arise

As individual donors:

- Agree to present our anti-corruption assistance explicitly as being contributions to the shared vision/strategy³ and the collective donor approach.

³ This should not be taken to imply any obligation to move to formal pooling arrangements, financial or otherwise.

Principle No. 2

We will acknowledge and respond to the supply side of corruption

Donors recognise that corruption is a two-way street. Action is needed in donor countries to bear down on corrupt practices by home-based companies doing business internationally. The OECD Anti Bribery Convention has helped to underline the responsibilities that OECD member countries themselves have on the ‘supply side’ of corruption. Donors need to work more effectively within their own domestic environments, with key relevant departments responsible for trade, export credit, international legal co-operation and diplomatic representation, as well as with the private sector.

Development agencies should:

- Foster stronger action by relevant domestic departments in their own countries against the supply-side of corruption in areas such as bribery by donor country companies, money laundering, repatriation of assets or the ratification and implementation of major international Conventions such as the OECD Convention against Bribery.
- Inform counterparts in other development agencies of this engagement.
- Engage proactively with the private sector in partner countries
- Ensure that accountability and transparency measures are included in all areas of donor assistance
- Contribute to strengthening inter-country co-operation (mutual legal assistance, mechanisms for asset recovery) both by strengthening capacity in developing countries for making requests for international legal co-operation and by collaboration with domestic departments where appropriate.

Principle No. 3

Knowledge and lessons should be marshaled systematically and progress needs to be measured

It is essential to make better use of existing knowledge and lessons learned, supporting governments in making it an integral part of the policy making process. It is also important that clear baselines and targets are set, while progress is systematically assessed against results.

At country level, donors should:

- Collectively foster knowledge gathering to inform policy and operational action, drawing, wherever possible, on local capacity.
- Encourage government to develop systems that better connect evidence with policy development.
- Foster the systemisation and publication by government of the measurement, and the reporting of progress on anti-corruption efforts.

At the global level, donors should:

- Develop a systematic approach to dividing up efforts for undertaking strategic research/knowledge gathering and synthesis and in sharing results.

II. EMERGING CONCLUSIONS ON TESTING THE PRINCIPLES WITH THE FIELD

Introduction

11. The survey was undertaken by the Task Team to test with field staff whether application of the principles would enhance the collective effectiveness of donors in combating corruption.

12. Ten developing countries and countries in transition, proposed by individual members of the Task Team, were included - **Bangladesh, Georgia, Kosovo, Mozambique, Nicaragua, Nigeria, Tanzania, Uganda, Zambia and Vietnam**. The survey took the form of questionnaire that was completed by a country-based focal point on behalf of and in consultation with the local donor community.

13. The survey sought to test the extent to which the principles / key activities are currently being applied in-country, to give examples of best practice and to identify any gaps or improvement to the principles that might be needed to reflect current practice. An initial analysis has now been undertaken. The detailed results will be available once the conclusions drawn from the data have been validated with the country focal points. In the meantime, a number of emerging conclusions can be presented.

Emerging conclusions

14. The overriding emerging conclusion is that the draft principles / key activities reflect best practice and that their widespread application would enhance effectiveness in combating corruption. This conclusion is supported by the following ten specific emerging conclusions that are based on answers to the questionnaire:

- i. National compacts between governments and donors, memoranda of understanding and anti-corruption trust funds can be effective ways of strengthening a commitment to combat corruption and provide a framework for monitoring progress (although care needs to be taken not to alienate donors that are not participating.)
- ii. Donors need to do more to encourage those developing countries that have not yet signed up to international standards to do so (e.g the UNCAC, and other regional Conventions).
- iii. Donors need to take more effective action to help those countries that do not have satisfactory national anti corruption strategies to develop improved strategies that address internationally agreed standards and which are integrated with wider national development programmes.
- iv. Many national anti corruption plans fail to address money laundering (e.g implement FATF⁴ recommendations.) and this appears to be a gap in coverage that donors could help to repair.
- v. National anti corruption plans often do not address both central and lower tiers of government i.e. the provinces; they need to as the latter can typically account for 50% of expenditure.

⁴ The Financial Action Task Force was established by the G7 summit in Paris in 1989. It formulated 40 recommendations designed to counter the use of the financial system by criminals for money laundering. Following the terrorist attacks in the United States of 11 September 2001, the FATF expanded its mission beyond money laundering in order to focus its energy and expertise to combat terrorist financing. Accordingly, FATF issued new international standards to combat terrorist financing – the “9 special recommendations”.

- vi. There is scope for greater involvement of the private sector in the development and implementation of national anti-corruption strategies.
- vii. It is recognised that the most effective donor partnerships are those that have identified a donor “champion”.
- viii. Also, to be fully effective, it is clear that donor forums must have a high-level government counterpart.
- ix. Donors recognise the need to do more to address the supply side of corruption, (e.g encouraging their Governments to ratify and apply the OECD Convention on Bribery) although there are a couple of examples of donor innovation in this area.
- x. More donor coordination on country analysis is seen to be desirable. This would reduce financial and other transaction costs in government and among donors.