



## Policy Paper Poverty, Aid and Corruption

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### **POLICY PAPER POVERTY, AID AND CORRUPTION**

#### **Preface**

The paper on Poverty, Aid and Corruption is the outcome of a series of consultations within the Transparency International (TI) movement. It is a first step, reflecting previous TI work, the current discussion in the movement and the state of debates in the development community. We recognise that the complex subject of aid and corruption is evolving and this piece of work is an effort to engage with it and indeed to shape it.

The goal of development assistance is to reduce poverty and support countries in their development. The focus in this paper is on aid and corruption, with a special concentration on corruption in aid that has been committed to poverty reduction. While for some countries aid is a dominant source of finance, in others its role relative to other resources, as well as trade and investments, is limited.

The paper seeks to emphasise that development partners - aid providers and aid recipients - have a shared role and responsibility to prevent corruption from reducing aid effectiveness.

The paper closes by presenting a first set of conclusions that could help all stakeholders ensure that their efforts in poverty reduction are not undermined by corruption.

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## Poverty, Aid and Corruption

### I Introduction

TI views the level of poverty that still prevails in the world as unacceptably high. Development assistance that aims to increase the sharing between the rich and the poor and support equitable development processes is vital to reducing poverty. It is therefore of critical importance to ensure that development resources are used for this intended purpose and not diverted through corruption.

Corruption aggravates poverty. Surveys of the very poor in developing countries point to corruption as having a significant and detrimental impact on their lives. For a poor household, the bribe randomly extorted by a police officer may mean that the family cannot afford school fees for their children, or that the family cannot afford to buy goods to maintain its small business and source of income.

Corruption not only reduces the net income of the poor but also wrecks programmes related to their basic needs, from sanitation to education to healthcare. It results in the misallocation of resources to the detriment of poverty reduction programmes.

There is today an increased awareness of the development community, in both donor and recipient countries, that without countering corruption, aid is in danger of not reaching the poor, or reaching them only partially. The discussion is moving towards a more open, serious and constructive quest for solutions. The credibility of future aid will depend on the ability of the aid system to demonstrate that it can address corruption pro-actively and comprehensively.

The attainment of the Millennium Development Goals is put at risk unless corruption is tackled as an integral part of poverty reduction strategies. Many political leaders of the developing world view corruption as a very serious impediment to the overall development of their countries and increasingly take account of corruption threats and risks in the design of national development programmes. The increasing global consensus on the importance of corruption as an impediment to development is reflected in the ratification of the UN Convention against Corruption (UNCAC).

The scope of this paper is limited to the key issues in aid and corruption, focusing on corruption in aid that is targeted at poverty reduction. Aid is understood to be a part of a larger context that includes other dimensions such as trade, debt and geo-political relations between countries, but that are outside the scope of the paper.

TI's National Integrity System (NIS) approach provided the main conceptual basis for its anti-corruption work when TI started out in 1993. It was the first holistic view of

corruption and remains the most systemic framework today.<sup>1</sup> TI views are therefore informed by a comprehensive and systemic approach to corruption.

This paper is structured in five sections. Section II describes how aid and corruption interrelate. Section III presents core issues involved – the primacy of the political and governance context, transparency, mutual accountability and beneficiary empowerment. Section IV looks at the mutual accountability framework that determines the current context of development cooperation. Section V examines how aid can be used to prevent corruption and Section VI provides a conclusion. A short summary of positions that are developed in the main paper is provided in Section VII.

## **II The Connection between Aid and Corruption**

Aid is intended to reduce poverty and support equitable and sustainable development. Its aim is to assist countries in giving themselves the social, economic, physical and governance infrastructure essential for achieving growth and stability. These are essential framework conditions for the equal participation of citizens in social, political and economic processes, and for attracting domestic and foreign investments.

The purpose and nature of aid varies considerably across nations. Aid is only one of several factors that play a role in reducing poverty. In addition, aid is unevenly distributed and figures can be deceiving - in many instances, actual repayments of past aid loans exceed new transfers.

China and India remain among the five largest recipients of official development assistance and aid continues to be significant in advising their poverty reduction programmes.<sup>2</sup> For a sizable proportion of the poorer developing countries, development finance from grant aid, concessional loans and debt relief remains a dominant source of finance. Corruption is perceived to be massive and endemic in several of the top ten aid recipient countries: Iraq, the Democratic Republic of Congo, Indonesia, Pakistan and Vietnam.<sup>3</sup>

A significant proportion of the very poor living in Asia are in countries that are not dependent on external resources for their poverty reduction programmes. Aid in these economies, as in some countries in Latin America and Africa, constitutes a relatively small percentage of their total foreign currency income.

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<sup>1</sup> It is a welcome development that donors, under the guidance of the OECD Development Assistance Committee (DAC), are considering concerted and joint action to assess corruption within the wider governance framework.

<sup>2</sup> As measured by OECD DAC statistics (which include debt relief), the top ten recipients of gross official development assistance and official assistance for 2004 were Iraq, the Democratic Republic of Congo, China, India, Indonesia, Afghanistan, Egypt, Pakistan, Ghana and Vietnam (in descending order).

<sup>3</sup> This is reflected in TI's Corruption Perception Index. It is important to note that the reasons for the occurrence of corruption in these countries are determined at both international and national levels.

Aid levels are currently rising. In 2006, leading donor countries gave almost US \$103.9 billion in official development assistance to lower-income countries – a figure set to rise to US \$130 billion in 2010.<sup>4</sup>

### Aid can be corrupted and aid impact dampened

The potential for corruption to compromise the outcomes of development programmes is significant. Corruption within recipient countries can seriously undermine the achievement of intended results directly, by diverting a percentage of aid away from intended purposes and beneficiaries, or indirectly, by promoting inappropriate uses of aid. Demand-side corruption by public administrations entrusted with development resources is particularly damaging to poverty reduction.

Development of knowledge and skills, efforts to build capacities within regulatory and service-providing institutions and to improve the livelihoods of the poor all become 'dampened' in environments where corruption is pervasive and economic survival and opportunities are dependent on a system of bribe giving and taking. Empirical research points to a direct link between the quality of governance in recipient countries and positive aid outcomes.<sup>5</sup>

The substantial aid support that has reached beneficiaries free of corruption, as well as the experience with corruption, have informed the aid effectiveness, governance and anti-corruption discussions. Some of the changed features of development cooperation are based on these insights and make reference to corruption as part of the challenge. Sector-wide approaches in development cooperation and increasing efforts of countries to formulate pro-poor strategies that allow external contributions to be in line with national development plans are promising trends. An assessment of anti-corruption efforts and accountability are already part of the guidelines of some donors (grant-givers or concessionary lenders). Increasingly - but with wide inconsistencies across donors - final project documents, appraisals and evaluations appear on donor websites.<sup>6</sup>

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<sup>4</sup> This forecast is based on the assumption that major OECD donors live up to recent commitments to increase Official Development Assistance. OECD countries give on average 0.30 percent of Gross National Income (GNI) towards official development assistance with a fairly wide variance among donor countries; this is projected to increase to 0.51% in 2010 for DAC members of OECD. See Organisation for Economic Cooperation and Development, DAC Aid Statistics, [http://www.oecd.org/document/3/0,2340,en\\_2649\\_34447\\_34700611\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/3/0,2340,en_2649_34447_34700611_1_1_1_1,00.html) and <http://www.oecd.org/dataoecd/57/30/35320618.pdf> -

<sup>5</sup> Stephen Knack, Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis, (World Bank: 2000) [http://wbln0018.worldbank.org/research/workpapers.nsf/0/30529397228d0a778525691c006768c7/\\$FILE/wps2396.pdf](http://wbln0018.worldbank.org/research/workpapers.nsf/0/30529397228d0a778525691c006768c7/$FILE/wps2396.pdf)

<sup>6</sup> While this trend is to be welcomed, it needs to be kept in mind that evaluations are paid for by donor agencies and in that sense are not independent. Evaluations as well as Auditor-General reports undergo substantial revisions prior to being placed in the public domain. Beneficiaries themselves who may wish to ascertain that their views, complaints or constructive suggestions have been recorded are typically not in a situation to access web-based documents.

## Aid systems can be corrupt

Corruption can equally occur in the development aid system and in the management of aid resources. Little analysis and information exists in terms of some of the 'supply chains' in the aid delivery business and how the 'links' in the chain are structured along the way from donor country taxpayer to developing country recipient. What are formal or real decision-making parameters? On what basis are projects or sectoral investments chosen? The process of arriving at such decisions for the most part lies outside public scrutiny.

Donors have a major role in strengthening or undermining domestic accountability mechanisms in recipient countries. Corruption begins 'upstream' when aid priorities are not based on needs of the poor or long-term national development objectives, but are 'supplier driven', influenced by both domestic and donor industry interests.

As in other areas of public procurement, there are a series of abuses which have been observed for both tied and untied aid. For tied aid, additional arguments exist that lie both within and outside the debate on corruption. A majority of bilateral aid agencies continue to tie their aid, with consequences for obtaining internationally competitive value. This closed procurement practice alone diverts a significant percentage of benefits of aid away from intended beneficiaries – estimates of the mark-up from tying vary from around 15 percent to 40 percent. In many countries, including Italy (92 percent tied), the United States (72 percent tied), and Canada (47 percent tied), aid remains a highly protected sector.<sup>7</sup> Where supplier communities are small, tying induces further procurement risks, such as bidder collusion or non-competitive contracting practices.

## Aid can cause or encourage corruption

There are many ways in which aid encourages corruption. Where aid has been provided to corrupt systems or under a corrupt leadership, it serves to feed corruption. Both aid and domestic development resources are affected. Where aid has undermined domestic accountability mechanisms, it opens up further opportunities for corruption. Aid, where it is provided as a resource outside of public scrutiny in the recipient country, is particularly conducive to corruption.<sup>8</sup>

Donor officials and their implementing organisations are receiving increasing public resources with the mandate to accelerate poverty reduction efforts. There is growing acknowledgement<sup>9</sup> that this has raised the stakes for development cooperation and lent more urgency to efforts to address corruption. Where donors implement higher

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<sup>7</sup> See Centre for Global Development, Commitment to Development Index 2005, <http://www.cgdev.org/section/initiatives/active/cdi>. There are, however, some positive developments, with the European Commission opening up its international tendering to include not just the recipient countries but competing developed countries. Restrictions are applied in the absence of reciprocity (EC Council Regulation December 2005). The Paris Declaration includes the untying of aid as part of its indicators of progress, albeit unquantified.

<sup>8</sup> Aid is compared to revenue streams from extractive industries in its effect of undermining domestic accountability. See also Bantekas, Ilias, 2005: Natural Resource Revenue Sharing Schemes (Trust Funds) in International Law, NILR (Netherlands International Law Review) LII: 31-56, 2005

<sup>9</sup> OECD DAC Issues Paper, December 2006, 'An Agenda for Collective Action against Corruption'.

disbursement targets without supporting partner countries in efforts to address embedded corruption systems, a higher amount of funds may end up being diverted through corruption.

Aid as budget support, when associated with inadequate domestic monitoring and controls, has similarly caused corruption. Conflict, reconstruction and post-disaster contexts are particularly vulnerable and pose an additional set of challenges.<sup>10</sup>

With regard to supply-side corruption in development cooperation, too many private sector firms have offered or accepted to pay bribes. The OECD Anti-Bribery Convention and regional anti-corruption conventions, making criminal any bribes by the private sector to government officials in pursuit of these contracts, have been established but have been inadequately enforced thus far by a number of countries.

On the positive side, the World Bank (WB) has led the process of debarment of firms found to have bribed government officials, and a number of international financial institutions (IFI), multilateral agencies and bilateral donors, such as the European Commission, have set in place debarment procedures. Implementation of systematic debarment across all donors (by establishing effective systems of commitments and anti-corruption policies by private sector companies) as part of the bidding process for public contracts will be necessary to contain supply-side corruption. Where civil society organisations are part of such processes, they must be equally subject to these rules.

Structural conditionalities associated with IFI lending, such as the downsizing of the public sector and promotion of privatisation, can create new opportunities for corruption. Where aid-driven cuts in public sector budgets and staffing<sup>11</sup> were not accompanied by support for improved public sector efficiency and effectiveness, they contributed to reduced oversight and delivery capacity and thus increased vulnerability to corruption. Where privatisation was undertaken in the absence of appropriate regulation, corruption surfaced both in the process of privatisation and in the lack of genuine competition of new private entities. Aid in such cases opened the door for the depletion of public assets through corruption, with long-term consequences for the citizens of recipient countries.

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<sup>10</sup> The reconstruction of Iraq is one example where supply side corruption has extended into many spheres of public contracting, affecting both the countries associated with the reconstruction and Iraq itself. While public institutions in 2004-05 were struggling even to ascertain how many employees they had on their payrolls and clearly lacked proper inventory and control systems, US funding organisations expected to spend nearly US \$14 billion in 2004, much of it through sole-sourced US aid contractors (Transparency International Quarterly Newsletter, March 2005). Not surprisingly, Iraq's score places it at the bottom of TI's Corruption Perceptions Index (CPI).

For natural disasters, see <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/1188/1188i.pdf>

<sup>11</sup> Many public sectors were recognised as overstuffed, inefficient and ineffective, and absorbing a significant proportion of GNP. With poorly paid individual public servants, the door to petty corruption was open.

## III Factors affecting Corruption in Aid

### Political and Governance Context

Governance is the province of the governed, first and foremost. Anti-corruption measures in the aid context need to be embedded in domestic governance reforms and require political, institutional and broad public support to be effective and sustainable. Aid can play a supportive and sometimes even catalytic role, but remains inconsequential if there is not already some momentum and a sufficiently influential support base for a reform agenda.

Working to secure good governance and prevent corruption is, above all, a concern and an aspiration of the citizens and institutions of a country. Political will by governments to meet these aspirations is the most central prerequisite for the success of state-led anti-corruption efforts.

Corruption cannot, therefore, be addressed as a purely technical matter that is amenable to technical solutions. Donors need to understand the extent of political will for anti-corruption measures. Comprehending domestic incentive and power structures, as well as political contexts, whether in government<sup>12</sup>, the business community or civil society, is vital to understanding challenges and opportunities. The effectiveness of anti-corruption strategies in development cooperation in the legal, regulatory, institutional or technical sphere is primarily determined by domestic political will and the ability of donors to support genuine domestic efforts. National Integrity System assessments are vital to understanding the integrity of key institutions and their interrelation.

Technical solutions that reduce discretionary powers (such as better e-governance, tracking of public finances, e-customs, etc.) can, however, play a supportive role both in reducing corruption opportunities and in setting benchmarks that raise expectations for improved public service delivery in other areas.

Elected bodies, from national to local levels, are at the centre of the domestic accountability cycle. Where aid provides financial support based on domestic policy frameworks, donors have an impact on the policy formulation and implementation process. This is especially the case for 'development policy lending', programmatic aid modalities, and all aid that has as its explicit aim any kind of 'governance' outcome. Without the oversight of parliaments and elected bodies at sub-national levels on the nature of policy engagement, aid is in danger of subverting domestic accountability.<sup>13</sup>

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<sup>12</sup> 'Government' need not be understood to be monolithic. The executive, legislative and judicial branches of government offer very different entry points. Certain ministries, or provincial governors/governments, or even local governments where decentralisation of powers exists, can become allies in the fight against a corrupt status quo.

<sup>13</sup> Aid approval processes already go through a series of bureaucratic checks that often cause counterproductive delays. While fully aware of the dangers of over-regulation, TI advocates increased transparency and involvement of key domestic institutions and stakeholders. Most donors have formulated guidelines that emphasise the involvement of stakeholders at an early stage of the planning

At the same time, an effective judicial system is central to ending impunity, ensuring fair dispute resolution and enforcing the impartial rule of law, as well as to promoting public, donor and investor confidence.<sup>14</sup> In addition, key oversight institutions such as inspectorates-general, public audit bodies and similar watchdog institutions play an important role in ensuring accountability. Such independent institutions can be supported by aid donors, and the role aid can play to address corruption in a comprehensive manner is taken up in detail in Section V.

The involvement of civil society, in addition to elected bodies, is essential to guard against the short-term horizon of electoral politics. Civil society perspectives have been critical to support sustainable and equitable development across the world.<sup>15</sup> Decisions taken by governments elected for short periods on the use of non-renewable resources often compromise future societal choices. Civil society, including the media, the ethical business community and academia, and the scrutiny of the general public are indispensable safeguards for preventing corruption from undermining sustainable development and limiting choices of future generations. Creating multi-stakeholder forums and processes has been one of the ways to capture different economic, social and cultural perspectives that can inform the effectiveness of anti-corruption strategies. Pluralism in the range of actors involved is essential to strengthen governance and address embedded corruption.

Because of its critical role in society, civil society is increasingly looking at establishing its own accountability framework. The danger to the credibility and effectiveness of civil society in the absence of such a framework is particularly strong on issues such as corruption. Increasingly, civil society is also called upon to work more closely with elected representatives that are democratically mandated to hold the executive accountable.

### **Position:**

- *Donors must harmonise their country assistance strategies under the leadership of the recipient country to ensure comprehensive and coherent support to all institutions that contribute to corruption-free poverty reduction.*
- *Recipient countries should use aid comprehensively to strengthen governance institutions based on national assessments and development strategies.*
- *Recipient countries and donors should partner with civil society and citizens in identifying key corruption challenges that allow them to address the drivers, incentive structures and wider governance context that fuels or constrains*

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process, to broad-base ownership and prevent a repeat of previous experiences with implementation delays. However, internal controls still dominate the timetable and content of cooperation planning, crowding out participatory approaches.

<sup>14</sup> Without a strong judiciary that is accessible to the poor, corruption can lead to the appropriation of public resources that are critical to their livelihoods. This has particularly been the case where natural and mineral resources have been appropriated through corrupt processes and in the absence of fair legal redress options.

<sup>15</sup> A recent European Parliament resolution has sought the independent funding of civil society organisations as an integral part of the increased trend to budget support, to ensure recognition of the many actors required for aid to effectively support developmental outcomes.

*corruption in the use of development resources.*

- *Civil society needs to collaborate more strongly with parliament, as the central institution of democracy, to support efforts of the legislature to hold the executive to account.<sup>16</sup> Evidence-based work with citizens is a critical contribution that civil society can bring into this partnership.*

## **Lack of Aid Transparency and Access to information**

**For taxpayers and recipients:** Though aid is the transfer of tax resources from one set of citizens to another more disadvantaged group, information on the decision-making process at each stage is limited to the respective public administrations and aid agency staff. The lack of transparency in aid prevents taxpayers in donor countries from understanding the challenges of poverty reduction programmes. In recipient countries, lack of public information on aid allocations hinders citizens from being partners in the prevention and identification of corruption.

While in some cases information exists and access is guaranteed, it is not always in a form that can be analysed and that allows action to be taken. Corruption thrives in environments where information is either too segmented or aggregated, is not comparable and prevents conclusions on financial resource utilisation from being drawn.

An uninformed population increases the vulnerability of aid to corruption. Communities should know about services to be delivered and have information about allocated budgets. Civil society - in its public interest and 'watchdog' role - is a part of the anti-corruption equation. Transparency and disclosure of information are essential to mobilising concern among citizens, vigilance by NGOs and investigative journalism by the media.

TI has consistently advocated transparency in aid as a critical anti-corruption measure. International financial institutions are slightly ahead of bilateral donors in their disclosure policies. At this point of time, however, considerable inconsistencies exist in the levels of transparency practised by donors.

**For elected representatives:** The lack of transparency with regard to operations funded by multilateral and bilateral institutions, as well as the lack of transparency in the domestic budget process, have effectively undermined the role that the legislature should play in accountability and anti-corruption efforts. Current initiatives to ensure both transparency and the active involvement of parliamentarians in country assistance strategies, as well as in poverty reduction support programmes, are seen as essential by TI to create transparency on policy, budget allocation and implementation decisions. For budgetary aid transfers that increasingly rely on domestic processes, the oversight and accountability function of the parliament as well as elected representatives at local government level cannot be

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<sup>16</sup> A very encouraging collaboration is the International Parliamentarians Petition for Democratic Oversight of IMF and World Bank policies in September 2004, which was supported by civil society organisations such as the World Development Movement, the Bretton Woods Project, Christian Aid, Action Aid and the Jubilee Debt Campaign.

overemphasised<sup>17</sup>. The section on mutual accountability takes up the issue of budget transparency as a critical element of preventing corruption in budgetary aid transfers.

#### **Position:**

- *Both recipient and donor countries should publish all aid flows and produce information that is accessible to parliamentarians, intended beneficiaries and the general public in addition to information that meets internal and fiduciary requirements.*
- *Recipient countries should ensure the publication of grants and loans on the revenue and expenditure side of the budget to ensure that aid remains primarily accountable to its citizens. Where it exists, legislation that prevents the disclosure of revenue sources should be abolished.*

#### **Tracking inputs, processes and outcomes**

It is difficult, and often impossible, for a local community, NGO or public interest group to determine exactly what a certain project has been 'programmed' to do in a particular area, how decisions are made on investments and who gets paid how much to do what.

From the perspective of recipient governments, systematic tracking of aid – including by supreme audit institutions – distinguishes between loan and grant-based aid, between budget support and specific investment projects. A critical condition for budget support to be transparent is that budgets of recipient countries are transparent on both revenue and expenditures and show how aid funds are allocated and used. Under the project-based modality, generally implemented directly by government agencies or through contractors, the public, beneficiary communities, and receiving institutions will only find out as much as the implementing organisations disclose. For new approaches such as expenditure tracking and performance based budgeting to be effective, all government income and expenditures must be reflected in the budget and the data made available to the public.

Transparency in tracking financial resources and the identification of process features that allow financial allocations, cost estimates and expenditures to stay in the public domain are critical to preventing corruption in the process of converting inputs into developmental outcomes.

As part of the changes that will allow funds to be tracked by recipient governments, donors have committed to align aid programming with nationally defined development priorities, with increasing use of budget support and harmonise aid delivery in joint programmatic modalities on both national and sectoral levels. For budget support, transparency of how aid is additional to existing domestic allocations

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<sup>17</sup> GOPAC similarly has a series of recommendations that suggests how parliamentarians can be effective in the fight against corruption. The Parliamentary Network of the World Bank notes that there is a strong need to educate parliamentarians on their role, and on the topics that they decide on. TI supports their demand that the WB should allocate funds for this purpose.

will be critical. This is also the case in tracking the development outcomes of Highly-indebted Poor Countries initiative (HIPC) debt relief funds – committed to social service delivery, including education, healthcare, water supply, basic infrastructure, governance and institution building – as well as funds from repatriated stolen assets and extractive industries revenues.<sup>18</sup>

One of the basic challenges of aid and particularly of budget support is the fungibility of financial resources. Aid may allow a government to free financial resources that would otherwise have been dedicated to poverty reduction for purposes, such as defence, that would not necessarily merit aid support. The concept of additionality has been followed to prevent the fungibility of aid from leading to such resource reallocations. Additionality, however, may undermine efforts to improve cost-effectiveness by requiring the maintenance or increase of current levels of expenditure for sector, with investments from aid leading to levels of recurrent expenditure that may be unsustainable after external support is terminated.

#### **Position:**

- *Establish indicators to track both outcomes and the integrity of processes involved in converting developmental resources (including aid) into developmental outcomes.*
- *Involve beneficiaries and civil society in the tracking of financial resources and expected outcomes to ensure that national audit institutions and joint reviews with donors obtain informed views on the effectiveness of anti-corruption measures from beneficiaries and other independent observers.*

### **Accountability and the Empowerment of Intended Beneficiaries**

Upward accountability to donor administrations has demonstrated its serious limitations in terms of relevance as well as in its ability to detect corruption. Strengthening the accountability of aid toward intended beneficiaries is the most effective way of limiting corruption. A very critical precondition for this accountability link to function is the empowerment of disadvantaged populations with regard to decisions on the use of aid resources.

Accountability to beneficiaries is facilitated by their genuine participation in decision-making forums and implementation processes. Hopes of stronger public accountability and a resultant decrease in corruption have often been frustrated when participation has been pro-forma. Participation is authentic and effective where beneficiaries are empowered through an ownership stake, comprehensive information on choices and a voice in the decision-making process.

Disadvantaged populations have the largest stake in effective anti-corruption efforts. Donors will need to create a central role for beneficiaries in decision-making forums and processes on the formulation, implementation and monitoring of anti-corruption strategies.

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<sup>18</sup> An example is the civil society monitoring in Nigeria of social expenditures undertaken from repatriated stolen assets.

Expanding the range of stakeholders at relevant levels of decision-making furthers transparency and public scrutiny and is a pro-active approach to countering corruption. The role of civil society at all levels is critical to both the implementation and the monitoring of participation. Some recipient governments already have provisions for the participation of beneficiaries and civil society in poverty reduction programmes, in ensuring pro-poor targeting and in social audits. Civil society is often in the role of delivering on poverty reduction programmes itself. Where this is the case, civil society organisations must also subscribe to and implement commitments to transparent and accountable functioning (IANGO's Accountability Charter).<sup>19</sup>

Successful examples of development assistance that support the empowerment of beneficiaries through the transfer of ownership abound.<sup>20</sup> Increasingly, the process of linking these to formal local governance institutions is discussed and assisted. In development projects where beneficiaries have provided their own contributions to development outcomes, corruption and misappropriation of development resources has declined considerably.<sup>21</sup> The tax negotiations are central for citizens to hold their government to account on the use of development resources and can start at the micro-level through local contributions and user charges. The increased openness to participation in sector policy formulation, public finance management reforms and in the audit process, including social audits at the local level, is a promising trend.

#### **Position:**

- *Donors can actively support efforts in developing countries to create transparency on entitlements, transfer of assets and local revenue raising powers to increase the opportunities for an empowered participation of beneficiaries in local governance frameworks<sup>22</sup> and the planning and management of development resources.*
- *Recipient countries can pro-actively create platforms that allow elected representatives to review the budget with their constituency and inform them about their entitlements.*

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<sup>19</sup> The 11 signatories are: ActionAid International, Amnesty International, CIVICUS World Alliance for Citizen Participation, Consumers International, Greenpeace International, Oxfam International, International Save the Children Alliance, Survival International, International Federation Terre des Hommes, Transparency International, World YWCA.

<sup>20</sup> The most striking examples of such transfers are documented and abound in irrigation management transfer. Where infrastructure and user charge management is transferred to water user associations, these infrastructures remain in use and are managed without corruption. The literature for such transfers to be effective points to the need for determining appropriate size and homogenous units, transparency of both dues and services and shared information on water availability. Other examples exist for forest and pasture management that form public resources at local level.

<sup>21</sup> The development literature on creating ownership, not to address corruption, but to ensure the sustainability of development investments demonstrates the effectiveness of this approach. It dates from the efforts of R. Chambers and the IDS participatory approaches, is key to the common property management discussion (exemplified by E. Ostrom's work.) and informs if not the practice, the design intent of many community-based development approaches today.

<sup>22</sup> Examples are the transfer of local infrastructure, village forests, pastures etc. but also the oversight and management control over some public services (parent-teacher associations, health centres, etc.).

- *Public complaints, feed-back and follow-up mechanisms should be pro-actively piloted and applied to the relevant public entity where they have proven to advance accountability and assist administrative effectiveness.*

## Decentralisation

Where governments choose to devolve responsibilities, financial and administrative resources to local levels of government, this can be a tremendous opportunity to fight corruption as well as a new frontier for corruption.

Capacity challenges are recognised by both donors and recipient countries and have been addressed through dedicated programmes for the support of decentralisation in the past.<sup>23</sup> Decentralisation offers an opportunity to strengthen public accountability in the political and administrative framework.<sup>24</sup> The role of oversight bodies and citizens recourse mechanisms is central to fulfilling expectations of increased accountability and reduced corruption. The challenges are similar to those at the central government level, requiring political commitment, capacity and resources.<sup>25</sup>

Local governments operate within non-homogenous communities, often within a more complex regulatory framework than the national level. Supporting local government requires strategic approaches to address the resistance both of central administrations that see a loss of power on the one hand, and of sections of the local community that may be displaced from the earlier established system of patron-client

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<sup>23</sup> See the summary of findings in Tomás Lindemann, Rural Institutions and Participation Service, FAO Rural Development Division, 'Lessons learnt in the field of decentralisation and local government development in rural areas of Latin America' at [www.fao.org/sd/dim\\_in2/in2\\_050501a1\\_en.htm](http://www.fao.org/sd/dim_in2/in2_050501a1_en.htm). A.o. key factors identified for successful decentralisation were the institutional strengthening at the level of the family and community, and incentives that promote local asset building as opposed to clientelistic relationships to build ownership of project instruments and tools.

See also Robertson Work, Principal Policy Advisor, Decentralisation Democratic Governance Team, IDG/BDP, UNDP, 2002, 'Overview of Decentralisation Worldwide: A Stepping Stone to Improved Governance and Human Development', paper presented at the 2nd International Conference on Decentralisation Federalism: The Future of Decentralizing States? Manila. Work describes the challenge to decentralisation to be 'that all stakeholders can and will voice their opinions'.

See also for conditions for political decentralisation:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTDSRE/0,,contentMDK:20246049~menuPK:2086199~pagePK:210058~piPK:210062~theSitePK:390243,00.html>

See also Odd-Helge Fjeldstad WP 2004: 10 'Decentralisation and corruption', a review of the literature CMI Working Paper.

<sup>24</sup> Decentralisation in each country is carried out differently, though in most cases it is informed by the subsidiarity principle. Some sectors are marked for higher levels of decentralisation whereas others remain more centralised. Decentralisation typically entails a loss of operational responsibilities and power of central administrations and a reorientation of reporting of administrations to local elected bodies.

<sup>25</sup> Most of the institutions identified in Transparency International's framework of analysis for national integrity systems (NIS) have local-level equivalents. The key institutions identified in the framework are: legislature, executive, judiciary, auditor general, ombudsman, watchdog agencies, public service, media, civil society, private sector and international actors. (See also recommendation regarding decentralisation and devolved power.)

relations on the other hand.<sup>26</sup> Local patron client relations are one of the greatest challenges to corruption-free decentralisation.<sup>27</sup> Standards against which accountability can be measured, full disclosure of budgets and plans, transparent procurement and training can assist in preventing corruption in local governments.

Political resistance to the transfer of power from the central to local level has often led to imperfect decentralisation, with a lack of revenue-raising powers at local levels. The potential for collusion between the central and local administration, and between local administration and elected representatives in diverting funding is high. The manner in which intergovernmental transfers of responsibilities for revenue raising and expenditure are carried out is a key factor in determining corruption opportunities.

#### **Position:**

- *Where decentralisation is a stated aim of recipient governments, donors should work more closely with the ministries in charge of decentralisation or local governments to ensure that their sectoral support to health, education, water, agriculture, etc., is supportive of strengthened local accountability and anti-corruption mechanisms within the framework of decentralisation.*
- *Donors should support the national level government in strengthening the accountability of local governments to citizens by increasing the latter's financial resources, supporting participatory budgeting and establishing social audit and redress mechanisms to address corruption.*

## **IV Mutual Accountability**

Sustainable and effective curbs to corruption in aid need to be anchored in functioning accountability mechanisms. The analysis of accountability relationships provided in this section of the paper therefore lies at the heart of this paper on aid and corruption, and demonstrates that while donors can play some role in demanding accountability for funds and support they provide, ultimately and legitimately, the demands for accountability must come from the citizens, civil society and accountability institutions of aid-receiving countries themselves.

Accountability in development aid has been low vis-à-vis taxpayers in donor countries, due to the 'overseas' nature of aid. Aid is also delivered not only through bilateral aid agencies and development NGOs, but also through the multilateral development banks, including the World Bank (IFIs) and the multilateral United Nations (UN) organisations – where the latter groups are only very indirectly

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<sup>26</sup> Research on this topic dates from the 1950s in the community development era to more recent focused research on decentralisation and corruption (CMI working papers). The United Nations Development Programme (UNDP) and the World Bank have separate units dealing with the theme of key factors for successful decentralisation with similar recommendations. Both emphasise the challenges of local patron-client relations as well as the key role of national, sub-national and local governments.

<sup>27</sup> OECD Development Centre, 2004, Working Paper No. 236, 'Decentralisation and Poverty in Developing Countries: Exploring the Impact', by J. Jütting, C. Kauffmann, I. McDonnell, H. Osterrieder, N. Pinaud and L. Wegner.

accountable to taxpayers.

At the same time, beneficiaries in recipient countries – especially where they are poor and marginalised populations – are almost by definition not well positioned to hold their own governments to account, and even less so the donor governments.

Even at present, highly aid-dependent countries face a ‘mixed accountability’ situation. It is not unusual for some governments to report and account to their foreign donors in forums such as World Bank-led Consultative Group or Paris Club meetings (on debt) in greater detail than they do to their own citizens through public accounts. This follows on efforts in “conditionality”, particularly economic conditionality, where donors have sought to hold recipients to account. Economic conditionality, particularly as practiced in the 1980s and early to mid-1990s as a one-sided accountability, is now recognised as both ineffective and undesirable.<sup>28</sup>

The Paris Declaration on Aid Effectiveness (2005)<sup>29</sup> is a milestone in anchoring the commitments and obligations of partnership within a mutual accountability framework that recognises that effective aid must align itself to country-led development strategies.

Mutual accountability aims to place the aid relationship on a two-way contractual basis, where donors commit to providing effective aid and recipients commit to using aid well. The Paris Declaration then defines criteria for effective aid (aligned with country priorities, predictable, untied resource flows, etc.) and criteria for effective use (clear national development plans, sound financial management, sound procurement systems, etc.). The Paris Declaration also lists select quantified performance indicators on these criteria that are to be monitored over time.

While the mutual accountability framework is an important framework for a functioning accountability mechanism between aid-partner institutions, by itself it falls short of being able to sufficiently, effectively and on a longer term basis curtail corruption. This governance result can only be achieved through mechanisms rooted in public accountability that is accountability to citizens. The Paris Declaration does, however, set the stage for these forward-looking objectives by linking aid effectiveness to aid that strengthens a country’s capacity to develop, implement and account for its policies to its parliament and citizens.<sup>30</sup> An important step forward is the commitment of recipient countries to progress on domestic revenue raising that is critical to strengthening domestic accountability<sup>31</sup>

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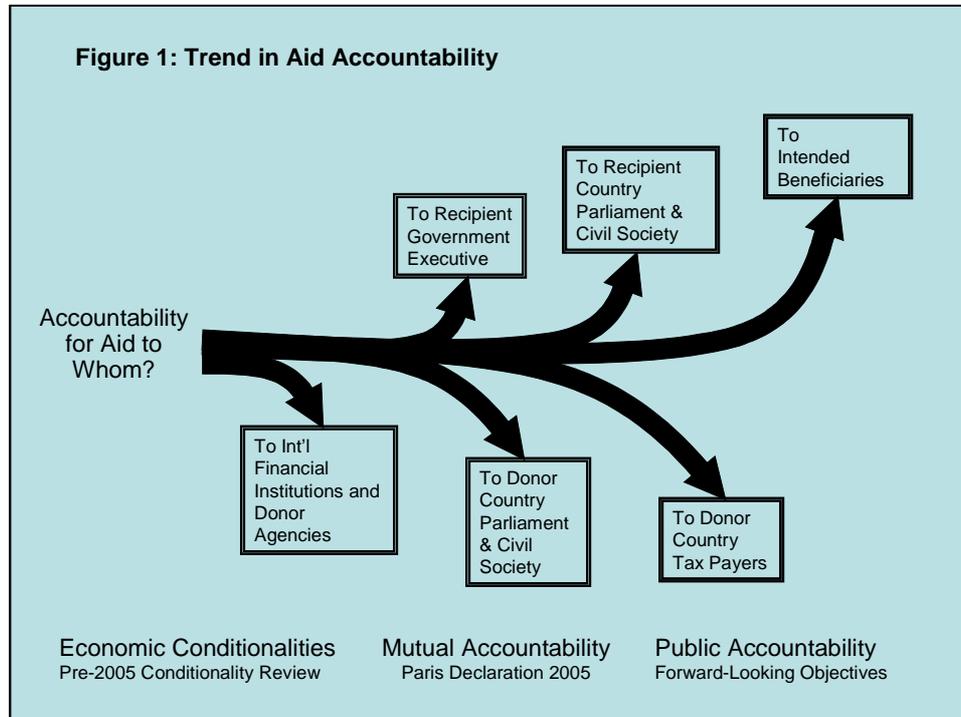
<sup>28</sup> See also 2005 World Bank *Review of Conditionality*.

<sup>29</sup> The Paris Declaration on Aid Effectiveness (Ownership, Harmonisation, Alignment, Results and Mutual Accountability) has been brought out by the High Level Forum in March 2005 and follows the Declaration of the High Level Forum on Harmonisation in Rome (2003) and the Marrakech Round on Managing for Development Results (2004).

<sup>30</sup> Articles 3 and 48 emphasise accountability to parliaments, as well as developing country commitments to systematically reinforce participatory approaches.

<sup>31</sup> See also the Paris Declaration Article 25. Efforts to mobilise domestic resources should be measured not in absolute terms of revenue but in terms of the increase of broad-based revenue raising to ensure the integration of marginal populations in mainstream accountability processes that spring from tax contributions.

Figure 1 presents these Trends in Aid Accountability that capture commitments to address governance and anti-corruption. Based on joint risk assessments, this kind of anti-corruption engagement will benefit from the involvement of civil society and empowerment of beneficiaries of aid in decisions that affect their lives. For it to succeed, it requires an open, inclusive and comprehensive learning approach by donors and recipients.



Anti-corruption efforts in aid must therefore be aligned and embedded in the mutual accountability framework. Aid should strengthen these domestic accountability mechanisms as a first step of its engagement to prevent corruption. Civil society, the ethical business community and media play a critical role in supporting and monitoring the effectiveness of accountability linkages and must be included in strengthening anti-corruption mechanisms.

Corruption and accountability indicators are currently missing from the assessments to which donors and recipients commit themselves. Without the inclusion of specific indicators and the establishment of a resourced and multi-stakeholder process to track progress on anti-corruption efforts in aid, the mutual accountability framework of the Paris Declaration is incomplete.

**Position:**

*Mutual accountability as outlined by the Paris Declaration and where it relates to governance commitments must ensure that aid supports the following key anti-corruption measures:*

- *The formulation of country-led anti-corruption strategies through a multi-stakeholder learning framework by involving beneficiaries, elected*

*representatives and civil society in corruption risk assessments and the identification of anti-corruption measures.<sup>32</sup>*

- *Direct support to parliamentarians and key oversight institutions to fulfil their mandates on the use of aid resources in line with national development strategies and as part of domestic accountability frameworks.*
- *Strengthening of public accountability linkages of donor institutions to ensure that evaluation findings, particularly where they advise on improving accountability features in commitment and disbursement decisions, are taken forward in future planning.*

## **Public financial management**

The commitments to move to budget support aid have in practice focused mainly on the public financial management (PFM) system. Within the mutual accountability framework, both partners agree on a set of minimum credible standards of public financial accountability as a starting point for aid, particularly budget support. Public financial management is seen at the heart of efforts to build financial integrity and prevent corruption. The link to more broadly based domestic efforts for strengthened accountability of public policies, investments and public service delivery to citizens has so far been weak.

In October 2004, the Public Expenditure Working Group of the Public Expenditure and Public Accountability Framework (PEFA)<sup>33</sup> decided to enter into a new phase of work – the ‘Strengthened Approach to Supporting PFM Reform’ - after limitations of earlier efforts became evident. The approach seeks to support country-owned and led reform programmes based on a performance measurement and reporting framework for the public financial management system. A well-performing public financial management system has become central to decisions of donors and partner countries on the modalities of cooperation.<sup>34</sup> For effective anti-corruption measures, the transparency of the public financial management system, and particularly of the budget formulation and execution, is fundamental and partly included in the framework.<sup>35</sup>

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<sup>32</sup> This should include an agreement with partner governments on joint and credible enforcement mechanisms that are able to address corruption-related complaints of beneficiaries, civil society and other concerned stakeholders.

<sup>33</sup> The Public Expenditure and Public Accountability Framework (PEFA) is an expression of the importance given to the budget by donors in ensuring the accountability of development resource management. It is the most central part of their fiduciary risk assessment that includes as indicators the oversight of the legislature and audit institutions on the budget in addition to public access to information on key fiscal data.

<sup>34</sup> It should be noted, however, that decisions taken on budget support based on the detailed fiduciary risk assessment undertaken through the high-level indicator set by PEFA lack a political corruption perspective and indicators. See also the CMIBRIEF November 2005, Volume 4 No. 4 and [www.u4.no](http://www.u4.no). In the absence of such indicators, it is unclear how the political dialogue that is central to budget support would be able to address the impact of political corruption on the public financial management system.

<sup>35</sup> It should be noted, however, that decisions taken on budget support based on the detailed fiduciary risk assessment undertaken through the high-level indicator set by PEFA lack a political corruption perspective and indicators. See also the CMIBRIEF November 2005, Volume 4 No. 4 and [www.u4.no](http://www.u4.no).

**Position:**

- Transparency of the public financial management system, and particularly of the budgetary process, should be agreed as a basic requirement for budgetary aid. Recipient countries should ensure full budget transparency, by revenue source, sector and at all expenditure levels, and prepare information in an easily accessible manner for its citizens.
- Examples of participatory processes for budget formulation and tracking exist and could be pro-actively supported as part of donor support to strengthening the accountability of public financial management.<sup>36</sup>

**Procurement**

Procurement is covered under each donor procurement system in project-based funding and under the integrated approach to PFM in pooled funding and budget support. In the case of pooled funding, both comparative and detailed procurement indicators are produced for the joint use of all donors. Donors have committed to progressively rely on partner country systems for procurement when the recipient countries have implemented mutually agreed standards and processes. Donors have further agreed to move towards harmonised approaches when national systems do not meet mutually agreed levels of performance.<sup>37</sup>

Public contracting in development aid has been identified as one of the areas especially prone to corruption. TI has created concrete guidelines and tools to reduce corruption in public contracting. Examples are TI's Integrity Pacts (IP) and various other anti-corruption policies and practices. The conditions under which aid is given should encourage open, free and fair bidding and see that intended beneficiaries of aid receive best value-for-money.

**Position:**

- *An adoption of Minimum Standards for Public Contracting such as those set forth by TI in the Global Corruption Report 2005 should be undertaken to support the integrity of procurement processes.*
- *Procurement transparency and instruments such as the TI Integrity Pact, or instruments that support similar corruption-free procurement should enter the mainstream of procurement in aid supported programmes.*<sup>38</sup>

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<sup>36</sup> See the Guidelines and Reference Series (2006), 'Harmonising Donor Practices for Effective Aid Delivery' Volume 2: Budget Support, Sector Wide Approach and Capacity Development in Public Financial Management.

<sup>37</sup> The OECD-DAC Joint Venture on Procurement, working collaboratively with the World Bank and key procurement counterparts in developing country governments, is to provide a four-point scale rating (A to D) of all country procurement systems. Existing data is being retrofitted to create a baseline for 2006 and the baseline indicators have been agreed in version 4 of the OECD Benchmark and Assessment Tool for Public Procurement Systems.

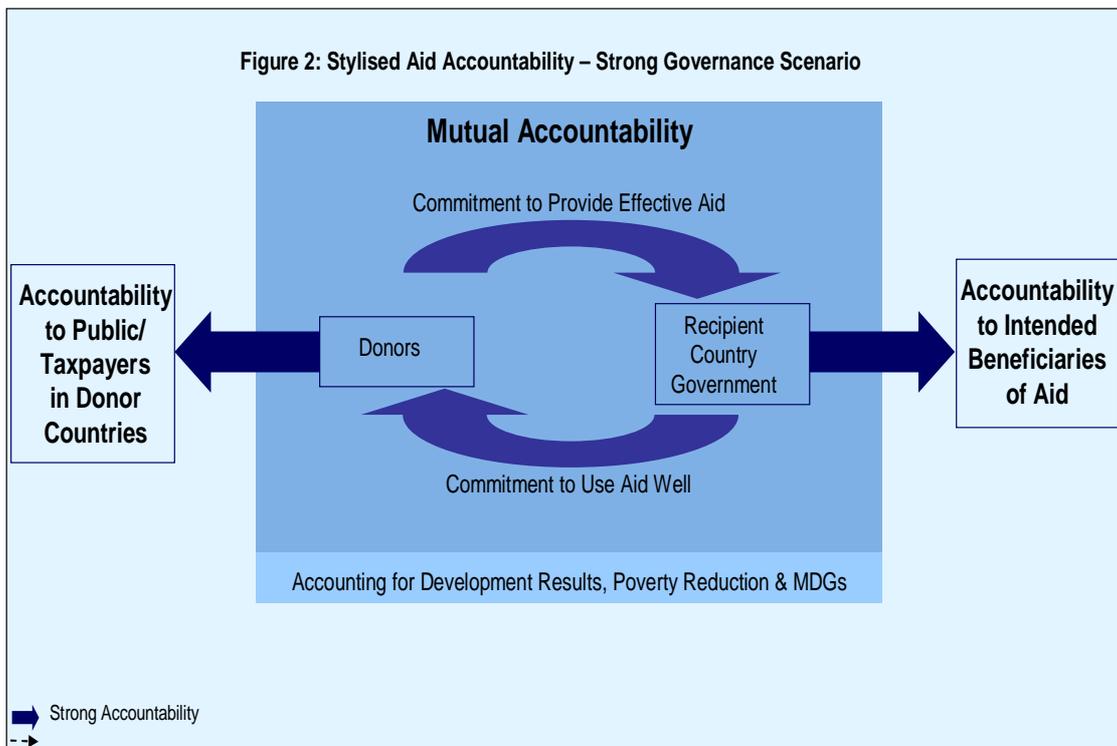
<sup>38</sup> Requiring that bidders have effective anti-bribery programmes in place does not add to administrative costs and at the same time establishes standards in procurement procedures with wider benefits.

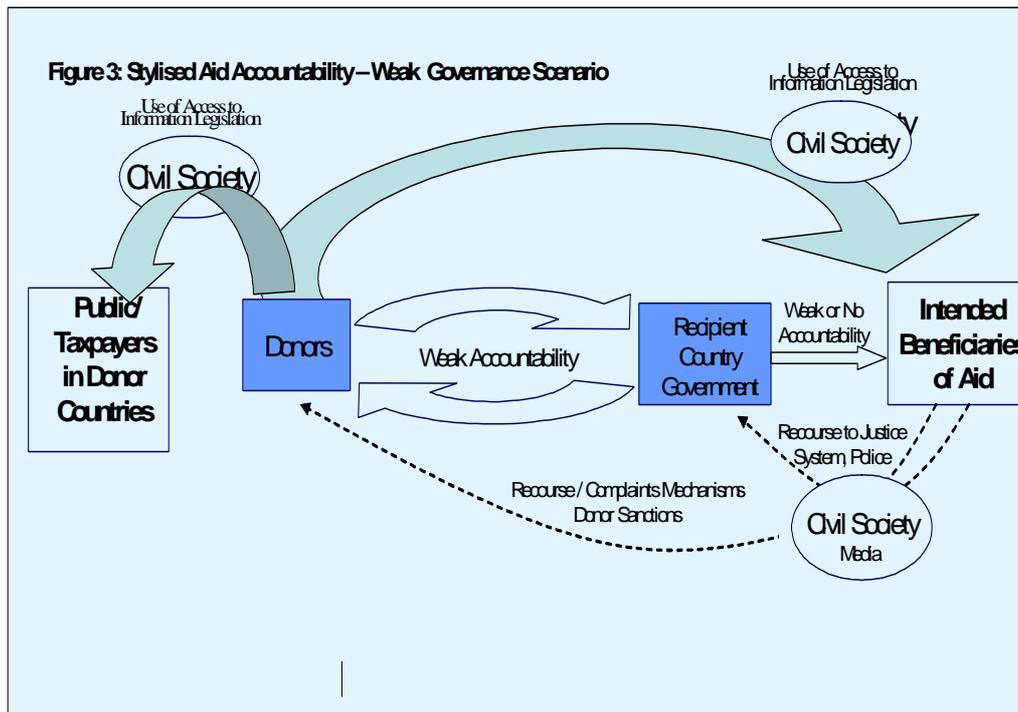
## Choices in how aid is delivered and sanctioned

Some governments have sought to use corruption scores to determine which countries receive aid, and which do not. TI does not encourage that the Corruption Perceptions Index be used in this way. Countries that are perceived as very corrupt cannot be written off – it is particularly they who need help to emerge from the corruption-poverty spiral. If a country is believed to be corrupt, this should serve as a signal to donors that investment is needed in systemic approaches to fight corruption. Where donors intend to support major development projects in countries perceived to be corrupt, they should pay particular attention to identified weaknesses and make sure appropriate control processes are set up.

Addressing corruption is an integral part of partnership that both donor and recipient governments are accountable for. While poverty reduction efforts are often located in environments where corruption is endemic, aid modalities can be designed to frontload anti-corruption efforts. Immediate benefits may occur in the delivery of previously diverted resources to beneficiaries.

Partnerships that are based on general budget and sector support face serious challenges in practice. Donors need to ensure that their support is negotiated within a larger framework of domestic government efforts to strengthen integrity mechanisms and address corruption. Without a transparent, inclusive and learning approach by both partners to the challenges involved, there is a danger of building a corruption track-record that would further lower aid credibility and undermine the efforts toward more comprehensive policy based support.





Underpinning the mutual accountability framework is a ‘good governance scenario’ under which programmatic, pooled and budget-support forms of aid can then be provided (see Figure 2). Figure 3, in contrast, presents an accountability mapping of a poor or dysfunctional governance situation<sup>39</sup>. In such situations, donors and recipient governments may decide on modalities of aid delivery that are transparent to civil society and involve civil society actors and communities in delivery. The second principle that Figure 3 seeks to illustrate is the formalisation of recourse mechanisms, which are a critical aspect of accountability in the low-governance scenario.

To have traction and be credible, anti-corruption measures and sanctions need to be capable of a graduated and predictable response. Mutual accountability demands a transparent and open process on the criteria that would trigger a phased disengagement in cases of both serious corruption evidence *and* absence of evidence of serious anti-corruption efforts. In the long run, disregarding ‘leakage’ and support to systemically corrupt governance structures is antithetical to effective aid and can serve to perpetuate poverty and debt traps for populations<sup>40</sup>.

<sup>39</sup> Note that the arrows in Figures 2 and 3 represent accountability obligations, not financial flows. The stylistic mapping of accountability offered in Figures 2 and 3 is drawn for contrast and should not preclude donor accountability relationships with government, civil society and recipients existing simultaneously. In all cases, it is also clear that in order to move towards the ‘good governance scenario’, where there are entry points (with local ownership) for aid or technical assistance to bolster governance institutions and strengthen integrity systems, these should be supported. Relying on governance and public expenditure management specialists on the other hand – irrespective of domestic momentum, ownership or influential champions – is a cost-ineffective deployment of expertise.

<sup>40</sup> Where loan-based aid becomes public debt, the corruption of aid flows can in addition compromise the prospects of successful development for future generations by creating a burden on the state and its

## Position:

- *TI advocates that a donor must assess corruption and governance risks prior to deciding to support a particular investment project or sector programme.*
- *Where one partner perceives a high risk of corruption, it needs to address that risk by designing the aid project or programme and structuring financial transactions in a way that sufficiently mitigates these corruption risks and enables cooperation to begin on a basis of mutual accountability. Where large programmes are concerned, independent oversight is advisable throughout the life of the project to ensure early detection and prevention of corruption.*
- *Where minimum accountability standards in public financial management are not met, other options can be explored. These may include channelling funds transparently and directly to sectors meeting minimum standards, or to lower levels of governments.*
- *In situations of high corruption, where the only options to deliver aid lie outside the government system and aid must be directly channelled to communities, donors must engage with the recipient government to address governance weaknesses in the relevant sectors at the same time. While the poor should not be penalised twice for poor governance (through aid reduction or termination), it is clear that donor modalities that circumvent public institutions are not sustainable and must be envisaged to evolve over time.*

## V How Aid can be Delivered to Prevent Corruption

### The Governance Approach

The core issues and particularly the governance context discussed in Section IV indicate the key areas in which aid can help prevent corruption. If political will to implement the necessary reforms is present, donors can actively support reforms that can contain or reduce corruption. This section recommends a comprehensive approach that can be adopted by donors in preventing corruption.

The concept of the National Integrity System (NIS) has been developed and promoted by TI as part of its holistic approach to countering corruption. The NIS consists of the key institutions, laws, policies and practices that contribute to integrity, transparency and accountability in a society. A number of different governance institutions can play critical roles in preventing corruption. 'Cracks' in the integrity of a series of 'structural' governance institutions will result in a more corruption-prone governance environment.

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citizens. Responsible finance requires responsibility for debt outcomes. This perspective informs debt-forgiveness campaigners, who are keen to monitor that debt relief funds are invested in the development of beneficiary countries and that the future is not a return to the debt overhang of the past.

TI's National Integrity System country study approach provides a framework with which to analyse both the extent and the causes of corruption in a given national context, as well as the adequacy and effectiveness of national anti-corruption efforts. Many, if not most, TI National Chapters have identified anti-corruption strategies in their countries by applying this framework of analysis.

The multi-stakeholder approach by which an NIS is established is an example of a more inclusive approach than the closed-door assessments still undertaken by some donors. Country assistance strategies of donors should include a participatory NIS-type process that allows a comprehensive and multi-dimensional review of corruption risks.

### **Position:**

- *Donor support to poverty reduction that is provided within a framework of domestic efforts at strengthening relevant systems, governance institutions and legal frameworks could play an important role in preventing corruption.*
- *Donors should support the strengthening of key governance institutions, such as an effective judiciary, inspectorate-generals and public audit bodies, as well as civil society and the media that can hold the public and private bodies to account on corruption.*

### **Internal Reforms in Aid Delivery**

On the side of donor governments and aid agencies, the changed aid modalities still need to translate into a changed incentive and performance system. The move to a culture where aid must be portrayed as being successful to one in which openness about the complexities of delivering aid without corruption is admitted, has not yet entered the operational level of aid agencies.

When disbursement pressures continue to dominate the assessment of donor organisational and individual performance, these pressures are in direct conflict with efforts to identify corruption risks and act as disincentives to address corruption.

It is important to move from high-level policy commitments to operational policy measures, which support the pro-active engagement with corruption in aid delivery at a local level.<sup>41</sup> A review of disincentives on the donor side that prevent staff in aid agencies from progressing on the identification and prevention of corruption could provide insights.

Building awareness of, and engaging corruption on the supply side of corruption is equally within reach of the donors' anti-corruption practice. Progress could be made on the debarment of corrupt suppliers and greater coordination in ensuring effective

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<sup>41</sup> For example, donors can revise incentive and reward structures for managers and staff; use learning approaches to develop context-tailored training on corruption; develop project design options that model public accountability and themselves contribute to recipient empowerment; or build in public corruption complaint and advocacy mechanisms so that there is recourse when corruption comes knocking.

debarment across multilateral development banks, donors such as the European Commission and bilateral donors is ongoing. The move from high-level policy resolutions against corruption to applied operational engagement equally applies in the supplier or corporate context. Requiring supplier companies to have their own active operational programs in anti-bribery in place, their own training and performance assessment tools in anti-bribery behaviours are real options.<sup>42</sup> The same challenge applies to civil society organisations – governance, internal accountability and anti-corruption awareness benefits them equally.

### **Position:**

*Internal reforms of donors that revise internal incentives and strengthen public accountability on commitment and disbursement decisions are required to ensure that aid performance with regard to anti-corruption measures improves.*

## **VI Conclusion**

The evidence that informs this paper is drawn from the mainstream of the development debate and is informed by TI's experience with comprehensive anti-corruption approaches. There are clear conclusions that can be drawn on the issue of corruption in aid:

1. Transparency is essential in all recipient and donor actions but especially in revenues, budget and in donor contribution.
2. Accountability should be mutual between donors and recipients and citizens and recipient country governments.
3. Implementation must turn commitments into actions and introduce the necessary reforms, such as independent and strong oversight institutions.
4. Enforcement of laws, regulations and sanctions is essential and is premised on an independent and strong judiciary.
5. Sustainability of reforms and good governance by the state, regional and local administrations is ensured through the informed participation of the citizens in their development and in the advancement of their country, along with strong civil society organisation.

Mutual accountability in the transfer of aid resources hinges on robust policy frameworks, public financial management systems and budget transparency. Budget transparency is central to the accountability relation between donor and recipient countries and within recipient countries, between the parliament and public administration. Around the world, parliamentarians are currently seeking a stronger engagement to ensure the accountability of the policy and budget formulation

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<sup>42</sup> Recognising the seriousness of the supply-side of corruption, the fact that foreign companies are often the source of bribe money in the developing world, and the criminality of bribery under a number of international conventions, donors need to publicise and enforce their anti-corruption laws.

process into which aid resources feed.<sup>43</sup> Development assistance will be less vulnerable to corruption and more effective in its primary objective of poverty reduction if it strengthens the domestic accountability chain to citizens. Civil society has been recognised as an important partner in ensuring the accountable and corruption-free use of public resources, including aid funds.

For aid to be an instrument of supporting governance and containing corruption, TI advocates that aid processes must go beyond a narrow approach to addressing only a few key governance actors. Donors must proactively engage with the range of governance institutions in recipient countries - the legislature, executive, judiciary, audit bodies, media, etc. - that determine national integrity, and directly support them in fulfilling their roles for the corruption-free development of their society.

Empowering the key stakeholders of aid, the poor, by including them in decision-making processes on development and anti-corruption efforts will be necessary to ensure their authentic participation. Aid will act to prevent corruption where it supports such participatory processes not just at local levels but comprehensively in policy, budgeting and decentralisation processes that seek to bridge the accountability gap.

Examples of how such processes can be established exist around the world.<sup>44</sup> Some are led by national level governments to ensure more accountable development in sub-national and local governments.<sup>45</sup> Establishing broad-based and inclusive processes for the design of development assistance, the choice of aid modality and the anti-corruption strategy that partner countries wish to pursue are already implicit in many donor guidelines. Civil society will need to ensure that anti-corruption efforts stay in the open and are openly designed and debated.

## **VII Summary of Key Positions**

### **Political and governance context**

- Donors and partner countries should use the TI NIS framework or similar comprehensive integrity assessments to seek systemic entry points that allow aid to strengthen integrity and prevent corruption as an integral part of poverty reduction programmes.

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<sup>43</sup> The advocacy and training work carried out by the Global Association of Parliamentarians Against Corruption (GOPAC) and its regional branch African Parliamentarians Network Against Corruption (APNAC) is a critical step in the direction of greater accountability.

<sup>44</sup> The manner in which the Millennium Challenge Account is designed to provide incentives for better governance, the Improved Governance and Accountability Pact for Sierra Leone, the manner in which aid from the European Commission for Afghanistan is now redesigned are all examples that demonstrate that participation and accountability have been recognised as an integral part of creating robust governance systems.

<sup>45</sup> The Government of India has designed a number of sectoral and cross-cutting incentives and sanctions that make the transfer of resources from the central government to state governments dependent on institutional steps towards greater accountability in the use of resources at local levels. Aid provided for such sectors is automatically reduced in poorly performing states, with capacity building instead of financial transfers taking priority.

- Donors should directly support civil society in its watchdog role, particularly where budgetary aid is provided, to ensure that they can play an effective role in the comprehensive anti-corruption measures.

### **Transparency of aid**

- Donors should take the lead in demonstrating transparency of aid to their taxpayers by making mandatory the disclosure of all aid-related decisions and transfers from inception to evaluation.
- Budget transparency should be supported as an essential aspect of all forms of aid and to support recipient countries in fulfilling their global anti-corruption commitments.

### **Accountability and empowerment**

- Donors should jointly support the formulation of country-led anti-corruption strategies through a multi-stakeholder process by involving beneficiaries, elected representatives and civil society in assessments and the identification of anti-corruption measures.
- The design, implementation and monitoring of aid should support transparent and inclusive processes that strengthen domestic accountability mechanisms.

### **Mutual accountability**

- Prior to entering into a mutual accountability relation, recipient countries need to ascertain domestic demand for aid-supported policies.<sup>46</sup>
- Donors should respond with urgency to requests by recipient countries to support key governance institutions, including the independence and resource base of key oversight institutions. In particular, aid should be sought for making the justice system accessible to the poor.
- Donors and recipient countries should determine a time bound roadmap for increases in the domestic revenue raising commitments that are critical to strengthening domestic accountability. Donors should ensure that disbursement decisions as well as audit and reviews informing such decisions are kept in the public domain.
- Donors and recipient countries should institutionalise joint and credible enforcement mechanisms that are able to address corruption-related complaints of beneficiaries, civil society and other concerned stakeholders. A transparent and pro-active public redress system can inspire citizens to cooperate with government-led anti-corruption measures.

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<sup>46</sup> Where sector policy support is provided, donors could support recipient countries in establishing participatory policy formulation processes that ascertain domestic demand and strengthen the accountability and transparency of aid-funded policies.

### Aid delivery

- The approach to delivery of aid should be in keeping with the corruption risk analysis jointly undertaken by the recipient country and donors, with participation of civil society, the business sector and beneficiaries.
- All procurements by donor and recipient countries should be done with total transparency and fairness with appropriate independent oversight. Donors and recipient governments should ensure procurement transparency, the use of Integrity Pacts, anti-bribery compliance programmes and civil society monitoring for public procurements.
- Donors and recipient countries should investigate complaints and institute public sanctions against public contractors, such as debarment, and require bidders to demonstrate effective implementation of internal anti-corruption policies.
- Donors and recipient countries should agree at the outset of their partnership on anti-corruption sanctions when mutual accountability commitments regarding the implementation of anti-corruption measures are not being met.

### Internal reforms

- Donors and recipient government administrations should reform incentives to reward public accountability and anti-corruption measures and develop sanctions to address their neglect.
- Donors should address large inconsistencies in the application of anti-corruption measures through benchmarking.

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