



Australian Government
AusAID

Tackling corruption for growth and development

A POLICY FOR AUSTRALIAN DEVELOPMENT ASSISTANCE ON ANTI-CORRUPTION

MARCH 2007



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COVER PHOTOS

MAIN: *Waiting in line to vote in East Timorese elections.*

PHOTO: *David Haigh, AusAID*

TOP LEFT: *Graffiti that illustrates local demand for reform.*

PHOTO: *Jocelyn Carlin, PANOS*

BOTTOM MIDDLE: *A joint Solomon Islands – Australian police patrol intercepts longline fishing and logging vessels to check the validity of licences to operate in Solomon Islands waters.*

PHOTO: *Gregory Primmer, Australian Federal Police*



Ministerial foreword

In the past twenty years there has been unprecedented global economic growth. In the Asia-Pacific region, more than 500 million people have been lifted out of poverty. At the same time the Millennium Development Goals are a sharp reminder that millions of people – 700 million in our region alone – still do not have the basics of life such as enough food, clean water, and access to health and education.

The international community has responded by pledging increased funding for development purposes. Australia has committed to doubling the aid program to around \$4 billion by 2010. This very significant amount of public money must be used effectively to have a real impact on reducing poverty. Australia's increased aid is conditional on partner countries improving their governance, including through genuine and concerted efforts to reduce corruption.

Corruption is a serious global problem. It stifles economic growth and slows development. Billions of dollars are invested in programs aimed at giving people in developing countries access to health, education, water, and sanitation services. It is the poor who suffer if funds are diverted through corruption. In Australia we would not tolerate demands to pay a bribe for a health worker to see someone who is sick, or for an official to issue a licence. Yet such things are a fact of life for people in the developing world.

Australia's anti-corruption for development policy will give greater reach and focus to our efforts to help regional partners fight corruption. This new policy builds on significant existing Australian support for improved governance. In 2006–07 Australia will support a range of governance programs at an estimated value of \$645 million.

Fighting corruption is not easy. It has to be done on many fronts. The aid program is already working in areas as diverse as fostering leadership integrity and public sector accountability, promoting transparency in the use of natural resource wealth, and strengthening capacity to prosecute corrupt behaviour.

Our approaches must be tailored to the individual circumstances of each country. In this way, we can work together with our partners to identify the local drivers of corruption, and the best responses, to ensure that our assistance has lasting impact.

Corruption is unacceptable wherever it occurs. Australia will continue to emphasise in our dialogue with partners the need to deal resolutely with corruption. As this policy shows, our words are backed by a commitment to assist in concrete and practical ways.

A handwritten signature in black ink, which appears to read 'Alexander Downer'. The signature is fluid and cursive, with a long horizontal stroke at the end.

The Hon. Alexander Downer, MP

Minister for Foreign Affairs



ABOVE: Democracy in action – a man casts his vote at a polling booth in Papua New Guinea.

PHOTO: Edwina Stevens, AusAID

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Executive summary

AUSTRALIA HAS CONSISTENTLY SOUGHT THROUGH ITS AID PROGRAM TO HELP PARTNER GOVERNMENTS STRENGTHEN GOVERNANCE AND REDUCE CORRUPTION. BUT MORE NEEDS TO BE DONE. CORRUPTION HAS A SUBSTANTIAL AND NEGATIVE IMPACT ON ECONOMIC GROWTH AND DEVELOPMENT AND WEAKENS INSTITUTIONS. THE COSTS OF CORRUPTION FALL DISPROPORTIONATELY ON POOR PEOPLE.

Australia's anti-corruption for development policy provides a framework for planning, resourcing, and reviewing anti-corruption activities on a country and regional basis. It has been developed in collaboration with a wide range of Australian government agencies and external stakeholders.

The overall goal of Australia's anti-corruption for development policy is:

To assist developing countries bring about a sustainable reduction in corrupt behaviour for the purpose of improving economic and social development.

Australia's approach to anti-corruption will focus on three mutually reinforcing elements:

- > **Building constituencies for anti-corruption reform:** Strong leadership is critical for successful anti-corruption efforts. Australia will assist institutions, groups and individuals that support good leadership. We will support the collection and dissemination of information about the costs of corruption. This will help mobilise support for anti-corruption reform efforts.
- > **Reducing opportunities for corruption:** Poor political governance provides greater scope for corrupt behaviour. We will support initiatives that bolster transparency and accountability. Helping to improve budget processes, public financial management, and procurement systems makes corrupt activities more difficult to undertake and easier to identify and prosecute. Supporting

the establishment and implementation of clear legislative and regulatory frameworks is another important way to reduce opportunities for corruption.

- > **Changing incentives for corrupt behaviour:** We will work with leaders, public officials and those in the private sector to discourage corruption. The timely investigation and prosecution of corrupt behaviour sends an important message that corruption will not be tolerated. A professional, merit-based public service is also critical for the effective and honest operation of government systems and processes.

The starting point for our work is support for the priorities and plans of partner countries to improve governance and tackle corruption. Long-term sustainability is most likely to be achieved through this partnership approach. Where such country-led strategies do not exist, Australia will support efforts to develop anti-corruption policies and plans.

We will also build capacity and develop long-term institutional partnerships with partner governments through the placement of Australian government officials in public service positions or senior advisory roles. Together with other bilateral agencies, multilateral donors, and regional and global organisations, we will help partners to target corruption better. Members of the business sector and civil society will also be important allies in putting this policy into practice.



ABOVE: Teaching civics helps to develop an informed and involved citizenry. PHOTO: Lorrie Graham

The corrupt use of aid money clearly diminishes the credibility and effectiveness of development assistance. AusAID and its development partners have an obligation to Australian taxpayers and the Parliament to ensure that Australian aid money is used effectively and efficiently, and is not subject to misuse. The aid program has measures in place to ensure accountability and reduce the risk of corruption and bribery in the delivery of aid activities. We will continue to assess the adequacy of these measures regularly, and to strengthen them as appropriate.

Because of its secretive nature, it is difficult to measure corruption. Australia will work with international experts to measure and monitor

progress in reducing corruption more effectively. We will develop measures of progress for individual activities and draw on long-term and high-level measures, such as Transparency International's Corruption Perceptions Index and the World Bank Institute's control-of-corruption indicators.

We will report on progress in implementing the anti-corruption initiatives through the Annual Review of Development Effectiveness, to be prepared by the Office of Development Effectiveness. Results of the review will be integrated into the Australian Government's budgetary cycle to provide a practical link between increases in aid allocations and improvements in aid effectiveness.

Anti-corruption for development policy

1 THE CHALLENGE

Over the last decade, there has been increasing recognition that corruption is damaging development prospects in many countries. Corruption inhibits economic growth – and therefore poverty reduction – by distorting the allocation of resources and increasing the costs of doing business. When public resources to fund basic needs such as access to clean water, health care, and primary schooling are misappropriated, the poor are often disproportionately affected. The responsibility of political leaders and public officials to their citizens is also directly undermined. As Australia prepares to increase the amount of aid it provides to the Asia-Pacific region, we need to ensure that our aid funds are not diverted through corruption. Just as importantly, we must ensure that increased aid levels do not further fuel corrupt behaviour.

At the Millennium Summit in 2005 the Prime Minister committed to increasing the Australian aid program, but stated that increases in Australian aid would ‘be conditional on strengthened governance and reduced corruption in partner countries’. Australia’s anti-corruption for development policy is an initiative foreshadowed in the 2006 White Paper *Australian Aid: Promoting Growth and Stability*. Australia’s significant existing efforts to address governance and reduce corruption will be further strengthened through focused research, planning and increased resources for anti-corruption work.

2 WHAT IS CORRUPTION?

Corruption is the misuse of entrusted power for private gain. It can take many forms and vary depending on local culture and context. A spectrum of corrupt behaviour exists, from petty corruption, which may include bribes or illicit payments for routine bureaucratic processes, to grand corruption, which involves leaders, politicians, and senior officials diverting public resources on a large scale to serve their private interests. Both petty and grand corruption damage public trust and accountability, and distort the allocation of public resources, thus reducing economic growth and increasing poverty.

Corruption (petty and grand) sometimes takes the form of state capture, a process of collusion between the private sector and politicians or public officials for their own private, mutual benefit. This can lead, for example, to the government introducing laws, regulations or policies that unfairly favour vested interests.

3 WHY INCREASE OUR INVESTMENT IN FIGHTING CORRUPTION?

The overall goal of Australia’s anti-corruption for development policy is:

To assist developing countries bring about a sustainable reduction in corrupt behaviour for the purpose of improving economic and social development.

Australia has a strong record of domestic action to expose and punish corrupt activity. It has signed and implemented important international conventions such as the United Nations Convention Against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Australia's aid program has consistently sought to help partner governments strengthen governance and reduce corruption. Such efforts are fundamental to poverty reduction and sustainable development. There is a strong link between poor governance and corruption in both the public and private sectors. Governance refers to the exercise of authority – political, economic, administrative or otherwise – to manage a country's resources and affairs. Corruption is one aspect of poor governance and, although these issues are not the same, improving governance can support the fight against corruption.

In 2006–07 alone, the Australian Government will spend an estimated \$645 million on activities to improve governance in the Asia–Pacific region. Assistance with strengthening governance and combating corruption is increasingly a feature of programs such as the Australia–Indonesia Partnership for Reconstruction and Development, the Enhanced Cooperation Program in Papua New Guinea and the Regional Assistance Mission to Solomon Islands (RAMSI).

More needs to be done. Corruption is a major impediment to broad-based growth and development, undermining government revenue and expenditure on the delivery of basic services such as law and justice, health care, education, and the maintenance of essential infrastructure. The World Bank Institute has estimated that:

- > more than US\$1 trillion is paid in bribes each year, and
- > over the long term, countries that tackle corruption and improve the rule of law can increase their national incomes by as much as four times.

Corruption in partner government institutions also reduces their effectiveness in developmental work, even if donor aid funds themselves can be protected from fraud (and AusAID has stringent

anti-fraud controls in place). Corruption diverts funds away from activities that are vital to poverty reduction and sustainable economic growth and development. Corruption:

- > fuels the 'black economy', which reduces legitimate government revenues
- > presents a barrier to economic and institutional engagement by the poorest
- > exacerbates gender inequality as women are on average poorer than men
- > lowers private investment by increasing transaction costs and creating a more uncertain business environment
- > diverts public expenditure from essential services, and
- > can lead to the unsustainable exploitation of natural resources, particularly when inducements are offered to bypass normal licensing procedures.

Corruption weakens institutions and makes states more vulnerable to crisis. It has the potential to undermine security in our partner countries and in the Asia–Pacific region more broadly. Security can be threatened when governments fail to deliver services, uphold law and order, maintain public confidence in institutions, or control the use of resources. Corruption can lead to 'money politics' and undermine the decisions of democratically elected governments. Corruption can also open the way for a variety of other crimes such as money laundering and trafficking in drugs, arms, and people.

4 WHAT FACTORS ENABLE CORRUPTION?

While the causes of corruption can differ from country to country, the following drivers of corruption are considered to be crucial and will be targeted for attention.

- i. **The legitimacy of the state is weak and national leaders do not act in the public interest.** In a number of countries the exercise of political power is, at times, motivated by private gain. In situations where corruption is widespread the expectation may be that politicians will act in the interests of a few privileged constituents instead of in the national interest. The strength



ABOVE: Inside the East Timorese Parliament. PHOTO: AusAID

of political parties, the political structure (parliamentary or presidential), and levels of civic education may all play a role in shaping political will for reform.

ii. Public sector rules and regulations do not exist, or are weak or poorly implemented.

Public procurement, particularly for large-scale infrastructure projects, is one of the areas most prone to corruption. Service delivery sectors are also vulnerable. In the health sector, for example, processes such as the procurement and distribution of pharmaceutical drugs present a high risk of corruption. Problems in natural resource management are exacerbated by the abuse of discretionary regulatory powers, especially in relation to valuable resources such as forests and fisheries.

iii. Political appointments to the public sector, low wages, and an absence of meritocratic systems exacerbate bureaucratic corruption.

Public officials may resort to corrupt practices to supplement inadequate public sector wages. Public appointments are used to reward political allies, which discourages talented staff and undermines institutional performance. In these situations there is often little incentive for public officials to apply the rules in a fair and transparent manner.

iv. Government accountability and oversight mechanisms are ineffective. In many countries accountability institutions are under-resourced

and lack the capacity to successfully combat corrupt practices and abuses of public expenditure. The oversight role of independent audit offices is limited by weaknesses in parliamentary committees that fail to follow up on audit reports. Weakness in national criminal justice systems – particularly police services, offices of public prosecutions, and the judiciary itself – also contribute to corruption.

v. The private sector can be both victim and perpetrator of corruption, and an important potential ally in efforts to combat corruption.

While foreign companies may be targets for illicit rent-seeking behaviour, bribes may also appear necessary to win business. However, greater transparency and international competition, and an increased awareness of the costs that corruption imposes on business, have seen the emergence of private sector champions of transparency.

vi. The private sector and other non-government organisations – such as the media and civil society – lack the capacity or the will to demand transparency and accountability of government.

The relationship between civil society organisations and the government is not always clear-cut. Though seen as independent, these organisations often rely on government agencies for resources or approval to operate, which can limit their ability to speak out when necessary. Media operations can also be constrained by government regulation and interference.



LEFT: Customs officers examining containers in Apia, Samoa.

PHOTO: Peter Cotton, AusAID

BELOW: The village court system performs a valuable role in providing accessible justice throughout Papua New Guinea.

PHOTO: Rocky Roe



5 WHAT WORKS?

The experience of Australia and other donors in supporting good governance and anti-corruption efforts has provided important lessons.

- i. **Systematic anti-corruption reform requires local ‘champions for change’ and should be driven from within.** High-quality political leadership, encouraged by a strong local reform movement, is critical to success. Efforts to combat corruption are most successful when change is driven internally, and when political leadership is strong. The private sector has a major role and responsibility in fighting corruption. Industry representatives, including trade unions, have proven to be strong champions for reform.
- ii. **One size does not fit all.** Past efforts to import model solutions have, on occasion, tended to do more harm than good, and simply resulted in a waste of funds and effort. There are many examples of successful measures (see boxes on pages 9, 10, 12 and 13), but they will not be appropriate in every context. Donor priorities and responses must be informed by local needs, identified through country-specific anti-corruption planning. This will determine the scope, sequence and speed of assistance, as well as where emphasis is warranted. For example, where political will is weak, engagement with local reformers – particularly civil society – will be key to building demand for reform.
- iii. **Anti-corruption strategies must be long term and multifaceted.** Anti-corruption work is fundamentally about changing attitudes and behaviour. This is both difficult and time consuming. The ultimate objective is to achieve improved standards of ethics, accountability and integrity. This may require generational change. An effective anti-corruption strategy requires a multi-pronged approach. It needs to draw on successful strategies that support local reform constituencies, reduce opportunities for corruption, and provide positive and negative incentives.
- iv. **Assistance must be practical and flexible.** Australian assistance is often provided in fragile environments, where limited local capacity is already stretched. Assistance must be considered in the context of the partner country’s fiscal framework and local capacity limitations, and remain flexible so as to adapt to changing circumstances. Priorities – and corrupt practices – will evolve over time. To be effective, anti-corruption strategies must adapt to meet emerging challenges.
- v. **The efforts of various donors must be well coordinated.** Concerted action avoids duplication and wastage of scarce resources. When donors put a range of separate demands on weak institutions in developing countries, they risk overwhelming local capacity. Donors can also cause damage when they send mixed signals on anti-corruption, for example by ignoring the potentially corrupting effect of inappropriately targeted aid.
- vi. **Address the supply (as well as the demand) side of corruption.** Actors within the private sector can include foreign-owned companies, so donor countries have a particular responsibility to ensure that their own nationals do not engage in corrupt behaviour. International experience suggests that external donors can achieve success in countering corruption by targeting supply-side corruption internationally.
- vii. **There is clear evidence that countries with greater proportions of women in leadership positions experience lower levels of corruption.** While it cannot be assumed that women are inherently less corrupt than men, it is the case that nations that provide leadership opportunities for women are more likely to be open and transparent. The linkages between gender equality and anti-corruption can be promoted, for example, by introducing anti-corruption measures alongside support for anti-discrimination measures.



TOP LEFT: Improving law and justice systems helps discourage corruption. PHOTO: Peter Davis, AusAID

TOP RIGHT: Australian and Solomon Islander police officers working together. PHOTO: Australian Federal Police

RIGHT: Independent media is an important tool for accountability and building demand for better governance. PHOTO: Mathias Heng, AusAID

FAR RIGHT: An East Timorese woman displays her voter registration card. PHOTO: David Haigh, AusAID

BELOW: This junior secondary school in Lombok, Indonesia was constructed with funds from the Australia–Indonesia Partnership for Reconstruction and Development. The sign outside the school advises the local community about the construction process. PHOTO: Karen Ingram, AusAID



6 WHAT AUSTRALIA WILL DO

Australia's anti-corruption for development policy provides a framework to guide Australia's approach to anti-corruption activities in the Asia-Pacific region. Australia's approach to tackling corruption will be based on an understanding of what drives corruption and on best practice approaches to combating corruption.

Under the policy, Australia will focus on three mutually reinforcing elements:

- > **building constituencies for anti-corruption reform**
- > **reducing opportunities for corruption, and**
- > **changing incentives for corrupt behaviour.**

To improve governance and reduce corruption, Australia will continue to build on existing programs, by supporting the law and justice sector and encouraging better economic and financial management. We will address weaknesses in oversight and accountability processes and institutions, and help strengthen local demand for change.

In view of the complexity and political sensitivity of corruption, Australia's assistance will include some exploratory and experimental approaches, as well as research to support a better understanding of, and innovative responses to, corruption.

BUILDING CONSTITUENCIES FOR ANTI-CORRUPTION REFORM

Fostering integrity and accountability in leaders helps to promote anti-corruption reform in the longer term. This requires a large-scale and sustained commitment to formal and informal education – training the young men and women who will be society's future politicians, judges, prosecutors, police officers, civil servants, regulators, entrepreneurs, and labour and community leaders. Supporting gender equity in leadership positions will contribute to a more just society and lower tolerance for corruption. Strengthening institutions and groups that support good leadership is also

important, as are initiatives that encourage public office-holders to model ethical work practices and behaviour.

A demand for change from local leaders and communities is critical to addressing corruption. Key to encouraging this demand is support for the collection, dissemination and understanding of information about the costs of corruption – for society as a whole, and for specific sectors and communities, including women. Disseminating information on the success of anti-corruption measures is important as a means of building and maintaining reform momentum.

EXAMPLES OF SUCCESSFUL APPROACHES

While assistance always needs to be tailored to the local context, examples of approaches that have successfully helped to build constituencies for anti-corruption reform include:

- > **supporting civil society groups, churches, the media**, and other organisations that have the capacity to gather information on the incidence of corruption, to promote awareness among constituencies most affected by corrupt activities, improve understanding of public processes, monitor government activities, and report cases of corruption
- > **establishing cooperative relationships with corporate entities, chambers of commerce, professional associations** and other organisations that have the capacity to promote integrity, ethical conduct, and transparency in the private sector
- > **promoting public and media freedom to share information on corruption** by helping to implement freedom of information measures and public reporting requirements for government agencies, and
- > **funding and resourcing civic education** to support a population that is better informed about the roles and responsibilities of their elected representatives.

REDUCING OPPORTUNITIES FOR CORRUPTION

Poor political governance provides greater scope for corrupt behaviour. Weak political institutions and processes can facilitate the capture of decision-making processes. Support for initiatives that bolster transparency and accountability are often necessary in promoting long-term change.

Improved transparency in public sector processes can strengthen the capacity of government and civil society to monitor expenditure and control financial flows. Helping to improve budget processes, government financial management, and procurement systems has far-reaching implications for improved transparency, accountability, and work practices – it makes corrupt activities more difficult to undertake, and easier to identify and scrutinise domestically.

Helping partners to put in place clear, appropriate and functioning legislative and regulatory frameworks and standard administrative practices is important in reducing opportunities for corruption. Such frameworks are needed to govern financial management, budget processes, the granting of licences and contracts, auditing, and reporting processes. Implementation should focus not only on establishing new practices but also on using the viable frameworks and practices that already exist and are ignored, unknown or poorly understood.

Promoting competitive markets is another important strategy. Structural reforms to achieve this may include corporatising and, in some cases, privatising state-owned enterprises. Where monopolies are difficult to avoid (for example, because of infrastructure requirements), appropriate regulatory frameworks are needed.

EXAMPLES OF SUCCESSFUL APPROACHES

While assistance always needs to be tailored to the local context, examples of approaches that have proved successful in reducing opportunities for corruption include:

- > **supporting domestic legislative and institutional initiatives to enhance leadership, accountability, and transparency** in government revenues and political party financing by:
 - supporting key accountability and oversight institutions, especially ombudsman offices, leadership code commissions, auditors-general and departments of attorneys-general, and
 - improving the capacity of parliamentary committees and MPs to oversee government, including through public accounts committees
- > **supporting reforms to electoral systems** to achieve fairer and more representative elections, more representative and responsible political parties (with greater participation by women), and better regulated processes to form governments
- > **supporting the making of appropriate legal and administrative frameworks**, at all levels of government, to govern public financial management, budgetary processes, procurement, contracting, and payroll systems; and to limit discretion in granting licences and approvals, and in imposing fees and charges, and
- > **supporting efforts to ensure that government's participation in the market is appropriate**, including its role in business, and to put in place competition regulation and electronic licences to avoid middlemen.

CHANGING INCENTIVES FOR CORRUPT BEHAVIOUR

Negative incentives. Negative incentives, or sanctions, can dissuade leaders, public officials, private sector actors, and others from engaging in corrupt practices. Making them work requires technical expertise in collecting relevant financial and other data, and disclosure of enough appropriate information to allow for public scrutiny. Australia's



ABOVE: An electoral official with ballot papers in Papua New Guinea.
PHOTO: Lorrie Graham

LEFT: A joint Solomon Islands – Australian police patrol intercepts longline fishing and logging vessels to check the validity of licences to operate in Solomon Islands waters. PHOTO: Gregory Primmer, Australian Federal Police

aid program already provides significant assistance in the law and justice sectors of many partner countries in the region. A strengthened focus on supporting accountability and law and justice institutions, backed up by timely investigation and enforcement, is essential.

EXAMPLES OF SUCCESSFUL APPROACHES

While assistance always needs to be tailored to the local context, examples of approaches that have successfully reduced the incentives for corruption include:

- > **establishing or supporting sound public financial management practices** within finance departments, service delivery agencies and accountability institutions, to ensure that the information needed to investigate and prosecute corruption offences is captured
- > **strengthening the technical capacity of the law and justice sector** to investigate and prosecute cases involving corruption
- > **promoting effective criminalisation of corruption**, for example, by supporting ratification and implementation of the United Nations Convention Against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Foreign Bribery Convention)
- > **promoting effective anti-money laundering regimes** and facilitating action to track, trace and recover the proceeds of corruption, including through mechanisms such as Australia's Anti-Money Laundering Assistance Team
- > **supporting participation by Australia and partner countries in transborder and transnational crime initiatives**, and building liaison networks to improve detection and tracking of proceeds of crime and criminals engaged in corruption, and
- > **supporting implementation by Australia and partner governments of international anti-corruption frameworks**, such as the ADB–OECD Anti-Corruption Initiative for the Asia–Pacific.

Positive incentives. The cumulative effects of poor salaries, poor linkages between merit and promotion, and otherwise uncertain career development prospects, can foster corruption among public officials. A professional, apolitical, merit-based, and non-discriminatory public service plays a major role in transparent and accountable government. Public sector reform, including improved internal governance arrangements, can provide positive incentives for behavioural change. Again, a long-term commitment to reform is required, with a focus on simplifying procedures and regulations, strengthening non-discriminatory and merit-based appointment and remuneration systems, minimising discretionary powers of decision-makers, and fostering a commitment to values or codes of ethics.

Private sector reform can provide incentives for increased accountability and transparency. Companies with reputations for ethical conduct are more likely to engage in business practices that are sustainable, and encourage reform in both the private and public sectors. A level playing field is also in the interests of a healthy and sustainable private sector.

Providing performance-based development assistance can support and recognise a government's commitment to improved governance. Incentive payments are a means of providing rewards for improvements, but care needs to be taken to ensure that performance payments are used only where:

- > there is a strong existing commitment to a program of action
- > the program of action is within the control of the incentives partner, and
- > performance is able to be measured accurately via jointly agreed, government-owned data sources.

EXAMPLES OF SUCCESSFUL APPROACHES

While assistance always needs to be tailored to the local context, examples of approaches that have successfully increased the incentives for anti-corruption include:

- > **upgrading personnel management frameworks** to promote remuneration outcomes that are adequate to sustain appropriate livelihoods and are fiscally sustainable
- > **promoting merit-based and non-discriminatory employment practices** that limit discretionary appointments and encourage greater openness, equity, and efficiency in the employment and promotion of public officials, and
- > **offering substantial external incentives** – for example, membership of key regional economic, trade, business, or legal groupings – as a reward for governance improvements.

7 MANAGING CORRUPTION RISKS IN AUSTRALIA'S AID PROGRAM

The corrupt use of aid money diminishes its effectiveness and damages the credibility of aid donors and partners in the fight against corruption. AusAID and its development partners have an obligation to Australian taxpayers and the Parliament to ensure that Australian aid money is used effectively and efficiently, and is not subject to misuse.

The aid program has a number of preventive measures in place to ensure accountability and reduce the risk of corruption in the delivery of aid activities. We will continue to evaluate and strengthen these measures.

AusAID personnel are subject to the Australian Public Service Code of Conduct. All AusAID contracts require contractors to act in a manner consistent with that code. In keeping with Australia's obligations under the OECD Foreign Bribery Convention, AusAID contracts prohibit corrupt practices and require compliance with the Commonwealth Criminal Code in relation to bribery of Commonwealth and foreign public officials. AusAID's procurement practices accord with Commonwealth procurement requirements.

AusAID's current contracts with project management organisations provide for the immediate termination of a contract if it is established that the organisation has engaged in corrupt practices. Managing contractors must grant AusAID access to premises and records so that AusAID can conduct a thorough inquiry into any reported instance of bribery or fraud.

Accredited non-government organisations receiving funds from the Australian aid program are also required to comply with the Code of Conduct of the Australian Council for International Development. This code obliges a recipient organisation to 'oppose and not be a willing party to wrongdoing, corruption, bribery or other financial impropriety in any of its activities'. The code binds organisations to comply with Australian and partner government laws and regulations, and AusAID policies, 'in relation to corrupt practices, in particular the bribery of public and foreign officials'.

AusAID audit and quality control measures are intended to prevent and redress inappropriate behaviour such as bribery. Control measures include mandatory activity reporting by managing contractors and non-government organisations, providing regular updates on risk assessments and ratings. AusAID commissions compliance audits that include provisions to 'identify risk areas where fraudulent use of Commonwealth funds could have or has occurred'.

Procedures for managing Australian aid can provide good practice models. We regularly include partner government officials as voting members in processes for assessing, monitoring, and evaluating large contracts. This provides all parties (including prospective contractors) with an opportunity to understand better the benefits of sound procurement processes, and demonstrates the value of transparent and accountable service delivery.

Australian companies have obligations under Australian law not to engage in corrupt behaviour. The aid program has revised its fraud and contractual policies to emphasise private sector compliance with obligations under Australian law. The Australian Attorney-General's Department has published an information package and fact sheets for Australian companies operating overseas.

Choosing the appropriate form of aid is important in minimising corruption risk. It requires judgment about how much the allocation and management of Australian resources should be integrated into partner government institutions and systems. New forms of aid – such as programmatic and sector-wide approaches – can promote partner ownership, reduce transaction costs, improve partner government accountability, and lead to more sustainable outcomes. However, where corruption still poses a challenge, reliance on partner government budgetary and financial management systems may also increase the risk of fraud.

Decisions about forms of aid must be made on a case-by-case basis. Corruption risks need to be taken into account in designing programs and projects. This is best done through risk and fraud management analysis and planning, program and activity monitoring, and specific anti-corruption plans.

In very corrupt environments, aid delivery mechanisms can be enhanced by:

- > applying tools that ‘give voice’ to beneficiaries (such as beneficiary surveys and citizen report cards)
- > building partner capacity to collect information and report on organisational performance and accountability
- > increasing transparency and disclosure of project procurement and financial management issues
- > strengthening the focus on internal controls and audits to build the capacity of local audit systems and provide independent oversight, and
- > applying a communications strategy that delivers consistent messages to all relevant stakeholders on fraud and corruption issues.

8 HOW WILL THIS POLICY BE IMPLEMENTED?

STRENGTHENING PARTNERSHIPS

Across the Australian Government there is a breadth of expertise that can support improved governance in partner countries. A whole-of-government approach

to anti-corruption allows Australia to draw on this expertise and augment diplomatic efforts. Country aid strategies will include an analysis of areas where further collaboration is likely to have the greatest impact and which should be given priority.

We will continue to place Australian officials in public sector positions or senior advisory roles in partner governments as part of a longer-term institutional partnership.

- > The Australian Federal Police and the Attorney-General’s Department are working with regional countries to strengthen legislative frameworks, help build capacity in anti-money laundering, and recover proceeds of crime.
- > The Australian Federal Police is engaged in initiatives to improve capacity in the Asia-Pacific region to investigate fraud and corruption.
- > The Treasury and the Department of Finance and Administration are helping to strengthen financial management systems in partner countries.
- > AusAID is helping with public sector reform, community engagement, and improved governance in service delivery.

Partnerships between Australia and other bilateral agencies, multilateral donors, and regional and global organisations will be important for delivering improved anti-corruption outcomes. The region’s governments, including Australia’s, have signalled a renewed commitment to fighting corruption through regional and global reform efforts such as the ADB–OECD Anti-Corruption Initiative for the Asia-Pacific and the OECD Working Group on Bribery in International Business Transactions. These frameworks emphasise the importance of partnership and the need for domestic and international efforts to be mutually supportive.

We will strengthen our dialogue with international financial institutions (particularly the World Bank and Asian Development Bank), multilateral agencies (such as the United Nations Development Programme), and global organisations dedicated to promoting accountability and anti-corruption (particularly Transparency International). We will support joint research on corruption and anti-corruption.



ABOVE: *Improving governance and combating corruption play a crucial role in delivering improved health and education services in our partner countries.* PHOTO LEFT: Valerie Haugen PHOTO RIGHT: Jessica Pelham, AusAID

People in the business sector and civil society who have shown initiative in combating corruption will be important allies in implementing this policy. Establishing international links ('twinning') between professional bodies – such as chambers of commerce, law and accounting institutes, and company boards – offers significant opportunities to address corruption. Credible civil society groups, including community-based organisations, churches, media and other organisations, may also be important partners in raising awareness about corruption and promoting anti-corruption coalitions.

COUNTRY AID STRATEGIES

The starting point for our work is support for the priorities and plans of developing countries themselves to improve governance and tackle corruption. This approach is most likely to achieve long-term sustainability and effectiveness. Where country-led strategies do not exist, the Australian Government will, where requested, support partner governments to develop anti-corruption policies and plans.

Whole-of-government country aid strategies are the key joint planning documents for Australia's assistance to partner countries. Country strategies will be updated to include country-specific anti-corruption plans. They will take into account existing anti-corruption policies, donor and local initiatives already under way, and the country's overall needs and priorities. We will focus assistance on areas where impact is likely to be greatest.

Country-specific plans will be based on analysis of the key drivers and costs of corruption, and the political, economic and social dynamics affecting corruption. We will:

- > analyse where corruption imposes the greatest costs for development in the context of the partner country's broad economic and development priorities
- > assess partner institutions, especially the key accountability and oversight institutions, and identify institutional gaps and weaknesses



LEFT: Village heads in Aceh, Indonesia receive community land maps. Effective land administration ensures that land is accountably and transparently allocated. PHOTO: AusAID

RIGHT: Reconstruction in Aceh following the 26 December 2005 tsunami. Strengthening the role of partners can improve accountability and transparency. PHOTO: AusAID

- > identify local capacity limitations, including in the partner government's fiscal framework, and in availability of human resources, technology and infrastructure
- > identify realistic opportunities for action, informed by Australian experience, international best practice, and ongoing research about tackling corruption, and
- > match Australia's skills and resources to needs and priorities, taking account of local anti-corruption efforts, the work of other donors, and ways to build on current effective Australian interventions.

Country programs will support anti-corruption activities with the potential to maximise positive economic impact in partner countries. Sectors of the economy associated with substantial revenue generation (for example, infrastructure, forestry, fisheries, and extractive industries) are particularly vulnerable to corruption. Responses should identify the 'hot spots' in particular countries, and be tailored accordingly.

9 HOW WILL WE KNOW IF WE'RE MAKING A DIFFERENCE?

Corruption is difficult to measure because it often occurs in secret. Some proxies for measuring corruption do exist, such as Transparency International's Corruption Perceptions Index and National Integrity Systems and the World Bank Institute's control-of-corruption indicators. For specific country or sector programs, surveys can provide information about community perceptions and opinions about levels of corruption and

maladministration. Australia will continue to work with international experts, such as the World Bank, to develop better measures of corruption and ways of monitoring progress in combating corruption.

Some measures exist to monitor corruption at a broad level. For example, the Public Expenditure and Financial Accountability (PEFA) framework provides objective data for monitoring fiscal procedures, and Global Integrity's Public Integrity Index measures social and institutional aspects of corruption.

It will be important that short- and medium-term evaluation measures are set in place to track the progress of specific anti-corruption initiatives. Measures developed in one country program will need to be comparable with those developed in other country programs so that credible and consistent measurements of progress across the aid program can be made.

The Australian Government will report on progress in implementing anti-corruption initiatives through the Annual Review of Development Effectiveness (ARDE). The ARDE will report against the three themes set out in this policy: building constituencies for anti-corruption reform; reducing opportunities for corruption; and changing incentives for corrupt behaviour. The ARDE will be produced by the Office of Development Effectiveness. Results of the review will be integrated into the Australian Government's budgetary cycle to provide a practical link between increases in aid allocations and improvements in aid effectiveness.

Glossary

accountability institutions	Institutions that promote better public accountability by improving the design and functioning of the mechanisms through which public officials are elected and held accountable. These include institutions that support democracy such as constitutions, elections, parliaments and broad-based political parties, as well as oversight institutions such as ombudsman offices, leadership code commissions, auditors-general, departments of attorneys-general and public accounts committees.
corporatisation	Changing the structure of state-owned enterprises so that they are organised in the same manner as private corporations but shares remain in the ownership of the state.
corruption	The misuse of entrusted power for private gain.
demand-side corruption	Corruption that is driven by pressure for a bribe to be paid.
extractive industries	Industries that remove oil, gas and mineral resources from the ground.
fiscal framework	The systems and processes that governments use to allocate public money.
freedom of information measures	A legislated system enabling the release of government documents upon request from a member of the public.
governance	The exercise of authority – political, economic, administrative or otherwise – to manage a country’s resources and affairs.
grand corruption	Activities involving leaders, politicians and senior officials diverting public resources on a large scale to serve their private interests.
international financial institutions	The World Bank, the Asian Development Bank and other multilateral development institutions that provide significant financial and technical support to developing countries.
meritocratic systems	Public or private sector systems within which promotion or success is based on merit, rather than alliances or bribe-paying.
money laundering	The practice of using money in transactions (such as casino gambling) in order to conceal its identity, source and/or destination.

oversight institutions	A subset of accountability institutions including ombudsman offices, leadership code commissions, auditors-general, departments of attorneys-general and public accounts committees. Oversight institutions review technical processes of public administration, in addition to allegations of inappropriate behaviour by public officials.
petty corruption	Activities including bribes or illicit payments for routine bureaucratic processes.
privatisation	The transfer of assets or service functions from public to private ownership or control.
programmatic or sector-wide approach	A framework where funding for a sector – whether internal or from donors – supports a single policy and expenditure program, under government leadership, and the adoption of common strategies across the sector. It is generally accompanied by efforts to strengthen accountability and government procedures for the disbursement of funding.
rent-seeking behaviour	The process by which an individual or organisation seeks to profit through a manipulation of the economic environment, rather than through the production or trade of goods or services. It is commonly used to refer to situations where an individual or organisation demands payment (in money, goods, etc) in return for a separate, favourable outcome.
service delivery agencies	Government agencies that develop and implement policies related to the provision of services, for example, education or health.
state capture	A process of collusion between the private sector and politicians or public officials for their own private, mutual benefit.
supply-side corruption	Corruption that is characterised by the act of offering to pay an unsolicited bribe – thereby creating or reinforcing a system of bribe paying.
transborder crime	A crime that is committed across a border between two countries.
transnational crime	Criminal activity committed in more than one country, or criminal activity committed in one country that is prepared or directed from within another.

