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**DEVELOPMENT CO-OPERATION DIRECTORATE  
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## **DAC Network on Governance**

### **THE DAC NETWORK ON GOVERNANCE (GOVNET) AND THE DAC FRAGILE STATES GROUP (FSG)**

**Summary of the OECD informal event on "Adressing corruption in Fragile States: what do we know?"**

**Paris, 17th October 2007**

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## Item I: Setting the scene

1. Mr. **Dennis de Jong** (Chair of the GOVNET anti-corruption Task Team, Netherlands) welcomed all participants. The DAC Secretariat introduced the OECD DAC definition of fragile states<sup>1</sup>, highlighting why international engagement in such countries is crucial (e.g spill-over effects resulting from state fragility, impact on neighbours, regions and international stability) and proposed some framing questions to guide discussions such as why donors haven't given higher priority to anti-corruption (A-C) in states that are in situations of fragility; what A-C measures should be given priority in post-conflict situations and how can donors balance the need to build core state functions and deliver basic services with the need to address corruption in fragile settings.

2. The first two presentations aimed at providing an overview of donor engagement in fragile contexts and in particular in post-war settings, while suggesting lessons and entry points based on evidence which could improve donor engagement in such contexts.

3. Mr. **Harald Mathisen**, Coordinator of the U4 Anti-Corruption Resource Center in Bergen presented the main findings of a U4 report on the role of donors in addressing corruption in fragile states. The low priority that donors give to anti-corruption measures in fragile states can be explained by several factors, amongst others a lack of capacity and knowledge of how to tackle corruption in fragile environments, the "natural hierarchy" of the diplomatic agenda (which tends to prioritize key political functions), and the perception that addressing corruption in a fragile environment can have a destabilising effect. When designing and implementing anti-corruption initiatives in fragile states, donors should adhere to the following principles: (i) a thorough analysis of the context and (ii) a good understanding of how different instruments and "best-practices" available to A-C reformers could be of use in these specific environments. Country evidence also suggests there is a need to secure some significant and highly publicised early victories on anti corruption. It is important that donors support countries in building systems and national capacities which will contribute to building trust in government institutions, which is in turn a key determinant for reducing corruption. Where possible, donors should align their support with local policies and systems while supporting civil society which can be an important catalyst for change. Finally, five cross-cutting themes are crucial for successful donor anti-corruption engagement in fragile states: (i) focus on results-based management, (ii) coordinated donor responses, (iii) a careful use of conditionality, (iv) political sensitivity and (v) the protection of aid money from diversion.

4. Mr. **Martin Tisné**, Programme Director of Tiri (Network for Integrity for Reconstruction) presented findings from Tiri's research project on reform through integrity in post-war reconstruction, which is based on findings from eight post-war countries. He emphasized that anti-corruption efforts in fragile states matter most notably because of the need to strengthen the legitimacy of a nascent state and ensure its stability in the future. Even if it is risky to address corruption in fragile states at an early stage, the costs of not addressing it are much higher as there are high risks that corruption and war-time networks become entrenched and negative public perceptions grow. Tiri's research finds that traditional, "strategic" approaches to anti-corruption (e.g. anti corruption commissions, awareness-raising campaigns) don't work in fragile states. There is a particular need to increase the accountability of the reconstruction process to beneficiaries through improved transparency and the strengthening of social accountability. Strong local accountability mechanisms can help reduce the likelihood of reverting to violence - this is in contrast with the large amount of resources that are typically spent on organising elections. Key recommendations include (i) post-war governments and international donors should act early on integrity, build on existing

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<sup>1</sup>The informal definition of fragile states refers to states that lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations.

mechanisms through integrity, and focus on corruption hot spots, (ii) post-war governments should learn lessons quickly, particularly from other post-war governments, resist the temptation to set up a quick fix anti-corruption solution and be proactive on the risks of political and high-level corruption, (iii) international donors should match their aid to local capacities and improve local competence to build state capacity in the long term, (iv) post-war governments and civil society should encourage local, independent policy capacity, and (v) post-war governments, international donors and civil society should improve their understanding of the country they are working in.

5. In the ensuing **discussion**, participants unanimously underlined the importance of anti-corruption interventions in fragile states. The role of multi-donor trust funds in addressing corruption was particularly stressed and participants questioned whether the success of the Afghanistan Reconstruction Trust Fund (ARTF), which seems to have had a positive impact at least from an integrity viewpoint, could be replicated to other similar environments. It was suggested that an evaluation of MDTF's using an anti-corruption lens could offer a useful contribution to the debate.

6. Participants also agreed on the importance of social accountability and highlighted that social accountability mechanisms could already look into involving communities to monitor the usage of local funds. It was underlined that social accountability mechanisms have worked in Africa, as examples from Uganda and Tanzania show. Martin Tisné pointed out that civil society groups have done limited work on accountability– despite the explosion in the number of NGO's in many post-war countries. Likewise, partner countries' Parliaments often receive little attention, while there would clearly be accountability gains for donors should they decide to strengthen their engagement with them in fragile contexts.

7. Another area which has not been given enough attention includes the development of local research capacity which is clearly underdeveloped in post-war countries. It was generally acknowledged that, in most cases, data on corruption is not reliable and not treating the underlying problems of corruption. It would therefore be important to bring national governments into the process of assessing corruption situations.

8. Participants stressed the need for donors to avoid sending mixed messages and having different tolerance levels with regard to corruption in partner countries. Some pointed to the dilemma of taking strong positions against corrupt governments or even suspending aid-financed activities following serious cases of corruption against the need to stay engaged in situations of fragility. One of the panellists underlined that pulling out from fragile states should not be an option, and that a harmonised and graduated response should be agreed among donors. At the same time, donors need to accept a certain degree of risk and long timeframe when engaging in fragile states.

9. Finally, it was highlighted that natural resources represent a potential source of corruption and bad governance in fragile states (natural resource "curse") and agreed that initiatives such as the Governance and Economic Management Assistance Program (GEMAP) in Liberia or the East Timor Petroleum Fund represent interesting models that should be examined more closely.

**Item II: Country perspectives*****AFGHANISTAN***

10. Mr. **William Byrd** (World Bank) presented the World Bank's experience and strategy in fighting corruption in Afghanistan. Corruption, driven by factors such as low government pay scales, the criminalization of the opium economy, large aid flows and the pressure to spend money quickly, has not systematically been addressed in the immediate post-conflict phase. Some of the problems encountered have included the lack of government action and leadership, the fragmentation of donor approaches and the focus on designing anti corruption strategies instead of real activities. Building on lessons from the WB's experience in Afghanistan the following recommendations can be derived: i) anti-corruption should not be saved for later but be fully factored into strategies and interventions, ii) realistic expectations should be set while donors should stay engaged in the long-term, iii) national leadership and the support reform champions should be promoted, iv) donors should not be focusing on strategies and documents but on concrete progress, v) donors need to identify and exploit entry points that can generate widespread consensus, for example PFM, vi) improvements at sector, agency and function levels should be emphasized, vii) adequate focus on prevention should be ensured and viii) donors can enhance the demand for good governance, i.e. through work with civil society organisations. Finally, donors should address the risk of corruption in donor-executed projects and be sensitive to terminology and national perceptions and concerns (e.g. high aid overheads, costs).

***AN ADB PERSPECTIVE: NEPAL, TIMOR LESTE, CAMBODIA AND PAPUA NEW GUINEA***

11. Ms. **Kathleen Muktan** (Asian Development Bank) gave a presentation on anti-corruption in weakly performing countries, drawing on country cases from Nepal, Cambodia, Timor Leste and PNG. ADB's approach to engaging with weakly performing countries is informed by the *OECD DAC Principles for Good International Engagement in Fragile States and Situations*. The ADB's second governance and anticorruption action plan (GACAP II) approved in 2006 is based on three governance themes (i) PFM; (ii) procurement; and (iii) combating corruption through preventative enforcement and investigative measures. Ms Muktan outlined some of the success factors of anti-corruption efforts in fragile situations, amongst which she insisted on the need to get a solid understanding of the local context, in particular the political and cultural factors (social patterns, attitudes, social values, informal processes, leadership style etc.) which influence the way in which corruption manifests itself. In Nepal, ADB adopted a long-term approach with an integrated programme of support involving strengthening the institutional framework and key integrity institutions within government, and incorporating anti-corruption measures into specific sector work. The starting point for engagement in Cambodia was a corruption risk assessment that helped to identify potential "hotspots" where corruption risks may occur. This assessment found that while the national budget system was inadequate for donor use, donor projects themselves displayed potential vulnerabilities. Work in the Pacific also focused on reducing corruption in key risk areas, such as the petroleum sector in Timor Leste or the resource revenue flows from petroleum-related revenue in Papua New Guinea.

***SOUTH SUDAN***

12. Mr. **Damoni Kitabire** (African Development Bank) gave an overview of the situation in South Sudan and how the fight against corruption was dealt with in this particularly fragile environment. When the agreements between South and North Sudan were signed in January 2005, the newly formed semi-autonomous government of South Sudan suffered from weak administrative capacity and low accountability systems which for instance meant that the procurement system was highly vulnerable to corruption. In addition, the government was faced with significant oil revenues from day one which created an even greater corruption risk in an already weak context which had no PFM, procurement and no

revenue law. Public funds were used to finance personal expenditures (medical expenses, school fees). The combination of weak capacity, absence of legal frameworks and substantial inflows of money (\$1bn+/annum) provides an enabling environment for corruption. To address the problem, the government decided to contract out a number of key government functions such as procurement (Crown Agents), accounting (KPMG) and Audit (PFK). This contracting out of capacity was useful but is not a silver bullet. One of the key lessons so far is that without the capacity to run key government services, and the political will to strengthen accountability and transparency, corruption can become endemic and be built-in into the reconstruction and state building efforts which is likely to develop into an even bigger problem over time.

### ***DEMOCRATIC REPUBLIC OF CONGO***

13. Mr. **Phil Matcheza** (UNDP) gave a brief overview of UNDP's support to the DRC (2004) following the peace agreements of Sun City in 2002. The difficulty of working in an environment essentially characterized by low capacity was highlighted. Moreover, tackling corruption was perceived as a potential challenge to the fragile peace and electoral process and was made even more complicated by the lack of political will. In this context, the approach chosen was to build support to identified 'islands of integrity' and to support oversight institutions. As in other countries, the biggest challenge remains building capacity to develop the state and address governance and corruption problems.

### ***HAITI***

14. Mr. **Mark Nelson** (WBI) gave a brief presentation of the WB's experience in Haiti. In 2005, the government asked WBI for support in addressing corruption. The WB performed a country diagnostic survey in country. The survey emphasized the justice sector as one of the most corrupt sectors. However, this experience suggested that addressing corruption in such an environment is indeed possible. The importance of identifying windows of opportunity for engagement was highlighted, as well as the possibility to build on mounting public pressure to sustain the momentum for reform. Country leadership and ownership proved to be decisive success factors in sustaining anti-corruption efforts. Interestingly, traditional public sector reform did not seem to work while efforts on the "demand side" of governance such as support to civil society, the Parliament or the media seemed more successful.

15. In the ensuing **discussion**, participants agreed that one of the main messages from the country cases presented seemed to be that if not addressed early on, corruption is likely to worsen in fragile contexts. Participants also emphasized the importance of capacity and in particular competence building when addressing corruption in fragile contexts, while acknowledging that not all fragile contexts suffer from weak capacity. It was pointed that the lack of capacity might not be as problematic as the lack of leadership since capacity can be supported by donors in the interim while there is no substitute for political will. Participants also agreed that the justice sector is often overlooked while there is little guidance available on how to support it in fragile states. An example of this is the neglect of this sector in Afghanistan which contributed to the resurgence of the Taliban whose informal justice courts have been met with increasing popular support.

16. The issue of the prioritization of reforms in post-conflict or fragile states was raised as being central. The need to understand local circumstances, which can put patronage systems into light is amongst the first steps towards addressing corruption in fragile contexts. Donors should target areas where corruption poses destabilizing challenges to the state. In any case, these reforms take time and donors might have unrealistic expectations of what can be achieved in the short-medium run. The approach taken should be incremental. Donors should also focus on improving systems rather than specific areas. For example, strengthening PFM rather than take specific actions that would have an immediate but not lasting effect on corruption. Focusing on integrity measures in the key sectors most vulnerable to corruption was

also seen as important. Some emphasized the importance of cultural aspects and the need for donors to look at the cultural levers that may help spawn change.

17. Many participants felt it would be illusionary to tackle corruption in fragile situations through Anti-Corruption Commissions (ACC). Using such institutions requires a functioning judiciary, asset declaration mechanisms and long term funding which often lack in part or totally in fragile states. Rather than advocating ACCs, donors could consider them as an option when integrated into a broader integrity reform agenda. Similarly, designing comprehensive anti-corruption strategies and comprehensive studies were often not an appropriate solution to make real progress in fragile environments.

### **Item III : Conclusion-Suggestions for further action**

18. All agreed that fighting corruption contributes to state building efforts and enhances stability in fragile contexts. Participants also agreed that the *DAC GOVNET Principles for Donor Action in anti-corruption* are not limited to stable contexts and also apply to fragile situations. Nevertheless, the degree of urgency and the risk of destabilization and reverting to violence in these environments calls for more systematic and prioritized action based on careful political economy analysis. Under more stable circumstances, there is usually a trade-off between legitimacy (supporting country-owned and led reforms) and effectiveness (having the state function and deliver basic services). In fragile contexts, this has to be balanced with security concerns, which makes policy choices even more sensitive. The “do no harm” principle takes all of its meaning since donors must avoid worsening the country’s situation while addressing corruption. Failing to address it is costly while tackling corruption regardless of circumstances runs the risks of further destabilizing the state.

19. It was agreed that ring fencing aid is not a solution; donors should place greater emphasis on strengthening their financial accountability while both donors and the government should make greater use of social accountability mechanisms to improve transparency.

20. Next steps will include continued collaboration between the GOVNET and the FSG and upon agreement with the FSG in particular the inclusion of some of the lessons from this seminar into the FSG Framing Paper on State Building (currently being developed) and a possible contribution to the upcoming African Union-AfDB-FSG conference on state building in Africa (April 2008). Generally, it was agreed that limited case studies and lessons are available on donor engagement on anti-corruption in fragile states, especially on donor engagement in those fragile states that are not conflict-affected. Documenting these lessons and using them to enhance dialogue with partner governments would be desirable. Other themes of interest for further work include the natural resource curse, the relation between corruption and good financial governance. Possible follow up work will be discussed by the GOVNET ACTT in collaboration with the FSG.

**Annex**

**Participants list for the GOVNET Seminar on  
Anti-corruption in Fragile States/  
Liste des participants pour le séminaire du GOVNET  
sur l'anti-corruption dans les Etats fragiles**

**17/10/2007**

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