



**DEVELOPMENT CO-OPERATION DIRECTORATE  
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**AN AGENDA FOR COLLECTIVE ACTION AGAINST CORRUPTION**

**ISSUES PAPER**

**DAC Meeting, 15 November 2006**

*This Paper, which is based on a Policy Paper, prepared by the DAC Network on Governance (GOVNET) and approved by the DAC in September 2006 [DCD/DAC/GOVNET(2006)REV2], sets out opportunities for collective action in a number of areas where a concerted approach seems essential if the multiple risks associated with corruption are to be successfully managed. It highlights the specific actions to be taken by the DAC to help donors move forward with this agenda.*

*It is submitted for APPROVAL at the 15 November DAC Meeting. On approval, this Paper will be submitted to the Senior Level Meeting (5-6 December 2006). Questions for the SLM are set out in Section IV on page 5.*

**Contacts:**

Ben Dickinson, DCD/POL (ben.dickinson@oecd.org, tel: +33 1 45 24 15 29);  
Sarah Box, DCD/POL (sarah.box@oecd.org, tel: +33 1 45 24 1979)

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## AN AGENDA FOR COLLECTIVE ACTION AGAINST CORRUPTION

### ISSUES PAPER

#### I. Introduction

1. *2006 has seen international momentum gather in the global fight against weak governance and corruption, with reinvigorated action at all levels.* Individually, OECD countries are responding by strengthening “whole of government” approaches to anti-corruption in partner countries, and addressing issues of bribery by their own nationals. Internationally, groups such as the Nordic+ are working closely together to share their experience and knowledge. The multilaterals are taking a leadership role—with 140 signatories and 70 ratifications to date, the United Nations Convention Against Corruption (UNCAC) is now prominent as a key global anti-corruption instrument. And the World Bank has undertaken a major review to frame a new governance and anti-corruption strategy as an integral part of its work to reduce poverty and promote growth.

2. *For its part, the DAC has considered the time is right to support an agenda for collective action against corruption which is more sophisticated and more concerted.* This is a pressing issue as the risks associated with a piecemeal response, in which various donor organisations act in a deliberate but uncoordinated way, are set to increase as aid levels scale-up. At the same time, the increased focus on governance and anti-corruption offers new opportunities for collective action. As noted by the OECD Secretary-General, Mr Angel Gurría, in his speech to the September 2006 IMF/World Bank Development Committee, with instruments targeting both the demand-side and the supply-side of corruption, the OECD is well placed to make a strong contribution to building a more effective international response to corruption.

#### II. The changing context of anti-corruption efforts

3. *The DAC’s anti-corruption agenda takes account of the rapidly changing international context.* Five new elements in the context are especially important:

- *The prospect of a very significant increase of aid — possibly an additional \$50 billion per year by 2010 and beyond—has raised the stakes for both donors and partner countries.* As donors are pressed to disburse larger amounts of development assistance more quickly, effective governance and anti-corruption provisions will assume growing importance as central elements of the framework of mutual accountability between donor and recipient countries.
- *In this context, there has been a progressive recognition that corruption poses several types of risk to the enterprise of international development.* The confluence of fiduciary risks, the potential undermining of development effectiveness, and the reputation risks for donor countries of aid to countries with corrupt leaders, has focused attention on corruption as a core concern.
- *At the country level, donor-driven perspectives have given way to approaches that place donors in a role that supports developing countries’ own anti-corruption efforts.* The 2005 *Paris Declaration on Aid Effectiveness* supports the principle that setting development objectives is

primarily the responsibility of developing countries, with donors playing a supporting role to domestic coalitions of government, political parties, civil society and the private sector.

- *At the same time, donors have been learning to approach anti-corruption work in the framework of a wider appreciation of countries' governance challenges and political economy issues.* Formal institutional models from OECD countries are not necessarily suitable for developing countries with different governance and political systems. Understanding these systems, and the conditions that generate high corruption risks, allows identification of more effective entry points and ways of working with domestic reform coalitions.
- *Last but not least, there is growing recognition of the responsibilities of OECD governments in the control of corruption.* A number of initiatives, including the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and the 2003 UN Convention Against Corruption (UNCAC), have recognised that corruption is a two way street. Active promotion of these initiatives is of vital importance.

### III. A coherent agenda

4. This paper, which is based on the Policy Paper prepared by GOVNET and approved by the DAC in September 2006,<sup>1</sup> sets out opportunities for collective action in a number of areas where a concerted approach seems essential if the multiple risks associated with corruption are to be successfully managed. It describes the specific actions to be taken by the DAC to help donors move forward with this agenda.

#### a) *Reinvigorating anti-corruption at the country level*

5. *To be consistent with the spirit of the Paris Declaration, action on corruption needs to be centred on more comprehensive initiatives at the country level.* Corruption must be viewed in the context of the wider political economy of public-sector governance in each country, recognising that corruption is invariably an outcome of unresolved problems in the wider governance system of the country. The design of anti-corruption efforts should thus be tailored to the circumstances of partner countries. This is consonant with the Paris Declaration commitments on alignment with country approaches. Depending on the particular pattern of actors, capacities and accountabilities in governance systems, different constraints and opportunities will be present for forging country reform coalitions and anti-corruption alliances.

6. What has generally been lacking is systematic and sufficiently sustained coverage of areas where powerfully complementary efforts are necessary to address endemic corruption. In supporting governance reforms, donors have traditionally focused on strengthening bureaucratic capability, such as public financial management and administrative reform. But good governance is not just about government. It is also about political parties, parliament, the judiciary, the media and civil society. This means that in all cases, other efforts are needed to build strong constituencies for reform and greater demand for good governance. Areas identified as likely to need more coherent action include: support for initiatives to build broader constituencies and alliances for change (support for media, civil society, parliaments, including through possible joint funding windows); assessment of governance and anti-corruption opportunities; and identifying and tackling the drivers of political corruption.

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<sup>1</sup> DCD/DAC/GOVNET(2006)3/REV2.

**b) *Towards more concerted donor action***

7. The DAC has identified four areas in which donor action on a one-by-one basis is likely to be ineffective and where, therefore, a concerted approach is necessary. SLM support for these proposals will signal the importance and urgency in making progress on a limited number of fronts.

- i) ***Fast-tracking of joint corruption assessments, beginning with pilot exercises in selected countries.*** The proposed assessments will analyse specific areas of corruption risk and governance failure in order to develop action plans suited to the circumstances and capable of being carried forward in a country-led way. Whenever possible, such assessments will be made jointly by a group of donors and key members of an existing or prospective local reform coalition and utilise any existing analysis. Tools that are suitable to guide assessment work already exist, or are in the final stages of development.
- ii) ***Supporting anti-corruption benchmarks and targets that can be agreed at country level and used to monitor progress.*** Following the success of Public Expenditure and Financial Accountability (PEFA) in the field of public financial management and recent progress in establishing joint benchmarking on procurement systems, there is now a place for an initiative of a similar kind covering the broader field of governance and anti-corruption. Such benchmarks will assist the work of country-level reform coalitions and complement the various international indicator sets currently available, through being more specific (e.g. sector by sector) and more geared to collective action requirements at country level.
- iii) ***Agreeing to a division of labour in countries where the corruption risk is high,*** in which different donors undertake to apply their best intellectual and practical efforts to different parts of the governance context of corruption. The need to ensure that all important entry points for reform are catered for poses a challenge to donor co-ordination at country level. In particular, not all donor organisations are able to play an active role in the critical areas affecting the demand for better governance. DAC guidance or good practice will promote a collective approach to this task in each country.
- iv) ***More co-ordinated donor responses to corruption at the country level.*** There is a growing need for common response principles applicable in the unavoidable situations where efforts to improve the governance framework are unsuccessful or inappropriate and where corruption is seriously affecting poverty reduction efforts. In 2006 DAC Ministers and Heads of Agency discussed ideas concerning more harmonised responses to poor governance, particularly corruption. The themes discussed included the need for more serious advance preparation and dialogue, and the desirability of graduated responses that minimise the damage to recipient planning and institutional development.

**c) *Tackling the global incentive environment***

8. ***As DAC members redefine their approach to combating corruption in partner countries, it is crucial to acknowledge forcefully that corruption is not just a developing country problem.***

9. For this reason, DAC will provide active support to the OECD Working Group on Bribery in pushing forward the implementation of the OECD Convention on Bribery of Foreign Public Officials. Similarly, it recognises the importance of adequate and efficient review of compliance with UNCAC. In this respect, it emphasises the interest to the donor community of proposals at the UNCAC Conference of the States Parties in December 2006 for information-gathering with respect to compliance and related needs for technical assistance. ***By helping global actions to curb transnational corruption while also***

*working with country-level reform coalitions, donors may be able to create important synergies between the different levels of anti-corruption effort.*

10. Efforts to change the international incentive environment for corruption do not need to be restricted to tighter controls and greater legal redress. Indeed, these efforts may be more effective if they are accompanied by initiatives to improve the positive side of the incentive structure. The recently proposed Global Integrity Alliance (GIA) illustrates a type of complementary initiative that promises to transform the incentive environment in a positive way by building a global movement for integrity, leadership and state-building. The GIA proposes concerted actions to identify, engage with and support reformist leaders in order to catalyse change and set higher standards of ethics in public service.

#### **IV. Questions for the SLM**

- Do SLM members support the proposals in this paper, particularly concerning the facilitation of joint governance and corruption assessments and the development of a Voluntary Code of Conduct for Co-ordinated Responses to Corruption at the Country Level (see Annex for possible themes)?
- How can donors further enhance concerted and coherent actions within their own governments to address their domestic responsibilities in fighting corruption (*i.e.* the ‘supply side’ of corruption)?
- What issues could be brought to the attention of the High Level Meeting in April 2007, for example, the development of a Voluntary Code of Conduct for Co-ordinated Responses to Corruption at the Country Level (see Annex)?

## ANNEX

## A DRAFT 10-POINT VOLUNTARY CODE OF CONDUCT FOR CO-ORDINATED DONOR RESPONSES TO CORRUPTION AT THE COUNTRY LEVEL<sup>2</sup>

*This Annex presents a collection of illustrative themes that could be developed and validated over the next year as the basis of an anti-corruption focussed voluntary code of conduct for co-ordinated donor responses to corruption at the country level.*

### Introduction

Experience suggests that there will be times when the incidence of corruption, or other governance problems, visibly increases in a particular country or sector. There will also be times where actions to improve governance lapse, leaving the quality of governance to stagnate at a low level. It matters how donors respond to such signs of particular difficulty. There have been several instances where a strong negative signal by one donor has been undermined because another donor has taken a more lenient stance. Donor action will only be effective if it is undertaken in a more strongly co-ordinated way than at present.

In 2006 DAC Ministers and Heads of Agency discussed ideas concerning more co-ordinated responses to poor governance, particularly corruption, and confirmed a desire to move towards more effective collective responses. The draft voluntary code of conduct set out below builds on the main themes discussed at the 2006 DAC Ministerial meeting.

The voluntary code should be centred on context-specific actions. Each incidence of deteriorating corruption will have a different governance and political economy context and will call for a nuanced approach and a response based on the evidence in each case. By working together, donors can not only avoid giving “mixed signals” to partner countries but also make increased use of each others experience and knowledge in fighting corruption.

#### ***1. Utilise transparent and honest dialogue mechanisms at the country level***

As a guiding principle, it should be recalled that the Millennium Declaration is a compact in which donors have promised more aid while partner countries have agreed to secure the governance conditions for its effective use. The *Paris Declaration on Aid Effectiveness* sets out the way in which the principle of mutual accountability can be realised in practice. Joint analysis of governance issues undertaken between donors and partner governments can promote effective dialogue.

#### ***2. Follow a “whole- of-government” approach when responding to corruption***

Within each OECD government, a common, coherent, position on responses to possible governance scenarios should be brokered between diplomatic, development and finance ministries.

#### ***3. Strive for collective international positions on corruption agreed across donor countries***

OECD donor governments as a group should take a collective position on deteriorating or stagnating corruption situations and their appropriate responses based on empirical evidence. These positions are more effective than piecemeal responses, particularly when rhetoric is backed up by consistent action — messages delivered through EU political dialogue mechanisms, for example.

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<sup>2</sup> These themes are consistent with the DAC *Principles for Good International Engagement in Fragile States*, DCD/DAC(2006)53.

**4. *Avoid disproportionate reactions to isolated corruption scandals and.....***

The trends and trajectories of political governance are what matter when considering responses, particularly the suspension or withdrawal of aid.

**5. .... avoid “all or nothing” reactions to corruption in the provision of aid**

This applies particularly when aid is increasingly financing the recurrent costs of front line health workers or teachers. In these cases the negative impacts on poverty reduction of reduced funding are direct.

**6. *Sustain a dialogue with partner countries on the likely donor responses to various governance scenarios***

The more donors provide predictable aid (e.g. via budget support), the more they may be perceived to be supporters of the partner government. Partners need to be made aware of the dilemmas that donors may face as a consequence of this, and how they may be constrained to respond. Donor countries should establish an ongoing, transparent dialogue with partner countries, including all local stakeholders, both state and non-state, so that donor responses to situations of improving or deteriorating governance are clearly signaled ahead of time.

**7. *Adopt a calibrated and graduated response to signs of increased corruption risk***

A sudden withdrawal of aid may exacerbate poverty and insecurity in a partner country, damage the country's institutional development, and sever relationships with the donor community. A graduated donor response, based on the severity of events and overall governance trends, may be most consistent with the long term goals of promoting accountability between citizens and governments in partner countries and strengthening the capability of states to fulfill their functions. Drawing on the evidence from international experience, donor responses can be calibrated according to the choices they have in each case concerning: future aid volumes, the range of aid instruments, sectoral focus, the balance between state and non-state partners, and cutting current-year expenditures as a last resort or in extreme cases.

**8. *Involve key non-DAC donors in the country-level responses to corruption***

There is considerable work to do with non-DAC donors to bring them into the dialogue over collective responses and to invite them to collaborate with other donors so as to avoid “mixed messages”.

**9. *Acknowledge the domestic responsibilities of OECD countries in addressing corruption***

Much work is underway in the OECD and elsewhere to address private sector bribery (e.g. the OECD Convention), money laundering, weak banking regulation and recovering illegally acquired assets held in OECD countries. Greater acknowledgement of these ‘supply-side’ problems can make the position of donors more credible in their dialogue with partner governments over governance and corruption issues.

**10. *Adopt a zero tolerance stance on corruption in aid funded programmes***

To be less than rigorous in pursuing this principle would significantly weaken the case for aid within the publics of OECD countries.