



**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

**DAC Network on Governance**

**POLICY PAPER ON ANTI-CORRUPTION**

**Setting an Agenda for Collective Action**

*This paper, which was prepared by the GOVNET's anti-corruption task team, was approved by the DAC on 22 September 2006. This final revised version takes into account comments made by the DAC at that meeting as well as written comments. It is now submitted to DAC Members for FINAL APPROVAL under written procedure. Any further questions or concerns should reach the Secretariat by 14 November.*

*As agreed by the DAC, key issues and proposals made in this paper will be discussed at the SLM in December 2006.*

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## EXECUTIVE SUMMARY

***The context in which anti-corruption efforts are undertaken is changing.*** The risks associated with a piecemeal response, in which various donor organisations act in a deliberate but uncoordinated way, are set to increase. At the same time, new opportunities for collective action are emerging. While a number of bilateral donors have strengthened or developed anti-corruption strategies, this paper argues that the DAC is well placed to draw these together into a coherent agenda. At the global level, this agenda for donor action complements the enhanced anti-corruption strategy being developed by the World Bank, while proposing to take collective action and harmonisation one step further.

The paper 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 proposes specific actions to be taken by the DAC to help donors move forward with this agenda.

### Reinvigorating anti-corruption at the country level

***To be consistent with the spirit of the Paris Declaration and the GOVNET Draft Principles for Donor Action in Anti-Corruption, action on corruption needs to be centred on more comprehensive initiatives at the country level.*** This, however, calls for an approach that views corruption in the context of the wider political economy of public-sector governance in each country. The background to this proposal is the growing recognition that corruption is invariably an outcome of unresolved problems in the wider governance system of the country.

The design of anti-corruption efforts should be tailored to the circumstances of partner countries. This is consonant with the Paris Declaration commitments on alignment with country approaches and the GOVNET Principle on fostering a country-led anti-corruption vision. 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.

***Concerted action is required to promote shared understanding of the challenge of fighting corruption, develop effective responses and ensure that all important entry points for anti-corruption action are properly covered by the country-level reform coalition as a whole.*** Corruption is the result, at least in part, of a dysfunctional governance system, and a number of areas of governance have been regarded as worthwhile focuses for reform activities. What has generally been lacking, however, is systematic and sufficiently sustained coverage of areas where powerfully complementary efforts are necessary to address endemic corruption which often has its roots in the political system.. At the same time, it is recognized that leadership and political commitment are essential to effective anti-corruption efforts, and donors must face the challenge of how to respond when government capacity may not be the only constraint to reform. In general, corruption must be addressed in a systemic and comprehensive way, taking the wider governance context into consideration.

In supporting governance reforms, donors have traditionally focused on strengthening bureaucratic capability, such as public financial management and administrative reform. Good governance is not just about government. It is also about political parties, parliament, the judiciary, the media and civil society. It is about how citizens, leaders and public institutions relate to each other in order to make things happen. (DFID White Paper 2006) 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 corruption and anti-corruption opportunities and identifying and tackling the drivers of political corruption.

### **Towards more concerted donor action**

Both the Paris Declaration commitments on aid effectiveness and the GOVNET Anti-Corruption Principles leave a specific and important place for harmonisation of donor efforts. ***This paper identifies 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.***

***The paper proposes that the DAC facilitate the fast-tracking of joint corruption assessments, beginning with pilot exercises in selected countries.*** The proposed assessments will be expected to 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 should 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.

***It is proposed that the DAC also signal its support for 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 would assist the work of country-level reform coalitions. They would complement the various international indicator sets currently available, being more specific (e.g. sector by sector) and more geared to collective action requirements at country level.

The need to ensure that all important entry points for reform effort are catered for poses a challenge to donor coordination at country level. Not all donor organisations are able to play an active role in the critical areas affecting the demand for better governance. ***In all countries where the corruption risk is high, there therefore needs to be an agreed division of labour in which different donors undertake to apply their best intellectual and practical efforts to different parts of the governance context of corruption.*** DAC guidance or good practice should promote a collective approach to this task in each country.

There is also 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. ***This paper proposes that the DAC develop these ideas into good-practice principles for SLM/HLM approval and roll-out to the country level.***

## Tackling the global incentive environment

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

For this reason, it will be important in the next few years for the DAC to 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. The DAC could also add its voice to those calling for the ratification of the UN Convention Against Corruption (UNCAC) by its members and other UN member countries. The DAC 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 Conference of States Parties in December 2006 for information-gathering with respect to compliance and related needs for technical assistance. Initiatives such as Publish What You Pay and the seizing or freezing of stolen assets can be useful in influencing incentives and demonstrating seriousness to partners. ***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.***

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 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. ***It suggests a way forward that the DAC should commend to its members.***

### Summary of proposed actions by the DAC

*To promote a concerted approach to anti-corruption work at country level ...*

... it is proposed that the DAC:

- Facilitate joint assessments of corruption and the wider governance context in high-risk countries in close co-operation with other organisations, beginning with pilot exercises in selected countries which build on any existing work.
- Signal its support for anti-corruption benchmarks and targets that can be agreed jointly by donors and partners at country level and used to monitor progress.
- Endorse as good practice the close coordination of donor governance and anti-corruption work at the country level.
- Develop a set of good-practice principles (a “voluntary code of conduct”), to be endorsed by Ministers and rolled out at country level, on coordinated donor responses to deteriorating corruption contexts.

*To tackle the global incentive environment for corruption ...*

... it is proposed that the DAC:

- Encourage its members to advocate more concerted and systematic action within their own governments to implement and enforce international conventions to tackle the supply side of corruption (*eg the offering of bribes by the private sector*).
- Support UN-led processes and efforts to encourage members to ratify and implement UNCAC while also encouraging DAC members to combine and integrate their joint anti-corruption initiatives with other ongoing efforts to implement and monitor UNCAC on the ground.
- Emphasise 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.
- Support international initiatives such as the proposed Global Integrity Alliance as a positive way forward in transforming the international incentive environment for integrity and good governance.

## I. INTRODUCTION

1. *The time has come for the DAC to support an agenda for collective action on corruption.* The DAC's role in anti-corruption efforts has evolved in various steps over the past decade.<sup>1</sup> However, the context in which anti-corruption efforts are undertaken is changing in ways that underline the need for an approach that is both more sophisticated and more concerted. The risks associated with a piecemeal response, in which the various donor organisations act in a deliberate but uncoordinated way, are set to increase. At the same time, new opportunities are emerging for collective action by development actors. The DAC is well placed to draw these together into a coherent agenda.

### The changing context of anti-corruption efforts

2. Five new elements in the context are especially important
- **The prospect of very significant increases 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. This is of vital concern to both recipients and donors. Governance and anti-corruption efforts have emerged as central elements of the framework of mutual accountability required for scaling-up aid. Since both donor and recipient countries contribute to corruption, it is right that they should be held jointly responsible for addressing it. At the same time, there is no substitute for strengthening country systems. While stronger safeguards are needed in the management of projects, “ring-fencing” individual projects will not be a sufficient response when some donors are increasingly making use of programme-based approaches and budget support.
  - **In this context, there has been a progressive recognition that corruption poses several types of risk to the enterprise of international development.** Initially, attention was focused primarily on fiduciary risk – the risk that donor resources will not be used for the intended purposes. A growing concern has been with development effectiveness – the risk that corruption will undermine the achievement of economic growth and poverty reduction by its corrosive effects on government performance and private investment. Lately, donors have become concerned, in addition, with reputational risks – including the risk that aid to countries with corrupt leaders will tarnish donors' reputations and undermine the case for aid. The confluence of these three risks 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* establishes the principle that setting development objectives is primarily the responsibility of developing countries, with donors playing a supporting role. The *Principles for Donor Action in Anti-Corruption* developed and endorsed by GOVNET lead with the same

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<sup>1</sup> The DAC's initial focus was work to strengthen and harmonise donors' efforts in aid-funded procurement. In 1996, with the Recommendation on Aid Funded Procurement (DCD/DAC(96)11/FINAL), DAC members agreed to introduce anti-corruption provisions in bilateral aid-funded procurement. The anti-corruption provision of the Recommendation was adopted by all DAC donors and was later integrated into the OECD Revised Recommendation of the Council on Combating Bribery. In 2003, the GOVNET reviewed donors' lessons learned in the fight against corruption (DCD/DAC/GOVNET(2003)1). The report concluded that donors have made little progress in addressing corruption. Limited capacity, competing priorities and piecemeal approaches have constrained any strategic impact at the field level, beyond one or two well known small-scale examples.

idea (“Principle No. 1: We will collectively foster, follow and fit the local vision”).<sup>2</sup> Experience shows that combating entrenched networks of corruption requires a multi-sectoral coalition, including reformers from government, political parties, civil society and the private sector. However, operationalising these commitments in countries where the government leadership is itself corrupt poses a substantial challenge. But even in these contexts, the preferred approach is to support domestic coalitions for reform with objectives and methods that suit the circumstances of the country.

- **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.** There is growing recognition that importing formal institutional models from OECD countries (such as anti-corruption commissions) into developing countries regardless of the governance context is unwise. As suggested by the National Integrity System concept a decade ago, there is a need to analyse carefully the broader governance conditions that generate high corruption risks and, on this basis, identify entry points and ways of working with domestic reform coalitions that are likely to be effective in the specific country context. This must include an in depth understanding of how the political system functions.
- **Last but not least, there is growing recognition of the responsibilities of OECD governments in the control of corruption.** In the words of the GOVNET *Draft Principles*, “Donors recognise that corruption is a two-way street. Action is needed in donor countries to bear down on corrupt practices by home-based companies doing business internationally” (Principle 2). Since the entry into force of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the OECD has set high standards for effective anti-bribery systems in member and non-member countries. More recently, the 2003 UN Convention Against Corruption (UNCAC), has provided a coherent, rules-based and, in part, binding framework for addressing corruption. Active promotion of these initiatives is of vital importance.

3. Donors are aware of these changes in the context of anti-corruption work. Many are taking new initiatives in response to events that have highlighted corruption dangers (e.g. the call from the Development Committee in early 2006 for the World Bank to develop an anti-corruption strategy to help support efforts to achieve the MDGs). However, single-agency initiatives will not be effective on their own.

4. ***There are at least four reasons why action against corruption needs to include a strong element of collective or concerted action:***

- First, the *Paris Declaration* and the GOVNET principles suggest that anti-corruption efforts should be country-led. Combating entrenched networks of corruption requires strong collective efforts by coalitions of reformers from different sectors in society acting in coordinated ways. However, it is unlikely that this will become a reality unless donors form more effective partnerships in support of local coalitions of reform, based on joint assessments of country situations.
- Second, at the country level, it is clear that to be successful anti-corruption efforts have to be multi-stranded – acting on both the demand for and supply of more effective and accountable governance. Not all donors are able to act on all of the relevant issues, so only a concerted approach will cover the field and be effective.

<sup>2</sup> DCD/DAC/GOVNET(2005)6. The Principles, developed and endorsed by GOVNET, were presented for information to the DAC in September 2005 and received strong support. The DAC agreed the Principles would formally be approved at the same time as a GOVNET AC policy paper.

- Third, there is growing evidence that uncoordinated and *ad hoc* donor responses to signs of increasing corruption risk are responsible for giving off “mixed signals” and weakening the effect of any attempts by particular donors to stand firm or apply sanctions.
- Finally, the impact of important global milestones such as the OECD Convention and UNCAC may be dissipated unless there is a concerted effort to promote ratification, implementation and monitoring by countries, and to make linkages with existing country-level governance and anti-corruption efforts.

### **Purpose and scope of the paper**

5. These concerns provide the backdrop for this paper. *The paper 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.* These “collective action frontiers” imply not only donors working together, but also donors working in concert with other parts of OECD governments, and joint efforts to build coalitions for change at both global and country levels. The proposals require a clear signal of support from the DAC, but once approved they will require decisions and increased efforts and resources from DAC members.

6. *The paper is not intended to deal with all aspects of donor efforts to fight corruption.* Instead, it aims to be forward looking and action oriented. It concentrates on outlining a limited number of priority actions where there are opportunities for donors to work more effectively together with each other and with partners. These proposals suggest concrete ways of operationalising the three sets of GOVNET Anti-Corruption Principles: 1) fostering, following and fitting the local vision; 2) addressing the supply side of corruption (the offering of bribes, especially by companies based in OECD countries); and 3) marshalling lessons and measuring progress.

7. *The paper has three substantive sections, each of which makes the case for a sub-set of collective anti-corruption activities.* Section II argues for an effort to reinvigorate country-level anti-corruption work, with greater attention to identifying points of entry and possibilities for coalition-building that are appropriate in different sorts of governance situation. Section III focuses more specifically on the need for concerted action by donors at country level, including joint assessment and benchmarking, greater coordination and more harmonised response mechanisms. Section IV outlines recent initiatives that address different aspects of the global incentive environment for corruption. It suggests how the DAC could help these to succeed in ways that create useful synergies with country-level work. Section V draws the action proposals together and suggests next steps to be taken by the DAC.

## **II. REINVIGORATING ANTI-CORRUPTION EFFORTS AT COUNTRY LEVEL**

8. *To be consistent with the Paris Declaration and the GOVNET Principles for Donor Action in Anti-Corruption, concerted action on corruption needs to be centred on initiatives at the country level.* This implies the operationalisation of an approach that places the problem of corruption in the context of the wider political economy of governance in each country. It also calls for donor efforts to be rooted in and not detached from the building of local coalitions for change. In this perspective, there are multiple entry points for anti-corruption work, and multiple opportunities for developing reform coalitions that are capable of being effective. But the opportunities and the constraints will vary according to the country context.

### **Putting corruption in the context of governance**

9. *The background to this proposal is the growing recognition that corruption cannot be treated as a problem on its own.* In developing countries, widespread corruption is invariably a symptom or



outcome of unresolved problems in the wider governance system of the country. That is, the many political, economic, social and institutional features of an effective and accountable governance system are not fully in place. Political Corruption is often embedded in the functioning of the political system and the interactions between formal institutions and informal processes. Thus, addressing corruption as a public governance problem is essential. This approach has been at the heart of the OECD's work with non-member countries over the last decade<sup>3</sup>.

10. There are various ways of elaborating conceptually a holistic, governance-centred approach to corruption. Recent synthesis work by the World Bank sets out some of the issues in a succinct way and may be used to illustrate the more general point. **Box 1** summarises this thinking.

**Box 1. Development, governance and corruption: Lessons from global experience**

- **An effective and legitimate state** is crucial for growth and poverty reduction
- For an effective and legitimate state, **good governance is a cross-cutting priority** for:
  - Building a **sound investment climate** for growth (macroeconomic stability, rule of law, regulatory system, physical & financial infrastructure)
  - Empowering people to make growth inclusive through **effective delivery of basic services** (education, health, social protection)
  - **Promoting accountability**, social inclusion and protecting human rights (e.g. use of Transparency International's National Integrity Systems)
  - **Fostering political competition** (supporting elections, strengthening parliaments)
- **This requires a four-pronged strategy:**
  - Match role of the state to its institutional and fiscal capability – including level and composition of public finances
  - Strengthen state capability – capacity, accountability and responsiveness
  - Support the capacity of non-state actors (e.g., civil society, private sector, media) that can act as external monitors of accountability,
  - encourage political representation and accountability (elections, parliaments, freedom of information, judiciaries)

**Governance and corruption: Not the same thing**

**Governance:**

*The manner in which the state acquires and exercises its authority to provide public goods and services*

**Corruption:**

*Using public office for private gain*

- **Corruption** is an **outcome**—a consequence of the failure of accountability relationships in the governance system.
- Poor **delivery of services** and weak investment climate are **other outcomes** of bad governance.

Source: Adapted from World Bank, 2006.

11. The box gives some attention to the meaning of terms. Although the terms corruption and bad governance are often used interchangeably, it is important to see them as distinct though related. *Public sector governance* refers to the way the state acquires and exercises authority to provide and manage public goods and services – including both public capacities and accountabilities. More broadly, governance refers to the way society manages its own affairs, involving principles of transparency, accountability, participation and legitimacy. It includes an important political dimension which should not

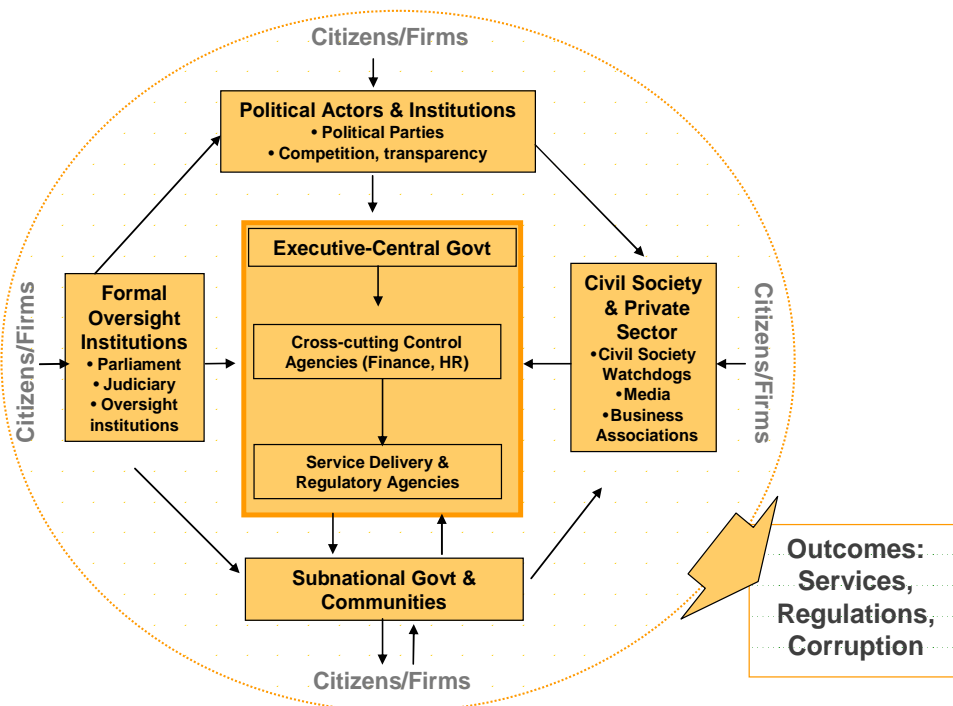
<sup>3</sup> For example, it is at the core of the Action Plan of the ADB-OECD anti-corruption initiative for Asia and the Pacific (2001).

be underestimated when attempting reforms. *Corruption* is usually defined as the abuse of public office for private gain<sup>4</sup>, however, it is most helpfully viewed as an *outcome*, the consequence of any of a number of the failures in accountability relationships which characterise a national governance system.

12. **Figure 1** elaborates on this last point, showing the kinds of governance breakdown or absences of effective institutions that can generate a high propensity to corruption. They include a breakdown in the citizen-politician relationship – or, more profoundly, the absence of a real “social contract” underlying the relationship between the state and citizens – leading to state capture or the predominance of patronage or nepotism. They also include failures in bureaucratic checks and balances, leading to administrative corruption.

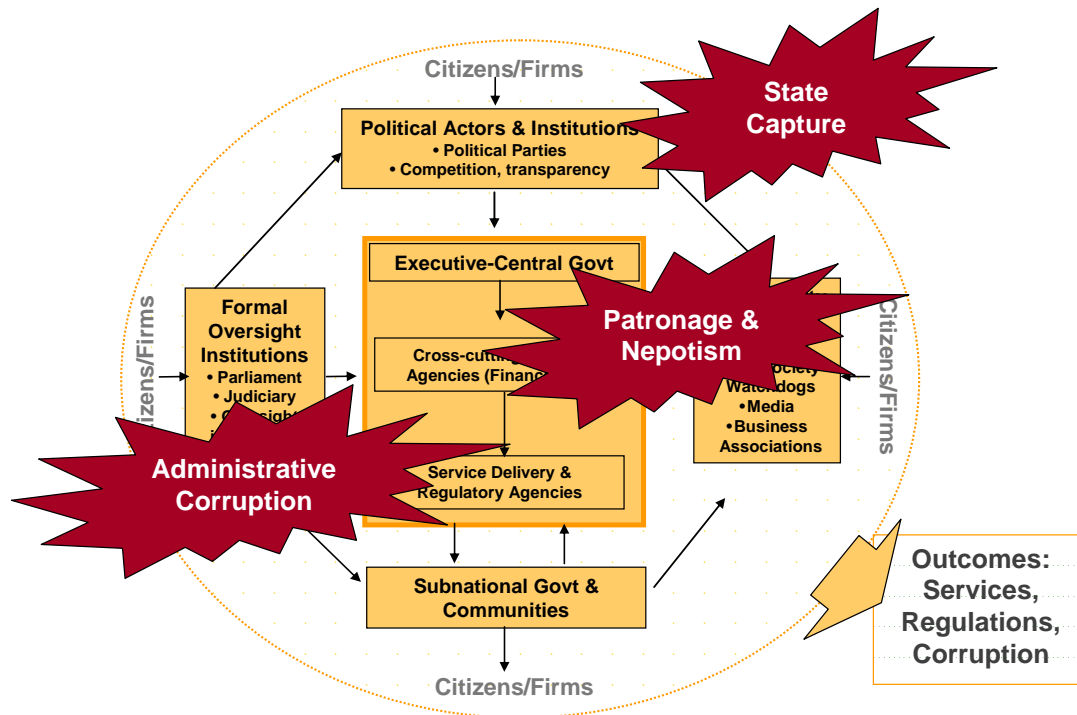
**Figure 1. Anti-corruption in a governance framework**

***Actors, Capacities and Accountability***



<sup>4</sup> Transparency International prefers the “abuse of entrusted power for private gain”, to capture corruption in private and civil spheres.

### When Accountability Breaks Down



Source: World Bank, 2006.

13. It follows from this analysis that improving governance requires interventions to strengthen both the supply side and the demand side of governance. If the supply side is government capacity, the demand for better governance includes accountability requirements arising from non-executive institutions such as a free press, effective legislative oversight, an independent judiciary, regular elections and a vibrant civil society. Bilateral donors also have a comparative advantage to engage and address the political drivers of corruption. This dimension is often overlooked but is essential to improve the effectiveness and legitimacy of a country's governance system. Thus, key features of a governance system that may call for attention include (but may not be restricted to):

- *Political accountability*: political competition and contestation, fair and open elections, broad-based political parties, transparency and regulation of party financing, asset disclosure rules.
- *Institutional checks and balances*: independent judiciary, legislative oversight, independent accountability institutions (e.g., supreme audits).
- *Effective public sector management*: a meritocratic civil service with adequate pay, participative budgeting, transparency and competition in public procurement (e.g., e-procurement), transparent fiscal reporting.
- *Oversight by civil society and media*: freedom of press, access to information, civil society watchdogs, report cards and client surveys.
- *A transparent private sector interface*: streamlined regulations, transparency in extractive industries, break-up of monopolies.
- *Local participation and community empowerment*: oversight by parent-teacher associations and user groups, citizen involvement in the budget cycle at national and local levels, supported by public expenditure tracking systems.

14. ***Countries vary in the nature of their governance systems, in the entry points they offer to reformers and hence in their trajectories of change.*** Thus, different measures combined in different ways will be most effective as the basis of anti-corruption work, as well as for state-building generally, in different situations. A principal challenge for low-income countries is how to break out of the trap of clientelism, where the state functions not to serve the interests of the poor or the general public, but to favour the patronage needs of narrow elites. Historically, some countries have focused first on strengthening bureaucratic capabilities, whereas political opening in others has focused attention first on strengthening check and balance institutions. Traditional loyalties and accountabilities have been used as levers of modernisation in some but not all cases. There is no blueprint or agreed best route for getting out of the vicious circle of governance failure, weak demand for improvement and lack of political will to combat corruption that characterises many low-income countries.

15. Seeing corruption as an outcome of governance failures implies an approach to country level working that is flexible and responsive to the particular governance circumstances in which a country finds itself. This agrees with the lessons of experience suggesting that standardised and narrowly focused anti-corruption initiatives, such as those involving the establishment of Anti-Corruption Commissions, tend to have limited penetration (**Box 2**).

**Box 2. The importance of context: Anti-Corruption Commissions (ACCs)**

Case studies of experience with ACCs highlight the difficulty of transferring institutional arrangements that operate efficiently in one country to another. One reason governments have established anti-corruption commissions in spite of evidence of their failure in most countries is that they are responding simultaneously to multiple constituencies. The performance of countries like Argentina, Bangladesh, Brazil, Thailand, Tanzania, Uganda, and India that have enacted anti-corruption reforms bespeaks the difficulty of enacting meaningful policies. It is evident that policymakers' incentives in those countries do not include offending entrenched constituents who may oppose sustainable anti-corruption reforms. One method to slow reforms is an anti-corruption commission that communicates a willingness to fight venality while postponing difficult acts.

Source: Adapted from John R. Heilbrunn, "Anti-Corruption Commissions: Panacea or Real Medicine to Fight Corruption", Washington, DC: World Bank Institute, 2004.

16. Tailoring the focus of anti-corruption efforts to the specific governance conditions of a country poses a difficult but worthwhile task. Donors are present in a rather wide range of actual governance situations in which the state is more or less effective and accountable, has more or less access to natural-resource revenues and the associated temptations, and is more or less stable or fragile. That implies devoting serious attention to understanding the nature of the governance system and identifying the challenges that are most pressing in the circumstances.

17. ***The need to be flexible and responsive applies equally to coalition building.*** How to apply the *Paris Declaration* commitments and the *GOVNET Draft Principle* of fostering the local anti-corruption vision should be determined by the country circumstances. 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. There will be different possibilities for engaging government and other constitutional bodies, and roles for different parts of the private sector and civil society.

### **Entry points for action on the causes of corruption**

18. It is not suggested that donors and reformers already know well "what works" in addressing the various typical weaknesses of governance systems. It has also to be recognised that, as a general rule, donor-supported initiatives tend to work only when the underlying political and leadership conditions are conducive. However, the following are *examples of entry points for improving governance and reducing*

*corruption that have been used in different country-specific circumstances with varying degrees of success.*

- *Strengthening public-sector capability.* Here, a principal focus has been and will continue to be the strengthening of public financial management and procurement systems, as a crucial underpinning for better use of public resources and for scaling-up budget support. Reforms in public financial management can be monitored through actionable indicators, such as the Public Expenditure and Financial Accountability (PEFA) performance measurement framework. Benchmarking public procurement systems against agreed international standards is also being taken forward, with support from the DAC's Joint Venture on Procurement. On the other hand, reforms of public administration and the civil service to improve meritocracy, pay and effectiveness need to reflect lessons of experience that suggest limited returns from across-the-board reforms unless there is strong political will and policy coherence. In most settings, only modest reforms agendas are likely to yield results. These efforts have to be complemented by some degree of oversight from civil society.
- *Sector-specific governance and anti-corruption reforms.* In many countries the most pervasive governance and corruption problems are concentrated in a few sectors, so that targeted efforts make good sense. Sector approaches or SWAPs provide donors with a great degree of sector-wide knowledge and understanding. Lead donors in SWAPs and sector working groups are well placed to take a lead on transparency/accountability issues in the sector, liaising with the relevant government and donor groups on governance standards in the country. "Sector by sector" corruption risk analyses undertaken on behalf of sector groups would be an efficient means of mainstreaming corruption prevention, usefully complementing more general, cross-cutting efforts.
- *Strengthening local governance.* Local governance reforms can help build local capacity, enhance downward accountability, and strengthen civic oversight in how resources are used.
- *Strengthening institutions of accountability and demand for better governance.* Across a range of settings, governance and anticorruption reforms require strengthened oversight institutions of the state (independent judiciary, legislative oversight). Programmes intended to facilitate parliamentary action against corruption include the Global Organisation of Parliamentarians Against Corruption (GOPAC), formed in Ottawa in 2002. Media freedom and freedom of expression including the freedom to receive information are priority areas, as are efforts to promote civil society participation and oversight for greater accountability. An example of international support for civil society initiatives in this area is the Partnership for Transparency Fund (**Box 3**).

### Box 3. The Partnership for Transparency Fund

In order to help strengthen external accountability, transparency and build local demand for governance reform there is a need for scaled-up assistance to civil society organizations. One such organization is the Partnership for Transparency Fund (PTF), an international NGO dedicated to helping civil society play an effective role in the design, implementation and monitoring of national anti-corruption programs. PTF provides financing of up to \$25,000 for specific, discrete and time-bound activities or projects initiated by civil society organizations aimed at fighting corruption.

Examples of activities supported by PTF include:

- Supporting **Argentina's** Center for the Implementation of Public Policies Promoting Equity and Growth (CIPEC) to work with six ministries in implementing the country's Freedom of Information Act;.
- Supporting a pilot project in **Costa Rica** to map forest resources in a ecologically sensitive area and to use the map to develop an anti-forest corruption plan.
- Assisting Transparency in **India** to work with the Delhi state government to establish and make effective Citizens Charters (brief public documents that provide the essential information that citizens need to know about the services or functions of a public agency), overseen by independent Ombudsmen.
- Assisting **Pakistan's** NEDIANS, an association of professional engineers, in working with the Karachi Water Supply and Sewerage Board to establish an Integrity Pact for the public tendering and implementation of a \$100 million water supply expansion scheme, leading to estimated savings on the engineering contract of \$2 million
- Supporting a media campaign in **Nicaragua** to reduce the highly excessive pensions and perks of retired presidents and top officials, leading to the introduction of new legislation.
- Supporting Government Watch (G-Watch) of the **Philippines** Ateneo School of Government to monitor the Department of Education's delivery of textbooks to schools, including a partnership involving 15,000 Boy Scouts and Girl Scouts and partnering with Coca Cola Company to assist delivery of textbooks to schools. And
- Funding of a pilot project in **Tanzania's** Mwanza Region to track local government expenditures on education and health services.

Source: <http://www.partnershipfortransparency.info/>

- *Reforming taxation systems and strengthening tax administration.* This can help both to reduce corruption and simultaneously to strengthen demand for accountability. In particular, rationalising tax exemptions, reducing evasion and avoidance, tackling economic informality and addressing the particular difficulties associated with nature-resource revenues<sup>5</sup> are needed to close important corruption loopholes. Traditionally, donors have supported the strengthening of tax administration in order to improve tax collection, improve revenue and control corruption in tax administration. However, reforming tax policies and systems can also strengthen demand for greater transparency and accountability from tax-paying citizens. Such reforms are part of the broader process of state building and establishing citizenship rights. They are necessary to anchor the fiscal pact that underpins the social contract in modern states.
- *Tackling political drivers of governance and corruption problems through enhanced transparency and accountability around election expenditures.* There is an active debate on party and especially electoral campaign finance in many countries, and there are arguments on both sides about proposals for state funding to prevent democratic competition from intensifying pressures towards corruption (see **Box 4**). However, money has a corrosive impact on politics, therefore the reform of political financing is a critical task, complementing measures to increase transparency.

<sup>5</sup> Measures to control abuse of natural-resource revenues are discussed in Section IV below.

#### Box 4. Promoting transparency in political finance

Political finance is a key source of corruption risk, with systemic effects on the quality of governance, the efficacy of public institutions and the functioning of the political system. The influence of money on politics has increased significantly in recent years, as the costs of electoral campaigns have skyrocketed, increasing pressures on incumbents to recoup expenditures by illegal means. Financing politics includes not only funding electoral campaigns but also supporting political party activity between elections. Reforming political finance embraces a wide series of issues such as laws and regulations, enforcement mechanisms (in particular electoral commissions), and rules on disclosure, ceilings on expenditure, and assessing direct and indirect funding options.

Tackling the drivers of corruption in political systems requires a multi-pronged approach which acknowledges the dynamics of power and politics. For example, there may be a tension between controlling corruption and promoting political competition and contention. The manner in which this delicate balance is resolved is necessarily context and country specific, depending on the stage of democratisation the country is in. For example, in post-conflict countries, fragile states and transitional regimes, increasing political contention may need to take precedence.

Source: DFID, 2006.

- *Across-the-board support for transparency initiatives.* Reforms to strengthen transparency constitute a powerful cross-cutting priority that can strengthen governance and reduce corruption. Some promising examples include: freedom of information laws, fiscal/financial transparency, e-procurement, public disclosure of incomes and assets of senior government officials (**see Box 5**), public disclosure of political campaign contributions, public disclosure of parliamentary votes, transparency on the ownership and financial status of banks, and publication of governance diagnostics and public expenditure tracking surveys.

#### Box 5. The advantages of income and asset disclosure

More and more governments are requiring senior officials to disclose their income and assets. The traditional reason for requiring elected and appointed officials to disclose their income and assets is to curb corruption. For example a significant and unexplained increase in an employee's wealth may be a sign of bribe taking or other illicit conduct. More broadly, when officials' finances are open to public inspection, rumours about their corrupt dealings are quickly put to rest. Indeed, income and asset disclosure's most important function may well be to bolster citizen confidence in those who govern them.

A real advantage to building an anti-corruption enforcement strategy around income and asset disclosure is that it lessens the threat to civil liberties and abuse of enforcement tools that can result from an aggressive campaign to root out bribery. Bribery is a difficult crime to prove, and police and prosecutors often must turn to wiretapping, eavesdropping, undercover operations, and other techniques that can be abused. The filing of a false declaration provides a much easier case to make.

Source: World Bank, 2006.

19. Donors and local campaigners have been active in several of the areas indicated above, with a degree of success in some cases, for some time. ***What has generally been lacking, however, is systematic and sufficiently sustained coverage of areas where powerfully complementary efforts are necessary for real change to occur.***

20. For example, progress in improving administrative aspects of public financial management systems is unlikely to be sustained if there is not also a build-up of demand for public financial accountability from parliament, the media or citizen groups. Some other areas that have received a great deal of donor attention with little resulting progress – such as the development of a meritocratic civil-service – are recognised to have lacked support from sufficiently strong demand-side pressures for performance enhancement or from political leadership. ***For this reason, it is important that the most promising entry points for action – particularly those on both the supply- and the demand-side of the equation – are properly covered by the reform effort as a whole.***

21. *On the demand side for better governance, identifying the appropriate changes to pursue is very challenging, but would be less so if support were more carefully coordinated.* Effective support to the demand side of governance depends on rejecting blueprints based on different country experiences, getting to know the actors that are relevant in the local circumstances and finding ways of encouraging them that do not produce distortions and counter-productive effects. Ways need to be found to avoid creating an artificial NGO industry in anti-corruption. Donor support, especially if it takes a financial form, needs to be channelled in ways that foster nascent home-grown initiatives without destroying their roots in the society and culture. In some countries, the way to do this may be to establish a joint funding window, with suitable governance rules and safeguards against donor distortions, to support initiatives to build constituencies for change. Identifying the right actors and the real drivers of progressive change in a country can be facilitated by conducting ex-ante political economy analyses.

### III. TOWARDS MORE CONCERTED DONOR ACTION

22. *The more robust country-level anti-corruption partnerships proposed in Section II will not work without closer cooperation among donors.* While promoting the alignment of external support with country-led activities, both the *Paris Declaration* commitments and the *GOVNET Draft Principles for Donor Action in Anti-Corruption* leave a specific and important place for harmonisation of donor efforts. In the field of aid harmonisation, the DAC has specific responsibilities and comparative advantages in setting a framework of guidance for action by donors.

#### Two types of anti-corruption effort

23. *It is important to distinguish between two types of actions that donor agencies can take to minimise the risks arising from corruption:*

- those whose effectiveness is *not* compromised by being done by each organisation separately (although the benefits will be greater the more organisations that undertake them); and
- those that will *only* be effective if they are undertaken jointly or in a strongly coordinated way.

24. This paper is primarily concerned with proposing actions of the second sort. Actions of the first sort are nevertheless important. They include:

- Greater use of corruption assessments based on standard aggregate indicators and/or more specific governance country assessments in the formulation of Country Assistance Strategies. Along with a range of other analytical inputs such as Power and Drivers of Change reports, the European Commission's Governance Profile<sup>6</sup> and PEFA assessments, corruption assessments may need to be given more of a role than previously in medium-term choices about levels and modalities of support.

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<sup>6</sup> Under the 10<sup>th</sup> European Development Fund, the EC has set aside an incentive envelope of EUR 2.7 billion to foster efforts by African, Caribbean and Pacific Countries to engage decisively in governance reforms. Governance Profiles will be used to guide dialogue at country level to assess the governance situation and the relevance, ambition and credibility of governments' commitments to reform. Benchmarks and targets are to be agreed, with involvement of Member States of the EU and other donors, and these will influence the use of "incentive tranches" of EC funding. Profiles are expected to draw on existing data and surveys, especially those developed by the World Bank Institute. Where countries have completed the African Peer Review Mechanism process, the profile will be based on the APRM report.



- **More rigorous controls on fraud and corruption in donor-financed projects and programmes.** Whether country or donor systems are primarily being used, the integrity of a donor agency's aid delivery system remains a significant factor in the fight against corruption. Agency staff have a responsibility to set a good example as well as to maintain the highest standards at home. Those efforts should take place in accordance with the OECD Convention and with Article VI. of its Revised Recommendation.
- Examples of preventive measures already in use include:
  - An e-learning course on anti-corruption hosted by U4, a joint initiative of the Netherlands, Germany, Canada, UK, Norway and Sweden.
  - An external hotline to receive corruption allegations (DANIDA).
  - Development of strategies to prevent diversion of resources from high-risk projects (World Bank).
  - Strengthening internal investigation units with the necessary staff, skills and resources (World Bank).

25. Exchange of information and good-practice suggestions on prevention measures of these kinds should be encouraged by the DAC. Some steps on these lines have been taken by DAC members. In 2005, the Nordic+ donors (DFID, DANIDA, Netherlands (DGIS), NORAD, FINNIDA and Sida) undertook a stock-taking of measures to prevent corruption in ODA-funded projects at the initiative of the Netherlands. This included a review of the types of initiatives listed above and identified some specific and general gaps in practice (e.g. no agency operates a central database where corruption allegations are collected). ***The stocktaking also supported the argument of this paper, that there are some areas in which donor action on a one-by-one basis is likely to be ineffective.***

26. The remainder of this section makes four proposals for action by the DAC to encourage a more concerted approach by in-country donors. It is suggested that the DAC should:

1. Facilitate joint anti-corruption assessments at country level, taking the local governance context as a starting point.
2. Encourage donors at country level to work with partners on the development of anti-corruption benchmarks.
3. Promote as good practice a greater coordination of donor governance and anti-corruption work in each country.
4. Develop guidance on harmonised responses by donors to deteriorating governance and corruption conditions in a country.

Although they are of general relevance, they apply particularly where donors are moving strongly in the direction of direct budget support and other programme approaches.

### **Joint corruption assessments**

***It is proposed that the DAC facilitate joint assessments of corruption and the wider governance context, beginning with pilot exercises in selected countries.***

27. ***The DAC should provide backing and encouragement to the fast-tracking of joint corruption assessments***, where possible in close coordination with other organisations. These assessments should be integral to broader governance assessments and emphasize the cross-cutting nature of corruption. The piloting of joint assessment approaches has already been proposed by a number of agencies, taking into account the existing modalities of working on governance issues in particular countries. An initial, exploratory multi-donor GOVNET mission to Cameroon has already taken place.<sup>7</sup> Future pilot exercises are expected to be undertaken with local partners and with government agreement. They are intended to analyse the broad political economy of corruption and anti-corruption reform, as well as 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.

28. ***A number of tools that are suitable to guide joint assessment work already exist, or are in the final stages of development.*** Relevant diagnostic tools include surveys of households, businesses and public officials to identify areas of greatest corruption risk; public expenditure tracking surveys to identify potential leakages; Public Financial Management (PFM) assessments (including Highly Indebted Poor Countries (HIPC) expenditure tracking and Public Expenditure and Financial Accountability (PEFA) indicators), procurement system assessment tools, Governance Profiles, Integrity System country studies, African Peer Review Mechanism (APRM) reports, and Power and Drivers of change analyses. In addition, a specific instrument for integrating assessment of corruption risks sector by sector and analysis of the political economy of possible reform will shortly be available from USAID (**Box 6**).

**Box 6. Example of anti-corruption assessment methodology: USAID**

USAID has developed a corruption assessment methodology that evaluates both the strengths and weaknesses in the formal institutional and legal frameworks of a country as well as the wider set of interests and dynamics that structure opportunities and constraints for anticorruption efforts. Using an analytical framework based on the "corruption syndromes" analysis of Michael Johnston, the methodology first identifies key aspects of political and economic systems, which then point toward likely participants, institutions and motivations behind corrupt behavior, particularly at the elite level. These considerations help highlight relevant strategic approaches to reform (e.g., economic deregulation, public participation and oversight, horizontal checks and balances, etc.) and help illuminate important considerations like political will for reform. Additional steps examine institutional and legal strengths and weaknesses (both formal and in practice) and use a range of lenses to identify priority areas for assistance and tactical options for supporting reform in light of the strategic concerns. While particular lenses such as pre-existing investments, availability of funds and comparative advantage may be unique to a given donor, the methodology itself is flexible and would allow for multiple donors to identify tactical and strategic approaches. Draft versions of the methodology have been pilot-tested in Mozambique and Ukraine. The assessment framework is designed to allow for quick analysis with relatively small teams of analysts and to produce targeted, strategic recommendations for field based missions.

Source: USAID, 2006.

***With DAC support, joint assessment exercises could serve to reinvigorate country-level anti-corruption work, in a holistic and joined-up way, in all countries where the corruption risks are moderate to high.*** An initial step would be for the DAC to give its blessing to processes in which a set of assessment instruments are shared and piloted in a small set of countries, and then considered collectively for wider application. Obviously, to the extent possible such assessments should be made jointly by a group of donors and key members of an existing or prospective reform coalition.<sup>8</sup> They should draw on existing analysis carried out by the IFIs, other donors and NGOs in order to avoid duplication.

<sup>7</sup> Ghana has been suggested as another possible country with which to conduct such joint assessments, which would be conducted by DANIDA, USAID, DFID and GTZ. GTZ might finance a drivers of change study which would complement this effort.

<sup>8</sup> To some degree, it may be necessary for an assessment to be made of the corruption and governance situations before it will be clear what scale and type of coalition building will be feasible. However, in few countries will the starting situation be a completely blank page in this respect.

Undertaking the assessment jointly would not necessarily imply agreement between the partners on the final conclusions to be drawn from the assessment.

### Joint benchmarking

***It is proposed that the DAC signal its support for existing anti-corruption benchmarks and targets that can be agreed jointly by donors and partners at country level and used to monitor progress.***

29. Following the recent successes for joint assessment in the fields of public financial management (PEFA) and procurement systems (JV on Procurement), there is now a place for initiatives of a similar kind covering the broader field of governance and anti-corruption. Although benchmarking in the area of corruption is difficult, the challenge should be taken up. ***The proposed benchmarking and target setting, using existing tools and data whenever possible would assist the work of country-level reform coalitions, providing the basis for specific agreements, follow-up arrangements and capacity development.*** Such benchmarks should also be country-generated whenever feasible. They would be expected to draw on and add value to the joint country assessments described above, as well as other existing assessment instruments (e.g. public integrity indices). These benchmarks would also enable stakeholders to focus more broadly on governance indicators and measures rather than take a restrictive approach and solely focus on corruption. Specific attention should be put on following transparency and accountability benchmarks at the country level.

30. The benchmarks proposed would complement the various governance indicator sets currently available. The World Bank (Global Monitoring Report 2006, p. 124) distinguishes between: 1) specific and disaggregated measures of the quality of key governance subsystems; and 2) broad, aggregated measures to show systematic patterns underlying the complexity of individual subsystems. The broad, aggregated indicator sets serve very useful purposes, including providing standardised measures that can be used by individual development agencies in aid programming and selectivity. They may be actionable in a certain sense (for example, surveys of the measure of the overall quality of democracy provide political incentives for reform). However, there is a case for supplementing them with more specific benchmarks, including those arising from sector-by-sector assessments.

31. Benchmarks of this sort would serve as practical tools for building alliances and tracking progress in particular areas that seem locally amenable to reform with help from donors. Key features of their utilisation would be a strong action orientation – indicators being selected that assist in setting realistic targets for joint campaigns – and a high degree of joint commitment to follow-up and review over a period.

### Greater coordination of donor governance and anti-corruption work in each country

***It is proposed that the DAC endorse as good practice the close coordination of donor governance and anti-corruption work at the country level.***

32. ***A prerequisite for effective action at country level is coordinated delineation of responsibilities among the in-country donors for supporting action on the governance context of corruption.*** Section II argued that it is essential that the most promising entry points – on both the supply and the demand sides of better governance – are properly covered by the reform effort as a whole. This is because experience suggests that complementary improvements are necessary for success. Yet not all donor organisations are able to play an active role in all of the critical areas. Therefore, only a concerted approach will do.

33. In all countries where the corruption risk is high, there needs to be an agreed division of labour in which different donors undertake to apply their best intellectual and practical efforts to different parts of the governance context for corruption. This implies that specific agencies are identified to take the lead on particular aspects of the governance context, including those affecting the demand for good governance. It might include the designation of lead donors to work on political corruption, to organise a joint financing window designed to support appropriate demand-side interventions, or to undertake any other tasks considered important to the overall effectiveness of the country reform coalition and its anti-corruption effort. In addition, specific coordination and dialogue mechanisms should be encouraged such as the Partnership for Governance Reform in Indonesia<sup>9</sup>. These process arrangements to improve harmonisation can also facilitate political dialogue with partner countries.

34. It is proposed that the DAC promotes this type of collective approach to anti-corruption work and the setting of coordination mechanisms as good practice.

### Common response principles

*It is proposed that the DAC develop a set of good-practice principles (a “voluntary code of conduct”), to be endorsed by Ministers and rolled out at country level, on co-ordinated donor responses to deteriorating corruption contexts.*

35. In spite of the success that donors and their allies may have in working on the underlying causes of corruption, there will be times when the incidence of corruption or other governance problems visibly increases in a particular country or sector. It matters how donors respond to such signs of particular difficulty. Here again, donor action will only be effective if it is undertaken in a more strongly coordinated way than at present. 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. ***At the very minimum, it is important to avoid “mixed signals” of this kind—both in situations where governance is deteriorating or where it has stagnated.***

36. In 2006 DAC Ministers and Heads of Agency discussed ideas concerning more coordinated responses to poor governance, particularly corruption. **Box 7** summarises the main themes emerging from the discussion.

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<sup>9</sup> See [www.partnership.or.id/](http://www.partnership.or.id/)

### Box 7. More coordinated donor responses to corruption

At the 2006 DAC Ministerial meeting, Ministers and Heads of Agencies confirmed a desire to move towards more effective collective responses to political governance, particularly corruption. Notwithstanding every donor's sovereign right to respond to events in ways that it sees fit, common themes included:

- *The need for transparent and honest dialogue mechanisms at the country level.* 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 value of collective donor positions on corruption* (for example, those delivered through EU political dialogue mechanisms). These are more effective than piecemeal responses, particularly when rhetoric is backed up by consistent action. There is considerable work to do with non-DAC donors to bring them into the dialogue over collective responses.
- *Avoiding disproportionate reactions to isolated corruption scandals.* The trends and trajectories of political governance are what matter when considering responses, particularly the suspension or withdrawal of aid. Better indicators may be needed for detecting adverse trends in good time.
- *The importance of alerting partner countries of likely donor responses according to different poor governance, and better 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 of the day. 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. This should be done in good time, and not after the adverse trends are already visible.
- *The desirability of avoiding "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, so that the negative impacts on poverty reduction of reduced funding are direct.
- *A graduated response to signs of increased corruption risk.* The long term goal is to promote accountability between citizens and governments in partner countries. Depending on the severity of the events and overall governance trends, a graduated response may be the most consistent with that goal. A graduated response (translated into a "voluntary code of conduct") might involve: as a first-level response, reducing *future* aid levels; as a second-level response, *switching* instruments in-year (as donors have done in Ethiopia); and as a third-level response and last resort, cutting *current-year* expenditures.
- *Zero tolerance for 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.

Source: DAC Secretariat, 2006

37. *The major themes of the 2006 discussion could provide the basis for a set of good practice principles endorsed by DAC Ministers and rolled out at country level.* To elaborate on the seven themes summarised in the box, the proposed good practices could include:

- **The need for more serious advance preparation and discussion, including a joint discussion with country partners, of possible coordinated responses to various types of governance trend.** Together with increased sharing of information within Development Partners' and governance working groups, well-prepared dialogue would help to avoid the almost inevitable mixed signals that follow when responses are separate, ad hoc and reactive. It would also restrain individual donors from over-reacting to particular incidents under the pressure of sharpened political concerns and media attention at home, inducing a healthy focus on wider contexts and trends of governance change in the affected countries. Finally, alerting partner countries to the probable consequences of different scenarios of better or worse governance could improve the dialogue about accountability.
- **The value of agreement on graduated responses which minimise the damage to recipient planning and institutional development caused by the additional volatility in aid flows.** As well as distinguishing *levels* of response, so that immediate cuts in funding are not a first resort,

the option should be available of varying modalities of delivery in such a way that the recurrent costs of front-line services are protected. Following the suggestion in 2006, a first level of response might be to reduce future aid levels, so that current provision is unaffected but a clear signal is given; the second might involve switching between forms of aid delivery within year, so that services are protected but resources for central expenditure are reduced; while a third option of cuts within year would be reserved only for the gravest types of situation. This illustrates one set of possibilities for operationalising a graduated-response principle.

38. It is proposed, therefore, that the DAC actively promote more harmonised donor responses to indications of increased corruption risk in a country. ***SLM/HLM approval should be sought for a set of good-practice principles drawing on the themes of the 2006 meeting as elaborated above.*** It would be important for this effort to embrace not only bilateral DAC members and the World Bank, but also UN agencies involved in the fight against corruption and the regional development banks.

#### IV. TACKLING THE GLOBAL INCENTIVE ENVIRONMENT

39. ***As DAC members redefine their approach to combating corruption in partner countries, it will be crucial for them to acknowledge forcefully that corruption is not just a developing country problem.*** As recognised by the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999), corruption is fuelled by transnational corporations based in OECD countries which offer bribes to developing country politicians and bureaucrats in exchange for preferential treatment and benefits. This helps to form the perverse incentive environment that determines the level of corruption in developing countries.

40. It is important that the DAC encourages its members to continue to advocate for concerted and systematic action within their own governments to implement and enforce the OECD Convention against Bribery and other global initiatives intended to restrict bribery. The DAC supports the Working Group on Bribery's efforts to ensure the world's major exporters join the Convention, so that citizens and companies both from the North and the South are subjected to the same anti-corruption regulations. It can do this by reflecting awareness of these initiatives more fully in its guidance on good practice in development assistance. It may also wish to take the lead in supporting initiatives directed more specifically at the elites of developing countries, which aim to transform the incentive environment in a positive way by building a global movement for integrity and leadership. In both areas, there are strong synergies to be captured by linking up global and country coalitions for change.

##### Dealing with the supply side of corruption

***The DAC supports the work of the Working Group on Bribery to monitor the implementation and enforcement of the OECD Convention to tackle the supply side of corruption.***

***The DAC should support UN-led efforts to promote the ratification of UNCAC by its member countries and other UN member countries and encourage its members to combine and integrate their joint anti-corruption initiatives with other ongoing efforts to monitor and implement UNCAC on the ground. It emphasises the interest to the donor community of proposals at the Conference of the States Parties in December 2006 for information-gathering with respect to compliance and related needs for technical assistance.***

41. OECD governments have recognised the need to take serious action within their own countries to help in the fight against corruption in developing countries. The DAC commends the work ***of the Working Group on Bribery, (which is the peer review mechanism in charge of monitoring the implementation of***

*the OECD Convention (Box 8)) and recognises its complementarity to the DAC's own anti-corruption efforts.*

42. Apart from the OECD Convention, a number of other international conventions and agreements are relevant to curbing transnational corruption. The most important of these are the UN Convention Against Corruption (UNCAC; 2003) and the Financial Action Task Force (1989). The FATF is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF has published 40 + 9 Recommendations in order to meet this objective.<sup>10</sup> The scope and potential impact of the more recent UNCAC is broader, as explained in **Box 9**.

43. Any concerted attempt at tackling corruption in high-risk countries will need to involve efforts on the home front, as highlighted by the GOVNET Anti-corruption Principle 2. ***One way for the DAC to take this principle forward within its mandate would be to issue a strong appeal to its members and partners for ratification and implementation of UNCAC and related regional instruments, such as the African Convention on Corruption.*** This would be consistent with the policy coherence principles of the DAC, as well as with the Whole of Government approaches adopted by members such as Australia. It would be even more squarely within the DAC's mandate to promote UNCAC's implementation and monitoring at country level, using the holistic, governance-oriented approach set out in Section III.

#### **Box 8. The OECD Convention on Combating Bribery**

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is exclusively focused on the supply side of the bribery of foreign public officials and the sanctions for such activity. The Convention is an instrument which permits OECD and other countries to move in a coordinated manner to adopt national legislation to criminalise bribery of foreign officials. It entered into force in 1999.

- Sectors covered: Public sector corruption, specifically foreign public officials.
- Corruption offences covered: Covers specifically bribery of foreign public officials. "Bribery" and "foreign public official" are defined broadly.
- Measures: Criminalisation and mutual legal assistance measures, as well as requirements regarding company accounting. Criminal and civil sanctions.
- Level of obligation: Mandatory provisions.
- Monitoring Arrangements: Under OECD Convention Art. 12, the Parties are required to carry out follow-up to monitor and promote the Convention. The OECD Working Group on Bribery in International Business Transactions is responsible for this work. It consists of experts from all 36 participating countries. It has developed two phases for monitoring compliance with the Convention's obligations. In both phases of the review process there has been provision for active civil society participation. In the first phase, the Working Group evaluates the adequacy of countries' national implementing legislation in relation to the requirements of the Convention. In the second phase, it assesses whether a country is applying and enforcing this legislation effectively. This phase includes country visits in which a team of examiners meets with government representatives as well as with civil society and private sector representatives. The evaluation system includes both self-evaluation (countries respond to a questionnaire) and mutual evaluation (each country is examined in turn by the Working Group, with teams made up of members from different participating countries). For each country reviewed, the Working Group adopts and publishes a report, which includes an evaluation of the country's performance. This report is published on the OECD website.

Sources: U4 anti-corruption Resource Center: <http://www.u4.no/themes/conventions/oecdconvention.cfm>; and OECD webpages: <http://www.oecd.org/corruption>

<sup>10</sup> See [http://www.fatf-gafi.org/pages/0,2987,en\\_32250379\\_32235720\\_1\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/pages/0,2987,en_32250379_32235720_1_1_1_1_1,00.html)

**Box 9. United Nations Convention Against Corruption (UNCAC)**

- Adopted: 31 October 2003 by the UN General Assembly; entry into force: 14 December 2005.
- Signatories: 140; ratifications: 59
- Ratifications from OECD countries: 6 (of which 4 are DAC members).
- Level of obligation: a mixture of mandatory and discretionary provisions

The UN Convention Against Corruption (UNCAC) was negotiated and agreed among approximately 129 nations. It represents international consensus about what states should do in the areas of corruption prevention and criminalisation, as well as international cooperation and asset recovery. It has four pillars:

- *Preventative measures*: anticorruption policies and bodies; for the public sector, merit-based recruitment, codes of conduct, financial transparency and accountability, and participation of civil society; for the private sector, conflict of interest, regulatory abuse, and corporate governance.
- *Criminalization and law enforcement*: a comprehensive list of predicate offenses, with criminalization mandatory for some and recommended for others; waivers of bank secrecy; tax treatment of bribes; whistle-blower protection; and civil remedial actions.
- *Asset recovery*: standards for return of property, direct recovery of property through civil action, and recovery of assets through international confiscation procedures.
- *International cooperation and monitoring*: mutual legal assistance; cooperation in investigations, prosecutions, and judicial proceedings and in the collection of evidence and the tracing, seizure, confiscation, and recovery of proceeds of crime; and a monitoring mechanism to be decided by the Conference of State Parties.

Monitoring Arrangements and proposals to address the recovery of stolen assets: The first Conference of State Parties to the Convention is to be convened within a year after entry into force of the Convention (currently planned for December 2006). The responsibilities of the Conference include reviewing the implementation of the Convention and making recommendations to improve it. The Conference may put into effect supplemental review mechanisms to assess the measures taken by States Parties (and difficulties encountered) in implementing the Convention, and will look into mechanisms to allow the recovery of stolen assets..

Source: U4 anti-corruption Resource Center, <http://www.u4.no/themes/conventions/unconvention.cfm>; and Global Monitoring Report, 2006: 182.

44. Efforts on the home front call for a more active and comprehensive involvement of the private sector, from transnational firms to small and medium enterprises (SMEs), especially at the local level. There are good examples of initiatives of this sort by individual donor countries, which could be more widely emulated. For example, DANIDA has opened a special Anti-Corruption Portal for SMEs working in developing countries, recognising that large firms are already well informed and conscious of corporate social responsibilities. But in keeping with its focus on collective action, this paper does not enter into the details of single-agency initiatives. Instead, it concentrates on what the DAC could do to support and take benefit from worthwhile international initiatives by initiating dialogue and undertaking complementary work amongst DAC donors.

45. *Within this framework, it should give strong support to more specialised joint activities such as the Kimberley Process, the Publish What You Pay initiative and the Extractive Industries Transparency Initiative (Box 10).* Other mechanisms that could be considered further include the Netherlands' proposal of a special trust fund to support countries in litigation for the repatriation of stolen monies, and the Irish experience with the Criminal Assets Bureau, which relies on seizure of illegally acquired assets rather than the prosecution route for which evidence of sufficient quality is often lacking. Selective visa bans and the freezing of assets banked in OECD countries have also been used as a more agile alternative to blanket reprisals and ineffective conditionalities by some donor governments. This requires close coordination between development agencies and diplomatic missions in-country. Sufficiently widespread use of a



combination of instruments of these kinds could have a significant cumulative impact on the incentives to be corrupt.

#### **Box 10. Promoting transparency in economic sectors**

Promoting greater transparency in government finances and the private sector decisively contributes to improving corporate social responsibility and curbing both the demand for and supply of corruption in critical, yet sensitive economic sectors. Many countries are rich in oil, gas, and minerals, and studies have shown that when governance is good, these can generate large revenues to foster economic growth and reduce poverty. However when governance is weak, they may instead cause poverty, corruption and conflict, the so called “resource curse”. The Extractive Industries Transparency Initiative (EITI) aims to defeat this “curse” by improving transparency and accountability. Launched in 2002 by Tony Blair, the EITI is a global coalition of companies, governments, and civil society organisations which supports improved transparency and governance in resource rich countries through the full publication of company payments and government revenues from oil, gas, and mining. Some twenty countries either have endorsed or are actively implementing EITI across the world, from Peru to Trinidad and Tobago, Azerbaijan, Nigeria and East Timor.

Source: [www.eitransparency.org](http://www.eitransparency.org) and DFID, 2006

46. An active DAC engagement with these global initiatives would provide, among other things, a platform for carrying the global anti-corruption dialogue into the process of building country-level reform coalitions. At country level, the perception that the North is half-hearted in delivering on its side of the anti-corruption bargain is not uncommonly a de-motivating factor for local allies. ***Reversing this state of affairs could create useful synergies between global and country anti-corruption efforts.***

47. Synergies and linkages between global and country level efforts have particular application in post-conflict reconstruction situations, such as that of Liberia (**Box 11**). In Liberia, it is reckoned that the interaction of diverse country, regional and global partners has helped to ease the country’s transition. This is especially valuable because of the continuing fragility of the state. However, the principle that country and international alliances can reinforce each other is a general one, with application to local coalition building in a wide range of country circumstances.

#### **Box 11. Global-local partnership for economic governance in Liberia**

Since the signing of the 2003 peace agreement, Liberia has made progress in re-establishing security across the country and carrying out democratic elections. Deterioration in the economic governance environment, however, has constrained economic and social reconstruction efforts and poses risks for the completion of a successful transition. Recognising these risks, Liberia’s key partners (UN, EU, ECOWAS, AU, United States, IMF and the World Bank) engaged in an intensive dialogue with the transitional government on the urgent need to improve economic governance. This partnership brought unusually strong links between: regional initiatives under the auspices of ECOWAS and the African Union to bring a durable peace to Liberia; discussions at the Security Council on the links between the success of the UN peace-keeping mission and the underlying economic and governance situation; and technical work carried out by the IMF, the Bank, the EU and ECOWAS.

The collaboration resulted in the initiation of the Governance and Economic Management Assistance Program (GEMAP), implementation of which will be guided by a committee comprised of both national and international community representatives. The situation in Liberia remains fragile, but the interaction of diverse country, regional, and global partners with the transitional government is producing an inclusive, closely coordinated effort to support the transition.

Source: World Bank, *Fragile States: Good practice in Country Assistance Strategies*, 2005.

### Promoting coherent collective action against corruption

*Together with innovative pilots to build reform coalitions and facilitate transformational leadership at country level, as outlined in Sections II and III of this paper, international initiatives such as the Global Integrity Alliance suggest a way forward that the DAC should support.*

48. *There is no reason why efforts to change the international incentive environment for corruption needs to emphasise only tighter controls, assigning blame and restitution mechanisms.* Indeed, these efforts will be more effective if they are accompanied by initiatives to improve the positive side of the incentive structure. A recent and innovative initiative on these lines is the proposal to forge a Global Integrity Alliance (GIA). The inception of the GIA in its current form was first discussed publicly at the World Ethics Forum (WEF), held at Oxford University in April, 2006. Many WEF participants agreed that reform champions often fail, or are forced to give up their crusades, because they lack the strong support bases necessary to counter established networks that perpetuate the status quo.

49. The fundamental idea behind the GIA is that building strong and sustainable alliances of leaders and support networks to promote a public ethics and integrity agenda, and to support leaders that champion change, is critical to building capable and accountable states and fostering a level playing field in the private sector. Without ethical, effective leadership and institutions that encourage and respond to demands for improved governance and equitable growth, development aspirations are unlikely to be met.

50. The GIA (whose mission is explained in box 12) is first and foremost an *approach* to addressing seemingly intractable problems of governance and integrity failures across the world. At the core of the approach is the activation and empowerment of leaders across sectors to act in self-directed coalitions pursuing significant reform in the public sector. Second, the GIA is a *platform* for a multiplicity of individuals, communities, national and international organizations, and states to share ideas and resources for joint action; standing for integrity and good governance in all spheres of society, but especially in the public sector. Although for practical purposes, the GIA may take on some attributes of conventional organizations – for example by establishing an administrative secretariat – it is essentially a self-regulating, independent movement made up of individuals, groups, and alliances across the world and in which the state, organized groups in civil society, and the donor community can participate, but that no one group can control. In its work with leaders, the GIA will focus on building broad-based *alliances* for change, rather than concentrating all attention on individual leaders, although working with leaders and building their individual and collective capacities is a critical part of effective coalitions. .

**Box 12. Strengthening governance and fighting corruption through ethics and leadership: the Global Integrity Alliance**

The GIA's mission is to promote ethical and effective leadership that contributes to good governance practices across sectors, which lead to improved development outcomes.

The GIA will pursue its mission in the following ways:

- **Networking Leaders:**
  1. Facilitating networking opportunities for public and private actors to collaborate on efforts targeted at achieving regional and national goals on good governance and in supporting ethical values and actions;
  2. Creating a coordination mechanism for joint global, regional, national, and local initiatives to support ethical leadership;
  3. Creating mechanisms for exiting leaders to reinvest their knowledge and expertise into future ethical leaders; and,
  4. Encouraging "good" leaders as opposed to rulers or power wielders by publicly recognizing positive developments in ethical leadership.
- **Empowering/Strengthening Alliances:**
  1. Guiding operational mechanisms related to the GIA agenda through direct and indirect support of global, regional, national, and sector-wide alliances;
  2. Enhancing mechanisms to encourage the entry of good leaders into public life;
  3. Building capacity for ethical leadership through mentoring and peer-to-peer learning initiatives; and,
  4. Supporting change agents, who often work against tremendous odds, through the development of networks and coalitions.
- **Learning about/Sharing Information on Ethical and Effective Leadership:**
  1. Developing a platform for interested parties to share and exchange ideas and experiences in promoting ethical and effective leadership, transparency, and accountability; and,
  2. Compiling information, conducting research, and disseminating resources to assist stakeholders with the pursuit of good governance through ethical leadership.

Source: GIA Concept Note September 2006.

51. At a practical level, the GIA represents an important opportunity for the international community to engage via a coordinated, alliance-based approach in support of ethical leaders. In addition to recognising the importance of establishing broad-based alliances to support ethical leadership through their own new and ongoing programming, the donor community can, as a coordinated group, use the structure of the GIA to provide a platform for: the recognition of ethical leaders across the developing world; the exchange of experiences among existing and emerging ethical leaders; mentoring; capacity building; the formation of strategic alliances in support of ethical leadership amongst international practitioners, the private sector and the academic community; and bringing the issue of the importance of ethics and integrity into broad, global public discourse.

52. Initiatives such as the GIA indicate the scope for concerted actions to identify, engage with and support reformist leaders in order to catalyse change and set higher standards of ethics in public service. Donors working together at both the global and the country levels may be able to influence the incentive environment for national leaders more powerfully than they imagine by contributing to the growth of a new ethic of public service and state-building.

53. It is expected that the GIA it will be formally launched in 2007. In the meantime, the interim GIA hopes to undertake a small number of country pilots and may approach DAC members for support.<sup>11</sup>

<sup>11</sup> In this development phase, DAC members are invited to contact the interim Secretariat at the Ethics Resource Centre, based in Washington, at the following email address <abby@ethics.org>.

## V. CONCLUSIONS AND NEXT STEPS

54. The analysis in this paper shows that tackling corruption needs to be a priority for the DAC, since it requires concerted action by the donor community. For a number of powerful reasons, vigorous action by individual agencies is an insufficient response to the multiple fiduciary, developmental and reputational risks posed by corruption in today's world. Firm DAC guidance on good practice in this area could contribute in important ways to the concerted action that is needed, globally and at country level.

55. The paper has shown the need for joint activities and coordinated complementary actions. It has considered: 1) the need to reinvigorate anti-corruption efforts at the country level, based on a holistic, governance-oriented approach; 2) the importance of a greater degree of concerted action by donors and local reformers at country level, including joint assessment and benchmarking, greater coordination of support and more harmonised response mechanisms; and 3) working with others to improve the global incentive environment for corruption and improved governance. ***The spotlight has been focused on a small number of particular initiatives that fall within the competences of the DAC, meet an urgent need and could make a significant difference to the overall effectiveness of anti-corruption efforts.***

56. Priority actions proposed for the DAC have been highlighted in Sections III and IV. They fall into two groups:

### *A concerted approach at country level*

It is proposed that the DAC:

- facilitate joint assessment of corruption and the wider governance context in high-risk countries in close co-operation with other organisations, beginning with pilot exercises in selected countries;
- signal its support for anti-corruption benchmarks and targets that can be agreed jointly by donors and partners at country level and used to monitor progress;
- endorse as good practice the close coordination of donor governance and anti-corruption work at the country level;
- develop a set of good-practice principles ("voluntary code of conduct") , to be endorsed by Ministers and rolled out at country level, on co-ordinated donor responses to deteriorating corruption contexts.

### *Tackling the global incentive environment*

It is proposed that the DAC:

- encourage its members to continue to advocate for concerted and systematic action within their own governments to implement and enforce international conventions to tackle the supply side of corruption (*eg the offering of bribes by the private sector*);
- support UN-led processes and efforts to encourage DAC members to ratify and implement UNCAC while encouraging DAC members to combine and integrate their joint anti-corruption initiatives with other ongoing efforts to implement and monitor mechanisms UNCAC on the ground;

- and emphasise the interest to the donor community of proposals at the UNCAC Conference of States Parties in December 2006 for information-gathering with respect to compliance and related needs for technical assistance;
- support international initiatives such as the proposed Global Integrity Alliance as a positive way forward in transforming the international incentive environment for integrity and good governance.

### Implementation issues

57. DAC approval of the recommendations in this paper will trigger an intensive implementation effort for DAC donors over the 2007/8 biennium with a primary focus at the country level. **Multi donor governance and anti-corruption assessment** missions are a key instrument to progress meaningful debate about country level governance bench-marking, closer coordination and harmonisation on corruption issues while combining support to implementing international conventions with other ongoing joint anti-corruption initiatives on the ground. SLM/HLM approval of specific code of conduct on coordinated **donor response principles to deteriorating corruption contexts** would provide significant incentives for these to be used at the country level. In capitals, the DAC's political **support for ratification and implementation of UNCAC** and other international initiatives (such as the **Global Integrity Alliance** as it matures) will have significant impact in capitals. More broadly, DAC members are well placed to **encourage better policy coherence** within their own governments by helping to connect the OECD development agenda with the other OECD instruments and conventions relating to better governance.