

Policy Paper

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Poverty, Aid and Corruption

The goal of development assistance is to reduce poverty and support countries in their development. For some countries aid is the dominant source for financing, while in others its role may be limited in comparison to funding from government revenues, trade and investments.

To improve aid effectiveness, developments partners — both aid providers and aid recipients — have a shared role and responsibility in preventing one of the main breakdowns: corruption. All stakeholders have a duty to wage this fight.

The following paper is an outcome of consultations held within the Transparency International (TI) movement. It should be seen as a first step in adding to and shaping the debate on aid and corruption, reflecting TI's previous work, national chapter concerns and present development discussions.

Understanding Aid and Corruption

Aid is understood to be a part of a larger context that includes other dimensions such as trade, debt and geopolitical relations between countries. All are important issues that are related to the paper's focus although they are not specifically addressed here. For this reason, aid and development assistance are terms that are used interchangeably in the paper.

Corruption is viewed as arising from breaks in a country's National Integrity System (NIS), the main conceptual basis for TI's work since 1993. The holistic view of the NIS requires using a comprehensive and systemic approach to corruption, which this paper adopts.¹

1. Introduction

This paper considers key issues in the aid and corruption debate, focusing specifically on abuses that occur in development assistance targeted at poverty reduction.

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

Corruption aggravates poverty. Surveys of the very poor in developing countries indicate that corruption has a significant and detrimental impact on their lives. For a poor household, the bribe randomly extorted by a police officer may mean that the family cannot afford school fees for their children. For a poor family's business, it can make buying the inputs needed to keep up their livelihood impossible.

Corruption not only reduces the net income of the poor but also distorts programmes aimed at meeting their basic needs — from water and sanitation to education and healthcare. Corruption results in the misallocation of resources to the detriment of poverty reduction programmes.

In both donor and recipient countries there is an increasing awareness that aid is in danger of not fully reaching the poor unless corruption is countered. The discussion is moving towards a more open, serious and constructive search for solutions. The credibility of future flows will depend on the ability of the aid system to show that it can address corruption pro-actively and comprehensively.

The achievement of the Millennium Development Goals (MDGs) may be seriously hindered if corruption is not tackled as an integral part of poverty reduction strategies. Many political leaders of the developing world view corruption as a serious impediment to poverty reduction and are increasingly accounting for corruption risks when designing their national development programmes. The growing global consensus on how corruption impedes development is reflected in the ratification of the UN Convention against Corruption (UNCAC) by more than 100 countries.

The following paper is divided into different sections that build on these ideas and provide a framework for understanding the arguments. Section 2 describes how aid and corruption interrelate. Section 3 presents the core issues involved — politics and governance, transparency, mutual accountability and citizen empowerment. Section 4 looks at how the mutual accountability framework has shaped current trends in development cooperation. Section 5 examines how aid can be used to prevent rather than promote corruption. Section 6 provides concluding remarks and Section 7 offers a short summary of policy positions to be taken on the issues discussed.

2. The connection between aid and corruption

Aid is intended to reduce poverty and support equitable and sustainable development. Its aim is to assist countries in establishing the infrastructure (governmental, social, economic and physical) that is essential for achieving

growth and stability. By supporting these structures, the conditions are created for the equal participation of citizens in related social, political and economic processes and for attracting domestic and foreign investment.

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

Aid levels are currently rising. In 2006, leading donor countries gave nearly US \$103.9 billion in official development assistance (ODA) to lower-income countries — a figure set to rise to US \$130 billion in 2010 (see sidebar).²

Across all countries, China and India remain among the five largest recipients of ODA and aid continues to be a significant source for their poverty reduction programmes.³ For many of the least developed countries, development financing — whether through grant aid, concessional loans and/or debt relief — provides the dominant share of government funding. Yet corruption is perceived to be massive and endemic in several of the top ten aid recipient countries: Iraq, the Democratic Republic of Congo, Indonesia, Pakistan and Vietnam.⁴

Aid can be corrupted and the impact dampened

The potential for corruption to compromise the outcomes of development programmes is significant. Corruption within recipient countries can seriously undermine the achievement of intended results. Directly, it diverts a percentage of aid away from intended purposes and beneficiaries. Indirectly, it promotes the inappropriate use of aid. Demand-side corruption by public administrations entrusted with development resources is particularly damaging to poverty reduction.

Where corruption is pervasive and economic survival and opportunities are dependent on a system of bribe giving and taking, the effectiveness of aid initiatives is 'dampened'. The development of knowledge and skills is undermined. Efforts to build capacities within regulatory and service-providing institutions and to improve the livelihoods of the poor become compromised. Empirical research points to a direct link between the quality of governance in recipient countries and positive aid outcomes.⁵

The experience gained from combating abuses and delivering sizable and corruption-free aid flows to beneficiaries has helped to shape discussions around aid effectiveness, governance and anti-corruption. Some of the changed features of development cooperation are based on these insights and make reference to corruption as part of the challenge. Promising trends include sector-wide approaches in development cooperation and increased efforts by countries to formulate pro-poor strategies that align external contributions with national development plans. The inclusion of anti-corruption assessments and the use of accountability provisions have already become part of the guidelines for some donors (grant-givers or concessionary lenders). For example, final project documents, appraisals and evaluations by donors can be found on many of their websites — although with wide variations in frequency, quality and accessibility.⁶

Exceptions to the Aid Rule

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

Countries in the OECD (Organisation for Economic Cooperation and Development) give an average of 0.30 percent of their gross national income for ODA — with a fairly wide variance among donor countries. This percentage is projected to increase to 0.51 percent in 2010 for OECD members that are part of the Development Assistance Committee (DAC).

Aid in Conflict Contexts: The Case of Iraq

The reconstruction of Iraq is one example where supply side corruption has extended into many spheres of public contracting, affecting both the countries associated with the reconstruction and Iraq itself.

While public institutions were struggling even to ascertain how many employees they had on their payrolls and clearly lacked proper inventory and control systems, funding organisations in the United States expected to spend nearly US \$14 billion in 2004, much of it through sole-sourced US contractors

Not surprisingly, Iraq's corruption score places it at the bottom of TI's Corruption Perceptions Index (CPI). In 2007, the country was ranked 178 out of 179 countries.

Aid systems can be corrupt

Corruption can equally occur in the delivery of aid and in the management of resources. Little analysis and information exist in terms of the 'supply chains' and the nature of their 'linkages' along the way — from taxpayers in a donor country to beneficiaries in a developing country. For example, what are the formal or real decision-making parameters used? On what basis are projects chosen or sectoral investments made? For the most part, the process of arriving at answers to such questions lies outside the realm of public scrutiny.

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

As in other areas of public procurement, there are a series of abuses which have been observed for both tied and untied aid. For tied aid, arguments against it may or may not be for reasons of corruption. A majority of bilateral aid agencies continues to tie their aid, which can lead to problems when it comes to obtaining goods and services at internationally-competitive values. The use of closed procurement practices alone can divert a significant percentage of aid away from intended beneficiaries. Estimates for the mark-up from tying aid vary between 15 and 40 percent. In many countries, including Italy (92 percent tied), the United States (72 percent tied) and Canada (47 percent tied), aid remains a highly protected sector.⁷ Where supplier communities are small, tying induces further procurement risks, such as bidder collusion and non-competitive contracting practices.

Aid can cause or encourage corruption

There are many ways in which aid encourages corruption. Where aid has been provided to corrupt systems or under a corrupt leadership, it serves to feed abuses. Both aid and domestic development resources are affected. Where aid has undermined domestic accountability mechanisms, it opens up further opportunities for corruption. Where it is provided outside the lens of citizen oversight in the recipient country, aid is particularly conducive to corruption.⁸

Donor officials and their implementing organisations are receiving increasing public resources with the mandate to accelerate poverty reduction efforts. There is growing acknowledgement⁹ that this has raised the stakes for development cooperation and lent more urgency to efforts to address corruption. Where donors implement higher disbursement targets without supporting partner countries in efforts to address embedded corruption systems, a larger amount of funds may end up being diverted through corruption.

Aid as a form of budget support, when associated with inadequate domestic monitoring and controls, has similarly caused corruption. Conflict, reconstruction and post-disaster contexts are particularly vulnerable and pose an additional set of challenges, for recipient and donor countries alike (see sidebar).¹⁰

With regard to supply-side corruption in development cooperation, too many private sector firms have offered or accepted bribes. The OECD Anti-Bribery Convention and related regional agreements have criminalised the private

sector's use of bribes to obtain government contracts, although most of these accords have been inadequately enforced by many of the ratifying countries.

Structural conditionalities associated with lending by international financial institutions (IFIs), such as the downsizing of the public sector and promotion of privatisation, can also create new opportunities for corruption. Where aid-driven cuts in government budgets and staffing¹¹ have not been accompanied by support for improved public sector efficiency and effectiveness, they have contributed to reduced oversight and delivery capacity and increased vulnerabilities to corruption. Where privatisation has been undertaken in the absence of appropriate regulations, corruption has surfaced and has resulted in the lack of genuine competition among the new private entities created. Aid in such cases opens the door for the depletion of public assets through corruption, which has long-term consequences for the citizens of recipient countries.

3. Factors affecting corruption in aid

Political and governance context

Governance is the province of the governed, first and foremost. Anti-corruption measures as part of development assistance need to be embedded in domestic governance reforms and require political, institutional and broad public support to be effective and sustainable. Aid can play a supportive and sometimes even catalytic role in spurring these reforms, but will remain inconsequential if there is not already some momentum and a sufficient support base for such an agenda.

Working to secure good governance and prevent corruption is, above all, a concern and an aspiration of a country's citizens and institutions. The political will of governments to meet these demands is a prerequisite if state-led anti-corruption efforts are to be successful.

As a result, corruption cannot be addressed as a purely technical issue to be resolved through technical solutions. Donors also need to understand the extent of political will present for pursuing anti-corruption measures. Comprehending domestic incentives and power structures, as well as the prevailing political context — within government, the business community and civil society — is essential for accurately assessing the challenges and opportunities involved. The effectiveness of anti-corruption strategies in development cooperation (legal, regulatory, institutional and/or technical) is primarily determined by the domestic political will and the ability of donors to support national efforts. NIS assessments are useful for analysing this context as well as the integrity of key institutions and their inter-relationships.

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

Where aid provides financial support for domestic policy frameworks, donors can have an impact on the policy formulation and implementation process. This is especially the case for 'development policy lending' (also known as programmatic aid modalities) and all aid that is explicitly aimed at 'governance' outcomes. However, without the oversight of parliaments and elected bodies at

Using Debarment to Stem the Supply-Side of Corruption

The World Bank (WB) has led the process of debarring firms found to have bribed government officials. A number of international financial institutions, multilateral agencies and bilateral donors, such as the European Commission (EC), have set in place their own debarment procedures.

To contain supply-side corruption, implementation of systematic debarment will be necessary across all donors as part of the bidding process for public contracts (by establishing effective systems of commitments and anti-corruption policies by private sector companies). Where civil society organisations (CSOs) are part of such processes, they must be equally subject to these rules.

'Government' need not be understood as a monolithic partner in combatting corruption in aid. Its executive, legislative and judicial branches offer very different entry points. Certain ministries, provincial governors/governments, or even decentralised local governments can become allies in the fight against a corrupt status quo.

Donors, Aid and Crowding Out Accountability

Aid already goes through a series of bureaucratic checks that often cause counterproductive delays. While fully aware of the dangers of over-regulation, TI advocates increased transparency and involvement of key domestic institutions and stakeholders as part of the process.

Most donors have formulated guidelines which emphasise the involvement of stakeholders at an early stage of the planning process, encourage broad-based ownership and try to prevent implementation delays.

However, internal controls still dominate the timetable and content of development cooperation planning, crowding out participatory approaches in aid.

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

the sub-national level on the nature of policy engagement, aid can actually subvert domestic accountability (see sidebar). As is commonly understood, elected bodies at the national and local levels must be at the centre of the domestic accountability cycle.

Apart from legislatures, an effective judicial system is a central factor in promoting domestic accountability. It can help to end impunity, ensure fair dispute resolution and enforce the impartial rule of law, as well as promote public, donor and investor confidence. In addition, key oversight institutions such as an inspectorate general, public auditing bodies and similar watchdog agencies play an important role in ensuring accountability. Such independent institutions can be supported by donors. (The role aid can play in comprehensively addressing corruption is taken up in detail in Section 5).

Finally, civil society's involvement is necessary to guard against the impact that electoral politics (with their short-term time horizons) can have on development. Civil society perspectives have been critical for supporting sustainable and equitable development across the world.¹² For example, decisions taken by governments elected for short periods on the use of a country's non-renewable resources often compromise future societal choices. The scrutiny of the general public and civil society — including the media, the ethical business community and academia — are indispensable safeguards for preventing corruption from undermining development and limiting choices for the next generation. Creating multi-stakeholder forums and processes is one of the ways to capture different economic, social and cultural perspectives that can inform the effectiveness of anti-corruption strategies. Pluralism in the range of actors involved is essential for strengthening governance and addressing embedded corruption.

Because of its critical role, civil society is increasingly looking at establishing its own accountability framework. The danger to the credibility and effectiveness of civil society in the absence of such structures is particularly strong on issues like corruption. Civil society has also been progressively called upon to work more closely with elected representatives that are democratically mandated to hold the executive to account for its decisions.

TI's position:

- 🌐 Donors must harmonise their country assistance strategies under the leadership of the recipient country to ensure comprehensive and coherent support to all institutions that contribute to corruption-free poverty reduction.

- 🌐 Recipient countries should use aid comprehensively to strengthen governance institutions based on national assessments and development strategies.

- 🌐 Recipient countries and donors should partner with civil society and citizens to identify key corruption challenges that allow them to address

the drivers, incentive structures and wider governance context that fuels or constrains corruption in the use of development resources.

- 🌐 Civil society needs to collaborate more strongly with parliament, as the central institution of democracy, to support efforts of the legislature to hold the executive to account.¹³ Evidence-based work with citizens is a critical contribution that civil society can bring into this partnership.

Lack of aid transparency and access to information

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

While in some cases information exists and access is guaranteed, it is not always in a form that can be analysed and that allows action to be taken. Corruption thrives in environments where information is either too segmented or aggregated, making it difficult to fully understand or compare with other data. This lack of transparency prevents conclusions from being drawn about how governments are utilising donor funding and for what purposes.

An uninformed population increases the vulnerability of aid to corruption. Communities should know about services to be delivered and have information on budgetary allocations. Civil society — in its public interest and ‘watchdog’ roles — is a part of the anti-corruption equation. Transparency and disclosure of information are essential for mobilising concern among citizens, ensuring vigilance by CSOs and promoting investigative journalism by the media.

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

Elected representatives. The lack of transparency in operations funded by multilateral and bilateral institutions, as well as in domestic budgeting processes, has effectively undermined the role of legislatures in accountability and anti-corruption efforts. Initiatives to ensure both transparency and the active involvement of parliamentarians in country assistance strategies and poverty reduction programmes are seen as essential by TI to create transparency in policy, budgeting and implementation decisions. For budgetary aid transfers that increasingly rely on domestic processes, the oversight and accountability functions of parliament and elected local government representatives cannot be overemphasised.¹⁴ (Section 4 on mutual accountability takes up the issue of budget transparency as a critical element of preventing corruption in budgetary aid transfers).

TI's position:

- 🌐 Both recipient and donor countries should publish all aid flows and produce information that is accessible to parliamentarians, intended beneficiaries and the general public in addition to information that meets internal and fiduciary requirements.

- 🌐 Recipient countries should ensure grants and loans on the revenue and expenditure side of the budget are published to guarantee that aid remains primarily accountable to its citizens. Where it exists, legislation that prevents the disclosure of revenue sources should be abolished.

Tracking inputs, processes and outcomes

It is difficult, and often impossible, for a local community, non-governmental organisation (NGO) or public interest group to determine exactly what a certain project is intended to achieve, how decisions are made on what those objectives are and who gets paid (and how much) to ensure that the work is carried out.

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

Transparency in tracking financial resources and the identification of processes that allow funding allocations, cost estimates and expenditures to stay in the public domain are essential for preventing corruption as development assistance is converted into developmental outcomes.

As part of the changes that will allow funds to be tracked by recipient governments, the principal donor countries have committed to aligning aid with nationally-defined development priorities. They are increasing the use of budget support and harmonised aid delivery through joint programming at both the national and sectoral level. For budget support, transparency in demonstrating that aid is additional to existing domestic allocations will be critical. This is also the case in tracking the development outcomes of debt relief funds secured from the Highly Indebted Poor Countries Initiative (HIPC) — which are to be committed to improving social service delivery including education, healthcare, water supply, basic infrastructure, governance and institution building — as well as the government monies gained from extractive industry revenues or

repatriated stolen assets. An example of the latter is civil society's monitoring of social expenditures undertaken from repatriated stolen assets in Nigeria.

One of the basic challenges of aid — and particularly budget support — is the fungibility of financial resources. Aid may allow a government to free financial resources that would otherwise have been dedicated to poverty reduction for purposes that would not necessarily merit donor support, such as defence. The concept of additionality — the joint sharing of project funding by recipient and donor governments — has been proposed as way to prevent these resource reallocations. Additionality, however, may undermine efforts to improve cost-effectiveness by requiring that the government maintain or increase its current level of expenditure for a particular sector. This may lead to high recurrent expenditures that could prove unsustainable once external support is concluded.

TI's position:

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

Accountability and the empowerment of intended beneficiaries

Upward accountability by recipient countries to donors has demonstrated its serious limitations in terms of relevance as well as in its ability to detect corruption. Rather strengthening the accountability of aid toward intended beneficiaries is the most effective way of limiting abuses. An important precondition for this accountability link to function is the empowerment of disadvantaged populations in decisions made on the use of aid.

Accountability to beneficiaries is facilitated by their genuine participation in decision-making forums and implementation processes. Hopes of stronger public accountability and a decrease in corruption have often been frustrated when participation has been pro-forma.

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

Expanding the range of stakeholders at relevant levels of decision-making furthers transparency and public scrutiny and is a pro-active approach to countering corruption. The role of civil society at all levels is critical for both the implementation and the monitoring of their engagement. Some recipient governments already have provisions for the participation of beneficiaries and civil society in poverty reduction programmes, pro-poor targeting and social

Participation is authentic and effective where beneficiaries are empowered through an ownership stake, comprehensive information on choices and a voice in the decision-making process.

audits. Civil society is often given the role of having to 'deliver' poverty reduction programmes. Where this is the case, CSOs must also subscribe to and implement commitments to transparent and accountable behaviours (e.g. the International Non-Governmental Organisations Accountability Charter).¹⁵

Successful examples of development assistance that support the empowerment of beneficiaries through the transfer of ownership abound.¹⁶ Increasingly, the process of linking these to formal local governance institutions is discussed and has been encouraged. In development projects where beneficiaries have contributed to producing development outcomes, corruption and misappropriation of development resources has declined considerably.¹⁷ Tax negotiations are central for citizens to hold their government to account on the use of development resources and can be promoted through local contributions and user charges. The increased openness to participation in sector policy formulation, public finance management reforms and in the audit process (including at the local level) is a promising trend.

TI's position:

- 🌐 Donors can actively support efforts in developing countries to create transparency on entitlements, transfer of assets and local revenue raising powers to increase the opportunities for an empowered participation of beneficiaries in local governance frameworks and the planning and management of development resources. Examples include transferring local infrastructure, village forests and pastures as well as passing oversight and management control over on some public services (parent-teacher associations, health centres, etc.).

- 🌐 Recipient countries can pro-actively create platforms that allow elected representatives to review the budget with their constituency and inform them about their entitlements.

- 🌐 Citizen complaint, feed-back and follow-up mechanisms should be proactively piloted and applied to the relevant public entity where they have proven to advance accountability and assist administrative effectiveness.

Decentralisation

Where governments choose to devolve responsibilities, revenues and administrative resources to local levels of government, there can be tremendous opportunities created for fighting corruption as well as establishing new frontiers in the battle.

Decentralisation offers an opportunity to strengthen public accountability in political and administrative dealings. Both donors and recipient countries have recognised the capacity challenges and have tried to address these through dedicated programmes that support decentralisation.¹⁸ For example, the role of

oversight bodies and citizen recourse mechanisms is central to fulfilling expectations of increased accountability and reduced corruption. The challenges are similar to those at the level of the central government, requiring political commitment, capacity and resources.¹⁹

Local governments operate within non-homogenous communities, often creating a more complex regulatory framework than at the national level. Supporting local governments requires strategic approaches addressing the resistance, on the one hand, of central administrations that see a loss of power and sections of the local community that, on the other hand, may be displaced from the earlier established system of patron-client relations.²⁰ Local patron-client relations are one of the greatest challenges to corruption-free decentralisation.²¹ Standards against which accountability can be measured, full disclosure of budgets and plans, transparent procurement and training can assist in preventing corruption in local governments.

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

TI's position:

- 🌐 Where decentralisation is a stated aim of recipient governments, donors should work more closely with the ministries or local governments involved in the process to ensure that their sectoral support to health, education, water, agriculture, etc., is supporting local accountability and anti-corruption mechanisms within the framework of the reforms.

- 🌐 Donors should support national level institutions in strengthening the local government's accountability to citizens by increasing the former's financial resources, supporting participatory budgeting and establishing social auditing and redress mechanisms.

4. Mutual accountability

Sustainable and effective curbs to corruption in aid need to be anchored in functioning accountability mechanisms. An analysis of accountability relationships, which is provided in this section, lies at the heart of understanding aid and corruption. It demonstrates that while donors can play some role in demanding accountability for the funds and support they provide, ultimately and legitimately, the demand must come from citizens, civil society and institutions in recipient countries.

Accountability in development aid has been low vis-à-vis taxpayers in donor countries, due to the 'overseas' nature of aid. Aid is also delivered not only through bilateral aid agencies and development NGOs, but also through multilateral development banks, including the World Bank, and multilateral

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

organisations like the United Nations (UN), which are only indirectly accountable to taxpayers.

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

Currently, countries that are highly aid-dependent face a ‘mixed accountability’ situation. It is not unusual for some governments to report to their foreign donors in forums such as the World Bank-led Consultative Group or the Paris Club meetings on debt in greater detail than what they provide to their own citizens. This is a consequence of ‘conditionality’, particularly on economic matters, where donors have sought to hold recipients accountable for the funds they receive. Economic conditionality, as it was practiced in the 1980s and early to mid-1990s, is now recognised as one-sided, ineffective and undesirable.

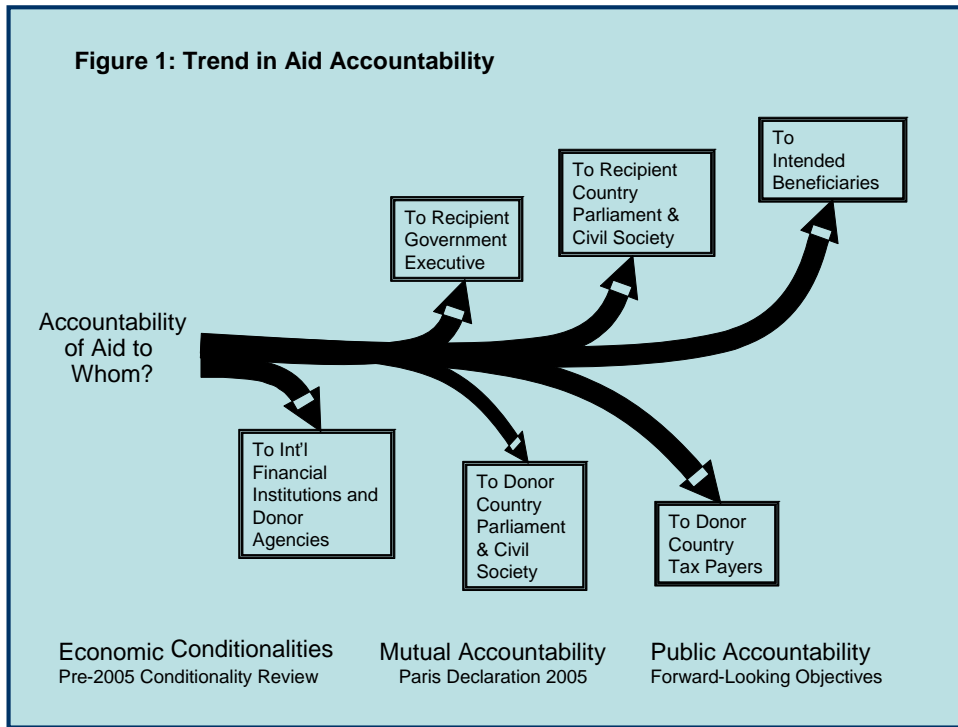
The Paris Declaration on Aid Effectiveness (2005)²² has served as a milestone for anchoring the commitments and obligations of partnership within a mutual accountability framework which acknowledges that effective aid must align itself to country-led development strategies.

Mutual accountability aims to frame the relationship as a two-way contract, where donors commit to providing effective aid and recipients commit to using it well. The Paris Declaration defines criteria for effective aid (aligned with country priorities, predictable and untied resource flows, etc.) and its effective use (clear national development plans, sound financial management and procurement systems, etc.). It also lists quantifiable performance indicators that are to be monitored over time.

While mutual accountability is important between aid and partner institutions, it falls short of being able to sufficiently, effectively and sustainably curtail corruption when used alone. Such an outcome can only be achieved through mechanisms that are rooted in public accountability to citizens. The Paris Declaration does, however, set the stage for these progressive objectives by linking aid effectiveness to funding that strengthens a country’s capacity to develop, implement and account for its policies (to its parliament and citizens).²³ An important step forward is the commitment of recipient countries to progress on domestic revenue raising, which has been critical for strengthening domestic accountability.²⁴

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

Anti-corruption efforts in aid must be aligned and embedded in the mutual accountability framework. Aid should also strengthen domestic accountability mechanisms as a first step to preventing corruption.



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

TI's position:

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

- 🌐 The formulation of country-led anti-corruption strategies through a multi-stakeholder learning framework that involves beneficiaries, elected representatives and civil society in corruption risk assessments and the identification of preventative measures.²⁵
- 🌐 Direct support to parliamentarians and key oversight institutions to fulfil their mandates on the use of aid resources in line with national development strategies and as part of domestic accountability frameworks.

Civil society, the ethical business community and media play a critical role in supporting and monitoring the effectiveness of accountability linkages and must be included in strengthening anti-corruption mechanisms.

The Public Expenditure and Accountability Framework - PEFA

PEFA, a partnership of multilateral and bilateral donors, exemplifies the importance for donors of ensuring accountability in development resource management. It forms a central component of their fiduciary risk assessment that includes as indicators budgetary oversight by the legislature and auditing institutions as well as the public's access to key fiscal data.

In October 2004, the Working Group of PEFA decided to enter into a new phase of work — the 'Strengthened Approach to Supporting PFM Reform' — after limitations of earlier efforts became evident. The approach seeks to back country-owned and led reform programmes based on a performance measurement and reporting framework for the public financial management system.

- The strengthening of public accountability by donor institutions to ensure that evaluation findings, particularly where they advise on improving accountability in commitment and disbursement decisions, are taken forward in future planning.

Public financial management

The commitments to shift aid to budget support have in practice focused mainly on the public financial management (PFM) system. Within the mutual accountability framework, both partners agree on a set of minimum credible standards for public financial accountability that can be used as a starting point, particularly for budget support.

Public financial management is seen at the heart of these efforts to build financial integrity and prevent corruption. A well-performing public financial management system has become central for decisions by donors and partner countries on the modalities of cooperation (see sidebar).²⁶ The link to broad-based, domestic initiatives that strengthen the accountability of public policy, investment and service delivery to citizens has so far been weak.

For effective anti-corruption measures, the transparency of the public financial management system, particularly as part of budget formulation and execution, is fundamental and partly included in the current framework.²⁷

TI's position:

- Transparency of the public financial management system should be agreed as a basic requirement for budgetary aid. Recipient countries should ensure full budget transparency, by revenue source, sector and at all expenditure levels. Information should be prepared in an easily accessible format for citizens.
- Examples of participatory processes for budget formulation and tracking exist and could be pro-actively supported as part of donor assistance aimed at strengthening the accountability of public financial management.²⁸

Procurement

Procurement is covered under the project-based funding systems that donors use as well as through PFM, which addresses the issue in terms of pooled funding and budget support. In the case of pooled funding, both comparative and detailed procurement indicators are produced for the joint use of all donors. Donors have committed to rely on partner country systems for procurement when the recipient countries have implemented mutually agreed standards and processes. Donors have further agreed to move towards harmonised approaches when national systems do not meet mutually agreed levels of performance.²⁹

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

TI's position:

- 🌐 An adoption of Minimum Standards for Public Contracting such as those put forward by TI in the Global Corruption Report (2005) should be undertaken to support the integrity of procurement processes.

- 🌐 Procurement transparency and instruments such as the TI Integrity Pact that promote corruption-free procurement processes should enter the mainstream of aid supported programmes. Requiring bidders to have effective anti-bribery programmes in place does not add to administrative costs and at the same time establishes standards in procurement procedures with wider benefits.

Choices in how aid is delivered and sanctioned

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

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

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

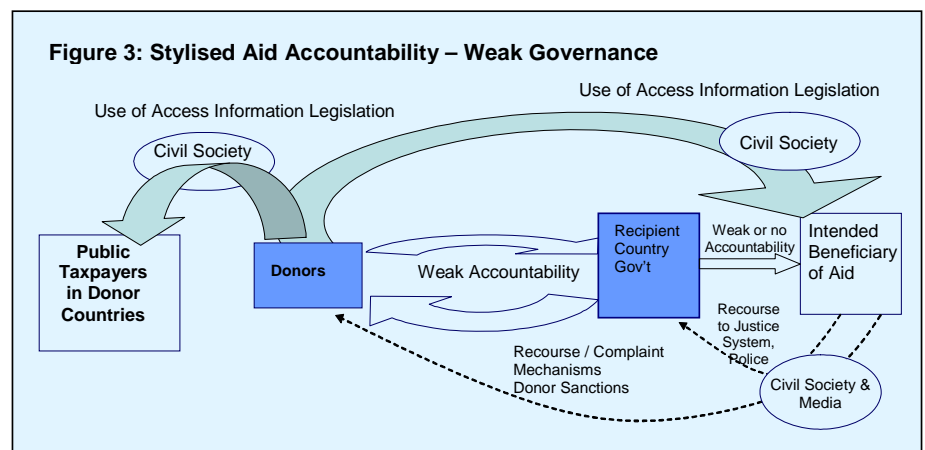
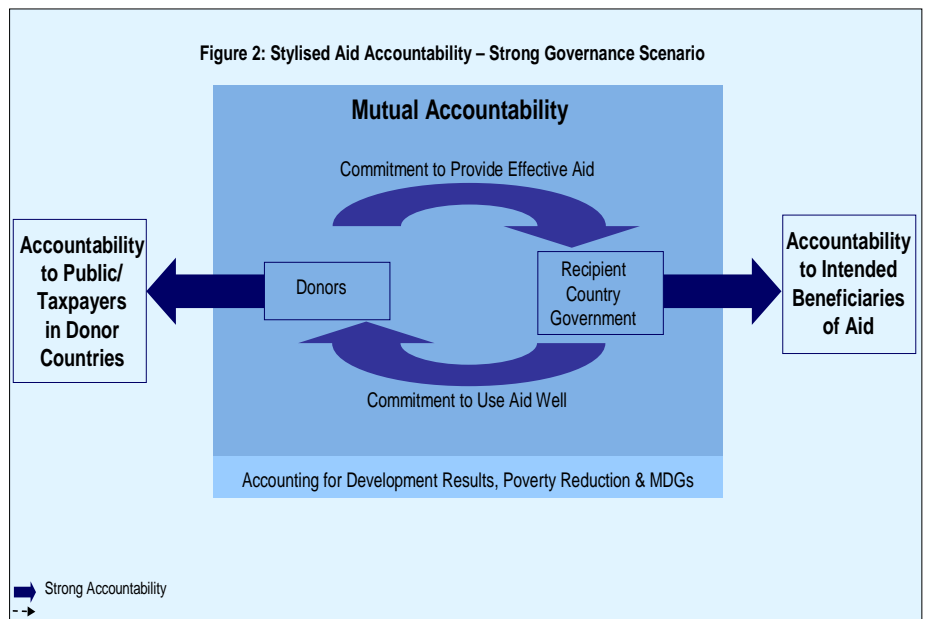
As seen in Figure 2, underpinning the mutual accountability framework is a 'good governance scenario' under which different forms of aid (programmatic, pooled

To improve the transparency of procurement processes, requiring that bidders have effective anti-bribery programmes in place does not add to administrative costs and at the same time establishes standards in procurement procedures with wider benefits.

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Where loan-based aid becomes public debt, the corruption of aid flows can compromise the prospects of successful development for future generations by creating a burden on the state and its citizens. Responsible finance requires responsibility for debt outcomes. This perspective must shape debt forgiveness campaigners, who are keen to monitor whether debt relief funds are invested in the development of beneficiary countries and that the future is not a return to the debt overhang of the past.

and budget) can then be provided. In contrast, Figure 3 presents an accountability mapping of a poor or dysfunctional governance situation.³⁰ In such contexts, donors and recipient governments may decide on modalities of aid delivery that are transparent to civil society and involve civil society actors and communities in delivery. The second principle that Figure 3 seeks to illustrate is the formalisation of recourse mechanisms, which are a critical aspect of accountability in a low-governance scenario.



To have traction and be credible, anti-corruption measures and sanctions need to be capable of a graduated and predictable response. Mutual accountability demands a transparent and open process that would trigger a phased disengagement in cases where there is *serious evidence* of corruption as well as when there is *no evidence* of serious anti-corruption efforts. In the long run, disregarding 'leakage' and support to systemically corrupt governance structures

is antithetical to effective aid and can serve only to perpetuate poverty and debt traps for populations (see sidebar on page 16).

TI's position:

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

5. How aid can be delivered to prevent corruption

The governance approach

The core issues discussed in the previous section indicate the key areas in which aid can help prevent corruption. If political will to implement the necessary reforms is present, donors can actively support these efforts to contain or reduce corruption. This section recommends a comprehensive approach that donors can adopt for this work.

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

The multi-stakeholder approach by which an NIS is established is an example of a more inclusive approach than the closed-door assessments still undertaken by

Using the NIS to Prevent Corruption

The concept of the National Integrity System (NIS) has been developed and promoted by TI as part of its holistic approach to countering corruption.

The NIS consists of the key institutions, laws, policies and practices that contribute to integrity, transparency and accountability in a society. A number of different governance institutions can play critical roles in preventing corruption.

'Cracks' in the integrity of a series of 'structural' governance institutions will result in a more corruption-prone environment.

some donors. Country assistance strategies of donors should include a participatory NIS-style process that allows a comprehensive and multi-dimensional review of corruption risks.

TI's position:

- 🌐 Donor support to poverty reduction that reinforces domestic efforts at building relevant systems, governance institutions and legal frameworks could play an important role in preventing corruption.

- 🌐 Donors should support the strengthening of key governance institutions — such as an effective judiciary, inspectorate-generals and public auditing bodies, in addition to civil society and the media — in order to hold the public and private sector to account for corruption.

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

Donors need to recognise the seriousness of the supply-side of corruption: the fact that foreign companies are often the source of bribe money in the developing world. Given the criminalisation of bribery under a number of international conventions, donors need to publicise and enforce their anti-corruption laws.

Internal reforms in aid delivery

On the side of donor governments and aid agencies, the change that has occurred in aid modalities still needs to translate into changes in incentives and the performance system. The move to a culture where aid must be portrayed as being successful, to one in which openness about the complexities of delivering aid without corruption is embraced, has not yet occurred at the operational level of aid agencies.

When disbursement pressures continue to dominate the assessment of donor organisational and individual performance, they enter into direct conflict with efforts to identify corruption risks and act as disincentives to addressing the problem.

It is important to move from high-level policy commitments to operational policy measures, which pro-actively support solutions to counter corruption in aid delivery at the local level. A review of disincentives preventing staff in aid agencies from progressing on the identification and prevention of corruption could provide insights.

Building awareness and engaging with the supply side of the problem are within the reach of donors' anti-corruption initiatives. Progress could be made on the debarment of corrupt suppliers and reinforcing increased coordination on effective debarment across multilateral development banks, multilateral donors (such as the European Commission) and bilateral donors. The move from high-level policy resolutions against corruption to applied operational engagement is required on the part of suppliers and corporations (see sidebar). Requiring supplier companies to have their own active anti-bribery programmes, training and performance assessment tools in place are real options. The same challenge applies to CSOs — governance, internal accountability and anti-corruption awareness equally benefit them.

TI's position:

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

6. Conclusion

Based on the evidence presented in this paper, there are clear conclusions that can be drawn on the issue of corruption in aid:

- Transparency is essential in all recipient and donor actions but especially when it comes to revenues, budgets and donor contributions.
- Accountability should be mutual between donors and recipients, between citizens and recipient country governments.
- Implementation must turn commitments into actions and introduce the necessary reforms, such as independent and strong oversight institutions.
- Enforcement of laws, regulations and sanctions is essential and is premised on an independent and strong judiciary.
- Sustainability of reforms and good governance by state, regional and local administrations is ensured when there is informed participation on the part of citizens in their development and the country's advancement (in partnership with strong CSOs).

Mutual accountability in the transfer of aid resources hinges on robust policy frameworks, public financial management systems and budget transparency. The last component is central to the accountability that must occur between donor and recipient countries and, within recipient countries, between the parliament and public administration. Around the world, parliamentarians are currently seeking increased engagement in ensuring that the policy and budget formulation process into which aid resources are fed is accountable.³¹ Development assistance will be less vulnerable to corruption and more effective in its primary objective of reducing poverty when it strengthens the domestic accountability to citizens. Civil society has been recognised as an important partner in ensuring the accountable and corruption-free use of public resources, including aid funds.

For aid to be an instrument supporting governance and containing corruption, TI advocates that aid processes must go beyond a narrow approach of addressing

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

only a few key actors. Donors must proactively engage with the range of institutions in recipient countries that determine national integrity — the legislature, executive, judiciary, auditing bodies, media, etc. — and directly support them in fulfilling their role in developing a corruption-free society.

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

Examples of how such processes can be established exist around the world.³² Some are led by national level governments to promote more accountable development in sub-national and local governments (see sidebar). Establishing inclusive processes for the design of development assistance, the choice of aid modality and the anti-corruption strategy that partner countries wish to pursue are already implicit in many donor guidelines. Civil society will need to ensure that anti-corruption efforts stay in the open and are openly designed and debated.

7. Summary of key positions

On the political and governance context:

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

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

On the transparency of aid:

- 🌐 Donors should take the lead in demonstrating transparency of aid to their taxpayers by making mandatory the disclosure of all aid-related decisions and transfers — from inception to evaluation.

- 🌐 Budget transparency should be supported as an essential aspect of all forms of aid and used to assist recipient countries in fulfilling their global anti-corruption commitments.

On accountability and empowerment:

- 🌐 Donors should jointly support the formulation of country-led anti-corruption strategies through a multi-stakeholder process by involving

beneficiaries, elected representatives and civil society in assessments and the identification of anti-corruption measures.

- 🌐 The design, implementation and monitoring of aid should support transparent and inclusive processes that strengthen domestic accountability mechanisms.

On mutual accountability:

- 🌐 Prior to entering into a mutual accountability relation, recipient countries need to ascertain domestic demand for aid-supported policies.³³
- 🌐 Donors should respond with urgency to requests by recipient countries to support key governance institutions, including the independence and resource base of oversight institutions. In particular, aid should be sought for making the justice system accessible to the poor.
- 🌐 Donors and recipient countries should determine a time bound roadmap for increases in the national revenue raising commitments that are critical to strengthening domestic accountability. Donors should ensure that disbursement decisions as well as audits and reviews informing such decisions are kept in the public domain.
- 🌐 Donors and recipient countries should institutionalise joint and credible enforcement mechanisms that are able to address corruption-related complaints by beneficiaries, civil society and other concerned stakeholders. A transparent and pro-active public redress system can inspire citizens to cooperate with government-led anti-corruption measures.

On aid delivery:

- 🌐 The approach to delivery of aid should be in keeping with the corruption risk analysis jointly undertaken by the recipient country and donors, with participation of civil society, the business sector and beneficiaries.
- 🌐 All procurements by donor and recipient countries should be done with total transparency and fairness with appropriate independent oversight. Donors and recipient governments should ensure procurement transparency, the use of Integrity Pacts, anti-bribery compliance programmes and civil society monitoring for public procurements.

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- 🌐 Donors and recipient countries should investigate complaints and institute public sanctions against public contractors (such as debarment) and require bidders to demonstrate effective implementation of internal anti-corruption policies.

- 🌐 Donors and recipient countries should agree at the outset of their partnership on anti-corruption sanctions when mutual accountability commitments regarding the implementation of anti-corruption measures are not being met.

On internal reforms:

- 🌐 Donors and recipient government administrations should reform incentives to reward public accountability and anti-corruption measures and develop sanctions to address their neglect.

- 🌐 Donors should address large inconsistencies in the application of anti-corruption measures through benchmarking. 🌐

References:

- ¹ It is a welcome development that donors, under the guidance of the OECD Development Assistance Committee (DAC), are considering concerted and joint action to assess corruption within the wider governance framework.
- ² See Organisation for Economic Cooperation and Development, DAC Aid Statistics, www.oecd.org/document/3/0,2340,en_2649_34447_34700611_1_1_1_1,00.html and www.oecd.org/dataoecd/57/30/35320618.pdf.
- ³ As measured by OECD DAC statistics (which include debt relief), the top ten recipients of gross official development assistance and official assistance for 2004 were Iraq, the Democratic Republic of Congo, China, India, Indonesia, Afghanistan, Egypt, Pakistan, Ghana and Vietnam (in descending order).
- ⁴ This is reflected in TI's Corruption Perception Index. It is important to note that the reasons for the occurrence of corruption in these countries are determined at both international and national levels.
- ⁵ Stephen Knack, *Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis*, The World Bank, July 2000, [wbi0018.worldbank.org/research/workpapers.nsf/0/30529397228d0a778525691c006768c7/\\$FILE/wps2396.pdf](http://wbi0018.worldbank.org/research/workpapers.nsf/0/30529397228d0a778525691c006768c7/$FILE/wps2396.pdf).
- ⁶ While this trend is to be welcomed, it needs to be kept in mind that evaluations are paid for by donor agencies and in that sense are not independent. Evaluations as well as Auditor-General reports undergo substantial revisions prior to being placed in the public domain. Beneficiaries themselves who may wish to ascertain that their views, complaints or constructive suggestions have been recorded are typically not in a situation to access web-based documents.
- ⁷ See Centre for Global Development, *Commitment to Development Index 2005*, <http://www.cgdev.org/section/initiatives/active/cdi>. There are, however, some positive developments, with the European Commission opening up its international tendering to include not just the recipient countries but competing developed countries. Restrictions are applied in the absence of reciprocity (EC Council Regulation December 2005). The Paris Declaration includes the untying of aid as part of its indicators of progress, albeit unquantified.
- ⁸ Aid is compared to revenue streams from extractive industries in its effect of undermining domestic accountability. See also I. Bantekas, 'Natural Resource Revenue Sharing Schemes (Trust Funds) in International Law', *Netherlands International Law Review*, pp. 31-56 (2005).
- ⁹ 'An Agenda for Collective Action against Corruption', DAC Issues Paper, December 2006.
- ¹⁰ For more on natural disasters, see www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/1188/1188i.pdf.
- ¹¹ Many public sectors were recognised as overstuffed, inefficient and ineffective, and absorbing a significant proportion of GNP. With poorly paid individual public servants, the door to petty corruption was open.
- ¹² A recent European Parliament resolution has sought the independent funding of civil society organisations as an integral part of the increased trend to budget support, to ensure recognition of the many actors required for aid to effectively support developmental outcomes.
- ¹³ A very encouraging collaboration is the International Parliamentarians Petition for Democratic Oversight of IMF and World Bank policies in September 2004, which was supported by civil society organisations such as the World Development Movement, the Bretton Woods Project, Christian Aid, Action Aid and the Jubilee Debt Campaign.
- ¹⁴ GOPAC similarly has a series of recommendations that suggests how parliamentarians can be effective in the fight against corruption. The Parliamentary Network of the World Bank notes that there is a strong need to educate parliamentarians on their role, and on the topics that they decide on. TI supports their demand that the WB should allocate funds for this purpose.
- ¹⁵ The 11 signatories are: ActionAid International, Amnesty International, CIVICUS World Alliance for Citizen Participation, Consumers International, Greenpeace International, Oxfam International, International Save the Children Alliance, Survival International, International Federation Terre des Hommes, Transparency International, World YWCA.
- ¹⁶ The most striking examples of such transfers are documented and abound in irrigation management transfer. Where infrastructure and user charge management is transferred to water user associations, these infrastructures remain in use and are managed without corruption. The literature for such transfers to be effective points to the need for determining appropriate size and homogenous units, transparency of both dues and services and shared information on water availability. Other examples exist for forest and pasture management that form public resources at the local level.
- ¹⁷ The development literature on creating ownership, not to address corruption, but to ensure the sustainability of development investments demonstrates the effectiveness of this approach. It dates from the efforts of R. Chambers and the IDS participatory approaches, is key to the common property management discussion (exemplified by E. Ostrom's work.) and informs if not the practice, the design intent of many community-based development approaches today.
- ¹⁸ See the summary of findings in Tomás Lindemann, *Rural Institutions and Participation Service*, FAO Rural Development Division, 'Lessons learnt in the field of decentralization and local government development in rural areas of Latin America' at www.fao.org/sd/dim_in2/in2_050501a1_en.htm. Key factors identified for successful decentralisation were the institutional strengthening at the level of the family and community and incentives that promote local asset building as opposed to clientelistic relationships to build ownership of project instruments and tools. See also Robertson Work, Principal Policy Advisor, Decentralisation Democratic Governance Team, IDG/BDP, UNDP, 2002, 'Overview of Decentralisation Worldwide: A Stepping Stone to Improved Governance and Human Development', Paper presented at the 2nd International Conference on Decentralisation Federalism: The Future of Decentralizing States? Manila. Work describes the challenge to decentralisation to be 'that all stakeholders can and will voice their opinions'. See also for conditions for political decentralisation web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTDSRE/0,contentMDK:20246049~menuPK:2086199~pagePK:210058~piPK:210062~theSitePK:390243,00.html. See also Odd-Helge Fjeldstad WP 2004: '10 'Decentralisation and corruption' A review of the literature CMI Working Paper.
- ¹⁹ Most of the institutions identified in Transparency International's framework of analysis for national integrity systems (NIS) have local-level equivalents. The key institutions identified in the framework are: the legislature, executive, judiciary, auditor general, ombudsman, watchdog agencies, public service, media, civil society, private sector and international actors. (See also recommendation regarding decentralisation and devolved power.)
- ²⁰ Research on this topic dates from the 1950s in the community development era to more recent focused research on decentralisation and corruption (CMI working papers). The United Nations Development Programme (UNDP) and the World Bank have separate units dealing with the theme of key factors for successful decentralisation with similar recommendations. Both emphasise the challenges of local patron-client relations as well as the key role of national, sub-national and local governments.

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To learn more about TI's work on poverty, development and corruption, visit: http://www.transparency.org/global_priorities/poverty. All related queries can be sent to: [poverty \[at\] transparency.org](mailto:poverty[at]transparency.org).

For more information about this policy paper and others in the series, please contact Craig Fagan at the TI-Secretariat: [plres \[at\] transparency.org](mailto:plres[at]transparency.org).

²¹ J. Jütting, C. Kauffmann et al., 'Decentralisation and Poverty in Developing Countries: Exploring the Impact', OECD Development Centre, Working Paper no. 236, August 2004, caliban.sourceoecd.org/vl=1374766/cl=42/nw=1/rpsv/cgi-bin/wppdf?file=5lqsjhvj76vl.pdf.

²² The Paris Declaration on Aid Effectiveness (Ownership, Harmonisation, Alignment, Results and Mutual Accountability) has been brought out by the High Level Forum in March 2005 and follows the Declaration of the High Level Forum on Harmonisation in Rome (2003) and the Marrakech Round on Managing for Development Results (2004).

²³ Articles 3 and 48 emphasise accountability to parliaments, as well as developing country commitments to systematically reinforce participatory approaches.

²⁴ See also the Paris Declaration, Article 25. Efforts to mobilise domestic resources should be measured not in absolute terms of revenue but in terms of the increase of broad-based revenue raising to ensure the integration of marginal populations in mainstream accountability processes that spring from tax contributions.

²⁵ This should include an agreement with partner governments on joint and credible enforcement mechanisms that are able to address corruption-related complaints of beneficiaries, civil society and other concerned stakeholders.

²⁶ It should be noted, however, that decisions taken on budget support based on the detailed fiduciary risk assessment undertaken through the high-level indicator set by PEFA lack a political corruption perspective and indicators. See also the CMIBRIEF November 2005, Volume 4 No. 4 and www.u4.no. In the absence of such indicators, it is unclear how the political dialogue that is central to budget support would be able to address the impact of political corruption on the public financial management system.

²⁷ *Ibid.*

²⁸ See the Guidelines and Reference Series (2006), 'Harmonising Donor Practices for Effective Aid Delivery' Volume 2: Budget Support, Sector Wide Approach and Capacity Development in Public Financial Management.

²⁹ The OECD-DAC Joint Venture on Procurement, working collaboratively with the World Bank and key procurement counterparts in developing country governments, is to provide a four-point scale rating (A to D) of all country procurement systems. Existing data is being retrofitted to create a baseline for 2006 and the baseline indicators have been agreed in version 4 of the OECD Benchmark and Assessment Tool for Public Procurement Systems.

³⁰ Note that the arrows in Figures 2 and 3 represent accountability obligations, not financial flows. The stylistic mapping of accountability offered in Figures 2 and 3 is drawn for contrast and should not preclude donor accountability relationships with government, civil society and recipients existing simultaneously. In all cases, it is also clear that in order to move towards the 'good governance scenario', where there are entry points (with local ownership) for aid or technical assistance to bolster governance institutions and strengthen integrity systems, these should be supported. Relying on governance and public expenditure management specialists on the other hand - irrespective of domestic momentum, ownership or influential champions - is a cost-ineffective deployment of expertise.

³¹ The advocacy and training work carried out by the Global Association of Parliamentarians Against Corruption (GOPAC) and its regional branch African Parliamentarians Network Against Corruption (APNAC) is a critical step in the direction of greater accountability.

³² The manner in which the Millennium Challenge Account is designed to provide incentives for better governance, the Improved Governance and Accountability Pact for Sierra Leone, and the manner in which aid from the European Commission for Afghanistan is now redesigned are all examples that demonstrate that participation and accountability have been recognised as an integral part of creating robust governance systems.

³³ Where sector policy support is provided, donors could support recipient countries in establishing participatory policy formulation processes that ascertain domestic demand and strengthen the accountability and transparency of aid-funded policies.