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**The Role of Bilateral Donors in
Fighting Corruption**

The Role of Bilateral Donors in Fighting Corruption

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Edited by
Lara M. Gabriel and Rick Stapenhurst
with Mary Thomas

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Foreword

ON 25 AND 26 JUNE 1999, the Ministers for Development Cooperation of the Netherlands, Germany, Norway, and the United Kingdom met on the Norwegian island of Utstein. These four Ministers decided to join forces and intensify their cooperation on a number of issues and since that meeting they have become known as “the Utstein Group.”

One of the issues the Utstein Ministers decided to tackle jointly was the fight against corruption. The Netherlands Minister for Development Cooperation, Eveline Herfkens, organized the Maastricht Anti-Corruption Conference in April 2000, which brought together representatives from government, civil society, and regional and international multilateral organizations in the bilateral donor community. The Utstein Group endorsed the work of that conference through the Utstein Ministerial Statement on Combating Corruption in Development devised in the Hague, the Netherlands, 12 and 13 May 2000.

This book presents the background papers, the discussions, and the recommendations from the Maastricht Conference and the Utstein Group’s Statement.

Preface

*Eveline Herfkens, Minister, Development
Cooperation of the Netherlands*

CORRUPTION HAS LONG BEEN A taboo topic. Both recipient countries and donors were afraid to put it on the agenda. We may well wonder why, since the use of public goods for private gain is so manifestly wrong, and has such a serious impact on economic development. Corruption is omnipresent, though the consequences are most devastating in developing countries. Corruption takes scarce goods away from the development process and has a negative effect on investment and economic growth in general. Moreover, corruption harms democracy, prevents the equal distribution of services and creates insecurity.

The fight against corruption is not an isolated goal, but part of the international drive to promote good governance and poverty reduction. Corruption is a symptom of bad governance. It hurts us all and we should all accept our responsibility. We cannot turn a blind eye to it. Globalization and the increasing interdependence between states make cooperation essential. The world must, therefore, join hands to elimi-

nate the obstacles that prevent us reaching out to those in need. Corruption is a major obstacle.

The World Bank set the anti-corruption debate in motion. Bilateral donors have taken up the challenge and committed themselves to concrete action. The Action Plan Against Corruption agreed by the Utstein Partners (the United Kingdom, Norway, Germany and the Netherlands) is a useful step. This action plan was drafted in the wake of the Maastricht Conference in April 2000, which the Netherlands organized in cooperation with the World Bank Institute. The Utstein Partners support the guidelines on good governance incorporated in the World Bank's Poverty Reduction Strategy Papers and the Comprehensive Development Framework. At the heart of these guidelines is the joint responsibility of governments, civil society and the private sector to alleviate corruption. Again, we are all responsible and must, therefore, commit ourselves to fighting corruption.

Taboos do not disappear overnight. However, corruption is now on the international agenda and can no longer be ignored. This report, produced in the wake of the Maastricht Conference, is part of the growing international understanding that transparent and accountable government can no longer remain a promise awaiting action. If we are all part of the problem, we must all be part of the solution. I hope that the knowledge and ideas contained in this volume will inspire us all to concerted action.



Eveline Herfkens

Minister, Development Cooperation of the Netherlands

Introductory Remarks

Opening Speech: Corruption Distorts Development Investments

*Eveline Herfkens, Minister for Development
Cooperation, Ministry of Foreign Affairs,
The Netherlands*

THE FOLLOWING IS THE FULL text of the minister's opening speech.

Example I: At a hospital in Tanzania, essential medical supplies purchased with foreign currency disappear from the public dispensary within hours. That evening they are available for purchase at a doctor's home. The poor do not receive the free medical care promised by the government. Those with the right connections who are able to pay can secure medicines in abundance.

Example II: An old man in Pakistan is left without income after his son is murdered. In order to benefit from his son's estate, he requires a "succession certificate" from the civil court in the district capital. The cost of the train journey and the bribe demanded by the clerk of the court send him deeper into debt. After five separate trips to the court in as many months, he has still not been given the stamped piece of paper to which he is legally entitled.

Example III: A donor-country gives large amounts of money to a government that has repeatedly declared its intention to introduce

reforms and to fight corruption. A large part of the money is intended for a bridge to link isolated villagers during the rainy season and to build schools so that girls can be educated. Local confectioners are hired, the project is directed by well-intended local professionals. Perfect, but two years later when the donor goes to assess the results, the bridge doesn't exist. One school has been built but a local leader has made it his own home.

When I looked at these examples for this prepared speech, I felt this is not fair. These are only examples of officials being bribed in developing countries. So let me just add a few examples. Several times that I was approached by developing countries' governments that Dutch businesses were putting undue pressure on these governments to take decisions that they felt were not the right decisions to take, and that these businesses were threatening that if the government would not accommodate, the aid volume would be affected. Well, these companies have no way to influence that at all. We have had some recent scandals in the Netherlands, at the local government levels, of officials, which have made expense statements and got refunding. Well, these expense statements were totally insufficiently founded. In my personal working life, I had twice to take disciplinary measures against members of my own team because they had indeed overstated their expense statements and asked for refunding. Just a few among many examples of everyday corruption and its everyday impact on people, in developing countries of course especially the poor. Let us not make the mistake to think that corruption is something typical for developing countries. Developed countries also suffer from it enormously.

Corruption: it is difficult to pin it down, to define it. But we all recognize it when we see it, or worse, feel its effects. Hard facts about corruption are difficult to come by. Is it ten per cent? Twenty? Or much more? We don't know. But all investigators agree that corruption causes massive economic and social harm. Money disappears into the wrong pockets, the credibility of the authorities is undermined, investment falls away or is misdirected, development grinds to a halt, and the

poorest groups end up paying the price. No use pointing the finger and blaming everyone else. Corruption occurs to varying degrees in every country and region on earth. We are all part of the problem. We are playing the game of corruption better every day. But none of us has yet mastered the art of prevention.

It is a pleasure to see you all here for this conference, which marks a new era in the anti-corruption effort. For if we are all part of the problem, it is only jointly that we can form the solution. It is time for the donor countries to find their comparative advantage in the battle against corruption. The initiative for this conference derived from the Utstein Partners, four female Ministers of Development Cooperation and members of the World Bank Development Committee from the United Kingdom, Germany, Norway, and the Netherlands. The Utstein Partners are taking the lead and you have generously agreed to help us by developing a detailed and workable plan of action. Thank you. I will focus today on four aspects of this fight:

- First, fighting corruption is not an isolated goal.
- Second, this effort is *not* a closed shop.
- Third, what does an active strategy mean in practice?
- Fourth, political commitment among the Organisation for Economic Co-operation and Development (OECD) countries.

On the first point, fighting corruption is not an isolated goal. Corruption is a symptom of bad governance, which in turn impedes poverty reduction and sustainable development. For this reason, the fight against corruption must be firmly incorporated into a coherent and realistic development strategy. It needs to become an integral part of the Poverty Reduction Strategy Papers and the emerging Comprehensive Development Framework. Performance, not promises, should be the focus whether the issue is education for girls or combating corruption. When visiting developing countries I always say, “Financing the results, not the intentions is the prime goal.” Micro management of aid money is an illusion. Money is fungible. What matters is the overall effect of aid as part of all resources available for development. In the end, the only

long-term and effective control mechanism against corruption in developing countries as well as in developed countries is a strong civil society with political opposition, an independent press, and service users who claim their rights. It is civil society and the media that must clamor for and demand anti-corruption performance, measurable results, a better quality of life, especially for the most marginalized and disadvantaged, and, most particularly, women. Civil society and non-governmental organizations (NGOs) have an important role especially as whistle-blowers and monitors.

This leads me to my second point. The Utstein partnership is an open process, just the beginning of a much wider partnership. This conference is an excellent start towards building a partnership process that includes donor and recipient countries, as well as all stakeholders from the various sectors of society. This also means working with the business community and international financial institutions. If we are all part of the problem, together we are also the solution. And that means a relationship based on “Responsible Corporate Partnership” in which the importance of the role of the private sector is seen not as a threat but as an essential part of the solution. This partnership consists of analyzing the problems and building more transparent and open ways of conducting transactions. Of course, the purpose of business is to earn a profit. But this should be done in a way that takes account of the people in the countries where the business is done or where the business affects the quality of people’s lives. And in an environmentally responsible way. Business controls money. It is powerful. With responsible corporate partnership, we can make a positive powerful aggregate.

My third point, what does an active strategy mean in practice? The Netherlands has a list of some twenty countries that it supports bilaterally. They are selected on the two criteria of degree of poverty and good governance. Yet, many of these countries find themselves at the negative end of the Transparency International anti-corruption perception scale. It is not so hard to guess the reasons why. Those poor developing countries have many structural characteristics, which render them open to corrup-

tion. For example weak institutions, low public-sector pay, dependency on aid, a comparatively weak civil society, and low service delivery.

An active strategy means enabling countries to take the lead and make reforms in a manner that is consistent with their way of life, but that combines performance in financial, accounting and auditing sectors as well as law enforcement and the judiciary to bring about a reduction in corruption. It means supporting these countries in making institutional reforms and building stronger institutions. But we need to see improved performance. Governments need to demonstrate the necessary determination and political will to continue to rely on our aid.

Finally, my fourth point, political commitment among OECD countries. I am sorry to say that the Netherlands will be one of the last countries to ratify the OECD anti-corruption convention. Parliamentary procedures are time consuming. But we will sign up. The convention is a big step in the right direction. The senseless present distinction between bribing Dutch officials and bribing foreign officials will disappear. Current legislation is appalling. Bribes are tax deductible. Under the new law, the payment of bribes will be an offense carrying a four-year prison sentence. As Clare Short said in a speech last year, "The world's growing interdependence, the mobility of capital and the global flow of information, means we need to bear down on corruption world wide. It is no longer possible to live with one set of standards at home and another in relation to foreign trade and investment."

Sadly, legislation is still not tough enough on such abject practices as money laundering. The likes of Mobutu, Marcos, and Suharto stashed billions in secret bank accounts in OECD countries. We, therefore, need to see how the OECD convention can be strengthened and which steps we can take beyond the convention.

Another obligation on donors is, I think, structuring their aid in such a way as to discourage corruption. Current practices encourage it. It is not always easy for recipient countries to keep track of the different procedural demands from the many donors. And where there is no transparency, corruption is easy. The Utstein countries have begun to harmonize

their aid procedures within certain sectors in a few countries. Some aid is still tied. I hope this conference will pay sufficient attention to this issue. Tied aid is corruption prone since it is not subject to transparent procurement procedures. We need action at three levels—in the European Union (EU), in the OECD and in the World Trade Organization (WTO).

My colleague of Economic Affairs and I have asked the European Commissioner Frits Bolkestein to take steps at the EU level to combat this practice. Attempts to untie aid within the OECD/Development Assistance Committee (DAC) face stiff opposition from several member states. If no consensus is reached within the DAC, like-minded countries could start untying their aid reciprocally. Also, we need to broaden the WTO government procurement agreement to encompass aid.

Let me conclude. We have already seen a very interesting debate on the Internet over the last few weeks. One of the last contributions was written by Mohammad Kisubi from Uganda who said, “Donors should make corruption one of their main concerns; not so much to find out which country is most corrupt, but to work closely and support those countries that have accepted the existence of the problem in their midst and are committed to doing something about it. It is like the way we handled the AIDS epidemic in Uganda. While other countries were busy denying the existence of AIDS or arguing what percentage of their population was infected, in Uganda we simply said we have a problem and if we do nothing we stand to lose a whole generation. Similarly, we in Uganda will welcome those willing to partner with us in this struggle while leaving us the liberty to be in the driving seat and assist us as we move on the road to a less corrupt, more transparent society based on accountability and good governance.” I couldn’t agree more.

Your Excellencies, ladies and gentlemen, although we can never eradicate corruption completely, we can make huge strides in eliminating the type of corruption that distorts development investments and diminishes the quality of life and hope for a better future for millions of people. I look forward to receiving the plan of action that you will be drafting in the coming days.

Opening Speech: The Role of Bilateral Donors in Fighting Corruption

*Mats Karlsson, Vice President of External Affairs,
World Bank*

OVER THE PAST FOUR YEARS, the World Bank has been a prominent interlocutor in the growing global discourse on corruption. Thanks to Jim Wolfensohn's bold speeches, we have helped place the issue front-and-center on the international agenda. It is difficult to remember that until quite recently corruption was not an issue, which was talked about freely. This is a remarkable development because the common recognition of a problem is the first step toward finding solutions. And indeed, we are discovering that as complex and profoundly systemic as corruption can be, it is not an unreachable mystery beyond our control.

No. Real progress is underway. Through Bank research and support for innovative programs, we are helping to identify where and how corruption does the most damage, and what can be done to address the causes. We have a better understanding of the effects of corruption on political and economic life. We also have good ideas about the kind of regulatory and administrative mechanisms that are required to reduce its reach and influence. And we are tackling the problem head-on in more than 600

programs, in ninety-five countries in areas of civil service reform, judicial and legal systems, tax administration, procurement, auditing, customs, and many other areas. This is vital work and it must continue.

But I am not here today to talk about the World Bank or technical aspects of institutional reform. Rather, I want to take this opportunity to raise tough questions about the larger political and social dynamics in the countries where we are together working to fight corruption. These are complicated issues. And for many years they have been difficult to discuss in fora such as this, particularly for the World Bank, which as you know is mandated to base policy decisions exclusively on economic considerations. This is an important and valuable restriction—one, which has served its members, well for more than fifty-five years. Importantly, however, the Bank's development mandate has gradually evolved, which has enabled the institution over time to address issues not traditionally considered part of development economics, but which, consistent with the restriction on interfering in political affairs, have come to be recognized as central to its development mandate. Corruption is one clear example.

From one perspective, it seems funny that strategies to build integrity and accountability in governance should be a tricky issue for us to discuss together. For it is absolutely fundamental that what are now known as industrialized countries have waged their own battles against corruption by sharing experiences, over generations, on those big political questions which vex us to this day: What is the nature of public responsibility? How big or small should optimally be? And how can we, as citizens, organized through government, best achieve our collective ends?

This sharing of experiences remains as vital today as ever before. The fight for accountable public administration, representative government, and social equity is, of course, never over. But thanks to our commitment to the exchange of experience and ideas, we have improved the art of governance and the human condition in countless ways. This experience can be no less true for Africa or Asia than for Europe.

Our job, of course, is not to lecture developing countries on the virtues of good governance, but to expand the dialogue on what works in building public institutions that are accountable and transparent and effective. We can be grateful that in the past few years we have moved beyond the old debates about whether a strong government is good for economic and social prosperity. As was stated clearly in the 1997 World Development Report, “an effective state is vital for the provision of the goods and services—and the rules and institutions—that allow markets to flourish and people to lead healthier, happier lives.”

This message is driven home in work we have recently concluded as part of a study called “Voices of the Poor.” Interviews with more than 60,000 people in sixty poor countries reveal that poverty is defined not just by low income, but illness, weakness, hunger and perhaps most profoundly consistent, a sense of voicelessness. What is absolutely striking is that the poor not only feel that their government institutions do not represent their interests, but very often they live in fear of the police and those in power. A young man from Uzbekistan says, “The police have become the rich people’s stick used against the common people.” And in Brazil, a poor person lamented, “I do not know whom to trust, the police or the criminals. Our public safety is ourselves. We work and hide indoors.” We heard very clearly the links between corruption and insecurity. In Brazil, “You grow up in an environment full of disease, violence and drugs...you don’t have the right to education or work...you are forced to eat in the hands of the government...so you are easy prey for the rulers.” And finally in Bulgaria, “Corruption is virtually everywhere—that’s how you place orders in the factory, that’s how you make sure your child gets medical treatment.”

There are many issues, which contribute to and characterize underdevelopment in the world today—poor health and nutrition, illiteracy, severe debt, bad economics, war and civil strife. But let us be clear. We will never see lasting progress in the fight against poverty without fundamen-

tal improvement in governance. Reducing the destructive force of corruption is perhaps the most important starting point.

One place to start is by democratizing the development process, making sure that these voices of the poor are at the policymaking table. We, as donors, can do much in this area. We can establish as part of our relationship with governments regular consultations with local civil society, including such groups as labor unions, elected institutions, and rural and minority representatives. Indeed, our own policies and lending or grant-making decisions must be informed by this dialogue. At the Bank, we are trying to expand this kind of work we have been doing for years through the Comprehensive Development Framework and Poverty Reductions Strategy Papers, which are to serve as clear, transparent reflections of broad, national dialogue on policy decisions.

Reform of government decision making can be assisted externally, but lasting change must be undertaken from within. But here, too, we can lend support. Today I will focus on three areas of particular interest to me and my colleagues at the World Bank. They are areas in which, particularly through the activities of the World Bank Institute, we are beginning important early work. They are subjects which not long ago would have seemed far outside the ambit of development, let alone of direct concern to the World Bank. But with research and experience, it has become clear that they are issues, which must be addressed by the entire international community.

The World Bank's direct role in confronting challenges such as these may be small, and in some cases, we may have no role at all. But we absolutely must work together to bring all of our ideas and, where appropriate, expertise and resources to bear to the problem. The tax payer in industrialized countries, and more important the poor we seek to help in developing countries, don't care about mandates and mission creeds. They care about us improving our effectiveness in fighting poverty. To do that, we have to understand the full effect of corruption.

Parliament

Let me start with the legislative branch of government, which in many poor countries is burdened in its ability to help fight corruption by resource and constitutional burdens. But it is clear that Parliament has a crucial role in fighting corruption, both as a law-making body and as a bridge between the state and civil society. Over the past few years we have met with hundreds of parliamentarians in many countries and a broad mix of successful strategies is beginning to emerge. The role and relative strength of parliamentary bodies differs between countries and political systems. Legislatures perform vital policymaking functions. Through oversight and budget authority, Parliament can

- hold governments accountable through the establishment of legislative committees such as Public Accounts Committees;
- establish mechanisms to strengthen financial accountability, for example in transparent budgeting and audit systems; and
- establish centers of authority, such as ombudsmen, auditors and comptrollers general.

Parliaments also have the unique capacity to build political will to combat corruption. This can be supported by

- ensuring personal integrity such as codes of conduct for parliamentarians—disclosure of assets, conflict of interest;
- enacting legislation on campaign and political party finance;
- building transparency in wage levels and benefits;
- ensuring that parliamentary immunity is not abused;
- enacting legislation regarding the freedom of information; and
- protecting whistleblowers.

Finally, it is clear that sometimes it will be necessary to undergo wholesale adjustments, such as rebalancing power between the executive and the legislature, and in some cases between the state and civil society.

Media

Checks on government discretion must come from outside official circles as well. For centuries, the open exchange of ideas and information has

been the cornerstone of freedom. As we move into the new century, it has become the foundation not so much of economic dynamism, but survival. We see all too often the brutal implications of breakdowns in the simple communication of readily available information:

- Millions of children die each year from diarrhea, an easily preventable and treatable sickness.
- Simple agricultural techniques could magnify crop yields in starving countries.
- Basic financial information can make the difference in the success or failure of rudimentary capital markets.

More than ever, commercial and social prosperity is built around the emergence of an informed citizenry—an ever-expanding circle of people who can demand improved policies and corruption-free institutions. A recurring lesson from economies dealing with financial turbulence is that full disclosure of financial information, good and bad, is fundamental for stable economic growth. The media are the most dynamic guarantee of this kind of information. As Jim Wolfensohn said in his speech to the World Press Freedom Committee:

What could be more intrusive on politicians than a free press? What is it that could enfranchise people more than a free press? What became very clear to me...was that the issue of corruption and the issue of press freedom, while they may have political impact, are in fact essential issues in terms of economic development.

A vigorous, independent and professional press can play a critical role in curbing corruption by raising public awareness about the costs of corruption; and investigating and reporting incidences of corruption. In too many places however, the press is hampered in its ability to play this role by harassment of journalists such as death/torture/harassment; official coercion, through charges of contempt, sedition, criminal defamation; and concentrated ownership of newspapers.

State Capture

Lastly, let me talk about a deeply troubling issue, one which we at the Bank and I know many of you face in your work. The problem is a form of corruption that is not readily fixable through administrative reform and improved public sector management. It is a problem requiring a comprehensive, long-term strategy.

A chronically weak state opens wide the doors to powerful non-state actors to use their leverage and influence to shape the country's legal and regulatory framework to their own advantage. Often these actors will be financial and industrial firms. The result will be the capture by powerful elites not just of markets distorting the beneficial effects of competition, private sector-led growth, but of the state itself. This presents a different image of corruption, usually imagined as the bribe-taking customs officer or tax collector. Rather, in this scenario, the extent of the damage done is arguably greater, as the very rules of the game are permanently distorted in favor of a powerful elite. Such far-reaching impact requires particular attention by outside partners, whether they be private investors or we, as donors, to ensure that the ground rules are transparent, and that objectives can be achieved.

As I said, this last area is of great concern to the Bank. And while we work to address its symptoms, beating the disease will take time and true cooperation. I look forward to hearing more about the changing face of corruption as this meeting goes on.

Conclusion

All of this raises many questions for donors. We owe thanks to work done by my colleague Daniel Kaufmann, from whom you will hear this afternoon, that there is a significant positive relationship between secure civil liberties and the return on government development projects. We, of course, also know that the corrosive effect of corruption on the government's capacity to build a sound economic environment has fundamental implications for how scarce aid resources should be divided.

The calculus is stark. The Bank's Assessing Aid report reveals that a \$10 billion increase in assistance can lift twenty-five million people per year out of poverty, *if* the money is channeled into countries with sound management. By contrast, investments made without respect to basic economic management criteria would lift only seven million people out of poverty.

How do we measure our responsibilities faced with these numbers? Do we abandon the seven million in favor of the eighteen million more who will benefit from the aid? What can we do in the meanwhile? These are the questions we are now facing. But we can never fully address these questions unless we take on the big, tough, once-unspoken issues. I am pleased to be here today. And I look forward to a good discussion on these questions as we proceed together.

Improving Governance and Controlling Corruption: New Empirical Frontiers and the Case for Collective Action¹

Daniel Kaufmann and colleagues

The King shall protect trade routes from harassment by courtiers, state officials, thieves and frontier guards...[and] frontier officers shall make good what is lost... Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the King's wealth.

—*from The Arthashastra (by Kautilya, circa 300 B.C.)*

THE *ARTHASHASTRA* WAS WRITTEN IN ancient India more than 2,000 years ago. It is a detailed, far-sighted vision of a well-governed society that weaves together socioeconomic, institutional, and political variables. In contemporary development literature, there have been some essays on the interplay of institutions with conventional economic variables. Some of that attention has recently turned to corruption because of a growing awareness of its dire consequences for good governance and democratic

development. However, most contemporary economic development work has underestimated the primacy of governance for development. Missing too often is the recognition that corruption is a symptom of the state's fundamental weaknesses; all too often it is (erroneously) seen as an uncontrollable single determinant of society's ills. Also frequently absent is the recognition that corruption is one among a number of very important governance dimensions; others requiring as much attention along with the complex interplay among all such factors. Such omissions customarily lead to mistaken implications in practice and in strategies.

This paper does not attempt to present a comprehensive approach to the study of corruption and governance. Instead, it captures selected multidisciplinary elements, links them to the growth and development of nations, and distills some insight for practical frameworks to improve governance. Such an approach, however, is an emerging field where new lessons of success and failure continue to materialize. Consequently, many questions remain unanswered. This paper should be considered as one input in our quest to glean lessons and insight from an ongoing discussion of the kind of initiatives that may work in a particular setting, rather than as a proposal for definitive answers.

Various aspects of governance are discussed in this paper, emphasizing the need to broaden the framework of analysis beyond the narrow focus of corruption issues. Additionally, it summarizes some of the ill effects of misgovernance and fraud on development, empirically addresses mechanisms linking governance to development, and examines some concrete implications for policy and action to improve governance and facilitate effective capacity building.

Governance Matters for Development

Worldwide evidence shows that a capable state with good and transparent government institutions produces positive results in terms of income growth, national wealth, and social achievements.² Higher incomes, investment growth, and longer life expectancy are found in countries with

effective, honest, and meritocratic government institutions. These are streamlined institutions with clear regulations, where the rule of law is enforced fairly and protects the citizenry and property, and where civil society and the media have an independent voice. International and historical experiences also demonstrate that capable and clean government does not require that a country is initially fully modernized and wealthy. The experiences of industrializing countries such as Chile, Costa Rica, Slovenia, Estonia and Poland, as well as twenty years of evidence from Hong Kong, Singapore and Spain illustrate this lesson.

To understand why many states have misguided policies and fail to provide adequate public goods, the study of governance is essential. Often entrenched vested interests and weak administrative capacity have distorted economic policymaking and outcomes. It is important to understand that a political process determines public policies and expenditures. Increasingly, experience demonstrates that good outcomes depend on accountable government, community participation, and a strong voice for people and enterprises.

Defining Corruption and Governance

Corruption is commonly defined as the abuse of public office for private gain. By contrast, governance is a much broader concept, and thus, more difficult to define. At the risk of oversimplification, in this paper governance is defined as the exercise of authority through formal and informal traditions and institutions for the common good. Governance encompasses the process of selecting, monitoring, and replacing governments. It includes the capacity to formulate and implement sound policies, and the respect of citizens and the state for the institutions that govern economic and social interactions.

From this definition, governance can be divided into three broad categories, each containing two components:

1. (a) Voice and accountability includes civil and political liberties and freedom of the press, and (b) political stability and lack of violence.

2. (a) Government effectiveness includes the quality of policymaking and public service delivery, and (b) the lack of regulatory burden.
3. (a) The rule of law includes protection of property rights and an independent judiciary, and (b) control of corruption.³

Governance is, thus, a much broader notion than corruption. It affects welfare and the quality of life through complex direct and indirect channels in ways we do not fully understand. An improvement in one component such as civil liberties can directly enhance the quality of life even if all other socioeconomic factors remain constant. Governance can be a direct input into growth. At the same time, equally important indirect effects are also at play. For example, misgovernance can hurt the accumulation, distribution, and quality of human capital (such as in education and health) or increase the rate of depletion of natural resources.

Empirical Study of Governance

Recent empirical studies suggest the importance of institutions and governance for development outcomes. One of the studies that conducted cross-national tests using various indicators of institutional quality found that the institutional environment for economic activity determines, in large part, the ability of emerging economies to reach industrialized country standards (Knack and Keefer, 1997).

The definition of governance, as presented previously, is broad enough that a variety of cross-country indicators might shed light on its various aspects. Applying this broad definition, hundreds of cross-country indicators were analyzed as proxies for various aspects of governance. These indicators came from a variety of organizations, including commercial risk rating agencies, multilateral organizations, think tanks, and other non-governmental organizations (NGOs). They are based on surveys of experts, firms, and citizens and cover a wide range of topics: perceptions of political stability and the business climate, views on the efficacy of providing public services, opinions on respect for the rule of law, perceptions of corruption.

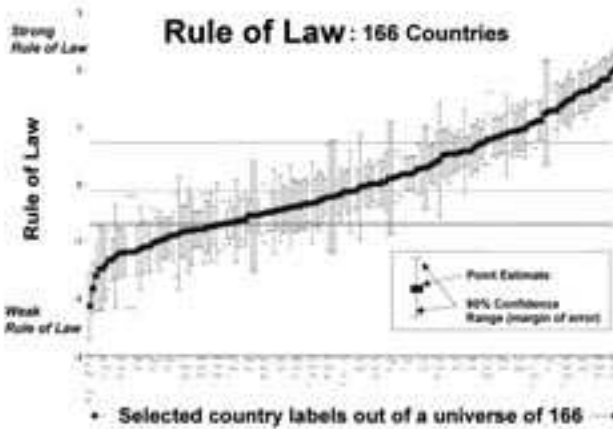
Skeptical reactions naturally arise regarding the wealth of data on governance. Are the data informative? What can business analysts on Wall Street possibly know about corruption in Azerbaijan, Cameroon, Moldova, Myanmar, or Niger? Are the data coherent? Do reported ratings by enterprises about political pressures on civil servants and their waiting times for customs clearances illustrate anything about the government's effectiveness in general, or do they measure something totally different? Are the data comparable? Can a score of 3 out of 4 in transitional economies compare with a score of 7 out of 10 in Asian countries? In addition to meeting these criteria, can the data be useful for rigorous econometric analysis of corruption or to advise policymakers?

These questions motivate the empirical strategy for measuring governance in our framework. The data are mapped to the six sub-components of governance and expressed in common units. The data are informative, within measurable limits. But the estimates are imprecise and require care in their use and presentation for policy advice. These six distinct aggregate governance indicators are then developed (as per the above classification), imposing some structure on available variables and improving the reliability of analyses.

For illustration, consider the measurement issues for one of the composite governance components: the rule of law. In Figure 1, the vertical bars depict the rather large country-specific margins of error, or statistical confidence intervals, for the estimated levels or point estimates of governance. The interval reflects the disagreement among the original sources about the level of governance and the rule of law. The horizontal quartile limit lines dividing the countries into four groups are further explained in the note to Figure 1 below.

The differences among more than 160 countries are quite large. Countries are ordered along the horizontal axis according to their ranking, while the vertical axis reports the estimates of governance for each country. The margins of error, depicted by the thin lines, can be considerable. Thus, it is misleading to have countries “run” in seemingly

Figure 1. Aggregate Governance Indicators, An illustration: Rule of Law Indicator



Note: The vertical bars (the 90 percent confidence range) depict country specific confidence intervals for the estimated levels of governance, the 'point estimate.' Intuitively, this reflects the disagreement among the original sources about the level of governance in a country, as well as the actual concept of governance—in this case, *rule of law*. Horizontal lines represent quartile levels. The asymmetry is explained by the difference in the variance inside each quartile: while differences in between countries are small in the first two quartiles (particularly in the second from the bottom), differences are larger in the better rule of law third and fourth quartiles. The rule of law index is normalized: it ranges from -2.5 to +2.5.

precise worldwide “horse races” to ascertain their ranking on various governance indicators. Instead, an approach that groups countries into three broad categories similar to a so-called traffic light approach for the various separate governance dimensions is more appropriate and statistically warranted:

- red light: governance crisis; countries in the bottom category
- yellow light: governance vulnerability or at risk
- green light: nations with better governance and not at risk

Following such a traffic light classification of the three categories, identification is possible for a group of thirty or forty countries where there is an urgent need to focus on better and cleaner government. Given

the margins of error, it is not very relevant to ascertain whether a particular country would rank number 125 or number 130 among the more than 160 countries for which there are governance data. However, it is relevant that the country is in the red light or emergency governance zone, and thus, it would benefit from its leadership and citizenry focusing particularly on improving governance. Such in-depth review of the data suggests that a large number of countries in the CIS, Africa and some in Latin America and Asia are in the poor government performance category, warranting urgent and sustained attention towards implementing a strategy to improve governance.

Causal Effects of Governance

One value of these somewhat imprecise indicators is that they allow systematic assessment of the benefits of good governance in a large sample of countries. Good governance is strongly correlated with various development outcomes across countries. However, it is possible to go much further than merely pointing to an obvious correlation in the data, which might simply reflect the fact that richer countries can afford the luxury of good governance, as some of the practitioners of the worst governance in the world often argue. Indeed, it is more useful to disentangle the causal effect of improved governance on development outcomes while overcoming the imprecision in existing governance data.

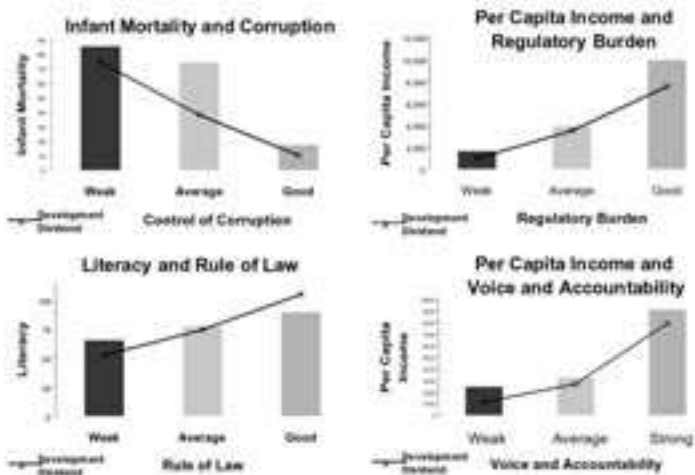
This analysis suggests a large direct causal effect from better governance to better development outcomes. Consider an (one-standard-deviation) improvement in the rule of law from the low levels in Russia today to the middling levels in the Czech Republic, or a similar decline in corruption from that in Indonesia to that in Korea. Such would increase per capita income two to four times, reduce infant mortality by a similar magnitude, and improve literacy by 15–25 percent. And note that the differences in governance for these two pairs of countries are not very large. Much larger improvements in government effectiveness from the levels observed in Paraguay (well in the bottom quartile) to that in Chile

(well in the top quartile) would nearly double the development impacts just mentioned.

These impacts are illustrated (Figure 2) for four development outcomes and four measures of governance. The heights of the vertical bars show the difference in development outcomes in countries with weak, average, and strong governance, illustrating the strong correlation between good outcomes and good governance. The solid lines illustrate the estimated *causal* impacts of governance on development outcomes—the “development dividend” of improved governance.

Composite indicators of governance, based on existing sources of data, are powerful in drawing attention to governance issues. They are also indispensable for cross-country research into the causes and consequences of misgovernance. But they provide only a first benchmark of

Figure 2. The Development Dividend of Good Governance



Note: The bars depict the simple correlation between good governance and development outcomes. The line depicts the predicted value when taking into account the causal effects (Development Dividend) from improved governance to better development outcomes. For data and methodological details visit <http://www.worldbank.org/governance>.

where countries stand relative to each other on governance issues. They are a blunt tool for informed action to improve governance. To move to a more concrete stage of specificity and usefulness within a country, one needs to know much more about the country-specific policy and institutional failures reflected in perceptions of misgovernance. To construct useful action-oriented programming that improves governance, program developers need in-depth diagnostic tools (see specific section on diagnostics below for details). Against the above background, the remainder of the paper develops the following questions: How does corruption undermine governance and development? What is its underlying cause? What kind of diagnostic tools and approaches can best serve a country working to create honest, clean government?

Corruption and Development

Impact on Growth and Investment

The pernicious effect of corruption on development has been shown in many studies. Mauro demonstrated that corruption slows the growth rate of countries (1996). He found that if Bangladesh reduced its level of corruption to Singapore's, its average annual per capita GDP growth rate from 1960–85 would have been 1.8 percentage points higher, a potential gain of 50 percent in per capita income by 1985 (assuming growth of 4 percent per year).

What are the many channels for corruption to weaken economic growth? From many different studies, we synthesize the main economic costs of corruption in this brief list:

- misallocation of talent including under utilization of key segments of society
- less domestic and foreign investment
- distorted enterprise development and growth of the unofficial economy
- distorted public expenditures and public investments, and deteriorated physical infrastructure

- lower public revenues and lower prevalence of the rule of law as a public good
- overly centralized government

Unfair and Disproportional Impact on the Poor

Where corruption prevails, the poor receive fewer social services, such as health and education. It reduces total revenues available for social spending, distorts the allocation of public expenditures, and denies the poor equal access to public goods. Corruption also impairs the means to escape poverty by undermining property rights and creating a regressive bribery tax on small entrepreneurs. Corrupt regimes bias investment against projects that aid the poor. For example, they often prefer defense contracts to rural health clinics and schools. Further, abuse increases income inequality and poverty through lower growth, less effective social program targeting, unequal access to education, reduced social spending, and higher investment risks for the poor. Governance affects poverty through a variety of complex mechanisms, which are still partly misunderstood (see Table 1).

In-depth country analyses using the new governance diagnostic tools (see below) illustrate how corruption is, in effect, a regressive tax. In Ecuador and Latvia, poor households have to spend three times more in bribes, as a share of their income, than higher income households for access to public services. For example, Bolivian bureaucrats in agencies rife with corruption discriminate against the poor in terms of access to basic services.

Impact On Business

Bribery, sand versus grease? A common argument in academic literature is that bribes to circumvent bad government controls can act like *de facto* deregulation and, thus, have positive effects. This view may hold conceptually only in a very narrow sense if bad regulations are fixed independently of public officials' decisions. In reality, officials often have enormous discretion in customizing the type and amount of harassment of individual firms. Tax inspectors can inflate taxable income. Fire inspec-

Table 1. A Synthesis Matrix: Corruption and Poverty

<i>Proximate causes of poverty</i>	<i>How corruption affects proximate cause</i>
Lower growth	<ul style="list-style-type: none"> • Unsound economic/institutional policies due to vested interests • Distorted allocation of public expenditure • Accumulation of low human capital • Absence of rule of law and property rights • Governance obstacles to private sector development
Poor have small share in growth	<ul style="list-style-type: none"> • Government elite capture state policies and resource allocation • Regressive bribery tax on small entrepreneurs and the poor • Regressiveness in public expenditures and investments • Unequal income distribution
Impaired access to public services	<ul style="list-style-type: none"> • Bribery impairs access and quality of basic services for health, education, and justice—particularly to the poor • Elites capture political sphere
Health and education	<ul style="list-style-type: none"> • Negatively affects accumulation of human capital including infant mortality, literacy, etc.

tors can decide how many times to check a firm for safety “violations.” Data on more than 6,000 firms in seventy-five countries show that firms that pay relatively more administrative bribes eventually waste more, not less, in higher costs for investments and in time spent with bureaucrats. These administrative bribes are ultimately a disadvantage to the business community and to society as a whole.

Corporate Responsibility and Governance

Grand Corruption and Unbundling the Measurement of Corruption

Generally, misgovernance hobbles enterprise development. Smaller firms tend to bear the brunt of the bribery tax, as evidenced by a recent analysis

of about 3,000 enterprises in transition economies conducted jointly by the World Bank and the EBRD in mid-1999 (the 'BEEPS' survey). Indeed, it is found that smaller firms would be prepared to pay significantly more than their larger counterparts in taxes if their bribes could be reduced, suggesting their larger burden.

This research also provides insights into the link between political influence, corruption, and enterprise performance. This is done by 'unbundling' the measurement of corruption. The survey attempted to go beyond measuring the conventional or petty forms of corruption, and, thus, data on grand corruption were measured. In a number of transition countries, the survey finds that a minority of influential firms that purchased parliamentary laws, presidential decrees and/or undue influence at the Central Bank, and also inflicted a large indirect cost on the development of the rest of the enterprise sector. It was discovered that in what might be called high capture states, individual captor firms that purchase legislation do gain short-term benefits in the form of increased sales (and thus may see it in their interest to continue such practices). In contrast, the costs to society are extremely high. As state capture illustrates, there are some types of bribery (related to grand corruption) that have a particularly pernicious cost on welfare. It skews the pattern of capital accumulation towards the firms buying influence, distorting employment patterns, and slowing growth.⁴

The evidence from this survey also underscores the high prevalence and cost of another grand form of corruption, namely kickbacks for public procurement. A very large number of firms (including foreign multinationals) engage in this practice in order to secure public sector contracts, and the percentage 'fee cut' paid for corrupt contracts is rather significant as well. This practice is also very costly in overall social terms.

More broadly, the survey results indicate the investment climate remains poor where these practices prevail. Firms in the CIS, such as Russia and Ukraine, are still reporting serious weaknesses in the investment climate. Problems with taxes and regulations are consistently

identified as extremely serious obstacles to business by most firms in transition economies. Even as the elite corporate sector in a number of transition countries could play a more active role to improve corporate responsibility, so arbitrary state regulation, unpredictability of government policies, and a weak legal system provide a breeding ground for corruption and undermine governance at the national level. Hence, the imperatives of state reform as well as improved practices from the corporate sector.⁵

Throughout the region, the survey shows that the greater the extent of grand corruption, the weaker the investment climate (investing fewer resources in public goods like infrastructure, regulatory institutions, and law and order), the lesser the protection of property rights and security of contracts, and the more business management wastes time in negotiations with public officials. Reflecting the cost of corruption, more than 50 per cent of the Russian and Ukrainian firms surveyed said they were willing to pay *more taxes* if the government could reduce levels of corruption and crime.

The Responsibility of Foreign Investors

An important finding from the BEEPS survey is the extent to which firms with foreign direct investment (FDI) also tend to use bribery as part of their corporate strategy, for instance, in order to secure public contracts. The extent of bribery by firms with FDI in most categories is no lower than for fully domestically financed firms.⁶

If we look at developments across the transition economies as a whole, instead of despair, the results from many countries suggest real hope. High corruption is neither endemic to the process of transition, nor an inherent historical or cultural trait of the region. The business environment survey shows tremendous variation across transition economies in the extent of corruption and the quality of governance. There is much to learn from the positive experiences of this decade. Estonia and Poland are illustrations of these experiences where promo-

tion of new private sector development, strengthening the capacity of the state, and enhancing the accountability of government all have played key roles in improving governance and limiting corruption.

Causes of Corruption

Empirical studies on the causes of corruption are relatively new, and the empirical link from corruption to development is yet to be fully understood. But evidence is emerging to suggest that some determinants of corruption are important. This evidence supports the notion that corruption is a symptom of deeper institutional weaknesses.

Absence of Political Rights, Civil Liberties, and the Rule of Law

Political rights (democratic elections, a legislature, opposition parties) and civil liberties (free and independent media, freedom of assembly and speech) are negatively correlated with corruption. Figures 3 and 4 show how more civil liberties and freedom of the press correlate with less

Figure 3: Civil Liberties and Bribery

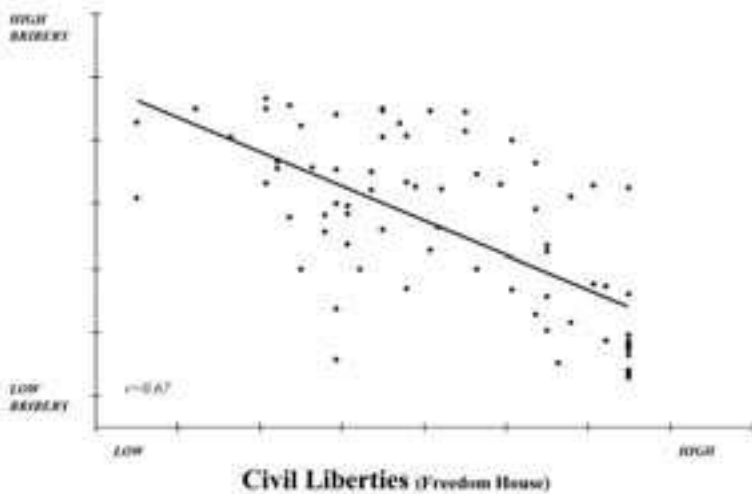
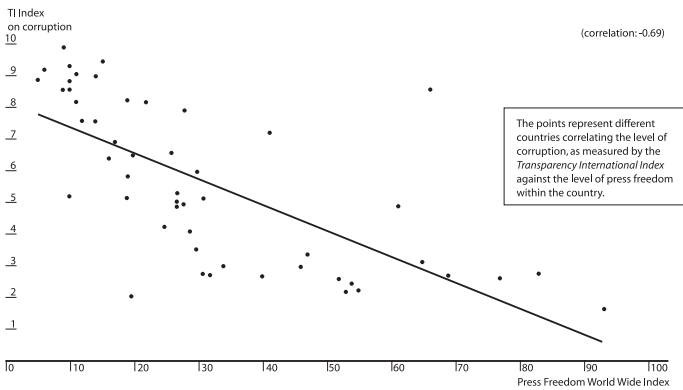


Figure 4: Press Freedom and Control of Corruption



Source: World Bank Institute, "Core Course in Controlling Corruption," 1999.

corruption. Increasing evidence points to the importance of empowering civil society in addressing corruption and that inclusion of women (whether measured in parliamentary representation, social rights, etc.) does help. Devolution from the center to the localities, such as fiscal decentralization, also matters. Similarly, the evidence points to a significant association between the rule of law (protection of property rights, independent judiciary, judicial resolution of conflict) and corruption. But the direction of causality is ambiguous because many aspects of the rule of law are endogenous to corruption.

Role of Civil Liberties and Free Press in Controlling Corruption

PUBLIC WATCHDOG INSTITUTIONS. Public watchdog institutions alone are not always the solution. The overall success record of such public watchdog bodies is mixed at best, with the notable exception of the Hong Kong Independent Commission Against Corruption. Even in Hong Kong, where the ICAC has been effective, the fact that other

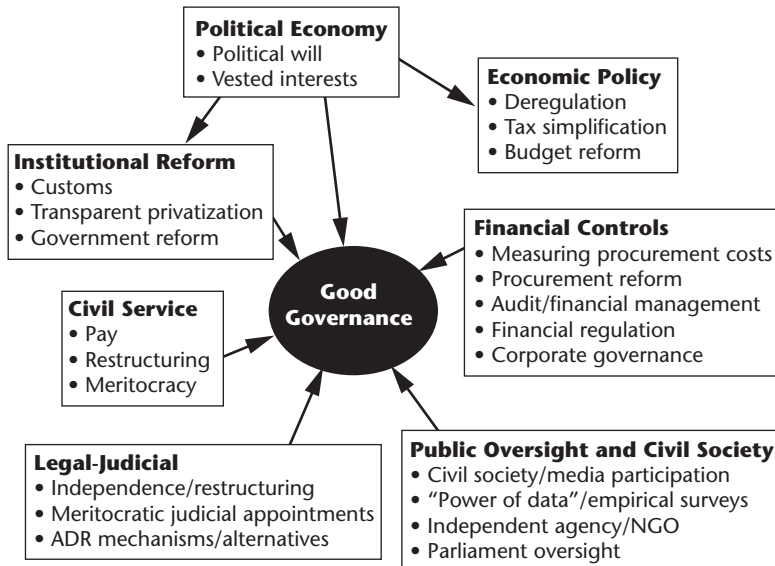
broader reforms took place simultaneously has been under-emphasized. And in other settings the necessary political independence and ability to work collegially with the citizenry by such public agency was often missing. Even where a watchdog may have a rationale, it is critical that it is part of a much broader program of institutional reforms and civil society involvement.

PUBLIC FINANCE AND REGULATION. Empirical studies also show that corruption is higher where there is:

- a high degree of state ownership in the economy;
- excessive business regulation and taxes;
- arbitrary application of regulations;
- high black market exchange rate premiums and trade restrictions, protectionist and anti-competition measures;
- ineffective regulation in the financial sector and in budgetary processes; and
- a monopolistic economy.

CIVIL SERVICE. Civil service professionalism—including training, hiring, and promotion systems—also appear to be associated with less corruption. Contrary to conventional wisdom, the evidence on civil service pay is ambiguous. Better public sector salaries on their own may not explain a significant reduction in corruption. In agencies with better pay (in Ecuador, for example), there is no lower incidence of corruption. Indeed, in many settings the most damaging corruption is committed by powerful politicians and government officials. Meritocracy in hiring, promotion and firing within an agency is associated with less corruption, as is transparency and absence of arbitrary discretion. These contrasting results (on salaries vs. meritocracy, transparency and lack of arbitrariness in one in-depth study, agency by agency, in a Latin American country) show the need to conduct in-depth empirical diagnostics in a country intent on formulating a serious anti-corruption program.⁷

Figure 5: Multi-pronged Strategies for Improving Governance, Good Government, and Combating Corruption



A Multi-Faceted Strategy to Improve Governance

A number of things are known as to what is needed to improve governance and reduce corruption—an independent judiciary, the rule of law, good institutional and public sector management, the institutional oversight and involvement of civil society, deregulation and tax and budgetary reform, and financial and procurement reforms (Figure 5). There is much less certainty about how to put them together for the most impact. What types of changes are feasible under what political conditions—and how should reforms be sequenced?

*Towards a Multipronged Strategy*⁸

Given what is known about the main determinants of corruption, what kind of programs towards better governance may have an impact? The emerging lessons suggest that reducing corruption and improving governance requires a system of checks and balances in society that restrain arbitrary action by politicians and bureaucrats and foster the rule of law. Institutional arrangements that diffuse power and promote accountability and transparency are key to a system of checks and balances. Furthermore, the recent work on state capture highlights the need to place checks and balances on the elite corporate sector through promoting a competitive market economy. Another salient feature of a strategy is a meritocratic and service-oriented public administration.

PROMOTING COMPETITION AND ENTRY. In many transition and developing countries, one source of grand corruption comes from the concentration of economic power in monopolies that then wield political influence on the government for private benefits. The problem is particularly acute in natural resource-rich economies, where monopolies in oil, gas and aluminum for instance, wield considerable economic and political power that leads to different forms of corruption—nonpayment of taxes, nontransparent offshore accounts, purchasing licenses and permits, purchasing votes and decrees that restrict entry and competition.

TOWARDS A SOCIAL CONTRACT: FACILITATING CIVIL SOCIETY OVERSIGHT AND PARTICIPATION. Civil society oversight and participation in the decision-making and functioning of the public sector have been a crucial counterweight and instrument to combating corruption and improving governance. This involves making the state transparent to the public and empowering the citizenry to play an active role. Countries such as Sweden, Norway, Denmark, and Finland have been in the forefront in transparency reforms. But public-sector culture in many transition and developing countries fosters secrecy of decision-making.

In much of the CIS, for example, parliamentary votes are not publicly disclosed, public access to government information is not assured, and judicial decisions are typically not available to the public. Moreover, despite a growing civil society, governments typically do not involve NGOs in the monitoring of decisionmaking processes or performance. Concentrated media ownership and recent restrictions on news reporting have weakened the ability of the media to ensure accountability of the public sector.

Changing to a transparent culture involves a fundamental change in the way decisions in the public sector are taken. The types of transparency reforms that have been effective internationally include:

- ensuring public access to government information (freedom of information);
- opening certain government meetings for public observation;
- conducting public hearings and referenda on draft decrees, regulations, and laws;
- publishing judicial decisions;
- strengthening the system of administrative appeals (a process to adjudicate wrongful state decisions);
- ensuring freedom of the press by prohibiting censorship, discouraging public officials' use of libel and defamation laws to intimidate journalists, and encouraging diversity of media ownership;
- inviting civil society to monitor its performance, especially the implementation of politically difficult reforms such as anticorruption and key public procurements.

Civil society's role ought to be seen as dynamic and providing an opportunity to political leaders intent on building the credibility of the state, by recognizing its potential in coalition-building and collective action. For instance, new activities in many countries where the World Bank is working, in collaboration with donor agencies and local institutions, involve supporting the collective team work of civil society, the media, experts, the private sector, the reformists in the executive and

legislative in formulating governance and anti-corruption reform programs. The process of positive involvement by the key stakeholders in civil society creates a momentum towards ownership and sustainability of the reforms, and builds credibility (as has occurred in some countries in Eastern Europe and in Latin America).

ENSURING ACCOUNTABILITY OF THE POLITICAL LEADERSHIP. Closely related to the above, the political leadership needs to demonstrate its commitment to fighting corruption by public disclosure and transparency of its own financing, income and assets. In several advanced market economies and democracies in the OECD, this has entailed

- requiring public disclosure of votes in parliament;
- reviewing desirability of parliamentary immunity;
- requiring public disclosure of sources and amounts of political party finance;
- requiring public disclosure of incomes and assets of senior public officials and their key dependents;
- preventing conflicts of interest for public officials;
- protecting the personal and employment security of public officials who reveal abuse of public office by other officials in their organizations (whistleblower statutes).

BUILDING A MERITOCRATIC AND SERVICE-ORIENTED PUBLIC ADMINISTRATION. Cross-country evidence conclusively shows that recruiting and promoting on merit (as opposed to political patronage or ideological affiliation) is positively associated with both government effectiveness and control of corruption. While achieving change will take time, effective reforms in this area have included: creating independent, professional institutions with checks and balances and introducing a comprehensive performance management system, with pay and promotion linked to performance. (In Malaysia and Thailand, this led to increased recruitment and retention of managerial and professional staff,

and to increased effectiveness in civil service performance.) Pay levels for managerial and key professional staff need to be broadly competitive with the private sector, and often allowances and non-cash benefits need to be simplified, monetized and made transparent.

Experience shows that exposing public administrations to pressures and demands from their clients, both from the private sector and from citizens, has a major impact on improving service delivery and public administration effectiveness. Reform measures in this area could include setting and publishing service standards; assessing Ministry/agency performance against these standards through in-depth diagnostics (including of public officials), of client surveys, and publishing the results; setting up a wide range of user groups and consultative bodies; and developing Internet-based approaches to delivering services. These measures proved extremely effective in generating demands from customers and an increased service orientation in the United States, the United Kingdom, and Malaysia.

ENSURING TRANSPARENCY AND ACCOUNTABILITY IN PUBLIC EXPENDITURE MANAGEMENT. Basic systems of accountability in the allocation and use of public expenditures constitute a fundamental pillar for a good and clean government. Accountability in public expenditure management requires the following: (1) a comprehensive budget and a consultative budget process; (2) transparency in the use of public expenditures; (3) competitive public procurement; and, (4) an independent external audit.

Many countries face problems of budgetary transparency, where a large proportion of expenditure remains off budget, major areas of budget expenditure do not pass through the Treasury system, and there is substantial recourse to extrabudgetary funds and a lack of any effective system of controlling expenditure commitments, leading to persistent accumulation of budgetary arrears. Several countries in transition have made progress in addressing these problems with comprehensive Treasury reform programs, such as Latvia and Hungary. Further, the

budget must first have comprehensive coverage of Government's activities. Second, disclosure matters: many developed countries publish frameworks for public expenditure strategy.

TRANSPARENT AND COMPETITIVE PUBLIC PROCUREMENT. Corruption in public procurement is pervasive in transition and developing economies. Reducing corruption requires adhering to strict discipline in terms of transparent and competitive bidding of major contracts, maximizing the scope of public oversight and scrutiny. In order to make the process of government procurement more efficient and curb corruption, three Latin American countries (Mexico, Chile and Argentina) have recently adopted electronic government acquisition systems. All procurement notices and their results are placed on a publicly available website. There are other important innovations taking place as well, relating to activist external monitoring. NGOs are increasingly playing a role in spearheading public audiences for setting out the rules of the game for large scale procurement projects (such as in Argentina and Slovakia) and throughout the transparent bidding process itself (including Transparency International's integrity pledges). The World Bank has also taken a very active role in aggressively pursuing firms engaged in misprocurement in projects. In fact, publicly delisted firms engaged in corrupt procurement are available on the Bank's website.

ESTABLISHING INDEPENDENT EXTERNAL AUDIT. Several Eastern European countries have established Supreme Audit Institutions (SAIs) which are genuinely independent, with constructive impact on public financial management systems (Czech Republic, Poland) In the Czech republic, audit reports are not only published and presented to the legislature, but the report is discussed in Cabinet along with a proposed plan for corrective actions, in the presence of the SAI and relevant ministers. This is in sharp contrast to many African countries, where the SAIs are not

Box 1: Promoting Rule of Law: Alternative Mechanisms Needed?

The rule of law, according to the *New Palgrave Dictionary of Economics and the Law*, is defined by opposing it to the rule of powerful men or women. This helps in understanding the challenge in many countries, where powerful politicians or leaders often influence the practical operation of judiciary, legal enforcement institutions, police, and other official legal bodies. As we observed in Figure 1 above, there is enormous variation around the world (and across and within regions) in the quality and application of rule of law from the public sector.

Despite their training and education, many judges and other personnel are prone to capture by politicians and corrupt interests. In such contexts, the legal institutions are an integral part of the governance problem—and not a part of the solution. This reduces the relevance of conventional advice on improving governance through creation of institutions such as an ethics office, passing yet another string of anti-corruption laws, providing technical assistance in the form of computers or other hardware, or sending sitting judges on study tours and to conferences. Instead, innovative approaches and alternative mechanisms to improve governance are more effective such as alternative dispute resolution mechanisms; more systematic NGO involvement in monitoring and the development of alternative institutional arrangements; and exploiting more fully the power of empirics and informatics within and outside the public sector.

independent and where both they and the legislatures lack the capacity to exercise effective oversight.

*SUBNATIONAL GOVERNANCE: WORKING FROM THE BOTTOM UP*⁹—*PARTICIPATORY COALITION-BUILDING FOR MUNICIPAL REFORMS*. In many countries, the central government is reluctant to engage in anti-corruption reform because of the political risk. One way some countries have tried to reduce this risk is by piloting governance reforms at the local level. In a pilot municipality in Venezuela, for example, substantial reductions in corruption and poverty and an increase in business activity were achieved within

a short two-year period. This record has sparked interest in various countries replicating this pilot on a wider scale.

Large countries facing daunting governance challenges like Russia and Ukraine are attractive candidates to selectively explore and advise on further reforms at the subnational/municipal level. Competition for investment has provided an incentive for some regions and cities to undertake radical transparency reforms, and for others to begin trying to replicate their successes. While this process has emerged spontaneously (for example, in Obninsk, a small city outside of Moscow, and some settings in Latin America), it is slow and can benefit from information and incentives provided by the Federal Government. At the subnational level there is also much untapped potential to form coalitions between local government and civil society for improving governance. The demonstration effect of grassroot participatory programs that spearhead transparency reforms in coalition with reformist city managers could be dramatic, in Russia and beyond.

Diagnostic Tools

The collection, analysis, and dissemination of country-specific data on corruption are altering the policy dialogue on corruption and empowering civil society through collective action.

Yet important challenges remain regarding further progress with the survey diagnostic instruments. One is to continue to refine the method for transforming survey evidence into reform priorities by attaining the appropriate balance between in-depth governance survey data analysis, complementary information from other sources, and the participatory coalition-building work of civil society, the executive and the private sector. Strategies to complement in-depth empirical diagnostic surveys include focus group discussions of governance diagnostics and assessments of a country's readiness to reform—assessments that look at the impact on key stakeholders of reforming particular policies and institutions.

Box 2: Governance and Survey Diagnostic Tools*

The first set of governance and corruption diagnostic surveys was conducted in Albania, Georgia, and Latvia. (More recently, surveys have been carried out in other countries, enabling cross-country comparisons and correlations, thus significantly expanding our understanding of corruption and its causes.)

These surveys ask various key stakeholders (*citizens* [service delivery users], *enterprises*, and *public officials*) detailed questions about the costs and private returns of misgovernance and corruption. Confounding skeptics who claim that parties to corruption would systematically underreport it, these studies demonstrate that respondents are willing to discuss agency-specific corruption with remarkable candor, while firms also volunteer detailed information about bribery and misgovernance.

Of particular relevance to policy formulation is the variation across countries in the types of corruption: in Georgia, the most common form of corruption was embezzlement of public funds while in Albania, it was theft of state property. Bribery in procurement was common in all, as were other types of corruption. Weakness in the judiciary was identified as one of the primary causes of corruption in Albania, while regulatory failures were relatively more serious in Georgia and Latvia. Moreover, a significant share of petty bribes in all three countries was paid to officials to avoid taxes, customs duties, and other liabilities to the state. In Albania and Georgia, lost fiscal revenues were substantial, as tax payments and other liabilities due the state were crowded out by petty bribes.

When the data from the surveys were presented in workshops to members of the business community and civil society, the policy debate abruptly changed from vague, unsubstantiated, and personal accusations to a focused discussion on systemic weaknesses substantiated with empirical evidence, thus promoting more targeted and country-specific reforms.

* This box and much of the section on survey diagnostics is an abridged version of PREM Note 7, "New frontiers for diagnosing and combating corruption," October 1998. For additional results of these in-depth diagnostics, refer to new diagnostics in Latin America and Asia. For the full version of this Note, and the Step-by-step Guide to implementation of Governance and Anti-Corruption Survey Diagnostics, see in <http://www.worldbank.org/wbi/governance/>.

A second challenge is to develop a more effective strategy for implementing the reform agenda. Once survey data are in hand, the government must begin the more difficult task of introducing reforms to root out the sources of corruption. A natural temptation is to simply ask for the resignation of the senior officials who manage the most corrupt agencies. But corruption is too pervasive and systemic to disappear with a few individuals.

A third challenge is to sustain the reform effort with broad-based participation involving all government branches, civil society, and the business community (see Box 2). The government may then be able to promise reform by allowing private competition alongside public provision of some services (for example, private forms of alternative dispute resolution to compete with the judiciary). Data collection needs to be institutionalized, so that statistics on agency-specific corruption can be tabulated annually. Broad dissemination of the statistics can further empower stakeholders to use this information to continue the reform.

The next frontier is to further deepen the design of agency-specific surveys and other empirical tools to complement existing methods and deepen agency-specific reforms. Through new survey instruments we are collecting detailed information on behavior in even the most dysfunctional government agencies and in the delivery of specific services. Further, hard procurement price comparisons can complement this information. Used with other empirical devices, such diagnostic surveys can focus the political dialogue on concrete areas for reform and rally civil society behind reform efforts. Finally, the new surveys increasingly attempt to measure grander forms of corruption, for example state capture through the purchase of legislation. Equally important, such measurement is increasingly cardinal, i.e. in numerical scales, moving it further away from the less precise subjective and ordinal indicators of conventional polls of the past. An illustration of this effort of measuring ('cardinally') grand corruption is in the BEEPS survey for transition economies mentioned above.

Box 3: “Voice” As a Mechanism to Enforce Transparency and Accountability

Client and citizen surveys that incorporate feedback from citizens have helped to improve public sector performance in many countries. Generating data and disseminating it widely can be a potent instrument to mobilize civil society and apply pressure on political structures. Simple comparative charts illustrating findings on corruption helps mobilize and give voice to previously silent and disparate citizenry groups. The scorecard invented by Sam Paul in Bangalore, India embodies this approach, entailing periodic citizen evaluations of local public services and of bribery and extortion. It has led to improved service delivery. Similar initiatives have taken place in Campo Elias, Venezuela, and Ternopyl, Ukraine.

In the past, citizens in Mendoza, Argentina, have participated in drafting transparent rules governing public procurement, and more recently similar reforms have been taking place in Buenos Aires. A number of localities throughout the world have embraced similar participatory process, notably the city of Porto Alegre, Brazil. As part of its pioneering system of participatory budgeting, the city holds assemblies that discuss expenditure priorities for education, health, public transit development, taxation, city organization, and urban development. They then elect members to a citywide participatory budgeting council, which in turn decides the city’s investment plan.

This type of self-diagnostic data—used by a variety of in-country stakeholders and disseminated through participatory workshops—has mobilized broader support for consensus-building and collective action for institutional reforms. Albania’s national governance workshop took place at the same time as the semifinals of soccer’s World Cup in France. The workshop was presided by the head of government, with the cabinet and hundreds of civil society stakeholders participating. It featured the presentation of the main findings of the in-depth diagnostic results, a debate on the priorities for action, and a concluding commitment by the

leadership to a pro-governance program. The next day, the front pages of all newspapers in Tirana featured charts showing the results of governance diagnostics, with detailed reporting inside. The World Cup soccer results were relegated to back pages. Today, Albania is carrying out a serious anti-corruption program, featuring judicial and customs reform, with support from the World Bank.

Bolivia, Georgia, and Latvia have also progressed from diagnostics to concrete action. In Bolivia civil service and procurement reforms are being emphasized. In Latvia tax, regulatory and custom reforms are priorities. In Georgia, following the abysmal results for the judiciary in the diagnostic surveys, President Sheveranadze decided that all judges had to be re-tested—on television! Two thirds of the judges failed the exam and have been replaced.

In other countries, similar efforts are taking place at the municipal level, as in Ukraine, where surveys and specific actions are being elaborated for several cities. Pioneered in Bangalore, India, a report card allows citizens to evaluate the quality of local government services. And in Campo Elias, Venezuela—thanks to the leadership of the mayor, a courageous woman who believes in the power of governance data to inform and mobilize for action—the reported incidence of corruption has been halved.

So, data are powerful in mobilizing support for reforms, but the vested interests resisting them are powerful as well. That is why political leadership, civil society, the competitive enterprise sector, and the donor community need to build on the insights and momentum generated by the diagnostics, move from diagnostics to action, and make progress on the ground.

Conclusion

Misgovernance and corruption can yield to knowledge—and an informed citizenry. Indeed, a key pillar is empowering civil society with more rigorous and reliable information. Transparency is important in this context. Research shows that the greater the participation of private agents in ownership and management, the better the service performance.

Empirical research with the thousands of World Bank-financed projects also shows that participation and civil liberties are vital for improved performance of government projects in emerging markets. The obvious challenge is finding the means of doing so. When this is possible however, numerous experiences have demonstrated that listening to the voice of stakeholders can have a considerable impact.

Governance needs to be understood in a broader context than merely fighting corruption. Misgovernance distorts policymaking and misallocates human and physical resources, in turn slowing income growth and increasing poverty. The many failed capacity-building approaches and investments in the past did not pay enough attention to fostering good governance, to controlling corruption, or to the understanding of the political economy of institution building. Governance needs to enter center stage in institution-building strategies, and within them, develop an understanding of the particular vested interests by different influential groups. Further, focus is needed on recognizing that incentives, prevention and systemic change issues within institutions plays at least as important a role as traditional legal or individualized enforcement initiatives.

Governance and participation will be key for an improved approach to technical assistance and capacity building in the future. In turn, improving governance ought to be seen as a process integrating three vital components, which can be encapsulated in a simple formula, $IG \ \& \ AC = KI + LE + CA$, meaning that **I**mproving **G**overnance and **A**nti-**C**orruption can be addressed by a combination of

- **K**nowledge (with rigorous **I**nformation, data and empirical analysis, including in-depth, in-country governance diagnostics and the ability to effectively utilize worldwide data);
- **L**eadership, (the example of effective political leadership with integrity), and
- **C**ollective **A**ction (via systematic participatory and consensus-building approaches with key stakeholders in society, leading to a social contract of sorts).

The evidence also points to the need for an integrated, more comprehensive approach to improve the effectiveness and integrity of government and to provide a climate for successful development. Economic institutions, such as the budget and the nature of public investment programs are as important as sound macroeconomic policy measures, as are the civil liberties and participation with which they interact. That underpins the case for a more comprehensive (à la CDF) approach, interlinking economic, institutional, legal, and participatory variables.

Within this context, it is important to emphasize also the role of the corporate sector, both domestically and internationally. As reported through new survey results, corporate responsibility (or lack thereof) can have an important impact on diverse strategies by the corporate sector (including FDI) in either improving or undermining national-level governance. The corporate sector, abroad and domestically, has an active role to play in any social compact with civil society, the executive and the legislature within a country so as to improve overall governance. At the same time, with the importance of decentralization, initiatives at the sub-national level are becoming increasingly relevant, and thus municipal-level initiatives need to be emphasized—where feasible, integrated into national level programs.

Participation and voice are vital in increasing transparency, providing for the necessary checks and balances, and diminishing state capture by the elite's vested interests. It is not enough to aim at getting basic economic policies right 'in paper' without recognizing the political economy forces at play. For an enhanced focus on attaining sustained growth and modernization through institution building, a concerted approach integrating rigorous empirical understanding of the governance challenges within a country, with participation by all key stakeholders—possibly within a context of a 'social contract'—championed by the country's leadership is likely to bear fruit.

Notes

1. The work of various sections in this paper draws on a number of collaborative projects at the World Bank that include the author and, notably, Phyllis Dininio, Maria Gonzalez de Asis, Aart Kraay, Sanjay Pradhan, Randi Ryterman, and Pablo Zoido-Lobatón. In addition, Joel Hellman and Geraint Jones at EBRD, and Luis Moreno Ocampo of Transparency International-Latin America have made significant contributions. Special credit is also due to the Governance Group at the World Bank Institute and the collaborative programs with regional colleagues at the World Bank, institutes and experts in the emerging countries we are working on and collaborating with, and partner donor agencies in our work on governance and anti-corruption programs. This work also draws from a chapter in the forthcoming book *The Quality of Growth*. The data presented originates from various enterprise surveys (as well as outside expert rating agencies) and are subject to a margin of error. The purpose is not to offer precise comparative rankings across countries, but instead to empirically illustrate characteristics of governmental and corporate performance in order to assist in drawing implications for action. Views, errors, and omissions are the responsibility of the author, and the views expressed here may not necessarily reflect those of the institution or its executive directors. For suggestions/further details, contact author at dkaufmann@worldbank.org or <http://www.worldbank.org/wbi/governance>.
2. See *World Development Report 1997*.
3. For details see Kaufmann, Kraay and Zoido (KKZ) 1999a and b, “Aggregating Governance Indicators,” and “Governance Matters,” (respectively), Policy Research Papers 2195 and 2196, The World Bank, (<http://www.worldbank.org/wbi/governance>).
4. For more information see J. Hellman, G. Jones, and D. Kaufmann “Seize the State, Seize the Day: An Empirical Analysis of State Capture and Corruption in Transition,” Paper presented at the World Bank’s 12th

ABCDE 2000 Conference, April 2000 (<http://www.worldbank.org/wbi/governance>).

5. For an in-depth discussion see J. Hellman, G. Jones, D. Kaufmann, and M. Shankerman “Measuring Governance, Corruption, and State Capture: How Firms and Bureaucrats Shape the Business Environment in Transition Economies,” *Policy Research Working Paper 2312*, The World Bank, April 2000 (<http://www.worldbank.org/wbi/governance>).
6. Thus, the progress on ratification of OECD anti-bribery legislation, at least thus far, does not seem to be a significant deterrent to foreign direct investment. This points to the importance of focusing on transnational bribery as well, and transcending the mere passage of new laws by focusing not only on the enforcement of such laws but also on complementary measures.
7. Other factors in the empirical work on causes of corruption appear to be important as well. As expected, income per capita and education, when other factors are constant, are correlated with lower rates of corruption. There are exceptions, however. It may be that general developmental variables are mere proxies for more specific determinants of corruption such as the quality of public sector institutions or the rule of law. See Ades and Di Tella for a very useful review. Most of the new studies synthesize the results of cross-country research and are indicative rather than definitive. Additionally, there is the serious challenge of corruption being endogenous and important *country- and regional-specific factors*. For instance, evidence suggests that administrative bribery is more prevalent than judicial malfeasance in former socialist economies. This is a reflection of bloated bureaucracies in many of these countries and of over regulation and weak judiciaries. In Latin America, by contrast, there has been considerable economic and regulatory reform, but less judiciary reform.
8. I owe much of this section to the partnership, specific inputs, and collaborative work with Sanjay Pradhan, Randi Ryterman, and the ECA team at the World Bank.

9. For further details (and acknowledgement of their inputs), see writings and inputs by Maria Gonzalez de Asis, Sanjay Pradhan, Randy Ryterman and Shang-Jin Wei on these issues.

Background Reports

Donor Guidelines

Procedures and Guidelines of Donor Agencies to Prevent and Suppress Corruption

Sahr Kpundeh

CORRUPTION IS INNATELY A COMPLEX phenomenon. It is neither defined nor explained by dishonest individuals and the consequences of their behavior. It is an intricately woven set of circumstances that occur as a result of the actions of domestic as well as international actors within the political, economic, and social sectors of a country. Consequently, collaboration and coordination among the members of the international development community are increasingly crucial to an effective campaign to reduce corruption. A solid commitment from the government, the private sector, and civil society along with institutional changes are required to develop and enact concrete solutions—solutions that include both preventive as well as punitive measures, which address accountability, transparency, and system inequities, politically and economically. As a catalyst to ensure sustainable reform, now more than in any other endeavor, international development should focus on integrity in governance.

This paper reviews the procedures and guidelines of multilateral agencies such as the World Bank and the United Nations Development

Programme (UNDP), and some country directives such as the Swedish International Development Agency (Sida) directives and the Norwegian Agency for Development (NORAD) approaches designed to reduce corruption in the projects they support. This paper will use the World Bank's approach as a template to provide a context for discussing other policies as it is an example of a comprehensive organizational approach to reform. It is designed not only to prevent corruption in Bank supported projects, but more important, it establishes an exhaustive set of preventive guidelines against corruption.

However, the Bank's mandate does not extend to the political aspects of controlling corruption. Its general counsel drew attention to this limitation in 1997 saying, "The only legal barrier in this respect is that the Bank and its staff must be concerned only with the economic causes and effects and should refrain from intervening in the country's political affairs." And although it is clearly recognized that engaging civil society is crucial for controlling corruption in the long run, there are also limits on the Bank's ability to directly support civil society's efforts.

The Bank has four fundamental aspects to its new strategy. They are (1) mainstreaming anti-corruption activities; (2) preventing abuse in bank-financed projects; (3) helping bank-supported countries to combat corruption; and (4) lending voice to international efforts.

Mainstreaming Anti-Corruption Activities

The World Bank's Approach

According to published World Bank documents, Bank staff has begun more explicitly to consider corruption in its economic work, including processes such as country strategy formulation, lending, economic and sector work, research, and country dialogue. A key thrust of mainstreaming has been to address governance and corruption explicitly in the Country Assistance Strategy (CAS). The CAS provides the framework for reform programs and is the fundamental vehicle to articulate concerns about abuse in Bank supported operations. In 1997,

management required that every CAS contain a diagnosis of each country's governance conditions and an assessment of project risks. As a result, corruption and governance have increasingly become part of the dialogue between Bank and country officials. To guide bank management, they consider the following factors in their lending and disbursement decisions:

1. the likelihood of corruption in Bank projects during or following their design and implementation;
2. the extent to which development objectives are compromised;
3. government's willingness to control corruption if it threatens the effectiveness of Bank projects and/or economic and social development.

According to published Bank documents, mainstreaming also emphasizes building internal capacity through training, research, and analyses—the development of new diagnostic tools and knowledge management. The training programs for operational staff range from orientation courses on the Bank's anti-corruption strategy to brown bags and seminars that routinely invite external experts to discuss a multiplicity of reform elements. These training programs promote awareness and generate discussion among Bank staff, exposing them to the latest policies, procedures, knowledge, and resources. Additionally, various units within the Bank conduct corruption-related research to contribute to the global knowledge and resource pool.

The United Nations Development Programme

According to *Fighting Corruption to Improve Governance*, a UNDP policy document, UNDP's approach to corruption is much broader than strategies used by the World Bank and other donor agencies primarily because their support is not conditional. Its approach is to build trust and confidence by working with governments to identify and pursue appropriate policies through open and participatory dialogue with other stakeholders. Unlike the World Bank, UNDP focuses less on building its internal capacity to deal with corruption, either through staff training

and/or research. It focuses more on creating an enabling environment for sustainable change by fostering an open and effective relationship between the state, the private sector, and civil society. This includes creating partnerships and building coalitions to fight corruption. They also help national institutions strengthen transparency and accountability, and assist in mobilizing resources for programs to improve institutional integrity.

Swedish International Development Agency

According to Sida's Directives to Promote Good Administrative Practice and Counter Corruption, this agency approaches reform by developing a country strategy similar to the Bank's CAS. For example, prior to project acceptance, Sida's management conducts studies in at-risk country sectors. These data are used as a basis for Sida's strategy development, which includes in-depth discussions about potential areas of society where Swedish support can maximize its contribution. However, like the UNDP, there is little emphasis on building internal capacity to deal with corruption and/or promote awareness among staff.

Norwegian Agency for Development

NORAD's Anti-Corruption Action Plan 2000-2001 indicates that the fight against corruption is prominent on the agendas with partner countries. According to this document, the agency has linked it with other good governance issues, such as democracy, respect for human rights, and public sector reform. They conduct training to raise staff awareness about corruption and good governance.

Preventing Corruption in Projects

The Bank's Approach

According to published documents, the Bank will ensure that its projects "set an example of best practice" by strengthening its procurement and disbursement procedures. This includes greater emphasis on borrower

accountability and government financial management systems. Bank management examines capacity, skills, and standards in both the private and public sectors and offers recommendations to strengthen capacity in these areas. Additionally, the Bank has tightened its oversight of the borrower's procurement processes, and as part of this move, the Bank now periodically launches in-depth surprise procurement audits of selected projects to identify weaknesses in the procurement supervision system. Internationally recognized independent firms conduct these audits. Failure to adhere to Bank procedure results in various penalties including revocation of the contract.

According to available Bank documents, new procedures have been established for debarbing contractors from future Bank-financed contracts. If contractors have committed fraud or corruption in the procurement or execution of Bank-financed contracts, the Sanctions Committee, appointed by the President, reviews the investigations and debars firms from bidding on Bank-financed projects. According to published Bank documents, independent firms hired by the Bank have audited a total of fifty-four projects. The audits have revealed a number of deficiencies ranging from a departure from agreed procedures and lack of proper documentation to institutional weaknesses. Consequently, the Bank has declared misprocurement on about forty contracts with a total value of \$40 million. A total of 45,000 contracts are financed by the Bank annually totaling roughly US\$45–50 billion. Additionally, it has instituted measures to keep its own house in order. For example, two major changes in 1998 strengthened existing efforts, the hotline and the Oversight Committee on Fraud and Corruption.

Hotline: A telephone hotline to report all allegations of fraud and corruption provides a central focal point within the World Bank Group. It accepts and investigates complaints of abuse recounted by Bank staff and the public both within the United States as well as internationally. The hotline operates 24 hours per day, seven days a week. It is operated by an independent firm staffed by multilingual,

trained specialists, who work within the guidelines of strict universal standards of confidentiality. Investigations that involve staff members are conducted in full compliance with staff regulations.

Oversight Committee on Fraud and Corruption: This group has the mandate to review all allegations, of fraud, or abuse that involve Bank Group-financed contracts. In other words, the new Oversight Committee on Fraud and Corruption is responsible for supervising all investigations into allegations of fraud, including those that concern World Bank Group staff. This committee also ensures these investigations are conducted promptly and responsibly and is charged to protect the confidentiality of investigations by establishing procedures that prohibit the improper use of information obtained during discovery.

The United Nations Development Programme

UNDP policy, according to published documents, requires that governments, stakeholders, and beneficiaries participate in the design and implementation of governance reform programs. By assisting countries in developing national capacities to articulate goals, policies and strategies, UNDP aims to elicit broad national support and consensus for their good governance programs. They also review administrative systems to ensure adherence to anti-corruption rules and procedures.

The UNDP, similar to the World Bank, has internal mechanisms to combat corruption in its operations. The Office of Audit and Performance Review (OAPR) evaluates the application of internal control measures and provides oversight against internal abuse. According to published documents, UNDP has instituted an array of management systems and procedures to deter and prevent corruption. However, it is not clear whether the organization has a stipulated policy on sanctions in case of corruption.

Swedish International Development Agency

Sida's administrative directives indicate that its primary method to prevent malfeasance is to improve the administrative, financial, and management capacity of the recipient countries. This technique allows Sida to utilize the logical framework approach (LFA) in project selection. It provides for a thorough and realistic examination not only of those project components that are crucial to implementation but also explores potential risks. Project administration is more intensely scrutinized and all proposals are systematically inspected to ensure compliance with current directives. The LFA aims to prevent fraud and abuse by requiring that support is contingent upon the partner country's ability to meet specific criteria. These criteria are determined through: a) examination of the partner's general administrative and accounting capacity; b) inspection of the project budget, including whether it is reasonable, and sufficiently detailed for follow-up and control; c) a review of procurement regulations; and d) examination of agreements that stipulate how Sida's control requirements are satisfied through periodic audits and reports.

Sida's administrative directives also highlight the organizations' internal controls, which are monitored by the Division for Planning and Control. The division supplies the instruments that secure transparent and efficient financial management of Sida's operations and resources; and allows independent staff to conduct internal audits.

Norwegian Agency for Development

According to NORAD's Anti-Corruption Action Plan 2000-2001, the agency's general commitment to transparency implies that it continues to work toward improved clarity in organizations. It outlines agency policy, which dictates all grants to governments, non-governmental organizations (NGOs), and others are accessible not only to the contracting parties but also to journalists and the general public. NORAD's grants are published on its Internet home page and all Norwegian Embassy home pages.

Furthermore, the action plan requires the revision of standard agreements and contracts to incorporate penalty clauses when they are breached due to corruption. Those penalties may include termination or repayment of illegally obtained funds. The action plan recommends augmenting preventive measures with tighter, highly visible monitoring of programs from their inception and endorses a revision of its ex-post control procedures as they allow donors to discover mismanagement only after it has occurred. It also provides better tender procedures, more qualified tender boards, and measures to control procurement and other corruption-prone areas as well as the application of more conventional control methods such as using an independent third party as the signatory to all major disbursements. However, unlike the World Bank, NORAD does not have concrete policies that help the agency prevent fraud and corruption in its own projects such as the Bank's hotline and oversight committees, which provide opportunities for staff and outsiders to report corruption in Bank projects.

Country Assistance

According to published information on the Bank's web page (www.worldbank.org/publicsector/anticorrupt/htm), it has a tradition of supporting public sector reforms to improve the efficient, effective, and transparent management of public resources. For example, the Bank addresses various aspects of policy and institutional reform that are probably critical in reducing corruption. These aspects comprise a multi-pronged approach to combating abuse, which include: economic policy and its implementation; institutional reforms and a framework for civil service employment; the legal-judicial system; financial control mechanisms; and the extent and nature of public oversight. Credible commitment by political authorities to the anti-corruption agenda is an important factor in obtaining the Bank's assistance in fighting corruption.

In addition to providing loans, grants, and expertise for economic policy reform and institutional strengthening, the Bank can supply special

assistance to aid anti-corruption measures. These include:

- help in the design of governments' anti-corruption programs;
- conducting surveys that diagnose the extent and character of corruption in a given country;
- disseminating the results of these surveys; and
- facilitating and providing workshops and training for government officials and members of civil society.

One limitation the Bank recognizes is that much of their emphasis has been on measures to improve financial management solely in Bank projects. Unfortunately, this approach does not necessarily create a capacity for better financial management outside the confines of the project.

The United Nations Development Programme

According to UNDP policy documents, its priorities include support for institutional development and reform in its overall goal of creating an enabling environment through good governance interventions. UNDP staff assists in constructing a framework for institutional change that fosters a relationship between state and civil society. Such a focus on institutional strengthening, it is hoped, may help countries understand corruption as a failure of governance with corrosive political and economic effects.

UNDP policy documents highlight numerous measures that have been established to design programs that effect change. Such programs address institutional and policy reforms; methods for reducing the motivation and opportunities for bribery and administrative regulation; plans to increase transparency through improved financial management; and opportunities to create a responsible, independent media. Like the World Bank, UNDP staff conducts studies and supports workshops that build and strengthen national capacities to develop and implement comprehensive anti-corruption reform strategies. As pointed out earlier, UNDP tends to focus less on training governments than it does on training members of civil society.

Swedish International Development Agency

According to Sida's directives, their development guidelines are centered on the idea that a cooperative partner has a decisive influence and responsibility for Swedish support. Sida's country assistance ranges from allowing partner countries to "own" the activity and construct development work, to jointly conducting administrative system surveys. Conclusions from these joint studies serve as the bases of program endorsement. Sida's guidelines carefully avoid allowing its oversight authority to control an activity, essentially creating a passive rather than an engaged cooperative partner. When countering corruption, the guidelines instruct the agency that it is particularly important to hold the cooperative partner accountable for the project idea and planning as this provides the best indication of the country's ability to implement the project.

Sida integrates its inter-governmental support with the government's budget and its reform activities with the partner country's administrative systems. The agency's main rule for public sector grants is that the financial support is included in the central government budget, and eventually channeled to the activity via the budget for the country's ministry of finance. Agency executives maintain this integration grants the country's public sector audit the obligation to oversee and examine how the funds are used. If financial administrative capacity is discovered yet controls are inadequate, so-called by-pass solutions are utilized, where funds are transferred to a third party to ensure they are used as intended.

Norwegian Agency for Development

NORAD's anti-corruption action plan for 2000-2001 suggests that reform assistance should not be limited to policy dialogue and subsidizing anti-corruption initiatives. NORAD should promote practices that minimize the scope of abuse and facilitate its cooperative development strategy. Briefly, the plan includes, among other things, the following recommendations:

- First, NORAD should offer assistance to partner countries to prepare a comprehensive anti-corruption strategy.

- Second, the agency should provide assistance to reduce corruption in public administration. Possible areas for support could be service delivery surveys; information/awareness raising campaigns; strengthening institutions such as the ombudsman function; and specific public sector reforms.
- Third, NORAD should assist partner countries in raising the risks and costs of being caught for corrupt actions. Most partner countries need comprehensive external assistance to strengthen the rule of law. Among the priority areas are police investigative training in economic (white collar) crime; modernizing the judicial system; and improving internal controls to curb corruption within the police force and judiciary.
- Fourth, NORAD should establish mechanisms for systematic collection, analysis, and dissemination of priority partner countries' experiences to prevent and combat malfeasance. Systematizing these experiences can aid others in the implementation of comprehensive anti-corruption programs.
- Finally, the action plan recommends that the agency review the state of corruption and governance in all twelve priority partner countries along with a few others, identified as pivotal partner countries with the purpose of
 - assessing the extent and forms of corruption in government, the private sector, and civil society;
 - assessing political will and government efforts to combat abuse;
 - identifying key players and potential partners;
 - identifying areas, institutions, and organizations eligible for support;
 - identifying “danger zones” in the existing development cooperation program to provide intense monitoring; and
 - identifying areas, sectors and programs in the continuing cooperative development approach in which it is feasible to integrate anti-corruption measures.

International Support

International organizations provide a forum to agree on common definitions and standards, and to coordinate actions. The Bank supports international efforts to control corruption including the Organisation for Economic Co-operation and Development (OECD) initiative to criminalize transnational bribery and eliminate the tax deductibility of bribes, and the related endeavors of both public and private sector organizations. According to published documents, the World Bank's approach has been to support international efforts by

- helping to coordinate both cross-border and in-country anti-corruption efforts;
- focusing the Bank's efforts on areas of its comparative advantage;
- forming strategic collaborations with other organizations;
- gathering and disseminating knowledge about corruption internationally; and
- developing and explaining Bank policy.

In addition to supporting the OECD initiative and disseminating information about the convention and its implications to borrower countries, the Bank also participates in a number of international reform efforts. For example, it collaborates closely with other Multilateral Development Banks (MDB) in the MDB Working Group on Governance, Corruption, and Capacity Building.

The United Nations Development Programme

According to UNDP policy document "Fighting Corruption to Improve Governance," the Management Development and Governance Division (MDGD) spearheads UNDP reform policies through its specific program on accountability and transparency (also known as PACT). PACT aims to build and strengthen capacities to improve accountability and transparency in the financial, political, and administrative spheres, thereby creating an enabling environment for good governance. According to a recent evaluation of the program, PACT is recognized on

a global level as an excellent program leader in the field of financial accountability for public expenditure, and has compiled an impressive network in this field. UNDP, like all international organizations, supports collective action in promoting good governance at the global level by collaborating with organizations such as the World Bank, Transparency International and other donors in co-sponsoring various conferences where best practices are shared. The most recent example is its support of the 9th International Anti-Corruption Conference in Durban, South Africa.

Swedish International Development Agency

In its desire to support low-income countries' efforts to combat poverty, Sida's directives require collaboration with other donors to promote good administrative practices. For example, in trying to understand the forms of corruption in a country prior to project selection, Sida requests information and advice from other donors, mass media studies, and information from a variety of other contacts.

Norwegian Agency for Development

According to its action plan, NORAD is committed to actively participating in international forums, where activists share their reform experiences. The aim is to transform NORAD into an international base for relevant knowledge and experience on how to prevent and curb corruption. It recommends NORAD cooperate with other organizations and institutions such as the World Bank, the United Nations, and Transparency International, leaders in systematizing experiences of global level corruption. NORAD has attached considerable importance to mechanisms that monitor the implementation of the recently adopted OECD convention, Combating Bribery of Foreign Public Officials in International Business Transactions. The same applies to the World Trade Organization's efforts to enhance transparency in the public procurement process.

Concluding Thoughts: Questions for Donors to Consider

It is clear from the descriptions above there are differences as well as similarities in approach and emphasis between the multilateral and bilateral agencies. One obvious question is what are the implications of these differences for recipient countries in terms of mixed messages and conflicts among donors? For purposes of discussions, a few issues to consider are outlined below.

Blacklisting

The World Bank currently has a list of firms that are ineligible for World Bank-financed contracts because of deficiencies ranging from departure from agreed procedures and lack of proper documentation to basic institutional weaknesses. Should bilateral and other donors adopt a similar system?

Hotline

Several donors have explicit directives against corruption especially in projects they support. However, sometimes their policies are unclear or are not user friendly. Should donors introduce a similar system like the World Bank's hotline to increase openness and provide recipient countries' citizens with specific procedures to report corruption within their projects?

Access to Information

Should donors consider encouraging governments to allow more transparency by making important financial information available on the Internet? For example, governments can publicize their budgets and accounts and other relevant information on development and even the laws relating to finance, regulations, and anti-corruption. Should donors start this effort by designing joint web pages, which list recipients of loans and grants, and the programs these funds support? One example of an ongoing effort in this area is a collaborative project proposed by Trans-

parency International, OECD, and the Asian Development Bank. This group wants to establish an Asian website, which tracks donors' regional anti-corruption programs, and collects and disseminates Asia-specific data on corruption via the Internet. Should this idea be replicated in other regions?

Financial Management

The Bank's emphasis has been on measures to improve financial management in its projects, which does not necessarily create a capacity for better financial management outside the confines of the project. Adjustment lending or program support requires action by the developing country government to improve and strengthen its financial and procurement systems. Is this an important issue that requires donors to collectively support and take a firm and/or uniform position?

Increase Donor Support for NGOs?

Should donors consider providing support to NGOs or Community Based Organizations (CBOs) that work with practical initiatives to fight corruption, especially at the municipal level, in addition to the support they provide organizations that work with policy instruments? For example, the USAID-funded Americas' Accountability and Anti-Corruption (AAA) Project (www.respondanet.com) coordinates the Donor Consultative Group (DCG) on Accountability and Anti-Corruption in Latin America and the Caribbean. The DCG is presently composed of six bilateral and twelve international donors and uses the bilingual (Spanish/English) newsletter Accountability as its communication vehicle. In 1999, AAA implemented Anti-Corruption Without Borders/Anti-Corruption Sin Fronteras for LAC/NGOs. ACWB/ACSF promotes the use of Internet resources and a regional network of anti-corruption NGOs to strengthen the capacity of these organizations and enhance their reform contributions. Should such efforts be replicated in other regions?

More Support for Collective Action?

Given the mutual suspicion that exists between governments, anti-corruption agencies and civil society, it is unclear whether reform groups genuinely attempt to involve civil society and the private sector. Coalition building between civil society and the government continues to be one of the foci in future strategies. Should donors target programs that promote collective action among various stakeholders for additional support?

Nurturing Political Will?

The presence of political will is a critical starting point for sustainable and effective anti-corruption strategies and programs. However, its presence cannot always be assumed in reform efforts. Should donors consider providing support to nurture political will in recipient countries given the constraints in some of their mandates?

How to Prevent Corruption in Development Aid-Funded Projects and Programs

Per Øyvind Bastøe and Mette Masst

TWO TRENDS HAVE BEEN VISIBLE in the development community during the last decade. First, a growing concern about corruption and poor governance and second, a new understanding of development. The challenge for donor organizations is to unite these trends, and prevent and combat corruption through an approach consistent with the new development concept.

Corruption on the Agenda

The growing concern about corruption is caused by several reinforcing factors. The end of the Cold War implied that highly corrupt regimes, such as Mobuto's in Zaire and Suharto's in Indonesia, lost their strategic importance and were faced with international condemnation. The concept of globalization implies that corruption, too, is globalized and, thus, becomes a global concern, particularly to international business. The third factor that has commanded the attention of the development community is the explosion of corruption and implosion of the former

Soviet Union and part of Eastern Europe, and more generally, the rapid increase of corruption in the 1980s experienced by many countries. Some credit for the increased action against malfeasance should also be attributed to Transparency International (TI). Since its inception in 1992, TI has been an exceptionally effective international pressure and action group.

The international donor community is now ready to address corruption in ways it had previously rejected. For decades, donors tended to avoid explicitly addressing and criticizing its existence in developing partner countries. However, over the last couple of years, the issue suddenly has been placed at the center of the policy dialogue between donors and their partner governments. At the operational level, the leading bilateral and multilateral donor organizations have responded to the concerns at two levels. First, they have stimulated and assisted anti-corruption efforts in partner countries. Second, they have begun to re-examine their internal practices and procedures to ensure their own funds have not been misused.

The New Development Paradigm

The new development paradigm, characterized by the terms holism, ownership, partnership, and results orientation, has emerged because of a number of reasons. One is that research and evaluations have shown that development assistance overall has been less efficient and effective than expected; too little value for their money. There is an increasing understanding that development results depend on multiple factors. Input from one actor is only one of many variables that leads to successful results. Improvement requires better coordination of development efforts.

Another reason is the donor community recognizes that a proliferation of donor-supported projects has contributed to the disintegration of national authorities in partner countries. Partners' central ministries, today, have a weakened capacity to develop and implement policies and

operational plans. They spend large proportions of their time responding to and producing reports for the donors.

A third reason is that donors realize fungibility is a significant element in development assistance. If the goal is to facilitate broad development, there is little point in just looking at how they spend their own money. Expenditure of donor funds on one priority sector or item does not guarantee total allocations for that sector or item increases. External assistance may simply enable the partner government to reallocate its domestically generated funds for other items the donor considers a lesser priority. Therefore, the *totality* of the partner government's spending is what counts. This recognition has led donors to focus their attention to government policies and their actual implementation. The collaboration between donors and developing partner countries has become more explicitly politicized. The new approach can be achieved by applying some basic principles:

- The developing country must determine its goals and strategies. A poverty reduction strategy is fundamental.
- Donors and partner countries should utilize a more holistic approach. Sector-wide perspectives that lead towards the development of national sector programs must replace individual projects. Reject earmarked assistance and move towards budget supported basket funding. For partner governments, this is only one step towards untied and unearmarked support for their government budgets.
- Donors should apply common procedures and accept joint reporting.

Norway's emphasis on the recipient responsibility principle is one illustration of this new attitude. It was adopted as the leading principle in Norwegian foreign aid in the early 1990s. The background is rooted in the understanding that others cannot develop a country. Development must be the fruit of its own people's efforts through trial and error. The implication is the partner country, not the Norwegian Agency for

Development or embassy staff, manages all funds. Donors can only stress the importance of clear agreements and reporting requirements. The partner's ability and will to implement projects/programs, and ultimately their success, are built on trust.

Challenges

Despite the extent and destructiveness of corruption in developing partner countries, the donor community must not abandon the new aid philosophy that emphasizes recipient leadership, program support, and donor coordination. That philosophy is built on important lessons that remain valid even though widespread corruption in partner countries poses difficult challenges. The demand, now, is to unite the two goals. Prevent and combat corruption while promoting partner country led development through coordinated donor support for national programs that are defined and implemented by the recipient country's authorities.

Administrative Improvements

The primary strategy must be to improve the recipient governments' administrations and encourage reforms that reduce the *opportunity* for corrupt behaviour. The main target area should be government's management of public funds. The donors' interventions should be at several levels and combine offers of assistance with demands for reform and improvement.

Institutional Development

Intensified support for institution building and reforms in financial management are key to institutional development. A large number of aid receiving countries are reforming their government budget systems including the administration of tax collection and other revenue as well as budgeting, accounting, and auditing. The reforms aim to establish more efficient and transparent systems, and constitute

important elements in the fight against corruption as increased transparent financial management reduces opportunities for embezzlement and other corrupt practices. These reforms are in many cases a prerequisite for donors to shift towards budget support for national programs. Management reforms are also underway in key sector ministries, usually linked to the development of sector programs. Close coordination of donor support is particularly important in this area. Otherwise, a poor, aid-dependent country may end up with budget management systems and principles in some sector ministries that are different from and incompatible with those of the central finance ministry. It will often be advisable to identify a lead donor to the financial reform process in each country.

Donors should encourage reforms that force public authorities, elected representatives, and bureaucrats at the local and central levels, to be more accountable to their constituencies and clients. Because governments depend upon donors' funds, there is a tendency for them to be more accountable to donors than to their own citizens. This practice is not only fundamentally undemocratic but also fails to foster a sustainable check on corruption. Pressure from donors may in the short to medium term contribute to curbing mismanagement, corruption, and other forms of abuse of power, particularly in countries where civil society is weak. However, the only long-term and effective control mechanism is a strong civil society, with political opposition, an independent press, and service users who demand their rights.

Awareness

To raise awareness, donors should address the corruption issue in their policy dialogue with the highest levels of recipient governments. Confronting it properly at that level gives legitimacy for lower level technical staff to face concrete cases and promote anti-corruption measures in their projects and programs.

Transparency

In order to exercise accountability, one must have access to information and power to sanction. In many parts of the world, a culture of secrecy prevails which prevents the public from obtaining insight into the dealings of government. The donor community should encourage developing partner countries to undertake reforms that improve transparency in public administration and give citizens easier access to information. And last but not least, donors should promote democratic control over the executive. Parliaments and elected local councils have to be substantially strengthened so they are capable of exercising formal control functions over the central and local governments.

Competence

Donor agencies must increase their knowledge of partner countries' administrative systems, not only in central and local governments but also in civil society and the private sector. They must be familiar with the formal administrative structure and procedures, prevailing bureaucratic culture, and the quality of management in collaborating institutions. Donor agencies' thorough knowledge of partner institutions will enable them to identify weak links and danger zones that are particularly prone to corruption *before* granting support and entering into collaborative agreements. Then, effective assistance can be instituted to limit the *scope* for corrupt behavior.

The need to know more about partner countries' institutions is not only motivated by the struggle against corruption. Such knowledge is required if donors are serious partners who constructively assist in strengthening important institutions and building good governance.

Selectivity

Each donor should concentrate its engagement on the number of partner countries and sectors that it has the capacity to handle without sacrificing professional demands. The capacity of aid administrations tends to be

strained, particularly in local field offices/embassies, making it difficult for staff to closely monitor their work with partner institutions.

It takes several years to establish sufficiently good systems and practices of financial management in weak institutions that have a prevalent culture of corruption. Responsible donors must carefully assess the quality of management before a program's inception, and, if necessary, establish temporary, complementary external control mechanisms. They must design programs without too many demands for recipient partners, thus, undermining reforms, and institution building efforts; and act as joint external control mechanisms, perceptively avoiding separate control systems. It is important to create a clear and visible monitoring process and system from the onset, emphasizing prevention rather than post controls such as an inordinate reliance on auditing of program funds. Donors must increase clarity by demanding that objectives, expected outputs and results, and management mechanisms are specifically outlined in program documents; and clearly define the rights and obligations as well as the sanctions of both/all parties. They must strengthen the focus on results and achievement. Combating corruption must not lead donors to overly emphasize expenditure controls. The ultimate goal for development aid-funded projects and programs is to achieve the desired change in our partner countries.

Preventing Corruption in German Financial Cooperation with Developing Countries

Martin Dorschel

DEVELOPMENT COOPERATION PROJECTS GENERALLY INVOLVE a considerable risk of corruption. Like all other development cooperation organizations, Kreditanstalt für Wiederaufbau (KfW) has to determine what it should do to avert corruption in projects that it funds. KfW has developed its projects over the past three years in a targeted fashion, utilizing all available resources to prevent fraud and abuse. In this way, acts of corruption are systematically made more difficult. In individual cases where they do occur, sanctions are imposed. This paper explains how German financial bilateral cooperation projects utilize such measures to avoid corruption.

What is corruption? One possible definition is the exploitation of a politician's or civil servant's position for personal gain. Other definitions also include the private sector. Corruption is an offense which generally takes two, a briber and a bribed person or organization.

Corruption is not limited to what might be called "classic" bribery for the reward of public contracts. Bribes are also paid for the award of licenses and approvals, and the creation or preservation of monopolies.

The misappropriation of public funds, the use of confidential information such as zoning plans, obstruction of justice, extortion such as threats of tax inspection, the sale of jobs or promotions in public service, and nepotism are other forms of corrupt actions.

Causes and Effects

The basis of KfW's efforts to prevent corruption in financial cooperation are two, seemingly trivial, but fundamental findings about its causes and effects.

1. Corruption is neither an unavoidable, negligible side effect nor a lubricant for economic growth. It is damaging in all its forms. It reduces private investment, hampers private sector activity, directs capital and human energy towards unproductive areas, diminishes the quality of public services, and ultimately undermines the legitimacy of the entire public sector. In extreme cases, kleptocratic governments and administrations cause the social, political, and economic collapse of countries. Therefore, KfW professes its clear commitment to actively prevent any form of corruption.
2. Corruption is less a socio-cultural phenomenon of particular societies, meaning developing countries, as is frequently believed, than the consequence of bad incentive systems and inadequate control and sanction mechanisms. Corruption tends to be stronger where there is a high degree of governmental regulation or intervention such as foreign exchange control, trade restrictions, subsidies, and price controls that coincide with discretionary powers of decision making, and where there is a lack of control and sanctions.

Prevention of Corruption Versus the Fight Against Corruption

Prevention means averting individual acts of fraud and abuse. Fighting corruption, on the other hand, reduces the level of malfeasance in an institution or country.

The fight against corruption has to be conducted by a country's citizens, enterprises, and institutions. Development cooperation can only support endogenous changes but not replace them. The question under what conditions and how corruption can be substantially reduced still remains largely unanswered. Why have measures to combat it been a sweeping success in some countries such as Hong Kong and Italy where corruption had been rampant for decades but not in others? An analysis of the few successes and the many failures is necessary to resolve this question.

Mere institution building, the creation of control and sanction mechanisms, such as courts of auditors, tax inspection, a reformed judiciary, are obviously not sufficient and may, on the contrary, even create possibilities for personal gain in these very institutions, which have discretionary and decision-making powers.

KfW's scope for action focuses mainly on the prevention of corruption. Considering the aforementioned causes, the main points of intervention are KfW's participation in the selection of sectors, projects and project partners, influence on cooperation partners and project conceptions, the restriction of discretionary powers to decide the creation of control mechanisms, and, if necessary, the imposing of sanctions. Each corruption-free project financing is a positive example and involves ensuring that the proper knowledge of accounting and management regulations and methods are transferred to project partners. Correct proceedings and exemplary incorruptibility can support structural change.

Internal Organization and Procedures of KfW

For effective and exemplary prevention, it is necessary that not only projects withstand close examination but also those organizations responsible for the planning, design, implementation, and/or financing of the projects should be carefully scrutinized.

German bilateral development cooperation management practices separation of project appraisal and monitoring, regulated by KfW, and

project design and implementation, which are the responsibilities of the project-executing agency. This practice avoids conflicting interests within KfW, creates transparency and openness, and allows mutual control.

KfW applies essential rules of organization, which are also effective for corruption prevention. They include clear responsibilities for each project, job rotation of loan officers and project managers, the principle of double checking and double signature, and written documentation of all major decisions. These principles are completed by internal and external control mechanisms, internal audits, and regular local controls for fund activity conducted by a German government commissioned auditor.

Corruption Prevention in Practice

There are different risks of corruption in the project cycle: (1) at the design and planning stage, (2) during contract award, and (3) during implementation. In the design phase, KfW closely appraises the project-executing agency, particularly with regard to corruption risks, and influences the design of the project if necessary. Projects with unmanageable risks are rejected.

The central prevention instrument in the contract award phase is the insistence on competitive procedures. Contracts for supplies and services in financial cooperation projects are awarded by the executing agency following public competitive bidding. A direct contract award is the exception and is limited to justified cases, such as spare parts for a particular type of machine. The awarding procedure requires that KfW and, sometimes, KfW-approved independent external experts verify all awards of the executing agency.

During the implementation phase, which often extends over several years, there are risks, for example, of subsequent changes to existing contracts, which cannot always be avoided, and the acceptance of improperly or partially performed services. Payments by KfW to suppliers and service providers are only made upon evidence of services rendered. Independent consultants are often employed to oversee construction supervision and receive supplies and services. If there is

ground for suspicion, KfW charges external experts to control supervisory functions and acceptance decisions. If suspicions are confirmed, KfW refuses to make further disbursements and collects the funds that have not been used for their stipulated purpose.

Further Developments

At the end of 1997, KfW began to systematically analyze the weaknesses of this system of regulations and procedures. A team of ten staff members from various fields of operations such as the Secretariat of Foreign Credit Affairs and the regional, technical, and legal departments tried to identify potential gateways to corruption. For this purpose, the entire project cycle was examined in order to detect those spots where corrupt action is possible and formulate proposals for prevention. The results were presented on thirty pages in August 1998 in the paper “The Problem of Corruption in Financial Cooperation.”

The paper concludes that existing procedures are generally very suited to making corruption considerably more difficult. The team identified isolated deficits in the implementation of the rules and the documentation of decision-making processes. Based on the recommendations of the analysis, several regulations, proceedings, and procedures have been further developed. For example, the new edition of the “Guidelines for Consultants” explicitly mentions corruption as an offense, reinforces the element of competition, and increases the possibilities for sanctions.

The report also recommends testing future improvements; for example, the introduction of approved sanctions in proven cases of corruption, similar to the “integrity pacts” proposed by Transparency International (TI). The goal is to apply controls and sanctions not only to the potential recipient of bribes but to extend them to the briber, and ultimately to achieve a broad consensus to outlaw both active and passive corruption. KfW is a member of TI and exchanges information and experiences on the subject of corruption prevention with other institutions and firms.

Impacts on the Fight Against Corruption

Preventing concrete instances of malfeasance is a necessary, but not a sufficient condition for combating corruption. Reducing the level of such behavior is the parallel component in this fight. Of central significance in this respect, are the overall legal, economic, and political conditions. Prompted by the OECD, German legislation has recently improved the framework for preventing and fighting corruption. The German Ministry for Economic Cooperation and Development underscored its commitment to reform when approximately eight years ago it introduced five development policy criteria and, in 1997, prescribed the anti-corruption clause in intergovernmental agreements. Already in 1998, KfW suggested the Ministry incorporate an explicit and judicially valid anti-corruption clause in financial cooperation project agreements.

The Development Ministry plans to concentrate more on development cooperation in a limited number of countries and sectors. This new emphasis makes it possible for the Ministry to insist on the inclusion of framework conditions conducive to development, including the consistent implementation of measures to prevent corruption. These structural measures of bilateral financial cooperation targeted at improving transparency and accountability can effectively support the political efforts of the German government.

Transparency in Procurement

Michael H. Wiehen

PROCUREMENT OF GOODS AND SERVICES by public bodies worldwide is prone to corruption involving aggressive sellers and/or greedy officials. Now that under the Organisation for Economic Co-operation and Development Convention of 1999 cross-border bribery of public officials is becoming a criminal act in most industrial countries, emphasis should be placed on corruption prevention. Increasing the transparency of the entire procurement process will reduce the opportunity for abuse and manipulation.

Transparency International (TI), a non-governmental organization fighting globally against corruption, presents a catalogue of suggestions, which have been tested in many places. TI believes firmly that the application of the principles of integrity, transparency, and accountability to all decision making on major public investments and purchases will maximize the economic, financial, social, environmental, and political benefits. Inter alia, TI presents its concept of the Integrity Pact, which binds principal and bidders to a specific contract to disclose all commissions and abstain from bribery.

Procurement Principles

Transparency means that institutions, processes, and decisions are made accessible to the public at large or to representatives of the public so that processes and decisions can be monitored, reviewed, commented upon, and influenced by the stakeholders. It is essential to create transparency from the very beginning so that potentially every step in the long decision-making process can be influenced, if necessary, in a timely manner. For example, in electric power or irrigation projects, the entire process of considering alternative sources of power or water, alternative siting or designs, and the environmental and social aspects of the proposed project needs to be carried out in full transparency for the protection of the people in the project area and of the environment. In addition, transparency ensures the integrity and eventual economic justification of the investment. Indeed, the assessment should start with questioning the need for additional power generation capacity or water flows. Often efforts directed at reducing demand by better transmission and distribution efficiency, or better demand management, or better time management of water flows can be much more economical and profitable than new major investments.

Transparency in this context is not achieved by grudgingly allowing access to some internal documents to selected people. Transparency requires that the government or project agency, the principal, voluntarily and proactively provide full public information through the print and electronic media about the potential options, plans, designs, and programs.

Country experiences demonstrate that a series of well-publicized open hearings is a particularly effective means to spread information and to obtain the stakeholders' commitments, contributions, and support for a large project. For the construction of a new subway line in Buenos Aires, for example, three large public hearings were held where the Mayor of Buenos Aires² explained the plans and invited comments and suggestions such as on the siting of the line, the location and design of the stations, the process for selecting the construction companies, etc. The hearings

were a huge success. They were broadcast live on local TV and videotaped for later reference.

Another powerful instrument for achieving transparency is the use of the Internet. Against all claims from some quarters that the openness of certain procurement process information would undermine and erode the quality of the process and endanger the entire project, several countries including Mexico, Chile, Colombia, to some extent, and most recently Austria, and major municipalities such as Seoul, Korea, have recently placed their entire procurement information system on the web and allow free access to it. Increasingly, any interaction between the administration and private companies, presently under contract or wishing to obtain government contracts, and citizens in general, will be handled through this medium. If contracting information, such as types of contracts, conditions and stipulations, competitors, and pricing is always available on a real-time basis, the opportunity for manipulation and, thus, the temptation to bribe is greatly reduced.

Transparency also means that all the stakeholders of a major investment are fully informed and consulted about all aspects of the project. For example, on large dam projects it is essential that the affected population at large be allowed and encouraged to participate in the process. It may be necessary to reach out to them through visiting teams and, in particular, one must not rely on political representatives who normally are elected or chosen in other contexts and for different purposes. It is also most important that this consultation process is conducted with integrity, utilizing up-to-date and complete information for the stakeholders.

The projects which were prepared in secrecy or with severely limited information for the stakeholders and eventually ran into public resistance or turned out to be tainted by corruption and then were held up for years, are legion. This process may appear time consuming and costly but it is irreplaceable and will in the long run save time as well as costs.

While the importance of transparency is publicly accepted by many governments and institutions, most, including some international

financial institutions, may pay lip service to it, but, in reality, practice a policy of secrecy or a high degree of confidentiality. Change will be hard to achieve, but it will bring untold benefits.

Monitoring Contracts, Implementation, and Operations

An essential instrument for assuring the propriety and correctness of the contracting and implementation processes is systematic and reliable internal and external supervision and monitoring by people with the necessary expertise and adequate resources to carry out that obligation. Officials who were not involved in prior stages of the process should do internal supervision and auditing. Foreign donors and lenders including the International Financial Institutions (IFI) will normally retain the right to control the supervisory process. However, it rarely provides the necessary density of monitoring in space and time of an independent audit, which is an assurance of full compliance with the contract. Host governments cannot hide behind the IFI's supervisory rights and argue that IFI's management substitutes for the government's obligations. Adequate supervision and monitoring are the full responsibility of the principal.

External monitors, either a civil society organization or a professional Independent Private Sector Inspector General (IPSIG), perform very effective monitoring. TI recommends governments invite civil society organizations, including but not necessarily limited to TI National Chapters (TI-NC), to monitor the entire process, from the planning and preparation phase to the final decommissioning. Civil society's access to the necessary expertise is critical in this context; qualified personnel may be available within the organization or contracted from outside.

In several documented cases, especially in Argentina, Colombia, and Benin, civil society and especially TI-NC have played critical and highly effective roles in encouraging governments, officials, contractors, the private sector, and the media into accepting and executing a transparent approach. Two issues that have plagued TI-NC consistently in this respect are (1) access to expertise and (2) funding for activities both during the

preparatory/contracting phase and during the much more involved and staff-intensive implementation phase. As far as the expertise is concerned, TI's group of international resource persons is slowly growing even though still much more effort is needed to accelerate and systematize the development and the broad accessibility to such expertise. But as the use of TI's recommended procurement transparency efforts grows, it is becoming clear that TI, alone, will not be able to meet all needs in this regard. Both during the contracting phase, and especially during project implementation, TI-NC may rely more and more on technical experts found in the market. This, of course, further increases the monitoring obligations of the TI-NC and it exacerbates the second issue, that of funding TI-NC activities. In those countries receiving development assistance, some of the smaller bilateral donors in the past have been highly supportive and likely will continue to be supportive in covering such expenditures. In more developed countries, the cost of TI-NC exercising this function may have to be covered, at least in part, by the government although one must take extreme care that reliance on government funding will not undermine or jeopardize the critical element of independence.

Another issue encountered is the legitimate confidentiality of proprietary information. Oftentimes, civil society representatives gain access to such information. However, contractual stipulations can ensure appropriate protections, as has been effectively demonstrated. When designing the monitoring role for civil society, one should look at the following criteria:

- Monitors should be highly respected people of unquestionable integrity.
- Monitors should possess, or have easy access to, the required professional expertise.
- Where local members of civil society do not possess the required expertise, they should promptly contract such expertise from outside including, when necessary, from overseas. Unqualified personnel conducting audits means that problems may not be

discovered, convincing professional corrective proposals cannot be submitted, and monitors do not gain the respect of the officials.

- Individual monitors should not be subject to a veto by government.
- Monitors should have free and unlimited access to all relevant government documents, meetings, and officials.
- Monitors should raise issues and complaints first with the authorities and go public only when no corrective action is taken within a reasonable period.
- Monitors should be prepared to offer a limited pledge of confidentiality regarding certain types of business proprietary information.
- Monitors should have full access to and review the tender documents, the evaluation reports, the award selection decision, and the implementation supervisory reports, technical as well as financial; they should participate in meetings and have the right to ask questions.

Where no suitable civil society organization exists, or where the government has insurmountable objections to the involvement of civil society, it may instead employ what in some United States cases has been called an Independent Private Sector Inspector General (IPSIG). The IPSIG, a private sector company or group of individuals, would, of course, come with the necessary expertise and have all the rights listed above for civil society organizations. Such an arrangement can be acceptable provided the IPSIG is given not only full access but also has the contractual right to seek correction of any procedural problems or improprieties and, if no correction takes place, to inform the public of the impropriety.

The TI Integrity Pact Concept

TI created the Integrity Pact (IP) to assist countries that are prepared to introduce transparency and integrity into their contracting and implementation processes and wish to set a public precedent of their commitment. It developed the IP concept, originally called the Islands of Integrity concept, in the mid-1990s. The main criteria are

- a pact or contract between a government office that is inviting contractors or suppliers to submit tenders for a public sector project, the principal and those companies submitting a tender for a specific project, the bidders;
- an undertaking by the principal that its officials will not demand or accept any bribes, gifts etc., and violators receive appropriate disciplinary or criminal sanctions;
- a statement by each bidder that it has not paid, and will not pay, any bribes “in order to obtain or retain this contract” thus, excluding facilitation payments;
- an agreement by each bidder to disclose all payments made to anybody, including agents and other middle men as well as officials’ family members, in connection with the contract in question;
- the explicit acceptance by each bidder that the no-bribery commitment and the disclosure obligation as well as the attendant sanctions remain in force for the winning bidder until the contract has been fully executed;
- undertakings on behalf of a bidding company will be made “in the name and on behalf of the company’s Chief Executive Officer;”
- bidders are advised to have a company code of conduct clearly rejecting the use of bribes and other unethical behavior and a compliance program for the implementation of the code of conduct throughout the company;
- a preannounced set of sanctions for any violation by a bidder of its statements or undertakings, including (1) denial or loss of contract; (2) forfeiture of the bid security; (3) liability for damages to the principal and the competing bidders; and (4) debarment of the violator by the principal for an appropriate period of time.

The IP will establish contractual rights and obligations of all the parties in the procurement contract and, thus, eliminate uncertainties as to the quality, applicability, and enforcement of criminal and civil legal provisions in a given country. This means that applying the IP concept

can be done anywhere without the normal lengthy process of changing local laws. The IP is intended to accomplish two primary objectives:

- It enables companies to abstain from bribing by providing assurances to them that (1) their competitors will also refrain from bribing, and (2) government procurement agencies will act to prevent corruption including extortion by their officials and to follow transparent procedures.
- It enables governments to reduce the high cost and distortionary impact of corruption on public procurement.

Beyond the individual contract in question, the IP is, of course, also intended to create confidence and trust in the public decision making process in general, a more hospitable investment climate, and public support within the country for the government's procurement, licensing, and privatization programs. The IP was designed to give civil society a key role in overseeing and monitoring the correct and full implementation of the pact.

This concept is suitable not just for construction and supply contracts, but equally for the selection of

- engineering, architectural, or other consultants;
- the buyer/recipient of state property as part of a government's state asset privatization program; and/or
- the beneficiary of a state license or concession for oil or gas exploration or production, mining, fishing, logging or other extraction rights, or for government regulated services such as telecommunications, water supply, or garbage collection services.

A growing number of countries are applying or testing the Integrity Pact. The concept of a contractual arrangement appeals to many governments as well as corporations acting globally. A current status report on the application of the IP is routinely on the TI website www.transparency.org.

Notes

1. This is an excerpt from a comprehensive paper, which summarizes Transparency International's (TI) position towards this issue. This excerpt focuses on the areas in which TI most notably goes beyond the state of the art as reflected in the procurement guidelines of the World Bank Institute and similar organizations. TI requests a higher level of transparency in the procurement process, recommends the involvement of civil society in monitoring the process, and, with its Integrity Pact, offers a tool to increase responsibility of bidding companies and of civil society for different forms of procurement.
2. Recently elected as the new President of Argentina—the people reward honesty!

Donor Coordination

Improving Coordination of Anti-Corruption Policies and Activities by Donor Agencies

Jeremy Clarke

THIS PAPER EXAMINES ISSUES OF coordination and collaboration between donors as they develop their response to the problem of corruption in poorer countries. In the section Donor Policies and Existing Coordination Frameworks, current donor policies and coordination mechanisms are briefly described. The importance of working within the context of Poverty Reduction Strategies is stressed in the section Reaching Consensus on Tackling Corruption. The paper concludes with a discussion of specific suggestions for strengthening donor coordination in developing countries and for promoting interagency collaboration.

Donor Policies and Existing Coordination Frameworks

It is only within the last decade with the ending of the cold war and the development of an international consensus in favor of democratic governance that action to combat corruption has become feasible. Developing and transitional governments and donor agencies can now openly discuss tackling corruption, creating a climate that promotes

development and reduces poverty. High levels of corruption have made it more difficult to generate the confidence and trust necessary for effective and open relationships. Pressure for such action comes from a number of sources. Often the public has demanded action in poorer countries where corruption is endemic. In some, such as Indonesia, it has been fed into the political process and in others, such as Kenya, people have made less dramatic but persistent demands for change. At the same time, parliaments and taxpayers in developed countries want to ensure that development assistance is used effectively for poverty eradication.

These concerns have yet to translate into a fully coherent donor response. More donors are producing anti-corruption policies and strategies, and there is a broad consensus on the nature of the problem and the range of issues they want to address. However, there is not a common understanding among donors about how best to facilitate effective action. No international donor forum exists for dealing regularly with the development aspects of corruption. Trade Ministries are undertaking work on the Organisation for Economic Co-operation and Development (OECD) Convention against bribery. Efforts to curb international money laundering are led by ministries of finance but development ministries often do not have a voice in these discussions.

In developing countries, donors also face constraints. Existing coordination mechanisms have often been unable to prevent duplicating efforts or effectively coordinating donor action. Activities have often overlapped or been fragmented. In some cases, a degree of competition has risen between donors. Although there are no major differences in policy, the priorities and areas identified by donors for action inevitably reflect the mandates and expertise of their organizations. This leads to some differences of emphasis and approach among donors. For example:

The International Monetary Fund (IMF) attaches high priority to improving the economic policy environment and seeking transpar-

ency in budgets and public expenditure. It does not seek to tackle corruption more generally in member countries.

The World Bank and United Nations Development Programme (UNDP) emphasize a comprehensive approach to combating corruption focusing on strengthening public sector institutions. Although the World Bank recognizes the importance of the political aspects of malfeasance, it does not address them directly in country programs.

Bilateral donors are able to address political corruption but may lack the knowledge and expertise to prepare anti-corruption policies. They also emphasize the importance of addressing corruption in international trade and finance recognizing that this must include measures in developed and middle-income countries where the problems often originate.

Donor coordination is carried out formally and informally at the international level, and in poorer countries. Numerous options move donors toward a common approach and aid agreement on collective action in developing countries. The options that are discussed in this paper are outlined below.

Poverty Reduction Strategies and Comprehensive Development Frameworks constructed by developing and middle-income countries potentially create an opportunity for donors to support the development and implementation of anti-corruption plans.

The Utstein donors have developed a closer working relationship at the ministerial, official, and country levels and are considering jointly financing programs. This could form the basis for a core group of bilateral donors to work more closely together on anti-corruption strategies.

Ad hoc donor groups address key strategic issues in a number of fora such as special programs for Africa. An ad hoc group on

corruption could also be a vehicle for exchanging information and agreeing upon action.

Reaching Consensus on Tackling Corruption

Poverty Reduction Strategies and Comprehensive Development Frameworks

Poverty Reduction Strategy Papers (PRSPs) are being developed as the basis for concessional lending by the International Financial Institutions (IFI) and for debt relief under Heavily Indebted Poor Countries Initiative (HIPCI). This aim is to link these to a longer term Comprehensive Development Framework (CDF), which will also be prepared by the recipient countries' governments in consultation with the private sector and civil society. By providing a strategic framework for development, the PRSP and the CDF can create a focus for collective donor action on governance and corruption.

The preparation of a PRSP is at an early stage in most countries. The interim PRSP for Bolivia contains no specific commitments to tackle corruption. Linkages to the existing anti-corruption strategy, which is set out elsewhere in the CDF and prepared by that country (see Box 1), are also weak. In contrast, reducing corruption is an explicit goal in the Uganda Poverty Eradication Plan. In that case, the anti-corruption effort is outlined with an emphasis on improving transparency and the effectiveness of public expenditure.

In countries facing endemic corruption, donors need to encourage poorer countries to prepare PRSPs and CDFs, which contain specific commitments and targets for tackling the problem. These can provide a framework for government action and donor support as well as a baseline for future monitoring of the anti-corruption effort. Targets can be set in relation to the country's public expectations and past performance; other regional countries; or existing international standards.

If the PRSP and the CDF are to make explicit commitments to tackling corruption, they will need to be based on a well thought out anti-

Box 1: Bolivia—Corruption and the Comprehensive Development Framework

Bolivia launched a national dialogue in 1997, which included a four pillar action plan—opportunity, equity, dignity, and institutionality. Corruption was seen as a major obstacle that demanded direct action through a national anti-corruption program and parallel efforts to enhance the effectiveness, transparency, and accountability of public institutions.

The anti-corruption program is comprehensive including specific measures such as asset declaration by public officials, enhancing the capacity of the audit office, and action to increase constraints on corruption by strengthening the judiciary and reforming civil service. It also aims to improve transparency by improving government financial systems. Agreed targets included compliance with recommendations of the Comptroller of Audit.

corruption plan. Developing countries may need a clearer idea of what is expected by the donor community. In the cases of Bolivia, Uganda, and Tanzania, some important areas appear to have been ignored. For example, political corruption is not directly addressed although in all three countries this is a major problem. Similarly, there are no direct mechanisms for tackling money laundering or for promoting improved integrity in the private sector.

Where government is willing to develop a long-term vision, which addresses all the major constraints on development, the CDF can be an effective vehicle for tackling corruption issues. The recent Bolivia CDF contained a specific plan, which is being used as a framework for donor support. CDF pilots in other countries could also be used to tackle corruption issues in the same way provided the governments involved see this as a priority.

Middle-Income Countries

The PRS process is applicable to highly indebted International Development Assistance countries dependent on concessional finance, or to those

developing countries seeking IMF support. Middle-income countries, which also face substantial corruption problems, are not covered by these arrangements. In these cases, IMF lending may also create opportunities for addressing corruption where countries require external finance but are not eligible for International Development Assistance (IDA) or HIPCI. Past IMF lending to Russia and Ukraine has required an audit of systems and agreements to address corruption, which would otherwise have macroeconomic consequences. In non-reforming countries like Kenya, the IMF has also been instrumental in pushing for sanctions against those involved in major scandals.

Non-Reforming Countries

Countries should not be penalized by development agencies for present weaknesses in their governance, including corruption, if they are committed to reform. Where countries do not show a commitment, development agencies will, in the interests of poverty eradication, want to encourage them to move toward a more positive stance on governance and anti-corruption. Donors need to balance the desire to remain engaged and to address the needs of very poor countries while creating sufficient incentives for improvement. If some donors suspend or reduce assistance while others increase support, governments receive mixed messages, possibly damaging development efforts.

In countries where government commitment is lower, donors may need to organize specifically to create pressure for change. In Kenya, donors jointly took an initiative to establish a formal group with broad membership, which brought together the IFIs and all the major bilaterals in a collaborative framework (see box). The primary bilateral donors worked closely with the IFIs in preparing the donor position and supporting a dialogue on behalf of the donor community. This is a possible model for many poorer countries where anti-corruption efforts are at an early stage and coherent government plans have yet to emerge (see Box 2).

Box 2: Donor Coordination Efforts in Kenya

The Economic Governance Group (EGG) in Kenya, chaired by the World Bank, included the IMF, UNDP, European Community, and the primary bilateral donors. A matrix of proposed policy commitments and actions to improve governance was developed and used by the group for policy dialogue with the government. They agreed on a joint donor strategy, which focussed on early action by government to complete investigations into financial scandals, and to establish and finance an effective anti-corruption effort. EGG received a well-coordinated donor response that contributed to the government's position as reflected in current reforms. The IMF was instrumental in sustaining pressure for action through regular country reviews. EGG's membership enabled the IMF to represent a broader donor view.

Donor Coordination and Collaboration

Donor coordination and collaboration arrangements will reflect governments' approach. Where there is a national plan of action government can link projects in different sectors and institutions in an integrated anti-corruption program. Donors then have an incentive to work towards common goals and can more easily coordinate their efforts through the established government mechanisms. Uganda is moving toward this type of arrangement (see Box 3), which may have more general application within receptive governments.

The multilateral agencies can play a useful role in organizing donor meetings and in representing the wider donor view in the policy dialogue. The World Bank has played a prominent part in addressing corruption issues and, in many countries, has been invited to provide advice to the highest levels of government. The UNDP has a donor coordination role in some countries and is giving greater prominence to governance and corruption issues in its work. The European Community can also provide a link between its member states and other bilateral groups, such as the Utstein donors, which are useful in promoting collective action.

Box 3: Uganda Anti-Corruption Program

The government has approved for 1999–2002 an anti-corruption plan, which aims to improve coordination and implementation of anti-corruption efforts across government. The Ministry of Ethics and Integrity presides over an inter-agency forum on corruption and coordinates all activities. Several public institutions are involved including Parliament, the judiciary, the Inspectorate of Government, the Directorate of Public Prosecutions, and the police. The forum has regular meetings with donors, which has encouraged joint planning and improved coordination of donor programs. This has already led to increased collaboration between donors working with the IGG and in the legal sector and more effective implementation overall.

Taking a Program Approach: Utstein Initiatives

The Uganda case suggests there may be scope for developing a more program based approach to tackling corruption. As a minimum, this would draw together the various anti-corruption and institutional development efforts in a planning framework, which would include all relevant government institutions and donors. However, there may also be potential for closer donor collaboration, for example, through joint financing and disbursement arrangements for particular institutions or sectors where more than one donor is involved.

Joint programming and financing of donor anti-corruption initiatives is more likely when donors are strongly committed to work together. The Utstein group of donors has agreed, in principle, to take this approach on a pilot basis in a developing country. The aim is to promote joint use of expertise, develop common procedures, and pool resources. Discussions are underway in Tanzania about collaboration in a number of sectors (see Box 4). A similar initiative could be considered in relation to anti-corruption work in Uganda or elsewhere.

Box 4: Utstein Donor Collaboration in Tanzania

Utstein donors primarily support the multilateral debt fund and sector improvement programs (SIPs) in health and education, and public service reform where pooling arrangements for donor funding are already in existence. Areas of collaboration include:

- sharing documentation when initiating commitments such as use of the United Kingdom appraisal document for future support by the Dutch Government in health;
- agreeing to joint appraisal and annual review missions to minimize duplication and overburdening government;
- harmonizing and developing common donor systems for disbursing funds for program support and allowing one donor to transfer funds to another to support specific activities;
- moving toward direct budgetary support linked to government strategies and action plans and the achievement of agreed outcomes.

Taking A Governance Approach

Another possible starting point for donor collaboration on corruption is work at the country level on governance issues. In Indonesia, the government, World Bank, UNDP, and civil society are jointly carrying out a governance assessment, which identifies priority areas for action and donor funding. A similar approach by the two agencies in Bolivia led directly to joint anti-corruption activities.

Government and donors need to establish close links to share information, coordinate policy, and agree on priorities for governance and anti-corruption activities. In Indonesia, a board chaired jointly by the UNDP and the Bank has been established to undertake policy dialogue and develop governance programs with representatives from government and all the main donors. They have also established a trust fund to channel donor funds and finance work on governance and corruption issues. Such arrangements are likely to be more effective if

donors feel they offer genuine opportunities for dialogue and influence leading to an agreed policy framework and action plan. This requires an inclusive process, which involves the entire group of primary local stakeholders and donors, and allows their voices to be heard. It is also important that the World Bank and UNDP identify the donor best suited to take the lead in areas or activities where they have particular expertise or large commitments.

Promoting Increased Donor Collaboration

There are three areas where donor collaboration and collective action can be strengthened in the future:

1. Development agencies can play a more active role in extending existing international efforts to curb corruption such as money laundering and bribery by developed country businesses.
2. Donors can do more to prevent the misuse of development assistance by improving donor and recipient procurement, financial management, and audit systems.
3. Increase resources and technical support, which help poorer countries develop and implement anti-corruption strategies. Similarly, donors can support efforts to promote South-South learning and monitoring of anti-corruption efforts.

Extending the International Effort

The Ministries of Home Affairs and Trade are implementing the OECD Convention on bribery of public officials. Donor agencies have a role in presenting the development perspective. Additionally, the OECD should increase its efforts to publicize the Convention and encourage business sector compliance. Donor agencies can help by strengthening the capacity of the OECD to undertake such tasks, which could include financing publicity campaigns and assisting chambers of commerce and international firms to develop suitable guidelines.

Some middle-income countries require parallel efforts by firms to tackle bribery. Without these efforts, OECD firms continue to face unfair and dishonest competition and the impact of bribery. Donor agencies could jointly support regional efforts to develop conventions similar to the OECD convention.

Money laundering allows corrupt leaders in developing countries to benefit from their actions by facilitating the illegal removal and retention of funds. The OECD countries need to assess the adequacy of their legislation on corruption and money laundering and, in particular, ensure that they treat any dishonestly acquired funds as money laundering; and support legal action by foreign governments to recover illegally acquired assets. The Financial Action Task Force (FATF) established by the OECD countries aims to coordinate these efforts and promote cross border cooperation by member states.

Donors can be more active in supporting FATF by developing a coordinated effort to press for action by their own governments. Ongoing efforts are attempting to establish regional bodies with similar responsibilities as the FATF. An active regional group already exists in the Caribbean as well as plans for similar organizations in Asia and East/Central Africa. The Department for International Development (DFID) in London is exploring possible support for these initiatives but it would be more appropriate if all donors under FATF auspices collectively developed and financed such activities.

Donors could do more to encourage middle-income and developing countries to tighten anti-corruption legislation. Tighter money laundering laws could reduce the scope of offshore tax shelters for corrupt individuals or criminal activities. Tougher statutes could help prevent bribery in trade and economic activity.

Donor Action to Protect Development Assistance from Corruption

Many donors have acted to strengthen their own procurement systems. Sharing this experience will promote improved practices among donors.

Collective action is also required to deal with “blacklisting” firms suspected of malpractice or bribery to win development assistance contracts. The World Bank operates a Fraud and Oversight Committee, which reviews possible cases within Bank programs. If the Bank can provide legally defensible information to substantiate the blacklisting, then other donors should be prepared to blacklist these firms and support legal action when necessary.

A collective donor effort can increase accountability for development assistance by providing information about development spending and program performance. Such information is especially important in developing countries as it will create opportunities for civil society and the entire public to pressure their governments into effectively utilizing development funds. There may be scope for joint donor initiatives in particular developing countries.

Donors have a common interest in improving recipient government administrative systems as improved systems reduce the impact of corruption. Governments and donors need to reconcile the conflict between limited capacity and endemic corruption often found in partner countries with the need for flexible budgetary support. The World Bank has taken a useful initiative by supporting country assessments of procurement and financial systems. If these procedures were shared more widely, donors would have many more opportunities to explore collective efforts to support systemic improvements in specific countries and sectors.

At the country level, donors should cooperate to improve core budgeting, financial management, accounting, and procurement and auditing systems in partner governments. Donor co-financing or parallel financing in these areas is important. As a minimum, donors need to make sure individual projects and programs in these areas are complementary rather than competitive. The World Bank is developing a new approach to address these issues in Uganda (see Box 5).

Box 5: Improving Core Government Systems in Uganda

The government and the World Bank are developing a new public expenditure reform program, which aims to improve service delivery. A key component is improvement in core public sector systems. The program is expected to cover: public procurement; incentives and pay reform; financial management; and decentralized service delivery. This approach can potentially link existing and planned support with other donors, which can contribute to the overall goal. DFID and other bilateral donors are currently supporting public service reform and strengthening the audit office. UNDP has supported efforts to strengthen local government.

Increasing Donor Support for Developing Countries

Developing country governments have primary responsibility for addressing corruption and therefore need more assistance with operationalizing reform efforts. They should decide where to focus, prioritize, and sequence their various reform strategies. World Bank Governance toolkits and anti-corruption checklists, which have been developed by several donors, can assist but they are unlikely to be sufficient.

As a first step, donors should organize support at the country level around the kind of collaborative arrangements previously proposed. In support of this effort, development agencies could create an informal or ad hoc working group on corruption. One of its main tasks would be to prepare easily understandable and comprehensive practical guidelines on the development and implementation of anti-corruption strategies and action plans. The group would also have a mandate to systematically review progress and lessons learned, which could be widely disseminated and used to revise strategies and activities. The group could also pilot new approaches.

Poorer countries have limited capacity to develop and implement anti-corruption plans. Donors need to provide technical expertise and

other support in a more systematic way, potentially utilizing the following three options, which are not mutually exclusive:

1. The United Kingdom (UK) plans to develop a resource center to support its work on corruption and provide resources to developing countries, which could be developed on a larger scale with the support of other interested donors. The UK is willing to discuss this further as a possible Utstein donor group initiative or as a wider donor exercise.
2. Regional development banks or other regional institutions could assist developing countries in their efforts to address corruption. Donors could provide financial support for regionally based capacity in these institutions. The UK is exploring this option with the Asian Development Bank.
3. The World Bank Institute and World Bank regional and country programs are currently supporting corruption surveys and the preparation of national plans in seven African countries and Eastern Europe. Other donors could help finance extending these programs to other regions and countries.

Promoting South-South Lesson Learning

Donors should collaborate with developing countries to produce mechanisms that encourage sharing approaches and experiences; and promote joint monitoring and peer review in assessing anti-corruption reform progress. Donors need to investigate ways to stimulate this process.

Some African Governments are committed to adopting the Global Coalition for Africa (GCA) principles on anti-corruption. DFID has suggested that the GCA advocate a peer review process to monitor progress with implementation—a process similar to the OECD DAC review of member countries' development assistance programs. Alternatively, donors could promote a neighborhood watch by helping to establish regionally based monitoring units or observatories, which could complement national efforts to track progress in tackling corruption.

Regional anti-corruption efforts could also be supported through other fora. For example, the Asia-Europe Meeting created a forum, with potential support from the UK and European communities, that focuses on corruption issues between European and Asian countries.

Summary

Clearer and more intensive processes of collaboration between government, civil society, and development agencies would make action against corruption much more effective. Such processes could usefully cover three areas (1) anti-corruption strategies for particular countries; (2) action against corruption in the procurement of aid financed goods and services; and (3) support for multilateral action to constrain corruption and money laundering occurring outside developing and transitional countries.

Collaboration on Anti-Corruption Strategies

Governments should develop anti-corruption strategies in consultation with their civil society and private sector as a basis for support by development agencies. The preparation of Poverty Reduction Strategies and Comprehensive Development frameworks provides an opportunity to create comprehensive strategies; and we urge governments and the World Bank to ensure that these documents are prepared on a collaborative basis and include specific proposals for action against corruption. If strategies and programs for combating corruption can be prepared on this basis, development agencies should be ready to pool their financial resources to support the implementation of anti-corruption programs.

Development agencies could also work together to learn the lessons of combating corruption; to develop new approaches; and to jointly prepare and disseminate a toolkit to guide government strategies as well as development agencies' support. This could be maintained by sharing access to technical expertise through a resource center.

Aid Procurement

Interest is growing for collective action to improve procurement systems in developing and middle-income countries. The World Bank could take a lead by sharing its country procurement assessments more widely and using this as the foundation for a joint donor effort. Additionally, methods should be created to “blacklist” firms suspected of malpractice or corruption in procurement. If the World Bank is prepared to share legally defensible evidence in such cases, other donors should be prepared to blacklist the same firms.

Bribery and Money Laundering

Development agencies can provide technical support to the secretariats of the OECD and the Council of Europe Conventions to improve the monitoring and implementation of efforts to curb the bribery of foreign public officials. These agencies should support the OECD Financial Action Task Force’s attempts to establish regional networks against money laundering. More generally, they should collectively play a larger role in the OECD, the Council of Europe, and other fora to present a development imperative for action that originates in developed countries.

South-South Learning and Peer Review

There is considerable potential for developing and middle-income countries to share and learn from their experiences and to establish peer review systems to monitor progress. Donors need to consider how they can collectively support initiatives of this type.

Table 1: National Anti-Corruption Strategies and PRSP

	<i>Bolivia anti-corruption strategy</i>	<i>Bolivia CDF</i>	<i>Bolivia PRSP</i>	<i>Uganda anti-corruption strategy</i>	<i>Uganda PRSP</i>	<i>Tanzania anti-corruption strategy</i>	<i>Tanzania PRSP</i>
<i>Reducing opportunities</i>							
Deregulation	•	•	•		•	•	
Privatization	•	•		•		•	
Tax policy			•			•	
Political system							
Limits to campaign funding							
Transparent party funding							
Prevention of 'vote buying'							
Institutional reforms							
Tax administration	•	•	•	•	•	•	
Judiciary	•	•	•	•	•	•	
Civil service pay	•	•	•	•	•	•	
Open and delegated budgeting	•	•	•	•	•		
Effective accounting and expenditure reporting systems	•	•		•	•	•	
Effective procurement systems				•	•	•	
Increased oversight and sanctions							
Parliament (asset disclosure and codes of conduct)	•	•		•		•	
Anti-corruption laws	•	•		•		•	
Anti-corruption commission				•		•	
Audit office/ombudsman	•	•		•	•	•	
Increasing public pressure							
Free media							
Freedom of information					•		
Public education	•	•					
NGO report cards							
International trade and finance							
Anti-money laundering							
OECD and other conventions							

***Use of Data Collection,
Statistics, and
Monitoring Systems***

Monitoring Corruption: An Outline of Selected Issues

Ugljesa Zvekic

THIS PAPER FOCUSES ON A few selected issues related to the monitoring of corruption. It starts with the positioning of monitoring within the cognitive/action process and focuses on levels, types, and purposes of monitoring. A monitoring protocol for corruption assessment as developed within the framework of the United Nations (UN) Global Programme Against Corruption is presented.

The Positioning of Monitoring

Monitoring is just one of the elements in the cognitive/action process related to corruption. It is a blend of cognition and action. Therefore, in order to monitor corruption, a solid understanding is needed on issues such as

- what is corruption (definition)
- types of corruption to be monitored (type)
- measurement (how) and frequency (how often)
- the temporal and spatial framework (location)

- who is involved (actors)
- available knowledge (sources) about corruption
- public tolerance levels (cultural context)
- reaction: strategic, normative, institutional and operational (response)
- purpose of monitoring such as recording, tracking, evaluation, change inducement
- monitoring for whom: society at large, public institutions, donors
- use of monitoring: instrumental, empowerment, local/national, comparative international

Just as there is no single phenomenon of corruption or response to it, there is also no single monitoring mechanism.

Definitional Issues Related to Monitoring

Effective monitoring begins by identifying what is to be observed. There are a number of definitions of corruption, and consequently, depending upon the definition adopted, measurement, including the setting of benchmarks as well as other properties of monitoring, varies. For example, if one utilizes a strictly legal definition, then only acts subject to the penal code are monitored, such as complaints cleared as corrupt acts, offenders processed and charged, offenders sentenced, sentences passed and sentences implemented. In this case, one is scrutinizing corruption through the activities of criminal justice agencies in the same way criminal justice statistics provide for the observation of those agencies' activities that are related to any stipulated offense or groups of offenses. Many criticisms have been outlined against such restricted definitions of both corruption and monitoring. In contrast to the crime discourse, in which victims' surveys resulted from a long debate about the limits of criminal justice statistics, the corruption discourse, generally discounts official criminal justice accounts of it. While such an approach may be well founded, comprehensive corruption monitoring at the societal level should include criminal justice statistics on acts legally stipulated as offenses. Often this point is too easily forgotten, which limits the ability to

track the levels and types of corruption recognized by legislators and defined by the laws of the country. Moreover, it does not provide for the monitoring of criminal justice agencies' performance when it comes to investigation, prosecution, and sentencing of questionable practices. However, from a comparative international perspective, such an approach faces a number of challenges as is the case with other international comparisons of crime.

There is also the issue of the cultural definition of corruption. Some assert that what is considered abuse in a particular cultural and/or legal context is not necessarily considered corruption in other contexts. In such cases, monitoring becomes even more complicated both within a particular context as well as from an international comparative perspective. Does corruption include, for example, tipping, or culturally expected nepotism, or politician's favoritism of his/her constituency's interests? What if these are not considered corruption by the general population but are unacceptable by the legal system? Whose considerations define corruption? To add to the complexity of the definition are changes in the cultural aspects of corruption over time or by different segments of society. A careful examination of the intricacies and influences of culture is crucial for the development of a feasible anti-corruption strategy. However, the methods and purposes of surveying abuse based on cultural definitions and the evolution of those definitions is quite different from monitoring corruption as defined by criminal law.

Levels and Types of Corruption

A similar discourse relates to monitoring types and levels of corruption. Many distinctions are made such as administrative versus political; public sector versus private sector; routine or so-called street level versus top level; systemic versus episodic. Observing these types and levels of corruption depends, again, on the definitions of the phenomenon under consideration. Usually, it is defined as a very loose combination of institutional sectors and actors; or an observed or hypothesized frequency; or the degree of penetration of corrupt practices within a society

or one of its sectors. Such differences call for various monitoring methods ranging from systematic surveys through systematic n-case studies to systematized and focused anecdotal information. Advantages and disadvantages of these methods and systems merit special consideration but such a discussion is not within the scope of this paper.

Measurement and Monitoring: The Phenomenon and the Response

Most of the attempts to measure and monitor corruption by a variety of approaches and techniques have to-date focused on the phenomenon of abuse. Thus, many focus groups, mass media analyses, and surveys examine the perceptions of and/or experiences with corruption by general populations, the business sector, and public administration officials. Some methods, especially surveys and focus groups, face serious challenges as to their capacity to provide systematic monitoring due to, for example, possible differentials in actual samples between various surveys, or differences in the actual composition of focus groups conducted in different time periods. Whatever their merits and shortcomings, all of them concentrated, although with different methods, on measuring and providing the basis for observing the perceived, or actual levels or types of corruption. This has resulted in two types of biases. First, only the phenomenon was dealt with without paying very much attention to responses. Second, both the perceptions of and actual experiences with corruption are influenced by those responses. Therefore, a comprehensive measurement and monitoring of corruption must equally deal with the phenomenon, levels, and types, as well as with the responses. In turn, the response category includes political strategy, normative and institutional framework, and operations of the institutions. Furthermore, it includes levels of tolerance and activities of an organized civil society. It is worth noting, *an passant*, that political criticisms of some of the international measures of corruption such as the Transparency International (TI) Perception Index or the United Nations

International Crime Victim Survey rests very much on their respective neglect of the response-to-corruption dimension.

Measurement and, in particular, monitoring of corruption must examine the interaction between the phenomenon and its dynamics, and equally important, the responses to corruption. The two are related and monitoring is inadequate if both are not included.

Monitoring Corruption: Why and Where

Three issues regarding the monitoring of corruption merit special attention, its purpose, use, and the jurisdictional and spatial coverage. The methods and level of precision depend heavily upon its jurisdictional and spatial coverage. Here are two examples.

A number of countries have established anti-corruption bodies or specialized institutions to deal with corruption. Obviously, their jurisdictions and mandates differ. There are parliamentary anti-corruption commissions; highly focused anti-corruption internal oversight units established within a particular public administration such as police anti-corruption units or disciplinary bodies in private enterprise; and units specialized in corruption investigation and prosecution. Moreover, some agencies have jurisdiction over the entire national territory while others have a more limited jurisdiction such as a region or state within a federal constitutional system. In some countries, commissions have broad mandates covering strategy, prevention, education, investigation, and prosecution and others have anti-corruption agencies that utilize exclusively the criminal justice, or the civil litigation approach. The broader the jurisdiction and spatial coverage of an anti-corruption institution the more complicated its monitoring. If a commission has a broad societal jurisdiction and covers the entire national territory then its evaluation analysis covers a wide range of areas. By contrast, if the mandate and jurisdiction of an agency is more restricted, then the monitoring might be limited to its performance and the level of client confidentiality. A more complicated situation is when there are a number

of agencies involved in the prevention and control of corruption with very loose coordination. In such a case, monitoring should target different agencies and provide information for overall coordination.

A second example involves the overall responses to corruption at a societal level. The purpose and use of monitoring play an important role. The TI Corruption Perception Index, the most well known international instrument, is a composite index of a number of surveys (seventeen from ten independent institutions) covering nearly 100 countries. Despite numerous criticisms, it provides moderately reliable information as to the levels of corruption from an international comparative perspective. Its main purpose is to provide a standard measure of perceptions and incite public awareness. Although its intention was not to devise precise league tables, it has a certain “shaming” effect on the international community. However, it is not a monitoring tool or source of information related to response-to-corruption. In that sense, it shares the bias of many other national or local corruption measurements. Yet, its practice of scoring members of the international community has stimulated national debates around the problem of corruption, particularly in those countries that rank near the top of the TI index.

One criticism of international surveys is that they are constructed externally and used for external purposes. Obviously, all international surveys do not warrant such reproach. The UN International Crime Victim Survey was developed by a group of international experts that included specialists from participating countries. However, the question of ownership in production and use is critical. It is fundamentally important that the primary purpose for monitoring corruption and its societal responses is for local use. Even monitoring methods can have an important added value. Utilizing these methods yield benefits not only from being produced by local experts, with international assistance where necessary, but they also facilitate broader public participation in the monitoring process. Greater participation increases public empowerment, which is important for at least two reasons. First, public adminis-

tration accountability, and second, victims as well as the “reluctant offenders” and/or active actors/willing participants are involved in the anti-corruption process. Action-planning and coalition-building workshops linked to surveys conducted under the auspices of the World Bank Institute provide good examples of such monitoring/empowerment exercises. Standardized monitoring procedures demonstrate international comparisons ensuring participants are measured under similar conditions. Furthermore, it may be useful for monitoring international instruments such as conventions.

Concluding Remarks

It should be readily recognized that much of the discourse on corruption and measurement does not reflect global economic interests. It also does not reflect differences nor does it provide for a more comprehensive understanding of corruption. Most of the discourse and measurement focused on perceived or experienced corruption in public administration. It neither took into account different levels and types of corruption nor efforts undertaken by governments, civil society, donors, and international organizations to prevent and curb corruption. In a certain sense, the current discourse on corruption resembles the old-fashioned crime discourse. Crime was viewed in isolation, without consideration for reactions from the criminal justice system and the public. There is an imperative to position corruption within the power structure and provide comprehensive instruments for evaluation and participatory monitoring.

It is important for donors to provide solid support for establishing reliable and standardized monitoring mechanisms whether on a broad societal level or for specific sectors and institutional responses if they want to assist in the prevention and reduction of corruption. Additionally, they must create an enabling environment for local ownership of these mechanisms’ production and use. They must be instrumental as well as participatory.

Institution Building

Institutional Approaches to Combat Corruption: Suggestions from Bilateral Technical Cooperation¹

Albrecht Stockmayer

“In a partnership, development cooperation does not try to do things for developing countries and their people, but with them.”

—OECD, *Shaping the 21st Century: The Contribution of Development Cooperation*, May 13, 1996

Approaches to Combat Corruption

There is little disagreement when it comes to the design of appropriate approaches to fight corruption. Individual people can be corrupt and some organizations and types of transactions may be specifically prone or vulnerable to corruption and bribery. But generally, corruption has to be considered a quality of the country’s political and administrative systems. Few would contest the lesson that institutional approaches are necessary in order to come up with even limited success in the fight against corruption. These approaches should be an integral part of Comprehensive Development Frameworks (CDF) and more recently Poverty

Reduction Strategy Papers (PRSP).² And they should target institutional capacity development (I/CD) and its determinants, in general, rather than the behavior of individuals and organizations.

We do not need to start from scratch for the contents of approaches to fight against corruption. We can usefully link with the activities and results achieved in two areas: Participatory Development/Good Government (PD/GG)³ and I/CD.⁴ We need to select policy areas that promise some short-term results, impacts that can create additional dynamics in the fight against corruption, and actors that have access to social capital. In doing so, we may streamline today's programs that often resemble a shopping list.

And finally we need to examine our instruments, one by one, and determine whether they are relevant and effective given the complex environment in which they are applied. Supporting the fight against corruption presents another opportunity to develop and focus the instruments of bilateral technical cooperation in the area of I/CD. Some of these instruments are known and thoroughly discussed as part of the debate on I/CD. But compared to approaches that have been made the subject of discussions, we know little about the usefulness of instruments. Likewise, the question of how these instruments should be applied within the context of the combat against corruption has been given little attention. Corruption has for a long time been a part of the daily business of technical cooperation (TC) with bilateral donors. Together with their partners, they have been faced with the nature and dimension of corruption on every step of the cooperation process. And they have had to account to their constituency for the negative impact of corruption on development activity. Yet, the most recent discussions in development cooperation circles have focused on concepts that are ambiguous at best and do not relate to the realities of institutional reforms. (See Box 1.)

Concepts and approaches are still not very convincing and the question of instruments remains to be dealt with satisfactorily. Nevertheless, today's situation presents big advances. Thanks to the determined efforts of Transparency International and some of its national chapters,⁶

Box 1: Comprehensive Approaches: Ownership and Capacity

These approaches present rather far-reaching and complex tasks for every government agency. If recipient governments cannot make them their own, the nature and size of these activities have a decidedly neo-colonial character. The World Bank has, therefore, strongly advocated more ownership of these programs by recipient countries.

However, the public discourse, led by the World Bank, has skipped the topic of capacity and instruments that are needed to turn these ambitious programs into a local reality.⁵ It is this area where technical cooperation agencies with their hands-on experience in institutional development and capacity building will have to pursue their comparative advantage.

an atmosphere has developed that lends itself much better to the fight against corruption. A global consensus has emerged that helps those that are working against corruption in a national environment to gain legitimacy. Without its support, local efforts would have been left alone and, thus, ineffective or subject to the critique of those groups that have accommodated corruption. The many ongoing initiatives to change the perception of corruption include

- making corruption difficult on the giver's side;
- accepting the fight against corruption in the North as a condition to request good governance in partner countries;
- giving the request for good governance international credibility;
- involving private sector and civil society in improving governance;
- promoting better division of labor and cooperation among the development agencies.

These differences have prepared the terrain for action that is more determined and created a public with high expectations that may not condone any further lack of success.

The following discussion intends to analyze the profile of bilateral technical cooperation, its approaches, and instruments by contrasting it with parallel developments of multilateral cooperation practices. It is

based on experiences gathered in relevant governance and institutional development programs and projects where German technical cooperation has contributed, mostly in close cooperation with other bilateral or multilateral donors.

Roots and Strengths of Bilateral Cooperation

Its origin and the successive mandates that have been formulated by parliament and the executive characterize bilateral technical cooperation. These mandates have become more explicit over time and have undergone decisive changes after the demise of the Soviet Empire. More recently, globalization has had an important impact as national governments in the South that are losing their hold on policy matters seek to find new roles in a global order that is only gradually beginning to take shape. We are asked to contribute to qualitative elements of a global order as well as to develop instruments, which support emerging structures and processes that can assist countries in determining their place and role.⁷

Roots

Five points stand out when distinguishing bilateral from multilateral cooperation:

1. Bilateral development cooperation is an expression of the desire to establish a new set of relations between people and their organizations of the North and the South and to help them become responsible actors in today's new global order.
2. Bilateral cooperation at all times is subject to close public scrutiny; parliaments and an active development community including community service organizations (CSOs) and non-governmental organizations (NGOs) have closely monitored and influenced its principles and patterns of activities. Government has to acknowledge these actors who, at times, pursue independent and partly competing policies.
3. As its activities are always accompanied by public attention, public relations always has to be an integral part of bilateral activities.

4. Bilateral projects have to include a special effort to involve the public in its activities, not only the private sector but also academia, churches, trade unions, and civic associations; and it has to accommodate these organizations' objectives and patterns of activity in its business plans.
5. Finally, as far as the public sector is concerned, bilateral cooperation has direct and immediate access to specialized competence. Skills and public sector experiences are available to bilateral cooperation on a privileged basis in the pursuit of its policy aims.

Opportunities for Bilateral Cooperation

These features lead to a number of well-defined opportunities for bilateral cooperation and public agencies. The public origin of its *raison d'être* and its embeddedness in political and societal developments forced organizations responsible for official bilateral cooperation to always reflect a broad spectrum of political and societal interests. Great numbers of partnerships established by private and public actors in the North and the South that have involved communities and people from all walks of life, drive this inclusive approach. Moreover, bilateral cooperation is open to political and societal trends as they develop. Public organizations had to respond to these trends. At the same time, they were able to absorb them in due course based on their knowledge of the nature and dimension of these trends. Environmental concerns, the attention to gender issues, and poverty orientation of development cooperation, all were accommodated as a matter of routine into the bilateral development mainstream.

Linking with rather broad-based public efforts has brought a large number of professional and issue-orientated organizations within reach of development cooperation by supporting bilateral cooperation and, in turn, providing it with their sense of direction, resources, and competence. Bilateral cooperation, thus, avoided succumbing to passing fashions, which characterize the multilateral cooperation scene. Pronounced movements, such as moving from the public to the private

sector and back to the state within ten years, will not be acceptable to and condoned by a broad-based and multi-actor cooperation network. On the other hand, principles and patterns essential for this type of cooperation, among them long-term institutional cooperation, have enjoyed continued emphasis and support.

Being under continuous and, at times, painful pressure to account to the taxpayer and their representatives in parliament and the media, bilateral cooperation could never escape being identified with the positive and negative result of its partnerships, despite its specific contributions. At home and abroad, it had to accept part of the blame and the responsibility for undertakings that went wrong or for partners and their behavior, which did not meet the interested public's expectations. From this vantagepoint, development has always fundamentally been conceived as a joint venture between two active partners, with bilateral organizations expected and having the obligation to carry a requisite share of the responsibility and the blame.

These features were largely responsible for most of the support for development cooperation in our respective countries. However, the support has been gradually diminishing and public attention to the formal decision making fora, often, has all but vanished. Continued public support may depend on the handling of the corruption issue, an issue of universal interest.

INSTITUTIONAL/CAPACITY DEVELOPMENT AND CORRUPTION. Combating corruption is an area of bilateral cooperation where institutional/capacity development approaches can make a unique contribution. I/CD creates a single focus for the analysis and discussion of reform options. Technical cooperation actors command the experience and the techniques to act as catalysts to pursue these options even in an environment that is either unprepared or even hostile to reform. Combating corruption can be understood as an ultimate challenge to bilateral technical cooperation. Based on participatory development processes with donors and their agents in a facilitating role, it can fulfill its task if and to the extent it can

- initiate and manage reforms in many subject areas that are entering the scene in a very rapid sequence;
- help bridge capacity shortages for reform and get reforms under way;
- conceive and propose new reform strategies that open new avenues and do not follow old divisions of labor between market and state, public and private sectors, state and local authorities, service providers and their consumers, and policy dialogue and technical cooperation;
- foster commitment to change released by the democratic process, social market reform, or newly autonomous decentralized governments;
- sustain change; and
- identify and mobilize reform actors, form coalitions and assist them in orchestrating reform drives.

Obviously, these activities presuppose a very thorough and profound knowledge of the local political scene and institutions. Thus, activities of this nature are outside the scope of organizations that base their precepts mainly on sector expert knowledge without being closely connected to local political and institutional development processes, its fora, and actors.⁸ Bilateral technical cooperation if it is to function effectively, here, has to ensure its capacity and availability to consider playing an active, yet clearly defined role in national developments. One precondition is decentralized and participatory decision making. The other is a clear and credible mandate, transparent behavior, and most important the capability to integrate human and financial resources into local developments. (See Box 2.)

The capabilities of bilateral technical cooperation have been observed in many cases and instances. Bilaterals had to accept these challenges. In any given situation, they had to seek common methods and procedures to find a way to move forward. Overtime, a locally based common standpoint on approaches, and activities resulted. At times, spurred by their juxtaposition to a multilateral position.

Box 2: Endemic Corruption and Technical Cooperation

It is unreasonable to expect a government to come up with instruments, strategies, and action plans that have been proven technically reliable if

- public office is bought and sold to private individuals, parties or interest groups;
- autonomous transactions are a foreign concept simply because there is no difference between the private and public spheres; and
- international lending and business live happily side by side with these conditions because deal-making commands a premium and long-term development impacts are relegated to the back burner.

Not all donors acknowledge that they pursue this direction. And not all have the means and the instruments that allow them to take an active stand locally, for example, instructing and directing their staff or contractors to test certain options and follow certain practices. On the other hand, some of the lessons developed by common practice were not aligned with the current rationale on development and, consequently, have not been noticed:

- First, technical cooperation practices in soft and complex areas such as corruption drive home the fact that technical cooperation and institution/capacity building respectively have long ceased to be endeavours that can be planned, executed, monitored, and evaluated using some generally agreed standards that originate in and are mostly derived from the practices of hard lending operations.
- Second, if technical cooperation can transport values and, thus, have a political background, then some cherished principles of development cooperation have to be adjusted. The active pursuit of change in the social and political arenas has a bearing on the principle that a preexisting commitment to and, therefore, conscious ownership of reforms are preconditions for interna-

tional and bilateral cooperation. In a reform environment, technical cooperation is engaged in all steps of the reform process, including its design and the coalition building that is necessary to get the requisite support for reforms. Consequently, technical cooperation needs to be an active element not only when projects or programs are approved and organized but also when civil society identifies, initiates, and implements reforms.

- Third, in order to pursue technical cooperation of this nature one needs a professional background. The set of professional skills and experience needed to do a satisfactory job in this area can only be acquired by exposure to social and political processes. By utilizing participatory instruments, advisors ensure that legitimate interests are not ignored, that accountability does not end at the doorsteps of cooperation, and both can contribute to efficient outcomes.⁹

Direct Execution: An Appropriate Option

Technical cooperation presents opportunities through the specific management of its projects. These specifics have been developed over time by permanent feed back from its daily practices and by long and, at times, very tough discussions on its relative merits and contributions to institutional development. They present an added value especially if compared to the instruments of sector and program lending. Two traits of technical cooperation and its instruments are particularly relevant to the fight against corruption. One is the ability of technical cooperation to manage, direct, and account for expenditures utilizing standards outside the recipient organization. The other is the possibility of targeting resources to those groups and interests, regardless of their domestic affiliations, that offer the highest chances of success in the fight against corruption.

Donors are increasingly questioned at home whether their money is spent wisely. Since measuring project success and performance is difficult and even more difficult for the general public to understand and accept,

evaluation is gauged by how recipient countries account for expenditures. Donors that do not tie aid to the application of their domestic standards of accounting and auditing need to show that satisfactory regulations exist in the recipient countries. In those countries where corruption is endemic, it is, however, exceedingly difficult for them to demonstrate that their national criteria is in place, reasonable, and applied consistently. Elliot Berg noted long before corruption became the prominent issue of international concern

... despite agreements in principle voiced at international meetings, many donors are reluctant to hand over extensive technical cooperation management authority to recipient governments. Donors doubt that adequate capacity exists in many cases. They worry about corruption. They fear loss of control over their programs and priorities, much of which is imposed by their headquarters and their national legislatures.¹⁰

Bilateral technical cooperation agencies have always been carefully scrutinized as far as their management of taxpayers' money was concerned. They always had to strike a balance between institutional development strategies that were effective and sustainable in the long run and national standards of expenditure management or policy and program evaluation that were liable to interfere in the short run with these strategies. The balance has become even more critical as pressure has mounted on both ends. A less buoyant flow of funds and programs, which are more complex, has placed additional stress on technical cooperation systems. The heightened awareness of corruption in both developing and industrial countries has added the necessity to deal with these problems as they arise. (See Box 3.)

But the specific role bilateral technical cooperation plays in fighting corruption cannot be reduced to playing the gatekeeper for donor funds and programs in general. While it has to ensure that

Box 3: Comprehensive Approaches—Capacity Bottlenecks

In many countries, today's public sector institutions are in no position to make decisive contributions to reform. Over the last decade, reform programs that bore no relation to public sector management capacity or their ability to handle political challenges have significantly diminished these institutions, which were, *inter alia*, expected to:

- privatize and establish sound regulation practices and create an enabling environment for new commercial players;
- create enabling environments for communities making them autonomous and self-sufficient; and
- ensure a cohesive framework that increases the exchanges between hitherto unrelated administrative or economic spheres.

They were to facilitate these changes without adequate skills and information, weak enforcement capacity, and the danger of regulatory capture. The well-known result of this overload was either a static administration that slipped into some sort of coma or corruption and other negative behavior that demonstrated the decay and disintegration of institutions. It is these institutions that are now called on to develop integrity systems and manage programs that far exceed past approaches in terms of dimension and complexity.

standards are met, technical cooperation, at the same time, can only assist those organizations in design and, more important, in the implementation of effective institutional development strategies. Because dedicated personnel with its own mandate and, therefore, evaluation criteria perform technical cooperation services, it is possible to work even in those countries where general framework conditions are hostile to fighting corruption. Services and resources may be directed to areas and actors that may not be in the mainstream. They may not act in accordance with prevailing governmental ideology and policies yet they may have the potential to fight corruption. Critical instruments and practices that have been developed to perform this task will be shown below.

Special Technical Cooperation

In the course of its work, I/CD as part of German TC has developed a number of features. They are considered standard practice—techniques and instruments that are essential ingredients of the institutional development menu. They have a special bearing on the type of programs that have emerged, over the last years, aimed at improving the integrity of national governance systems. Those specifically important to combating corruption are, *inter alia*:

- Process consulting as opposed to advisory services geared towards reaching a predetermined result has been high on our agenda for a long time. While it may be considered standard routine, it has been necessary from time to time to introduce result-oriented elements into advisory activities to respond to outside pressure on our partner institution. In fact, a sound mixture of process support/ process consulting appears to be called for as they can complement each other.
- In many instances, we have pursued open evolutionary approaches particularly in policy fields, or with institutions that have not been comprehensively analyzed, or have not found their task and role in a given environment. A precondition for success is to refrain from pursuing standard programs in cases where corruption-fighting issues have not gained a reputation among the peer community or have not developed sufficient political weight. Technical cooperation activities permit partner organizations to experiment without necessarily identifying themselves with the nature and result of these activities and, if warranted, to withdraw from some, or all, of the project.
- Process consulting as well as experimenting with certain approaches creates an environment where bilateral technical cooperation, as an external actor, can temporarily accept some of the responsibility of a local institution. This exception, of course, requires a well-structured context. It may take place only to the

extent cooperative action is predictable, its actors accountable, and the values and objectives that are pursued and applied to situations are open to evaluation and documentation. This is comparatively easy for bilateral donors that can point to their home environment for the values and practices that are executed within the framework of project or program activities. Still, change has to come from within the institutions. TC can only act temporarily.

- Technical cooperation can transfer or develop instruments and methods of organizational and political reform management that otherwise cannot be developed because of cost or opportunity considerations. Each operation has to coordinate its specific division of labor between bilateral technical cooperation and the reform administration, and a gradual consolidation strategy. The frequent argument that technical cooperation prevents local institutions from developing their own expertise does not apply here.
- The aim of bilateral technical cooperation is sustainability of capacity development. It is, therefore, dependent on political will operating not only at the top but also in concert with the commitment at the center of institutions or coalitions that are key actors in the reform process. TC activities regard both political commitments and coalitions as intermediary results of the reform process as they have to grow during the course of change. To consider commitment on the partner side as something that will develop rather than as a preexisting condition presupposes an external mandate for the initial phases of reform. This mandate is included in the overall directive for technical cooperation personnel that is always subject to two hierarchies. The partner side is necessary to achieve the objectives of the partner institution, and the donor side provides the needed space and limited freedom to act as a catalyst in an initially unclear and even potentially conflictive environment.

- Technical cooperation can and is expected to transport certain values openly. Both the partner and the donor often recognize these values on a high level of abstraction. But in the case of bilateral technical cooperation they are more transparent. Because these values are applied within the national context of the donor, the partner may get a much better understanding of their nature and effect. There is no need for bilateral cooperation to resort to the, somewhat peculiar, detour to convert values into developmental goods, such as requiring human rights protection as a necessary element in strategies of successful economic development.
- Technical cooperation is designed to support reform processes. At the same time, it is dependent on the development of this process for its results. It is, therefore, more likely to envisage support periods that can react to the dynamics of the institution and its changes. The nature and the duration of the contribution may be determined as the reform process unfolds.
- If some of these principles are applied, bilateral technical cooperation is particularly suited to contribute to joint learning. First, because it

Box 4: Three Criteria for TC Programs Designed to Reduce Corruption

Inclusiveness:

Open for participation and complementary action.

Coherence:

Positively coordinated with other reform items, such as autonomy, results orientation, privatization, and commercialization.

Institutional Dynamics:

Institutions have to decide that the fight against corruption is a development objective. Corruption fighting must be an incentive for senior staff and it must improve the standing of the organization vis-à-vis its clients and partners.

shares responsibility for the reform exercise, and second, it pursues this exercise in a clearly discernible role and with well defined tasks. For the TC advisor, reform success or failure may have direct and immediate consequences in the form of not only affecting the ability to obtain certain funds but also impacting whether the advisor can procure supplementary budgets as events necessitate. (See Box 4.)

- The main distinguishing feature appears to be that directly executed technical cooperation can operate when structural reforms have outlived their appeal and usefulness, or they are too global and too general to help decision making in a given situation—conditions that abound in day to day reform management.

Joint Utstein Action

There are three areas where joint bilateral action could make a difference, procedures and instruments, coordination, and common approaches.

Procedures and Instruments

- Harmonize policies and procedures for planning, disbursing, monitoring, and evaluating development cooperation so that these policies and procedures are more aligned with national practices that, in turn, utilize accepted international standards of accounting and auditing.
- Jointly develop strategies that focus on instruments and opportunities for institutional reform based on the Utstein Partners various types of national experiences.
- Foster coalition building to tackle the systemic problems of corruption.
- Decentralize managerial and professional resources, thereby, increasing the chance of detecting opportunities for reform action.
- Improve flexibility for bilateral cooperation procedures as a rule rather than as the exception, thereby, accelerating the process that allows for rapid responses to emerging opportunities.

Joint action should highlight the comparative advantages of donors' national experiences and instruments while, at the same time, improving transparency of their objectives for actors in developing countries.

Coordination

Positive coordination should emphasize opportunities for (1) joint flexible programs, (2) joint development of instruments and processes, and (3) promoting ownership by a plurality of local actors. Joint action should counteract the pernicious effects of the lack of coordination, including

- confronting the partner with an array of decisions, each of which may be rationally taken separately, but which add up to an irrational whole;
- disregarding longer term results by focusing on short-time horizons and pressure to deliver inputs; and
- using "gatekeepers" in order to ensure quality control and proper use of resources instead of strengthening common acceptable accounting and reporting standards.

Common Approaches

Coordinated action has to rest on common approaches in priority areas. These areas and approaches include, for example, creating windows of opportunities or actions in the field of PD/GG and fora for commitment and dialogue; providing an inclusive setting for negotiations; and developing coherent policies based on the harmonious behavior of representatives. And finally, it is important to create an enabling environment for political and institutional processes to take place.

Connecting civil society associations and creating a political space for their exchanges is a vast and still uncharted terrain for technical cooperation. Whether it can be successful will depend very much on the success we have in connecting the many instances where this has happened, albeit in a small way, to a larger environment. And it will depend

on the type of experience, taken from a variety of national backgrounds that can be brought to bear on these developments.

Notes

1. The author has greatly benefited from discussion with Hansjörg Elshorst, Managing Director, Transparency International, based on his paper, "How Corruption Can be Combated through Development Cooperation."
2. Abbreviations for National Strategy for Sustainable Development, Comprehensive Development Framework and Poverty Reduction Strategy Paper.
3. See for the final report of the working party on PD/GG <http://www.oecd.org/dac/htm/pubs/p-pdgg.htm>
4. See for developments the capacity.org website of ECDPM and the I/CN informal network website <http://www.oecd.org/dac/TCNET/index.htm> maintained by OECD/DAC.
5. The "financial products" of the World Bank recently have been modified to include adaptable forms of lending, which allow for more local ownership and better accommodation of changes in framework conditions. The Adaptable Program Loan (APL) was approved only in late 1997. APLs are supposed to provide, through a series of loans, phased and sustained support for the implementation of a long-term development program that reflects economic priorities and contributes to poverty reduction. One of the first occasions for an APL was the Programa de Reforma Institucional in Bolivia, which is also a pilot country for the Comprehensive Development Framework.
6. See inter alia Bangla Desh Pierre Landell-Mills, "Mobilising Civil Society to Fight Corruption in Bangla Desh," PREM Note no. 30, October 1999.
7. "Wir Industrieländer tragen mit der Ausgestaltung der entstehenden globalen Ordnung für die darin lebenden Menschen eine ungeheure

Verantwortung. Diese Verantwortung für die Gesamtheit begründet die Notwendigkeit der Strukturpolitik in globalem Maßstab, die— analog zur nationalen Ebene—die Aufgabe hat, in internationale Ordnungs- und Prozesspolitik qualitative Steuerungsinstrumente einzubauen und mit einem eigenen Instrumentarium zur Verbesserung der Strukturen beizutragen. Diese Aufgabe muss Entwicklungspolitik verstärkt übernehmen.” Heidemarie Wieczorek-Zeul, in Nord-Süd Info Dienst, November 1999 .(As industrial countries, we carry a heavy responsibility in designing an emerging global order for the people that have to live in it. This responsibility for the global whole is the reason for pursuing structural policy on a global scale. It has the task, analogous to the national level, to introduce qualitative elements into international policies relating to structures and processes as well as to contribute to their improvement by using their own instruments. Development policy increasingly has to pursue this task (Translation provided by the author.)

8. Cf. Joseph Stiglitz, *Participation and Development: Perspectives from the Comprehensive Development Paradigm*, Seoul, Korea, 27 February 1999, (<http://www.worldbank.org/html/extdr/extme/js-022799/index.htm>)
9. Skills and experiences needed to do a satisfactory job in this area have always been in demand. It is indeed “difficult for a foreign expert to become effectively involved in the politics of change in a developing country.” This opinion was expressed by the Chairman of the Committee of the Whole of the World Bank Board as far back as 1989 when he commented on the less than positive results of “Free-Standing Technical Assistance for Institutional Development in Sub-Saharan Africa.” And for a considerable period, this opinion has prevented technical cooperation to build a corps of professionals that could justifiably claim to analyze and understand the issues at stake.

10. Elliot Berg, *Rethinking Technical Cooperation: Reform for Capacity Building in Africa*, New York: UNDP/DAI 1993, 257

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Kabinja: A Case Study

Patrick Conway and Rick Stapenhurst

Background

Mettie Clarkson is a regular at the Kibanda Hilton. “No,” she thought. She doesn’t live in her hotel room. It just seems that way. She is thankful for the small benefits of becoming well known at the Hilton. She always is given the same luxurious room facing the riverfront. While it has cost her a few judiciously chosen presents to the concierge, she has considered them an investment with high returns.

Investments are her business, after all, as senior program officer for the USE-AID (the United States of Europe Agency for International Development). The USE-AID is a major bilateral donor, which provides long-term developmental grants and loans to developing countries’ governments and NGOs. Kibanda is the capital city of Kabinja, a small landlocked developing country on the continent of Atlantis. USE-AID has been a frequent donor to the Kabinja government over the past few years and Mettie has developed a strong personal, yet professional, rapport with its charismatic Prime Minister, Jeremy Masterson.

This most recent stay at the Kibanda Hilton differs from previous sojourns. Kabinja has been a favorite client of USE-AID, in part, because the expected developmental impact has been quite high on its appraised projects. Mettie has personally presented several of the projects to the Board of Executors, and received high marks for her thorough planning and the impact of her strong development forecast. Unfortunately, the payoffs for these investments, both monetarily and in improved standards of living, have always been substantially below their projections. The Board of Executors, aware of these shortfalls, is concerned about rumors of corruption in the Masterson Administration. This time, she is not appraising a new project but investigating the importance of these allegations. She has been asked to report to the Board on her findings within a fortnight. Her report must include recommendations for changes, if any, in the USE-AID programming policy toward Kabinja. The Board has favored, recently, incentive-based lending strategies. If she finds that policy changes are necessary, she will present a sequencing of institutional and policy reforms along with increases in lending, triggered by each reform.

The Economy

Kabinja is a landlocked country on the continent of Atlantis. Yagundaw borders it to the north and east, and Xandar to the south and west. Its total land area is 250,000 square kilometers with a population of fifteen million. It is moderately endowed with minerals and fossil fuels; it has rich soils, favorable for agriculture. Agriculture is the mainstay of the economy although mining is also important. Industry and services are growing in their respective shares of total product. The gross domestic product per capita is rather low at US\$500.

Public investment has been the engine for economic growth in Kabinja and cotton, the fuel. Kabinja's soils are well suited to produce a superior quality of cotton, which traditionally has been the country's primary export. Two state corporations were created nearly twenty years ago to manage the production and marketing of this cotton.

The Irrigated Cotton Agency (ICA) bought a large parcel of the most fertile land in Kabinja and invested heavily in irrigation facilities and other improvements. Plots of land were then leased to sharecroppers for the exclusive cultivation of cotton. This strategy has been profitable for the sharecroppers, resulting in a substantial waiting list of farmers vying for the right to cultivate a plot of the agency's land. This surprises agricultural experts from international donor agencies since the ICA has never remitted any of the profits to the state budget.

The Cotton Marketing Board (CMB) was formed to purchase the country's cotton crop and sell it on the world market. ICA and its sharecroppers are the major suppliers but private farmers also are required to sell their product through the CMB. The difference between the price paid to farmers and the price obtained on the world market is used to cover the CMB's administrative, transportation, and management expenses. These expenses have been quite high recently, leading to a 20 percent wedge between supplier and world market prices.

The general manager position at both these corporations has become among the most coveted jobs in Kabinja. The political infighting to become a CMB board member can be quite vicious, and one gangland-type killing at the Kibanda Hilton last year was attributed to jockeying for a board seat.

Industrial development has lagged behind agriculture but textile processing has been a growth sector recently. State-owned and private spinning and weaving operations create cloth from locally grown cotton essentially for domestic use. Economists of the USE-AID refer to cloth production as "a negative value added" industry in Kabinja since the locally produced cloth sells for less on the world market than the cotton from which it is made. However, private operations seem quite profitable, in part because the CMB has constructed a complex pricing scheme when selling to local textile operations. In contrast, state-owned firms are at best breaking even and at worst receiving sizeable subsidies from the government.

Falling export revenues due to a recent drop in the world price of cotton, poor harvests in the ICA region, and mismanagement in the civil service have worsened Kabinja's economic and social problems. The government is actively courting foreign investment, offering generous tax and other concessions to foreign companies, especially those in the mining sector. To date, investment remains low, however, and there are unconfirmed reports of foreign companies making large "facilitation payments" to members of the president's family.

Efforts to build a sound economic base for sustainable development and prosperity have been hampered by domestic instability and corruption, both petty and grand.

The Government

Over the past decade, the people of Kabinja have repeatedly reelected Jeremy Masterson to form a succession of governments. He has in each campaign promised economic and democratic reforms. Progress on both fronts remains mixed, however, and some observers claim the elections were rigged.

The ruling party is the Liberal Party of Kabinja; it has a two-thirds majority in Parliament. The main opposition party, the Progress Party of Kabinja, is vocal but largely ineffective. Until recently, Parliament was considered a rubber stamp legislature; now, the opposition's new leader is calling for an increase in parliamentary oversight and has proposed establishing an ombudsman. The Auditor-General is considered "one of the President's men."

The media is largely state-controlled, but the small private media have been outspoken critics of the government. While there is nominal press freedom, police have harassed and, on occasion, arrested investigative journalists. There are disturbing incidences of journalists disappearing or meeting untimely deaths, particularly as these journalists were reportedly investigating incidences of grand corruption.

Civil society is quite strong, with numerous grass roots organiza-

tions, professional associations, and NGOs. Many of the latter receive considerable support from external donors.

Evidence of Corruption

There is evidence throughout Kabinja of “grease money” in daily transactions. The executing agencies for USE-AID projects¹ have often complained that they spend substantial amounts to obtain licenses and permits necessary to complete projects. While the Board of Executors has acknowledged these complaints, the Masterson Administration contends they are simply products of jealous, naive foreign contractors. According to this argument, the culture of gift giving is destructive or loss inducing only if business executives fail to understand it. Foreign contractors may find it difficult to operate in this atmosphere but indigenous firms prosper. The Masterson Administration uses this argument, in fact, as its justification for hiring Kabinja firms to do all subcontracting associated with USE-AID projects.

Mettie Clarkson knows her audience. The Board of Executors will not be swayed by anecdotal evidence on either side of this argument. She believes the public perceptions survey on worldwide corruption, recently published by the multinational Risk Management Firm, is pretty much on the mark. It ranks Kabinja as one of the more corrupt developing countries, sixty-one out of the ninety-five countries rated. Informal interviews with citizens and firms both inside and outside Kabinja suggest that corruption is a problem, especially for public services at the point of the delivery. Many citizens believe they must bribe teachers and principals, health administrators and magistrates if want access to public services. The Masterson Administration denounced Risk Management Firm and its survey results. It claimed that foreigners were out to discredit the government; and academics at the state university in Kabinja questioned the results validity, given the small sample size although policy advisors at the USE embassy verified the survey only measured public perceptions. Mettie is convinced, however, that she can open a dialogue

with President Masterson in an effort to encourage the Kabinja Government to establish an anti-corruption body and seriously tackle some of the issues raised in the survey.

Present Quandary

External aid has been an important source of government revenue but, with the end of the cold war, it has declined especially as donors have become concerned about governance issues. Until recently, the Masterson Administration has argued that what is called "corruption" by the West is merely the traditional way of doing business in the region. This argument has lost some of its persuasiveness, however, as neighboring Yagandaw and Xandar have reduced corruption considerably in their societies.

Since a number of aid agencies have substantial commitments to Kabinja, they have decided to form an interagency working group on corruption. Roger Maring, resident representative for the International Monetary Bank, is chair of the group. He has made valiant efforts to build consensus among the agencies on core corruption issues, but privately has told Mettie the deliberations are discouraging. Donors are unwilling to penalize the Masterson Administration for episodes of malfeasance if retribution jeopardizes bilateral initiatives; and every donor seems to have an initiative at present! The USE-AID governance specialists have not been helpful. While they recognize the problem, corruption is so pervasive they struggle with what to recommend first.

Through all this, the Masterson Administration sails forward serenely. The results of the Risk Management Firm survey were widely publicized in Kabinja's press, but to-date there has been little government action. Some private newspapers are reporting that the lack of movement is due to the fact that corruption is too close to the government. The President claims the survey demonstrates that he is clean and calls on international donors to redouble their support for Kabinja.

Mettie's fortnight is nearly over and the Board of Executors

is anticipating her report. What will she recommend as the USE-AID's policy on corruption in Kabinja?

Questions and Issues Addressed Through the Case Study

1. Which are the most vulnerable institutions? How can aid or intervention help strengthen these institutions?
2. How can USE-AID incorporate a focus on anti-corruption in its country assistance program?
 - a) Assuming an emphasis on institution building, how can USE-AID prioritize and target these institutions?
 - b) How can USE-AID maximize synergy between its efforts to strengthen institutions and build capacity, and those of other donors/international institutions?
3. What additional support and/or sanctions should USE-AID countries consider?

Part Two: One Year Later

The Progress Party of Kabinja, to everyone's surprise, wins a landslide election with promises of a more equitable distribution of resources, protection of the rights of the poor, and a war against corruption. Press freedom laws are passed, an anti-corruption agency appointed, which is independent and reports directly to Parliament, and the President makes a symbolic declaration of assets, a gesture followed quickly by his government Ministers. Parliament considers establishing its own code of ethics and a new Auditor General (AG) has been appointed. But the AG's office remains understaffed and its budget, allocated by the Ministry of Finance, remains woefully inadequate.

Despite these changes, people in Kabinja remain skeptical. Donors, by contrast, are keen to support reform efforts and increased aid flows. The President asks the International Monetary Bank to undertake a corruption survey and to recommend policy changes. A survey is conducted, contracting a consortium of state and private universities and

Kabinja think tanks. They convene a focus group comprised of Kabinjan industrialists.

Survey

The results of that survey are summarized in Charts 1 through 16 in Annex One. The following are highlights from those charts.

- Chart 1: Two-thirds of individuals and businesses reported that corruption occurred very frequently.
- Chart 2: There was a clear correlation between levels of service delivery and frequency of corrupt payments; police, customs, and utilities are judged to be the least efficient/most corrupt government services; property registration, state-owned banks, and the telephone company the most efficient/least corrupt.
- Chart 3: Business managers' time spent with officials is highest in the areas of government procurement and utilities and customs; lowest in the areas of building permits, the judiciary, and property registration.
- Chart 4: Bribes are a particular burden for small-scale businesses.
- Chart 5: There appears to be some improvement in reported levels of corruption.
- Chart 6: Corruption is a major cost to companies and discourages private investment.
- Chart 7: Kabinja shows higher levels of corruption than Yagandaw and Xandar
- Chart 8: Public officials report that low levels of civil service pay, which have declined in real terms over the past decade, and a weak judiciary are the principal causes of corruption.
- Chart 9: At the household level, bribes are paid most frequently to the police and utility, water/electricity, employees.
- Chart 10: There are many reported obstacles in the judicial system.
- Chart 11: Within the judicial system, payments are most frequently made to secretaries.

- Chart 12: Firms report road police, procurement officials, phone installation and export/import license employees, and customs officials ask for bribes.
- Chart 13: Corruption is a particular problem among procurement officials, police, utility employees, and customs officials.
- Chart 14: There is a correlation between meritocracy and levels of individual corrupt acts.
- Charts 15 and 16: Incidences of institutional corruption. In Chart 15, the information is probably unreliable as people fear harassment by the government if they accuse the country's Prime Minister or President of malfeasance.

Focus Group: Excerpts of Conversations Concerning Corruption

Olav Reunger, private owner, textile import/export company:

I have good cotton clothes that I import from Indonesia and I could make them available to Kabinjan consumers at a low price. Unfortunately, I can't get the product through the port without paying a large bribe. First I pay the tariff; then, the customs inspector won't let me leave with the goods until I "salute" him. He deserves a living wage, but *I* shouldn't have to pay it!

Nellie Sime, Japanese investor considering an auto assembly plant in Kabinja:

Kabinja has many advantages as the site of our next auto plant—skilled workers, a non-union environment, and pro-investor legislation. My consortium was not confident that it could trust the Masterson Administration to keep it that way but we are prepared to give the new government the benefit of the doubt. There are well-meaning, business-oriented people in Parliament but there are too many factions. Coherent policy-making is difficult. The

Masterson Administration bureaucrats always seem able to put together a majority behind their legislation and too often, their legislation appears to be the first step toward squeezing concessions from the foreign investor.

Annette Mason, student activist at the state university:

Guaranteeing freedom of the press is a real concern for me. The state-run media are full of crooks. Their stories favor the highest bidder. This country has good people working in journalism and they try hard to report fairly about the government activities. The independent newspapers and magazines are poorly funded and are constantly in financial difficulty. If the journalists report something that offends Jeremy Masterson, here come their creditors, insisting on their money. And then there is the government's monopoly on newsprint paper. Newspapers can be quite effectively shut down just by a decision to cut off the paper supply. My fellows and I would love to step in and assist these journalists, but we are poor students. When the problems are economic, we are not especially effective allies.

Phillip Donner, sharecropping farmer on the ICA plantation:

Our government did a wonderful thing when it came up with the ICA. It has tremendous potential. My family can produce so much more on ICA plots than we did on our independent farm. We can't enjoy all our hard work, though. The ICA managers are always asking for "contributions." They tell me that it's only right since there are so many people petitioning to take our place in ICA. We keep having to convince them that we deserve to stay! Yes, it's illegal. But the courts provide no relief. The verdicts there go to the highest bidder. I cannot rely upon the courts to protect my rights in the ICA because the administrators can afford to pay the magistrate more than we can.

Questions and Issues

1. How should donor countries change their country assistance programs?
 - a) Would the emphasis on institution building, change, and if so, how?
 - b) What are the implications for donor coordination?
2. What additional support and/or sanctions should donor countries consider?
3. Should increased donor support carry preconditions such as progress in curbing corruption? If so, what are the measurement tools?

Notes

1. 70 percent are grants and 40 percent are loans tied to European procurement.

Chart 1: Kabinja—Extent of Corruption

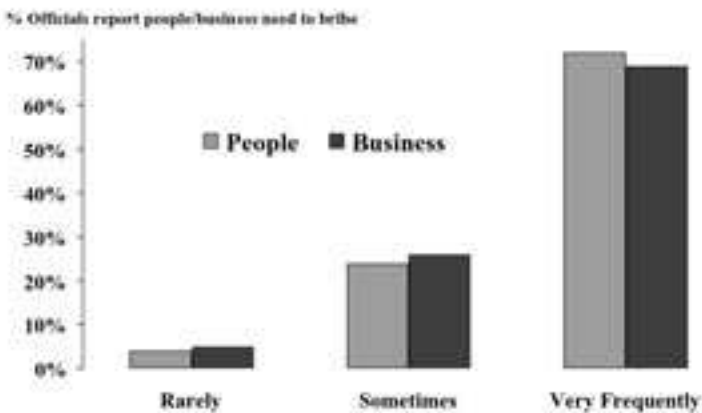


Chart 2: Kabinja—Corruption and the Quality of Government Services

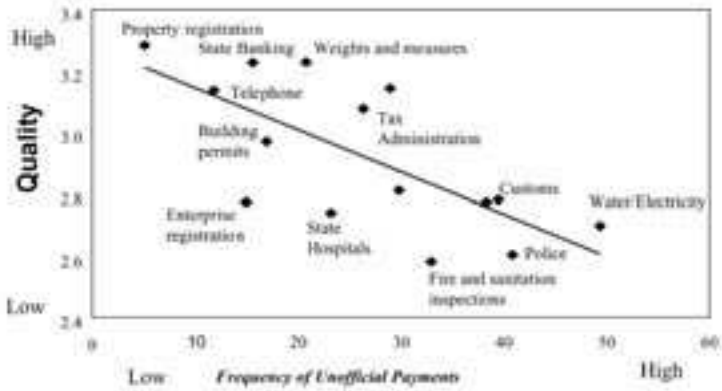


Chart 3: Management and Administrative Time Spent Wth Officials

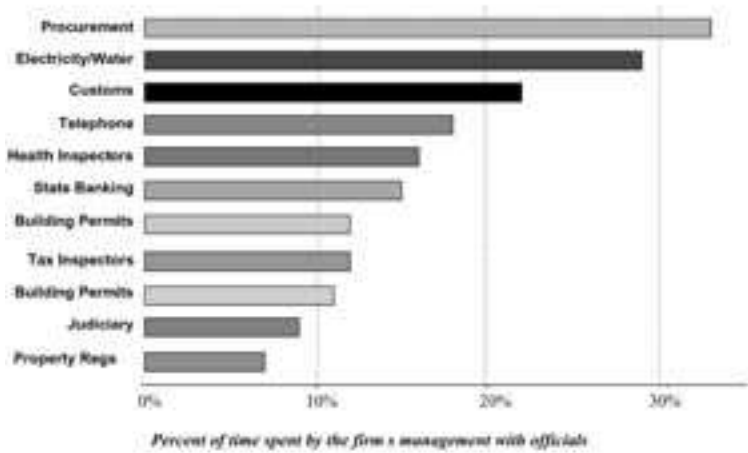


Chart 4: Kabinja—Petty Corruption and Small-Scale Business Activities

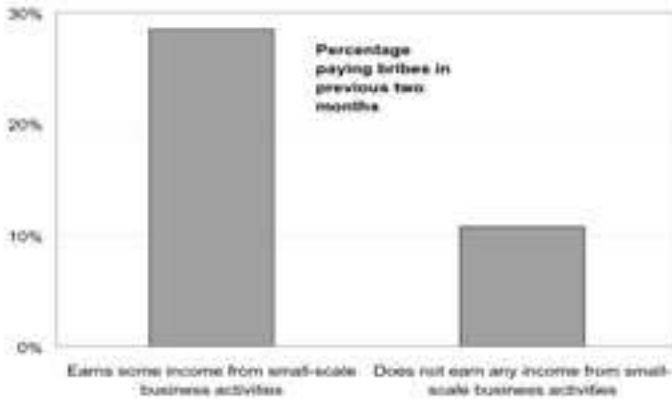


Chart 5: Enterprise Perception of Change in Corruption Level Compared to Two Years Ago (average, n=1164)

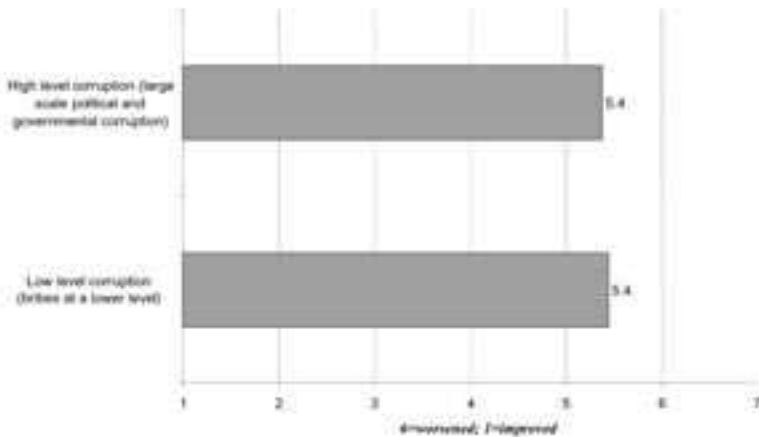


Chart 6: Kabinja—Cost of Corruption and Crime

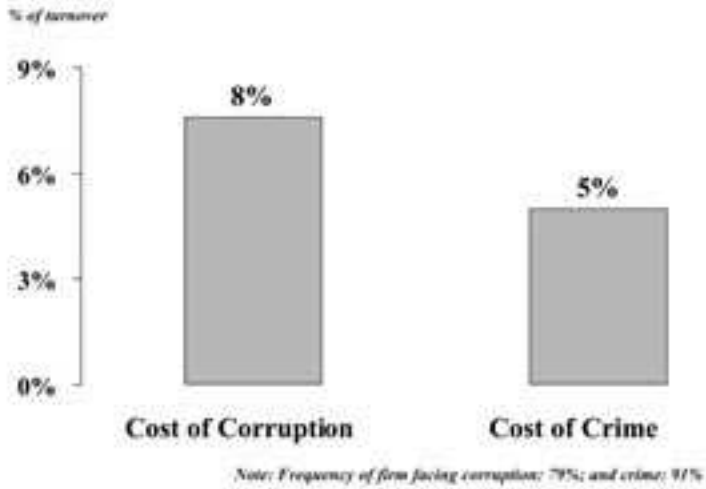


Chart 7: Regional View—Obstacles to Doing Business in Atlantis

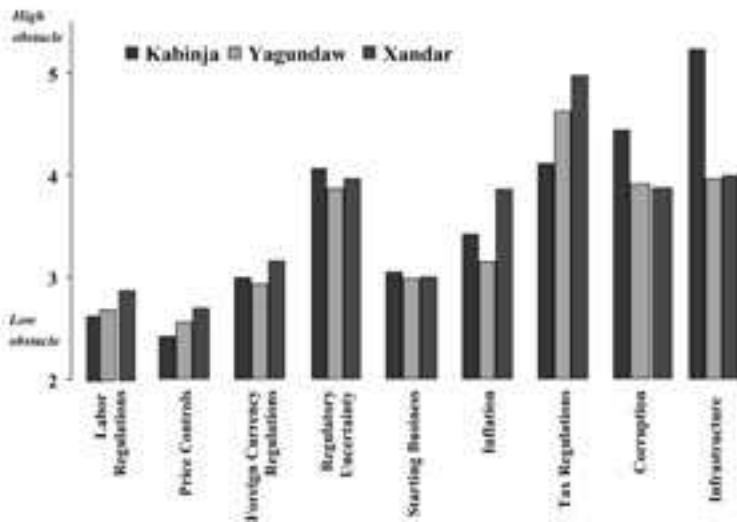


Chart 8: Public Officials' View—Sources of Corruption

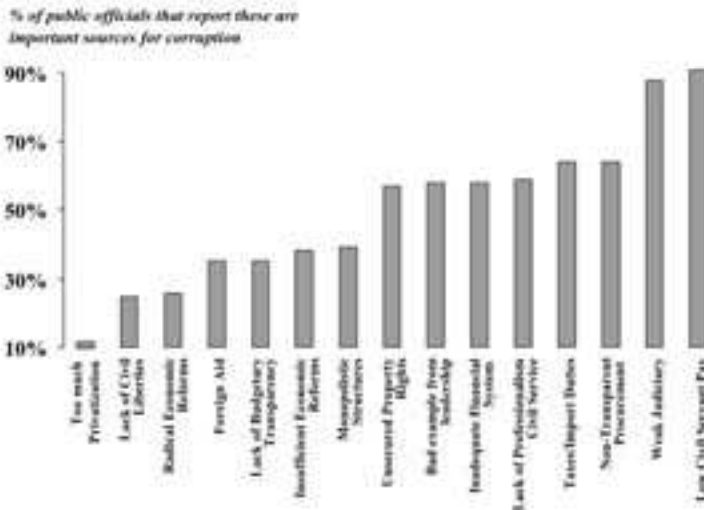


Chart 9: Kabinja—Common Bribes Paid by Citizens (respondents' characteristics in parentheses)

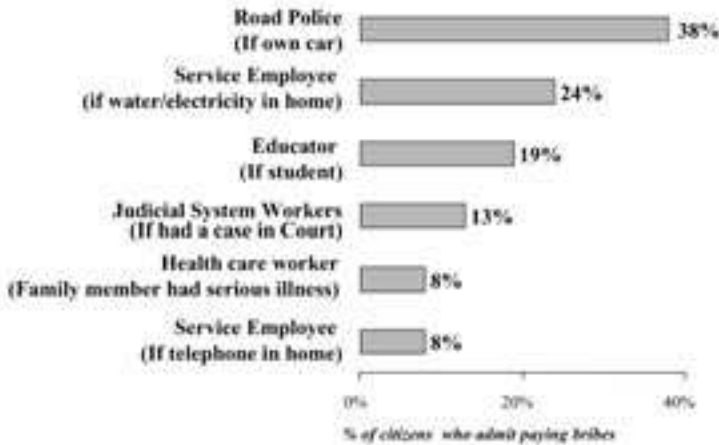


Chart 10: Importance of the Following Obstacles for the Use of the Courts

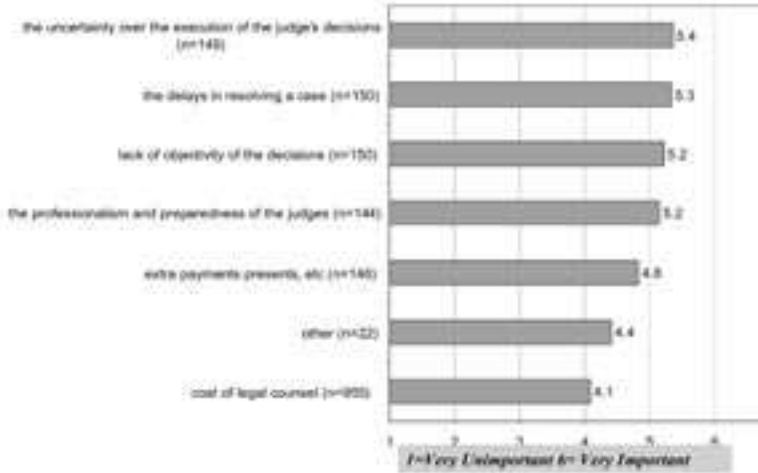


Chart 11: To Whom Did You Make Added Payments?

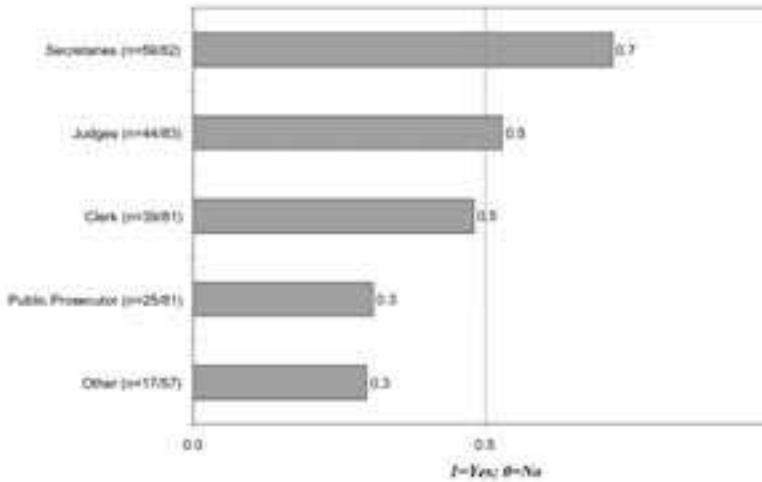


Chart 12: Kabinja—If Firm Has Bribed How Frequently?

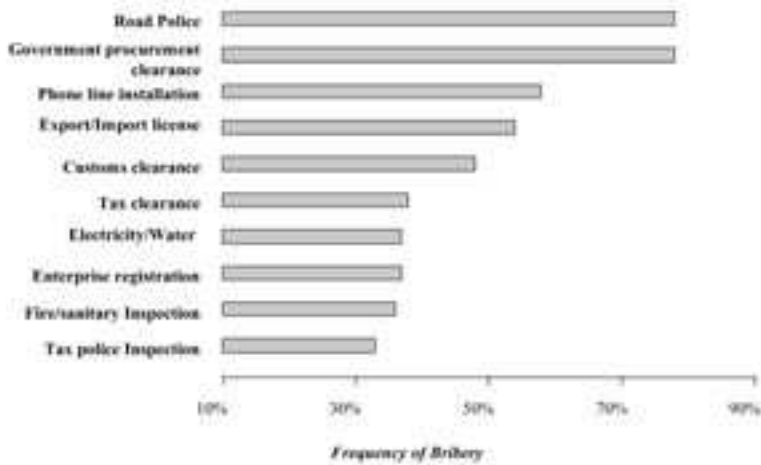


Chart 13: Regional View—Purchasing Public Positions

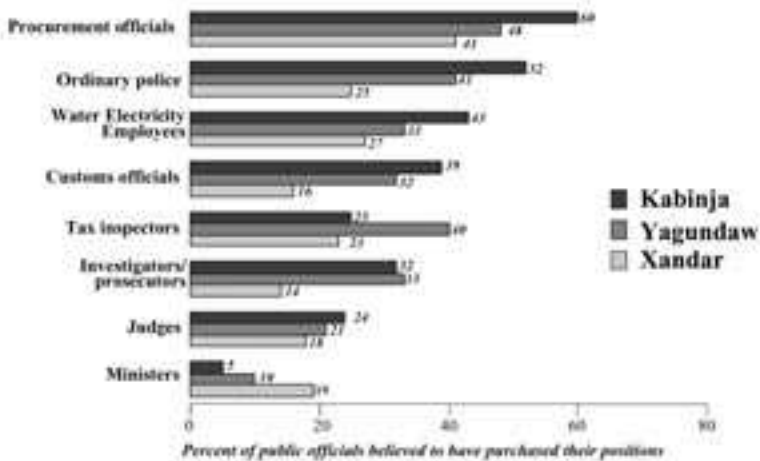


Chart 14: Lack of Meritocracy Leads to Corruption

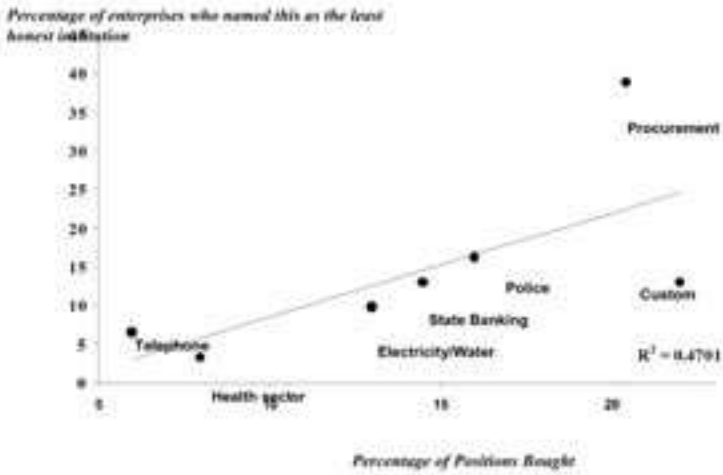


Chart 15: Kabinja—Public Officials’ Views on Dishonesty in Institutions

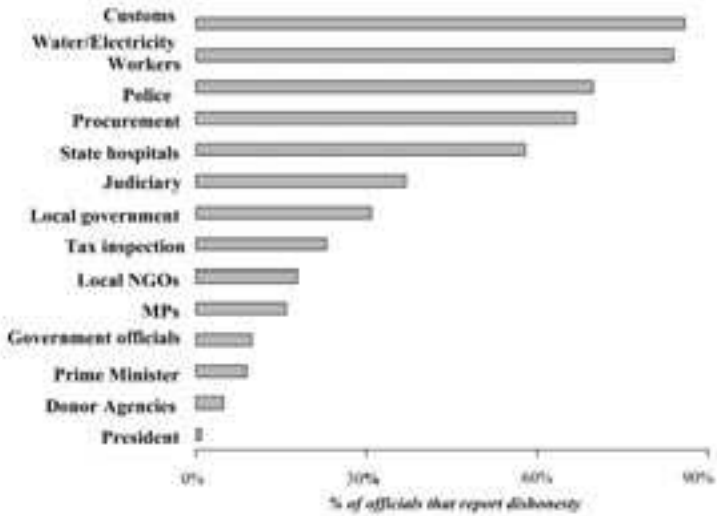
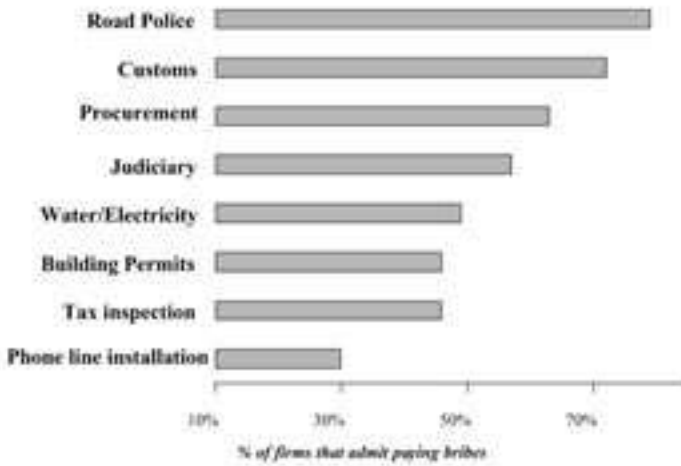


Chart 16: Kabinja—Are Bribes Paid for Government Services?



Supreme Audit Institutions and Their Role in Fighting Corruption

Wilhelm Kellner

THE INTERNATIONAL ORGANIZATION OF SUPREME Audit Institutions (INTOSAI)¹ is the professional organization of supreme audit institutions (SAI) in countries that belong to the United Nations or its specialized agencies. SAI play a major role in auditing government accounts and operations, and in promoting sound financial management and accountability in their governments. As the internationally recognized leader in public sector auditing, INTOSAI issues international guidelines for financial management and other areas, develops related methodologies, provides training, and promotes the exchange of information among members.

By choosing “The Role and Experience of the SAI in Preventing and Detecting Fraud and Corruption” as the main theme for its triennial international congress in 1998, INTOSAI has encouraged SAI to participate in this struggle and to pool their expertise on this matter. SAI agreed that fraud and corruption are significant problems affecting all countries in varying degrees and that the SAI should endeavor to create an environ-

ment that is unfavorable to such abuse. In order to meet this obligation, SAI agreed in particular to

- take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and aggressive follow up in SAI recommendations;
- establish an effective means for the public dissemination of audit reports and relevant information including establishing a good relationship with the media and producing relevant audit reports that are understandable and user-friendly;
- consider a closer cooperation and appropriate exchange of information with other national and international bodies fighting corruption; intensify the exchange of experiences on fraud and corruption with other SAI; and
- consider the establishment of a well publicized means to receive and process information from the public on perceived irregularities.

International Organization of Supreme Audit Institutions

Mission and History

INTOSAI is the professional organization of supreme audit institutions in countries that belong to the United Nations or its specialized agencies. SAI play a major role in auditing government accounts and operations, and in promoting sound financial management and accountability in their governments. As citizens, international donors and others have increasingly higher expectations of national governments and these governments depend on SAI to help ensure public accountability. INTOSAI supports its members in this task by providing opportunities to share information and experiences about the auditing and evaluation challenges facing them in today's changing and increasingly interdependent world.

INTOSAI was founded in 1953 and has grown from the original thirty-four countries to a membership of over 170 SAI. Its Lima

Declaration of Guidelines on Auditing Precepts, adopted at the Ninth International Congress and known as the Magna Carta of government auditing, provides the philosophical and conceptual framework for INTOSAI's work.

As the internationally recognized leader in public sector auditing, INTOSAI issues international guidelines for financial management and other areas, develops related methodologies, provides training, and promotes the exchange of information among members.

Organizational Structure

INTOSAI achieves its mission and goals through a variety of bodies, programs, and activities. The principal bodies are as follows:

- *Governing Board.* The sixteen-member board meets annually to provide leadership and continuity between congresses.
- *General Secretariat.* Located in Vienna, Austria, the General Secretariat provides central administrative support to INTOSAI, manages the INTOSAI budget, assists the board and congresses, facilitates communications among members, and organizes seminars and special studies. The Secretary General is the President of the Court of Audit of Austria.
- *Regional Working Groups.* Seven regional working groups promote INTOSAI's goals regionally, thus, providing members with opportunities to focus on issues characteristic of their region.
- *Committees and Working Groups.* Much of INTOSAI's technical work occurs in the committees and working groups established to advance the profession by developing and issuing professional standards, guidelines, methodologies, bibliographies, and other practical reference materials. INTOSAI members participate in this work by joining committees, commenting on committee products, and attending technical sessions at congresses.
- *International Congress of Supreme Audit Institutions (INCOSAI).* Hosted by a member SAI, the triennial congress offered all

INTOSAI members a unique opportunity to gather at one time in one place to share experiences, discuss issues, and pass recommendations aimed at improving government accountability worldwide.

The Role of Supreme Audit Institutions in Fighting Corruption

Emphasis on the fight against fraud and corruption is increasing throughout the world and joint strategies are being developed to combat this so called social disease that threatens to undermine and weaken democratic systems and economic growth.

Choosing fraud and corruption as the main theme for the XVI INCOSAI, which took place in Montevideo, Uruguay in November 1998, reflected INTOSAI's growing awareness of a problem that exists in varying degrees and forms in member countries. INTOSAI encouraged SAI to participate in this struggle and to pool their expertise. They found the topic very relevant and recognized the need for designing efficient audit strategies to tackle the problem. The main theme "The Role of SAI in Preventing and Detecting Fraud and Corruption" was split in two subthemes: The Role and Experience of SAI in Preventing and Detecting Fraud and Corruption; and Methods and Techniques Used in Preventing and Detecting Fraud and Corruption. Principal papers on these subthemes were prepared by the SAI of Austria, the role and experience, and the United States, methods and techniques, and distributed to all SAI members around the world.

Preparations for the XVI INCOSAI

Seventy SAI prepared 130 country papers describing their individual experiences based on the principal papers. The resulting contributions were analyzed and served as the basis for the theme's keynote speech and discussion papers presented to the congress.

The country papers contributed their individual perceptions of the corruption phenomenon and a broad consensus of the term's meaning

became apparent. Differences in definition mainly concern to what extent actions and practices are deemed fraudulent or corrupt from an ethical or moral point of view and what specific actions are penalized. Therefore, it seemed advisable not to waste precious energy constructing a globally accepted definition of this phenomenon but focus on the role of SAI in their fight against fraud and corruption.

SAIs' Role and Experiences in Preventing and Detecting Fraud and Corruption

Sound Financial Management and Efficient Internal Controls

SAI, responding generally, agree that the reliability of financial management systems is essential in preventing abuse. Effective internal control systems also have an inhibiting effect on potential perpetrators. Most ensured that evaluating the soundness of these systems is done regularly as an integral part of compliance audits.

AUDIT PLANNING FOR HIGH RISK AREAS. Few SAI have analyzed and determined circumstances that indicate a high inherent control risk of illicit influence on governmental activities. While some argue they are handicapped by insufficient manpower to handle this kind of assessment, they agree limited staff skills and abilities, lack of function separation, procurement of goods and services without competitive bidding, weak internal control systems, low managerial capabilities, and political appointments are examples of high-risk indicators.

RECOMMENDATIONS TO THE LEGISLATURE. Most SAI indicate their countries have sufficient legal provisions to penalize and prosecute corrupt practices. Regulations and rules aimed to ensure free, transparent competition govern tendering procedures. Some warn of loopholes in the regulation framework, and others report they do not have the mandate to recommend to legislative authorities perceived shortcomings in the practical implementation of regulations and rules.

Expertise in the Prevention and Detection of Fraud and Corruption

Almost all acknowledge there are other institutions that fight corruption, for example, the prosecution, police authorities, or parliamentary task forces. Most agree these bodies would benefit from an improvement in the exchange of information. Only a few argue such a policy could endanger their independence. All the responding SAI highly recommend an intensified exchange of experiences and information on international cases of corruption and fraud. While in some cases increased communication has begun, many think a more universal approach is necessary. Some SAI currently follow regulations that govern the discovery of possible illicit acts. But few were legally obligated to refer these suspicious activities directly to prosecution offices.

Generally, it was felt that SAI should actively raise the public's awareness of the risks associated with fraud and corruption and foster good governance and standards of conduct. While many want to promote codes of conduct and ethical standards and encourage their incorporation into the public servants' training, some considered it excessive intervention into governments' internal affairs. However, they agreed it was critical they employ safeguards from risks of abuse within their organizations.

The majority of SAI that responded annually publishes audit reports after submitting them to parliament. The findings get sufficient coverage in the media although some SAI argue their main objective is to provide the parliament with an independent opinion. Others contend it is also necessary to maintain and strengthen ties with the press. In some cases, this argument is moot since excessive time lags between actual audits and the publication of the reports preventing their timeliness and relevance.

Methods and Techniques Used in Preventing and Detecting Fraud and Corruption

Maintaining a Preventative Environment

Experts agree it is easier to prevent than to detect fraud and corruption. Key elements in creating and fostering a preventive environment include

strengthening financial management systems, evaluating internal control systems to identify and correct weakness, and heightening public awareness of SAI findings.

Strengthening Financial Management

Annual financial reporting, which includes financial, compliance and performance information, is a core part of a strong financial management system necessary for effective accountability. Nearly all SAI agreed that strong financial management, based on reliable, complete, and timely financial reporting, supports a preventive environment by limiting the opportunities for abuse. Even those with limited experience considered sound financial management a precondition for prevention. Most countries require that the heads of government departments prepare annual financial statements. These annual statements were audited by the SAI and, in some cases, public accounting firms, thus, limiting opportunities for irregularities.

Evaluating Internal Control Structures

The principal paper described evaluating systems of internal controls, and developing recommendations and subsequent improvements as the main components of a control environment that are central to prevention strategies. However, most SAI failed to construct such standards for internal controls but rather served as advisors. It is not mandatory to accept their guidance. While they assess internal controls, nearly one-third reported that no requirement exists for program officials in their governments to assess and report on the internal control systems. One SAI recounted that more than 70 percent of the fraud it uncovered over a three-year period was attributable to either the absence of proper controls or the failure of existing ones.

SAI are less aggressive about monitoring recommended improvements to internal controls although it is oftentimes within their authority. Most check those recommendations during the annual audit. In some cases, the responsibility for following up on recommended changes lay

solely with the government official responsible for the audited department. Further, none of the papers identified a formal system that tracked recommendations to ensure they had been implemented.

Several of the SAI referred to the significance of civil servants' personal and professional integrity in their discussion of internal control systems. They described their experiences with corruption pointed to management weakness and failure as significant factors and suggested penal provisions that are more comprehensive, greater cooperation among government authorities, and public disclosure as possible mitigating elements.

Heightening Public Awareness of SAI Findings

In addressing prevention issues the principal paper pointed to heightening public awareness as a means of increasing accountability through timely public disclosure of audit findings. Reporting these findings and any resultant legal action enhances fraud prevention by informing government officials and the public that effective internal controls are in place and working. The degree to which SAI publicize audit findings ranges from those that submit it only to parliament, a few who make restricted distributions, to those who routinely release findings to the public as soon the results are issued.

SAI views differ regarding the preventive value of publicizing audit results. Some said that public disclosure deterred fraud and corruption. At best, they contend that public disclosure of corrupt officials deters managers from collusion and other corrupt practices and, at the very least, modestly increases public awareness. Others questioned that premise and a few countries expressed concern that public disclosure can lead to schemes that are more sophisticated and better-informed criminals. Consequently, some include only noteworthy findings in their annual report.

The principal paper discussed one technique that is directly tied to public involvement: promotion of a mechanism for citizens to report

fraud and corruption. SAI that establish an anonymous method for the public to report suspicious activity can strengthen a preventive environment and identify fraudulent activities. However, few had formal systems in place to receive such information. Most SAI relied on written correspondence as the primary mechanism for reporting possible crimes. Technologies such as the Internet or telephone hotlines are very limited.

Standards of Conduct

While SAI recognize the value of employees with high ethical standards, few reported government-wide codes of ethics. Standards of conduct, however, are in place in a majority of SAI. In some countries, these codes are agency-specific; in others, the standards are components of a penal code or other regulations. Several government managers regarded moral qualities such as trustworthiness, loyalty, and righteousness, as characteristics of strong ethical conduct imbued in their officials by virtue of their academic achievement or professional qualifications. Yet, others stated outright that civil servants are aware of what is expected of them and, consequently, will not engage in fraudulent activities.

Financial Disclosure

A comparison of SAI responses shows a wide range in what is reported, who must report, and how often reports must be filed. As to the efficacy of public disclosure of private assets, opinions vary. One SAI considers public disclosure a breach of personal privacy.

High Risk Reviews

SAI follow many practices to identify areas at risk for inherent control weakness. They range from utilizing a previous year's audit work as a basis for planning to systematic across-the-board evaluations of program vulnerability based on external controls, a history of program abuse, and management strengths or weaknesses. These two approaches represent different concepts of risk assessment. In the first, program or departments

are ranked in order to prioritize a comprehensive audit plan. SAI report that high risk audits had identified significant fraudulent activity.

The second approach focuses more on targeting audit activities to particular program areas, rather than departments that pose a significant threat to public resources. For instance, one SAI identified road construction as a high-risk area.

Identifying Fraud Indicators

Fraud indicators are generally difficult to identify. An auditor must rely on technical experience, professional judgement, and a firm understanding of how fraud is committed to successfully recognize its indicators. Most SAI considered lack of experience and training as the biggest obstacles.

XVI INCOSAI: The Role of SAIs in Preventing and Detecting Fraud and Corruption

Among the numerous considerations expressed, there is consensus that corruption has surfaced in all forms of government. Moreover, it occurs in all spheres of society. The INCOSAI delegates acknowledged government corruption results in a waste of resources and a reduction in economic growth and quality of life. It undermines government credibility and reduces its effectiveness. Some SAI commented they have observed a strong correlation between the level of corruption and the weakening of the lawful state and its institutions, along with the violation and erosion of individual rights. The socioeconomic environment of the population cannot be ignored when analyzing and dealing with corruption. Since social injustice, poverty, and violence are often linked with corruption, it is virtually impossible to isolate corruption as a separate problem.

The membership is also aware that a country's traditions, principles, and values influence the nature of corruption and although the SAI can do little about the fabric of society, it can influence the approaches used to

combat this problem. It is INTOSAI's hope that SAI can, through concerted action, play a role in promoting a culture, which rejects waste and values honesty, responsibility, and the rational utilization of economic wealth.

Further, SAI agree it is difficult to detect many acts of corruption and to estimate their financial impact as the loss to the state does not necessarily show in the financial statements' accounting records. Nevertheless, statistical indicators exist that point to a likely relationship between various indices of public finance and perceived levels of corruption. Some of the most common forms of corruption include misappropriation of assets, patronage, influence peddling, and bribery.

There is consensus that laws and regulations, along with adequate oversight and enforcement, can deter malfeasance. Some SAI note that excessive laws and regulations might, in fact, encourage corruption and that over regulation, too, is a danger. The following are examples of government areas that are particularly vulnerable to abuse:

- collection of taxes and other sources of revenue
- administration of procurement and contracts
- concession of subsidies, permits and licenses
- hiring and administration of personnel
- customs and
- the privatization process

Notes

1. Further material and information about the work of INTOSAI and useful links to other supreme audit institutions can be obtained on the INTOSAI website: <http://www.intosai.org>

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Terms of Engagement for Bilateral Donors: A South African Perspective from Civil Society

Lala Camerer

THE POLITICAL PROCESS SURROUNDING TERMS of engagement between donor and recipient countries around development assistance generally, as well as focusing on anti-corruption initiatives more specifically, is a paradoxical subject.

In recent years, leading critics of development assistance have raised legitimate questions about recipient countries' effectiveness in soliciting, receiving and utilizing donor support. They argue that the concept of "aid" is ill conceived and entails pouring resources into a bottomless pit in the third world where there appear to be few returns other than ingratitude, abuse and misuse with limited accountability.¹ Corruption in development assistance has reduced the productivity of aid-funded development projects and weakened public support in donor countries, particularly during times of financial stringency. Bilateral donors have responded to international public criticism by an increasing resolve to examine and combat corruption.² Their efforts include

- tightening internal controls to limit opportunities for abuse;
- helping recipient countries develop systems for managing aid, including a special focus on public service reform;
- adopting conditionality, with the threat of aid reduction;
- funding a wide variety of projects that bear directly and indirectly on corruption, including strengthening criminal justice responses and funding civil society initiatives.³

The terms of engagement for bilateral donors with recipient countries such as South Africa (SA) is largely dictated by the country development assistance framework. This paper takes a broad look at the agreements between donors and recipient countries, accentuating the donor's role; and specifically examines how South Africa, as a recipient country, has developed guidelines to facilitate a confidential donor/recipient relationship. In many instances, South Africa is an exceptional case and one should be wary of transposing this experience uncritically. However, there are some key principles, underlying the terms of engagement, which may be useful. Coordinated anti-corruption efforts among civil society stakeholders are also briefly discussed.

The Case of South Africa

This section examines the development profile and policy of South Africa, the development assistance framework that provides formal guidelines, and the terms of engagement for general donor assistance. Although non-governmental organizations (NGOs) fall outside bilateral development assistance, they are important both historically in the South African context and in the role they play in democratic consolidation.

Development Profile and Policy

While South Africa appears to be a relatively prosperous, middle-income country with \$3,000 GDP per capita, a modern financial and industrial sector, an excellent infrastructure, and the most diversified and advanced economy in Africa, that prosperity is reserved for only a small portion of

its population. Decades of legal discrimination have led to a situation in where income differences generally coincide with race. This is most starkly represented in the life expectancy of whites, which is seventy-five years compared to fifty years for blacks. The overall Human Development Index of South Africa is 650—whites score 878 and blacks score 462, with a poverty share of 95 percent. White South Africa ranks 24th compared to Black South Africa's ranking of 123rd out of 180 countries.

Following the 1994 elections, the South African government adopted the five-year Reconstruction and Development Programme (RDP) as its primary development strategy to redress the imbalances created by apartheid. Its major goals were to

- eliminate poverty and inequality generated by decades of apartheid
- raise living standards
- develop human resource capacity
- address imbalances and structural problems in the economy and labor markets
- end discrimination in business
- establish a living wage
- address economic imbalances in Southern Africa
- develop a prosperous and balanced regional economy

However, in 1966 the Growth, Employment and Redistribution Strategy (GEARS) was introduced as it became evident that the growth needed for attaining development goals could not be driven purely by public expenditure. The redistribution of wealth and resources would have to be fuelled by market-led economic growth.

One of the core elements of GEARS is a renewed focus on budget reform to strengthen the redistributive thrust of government expenditures. To give effect to this, government introduced a three-year rolling expenditure plan known as the Medium Term Expenditure Framework (MTEF). Its intention is to assess how the budget and the reprioritization of expenditures can address reconstruction and development, and to ensure greater alignment of official development assistance (ODA)⁴ with

strategic interventions in certain key areas. These include education, health, welfare and social security, infrastructure investment, an integrated justice sector (police, justice and correctional services), and personnel spending.

The nature and extent of bilateral development assistance to South Africa makes it relatively unique on the continent and contrary to the situation in many developing countries. ODA amounts to between 1 and 1.5 percent of the annual budget compared with 75 percent of the budget of neighboring Mozambique. Development assistance is made available in a variety of forms broadly classified as grants (actual funds), technical cooperation (expertise), and financial cooperation (loans, credit guarantees). In South Africa, it is generally accepted that ODA-funded projects and programs should be aligned with development priorities and interventions, and integrated into the normal functioning of government. The idea of donor-supported projects managed in a stand-alone/isolated manner is strongly opposed.

Development Assistance Framework

Development assistance to South Africa before 1994 (the date of the first democratic elections) provides an interesting case study on how bilateral donors that are often more comfortable with government to government arrangements, utilized civil society. Western donors channelled millions of dollars, guilders, krone (often secretly and sometimes with negative consequences for accountability) to organizations opposed to apartheid. These contributions were vital in ensuring that basic services were delivered to the people who were denied the right to citizenship. Through supporting and engaging key civil society actors over many years, the donor community played an important role in bringing down one of the most pernicious systems of racial oppression.

Prior to 1994, aid was almost exclusively channeled into the NGO sector for anti-apartheid activities. However, post-apartheid foreign assistance increasingly was diverted to the South African government,

which requested that donors begin to lead the process. This meant donors “gave up their behind the scenes coordination” and it appeared that the donor community was much more organized when it had the common agenda to fight apartheid. Within this context, the need arose for coordinating mechanisms within the South African government. The International Development Coordinating Committee (IDCC), chaired by the Department of Finance, was instituted in 1994 to act as the principal channel between the government and donor community. In the absence of an established management framework, the ODA became the principal agency to distribute funds to projects financed through the RDP. The RDP established by Act No. 7 of 1994 provided a central account for donor funded government projects.

With the closure of the RDP office and the integration of the RDP into departmental budgets, the function of ODA management and coordination was transferred to the Chief Directorate: International Development Cooperation (IDC) in the Department of Finance. All national departments have been urged to register their intention to solicit ODA with IDC as well as submit quarterly reports on the status of their discussions with the donor community. Bilateral donors have also been urged to channel their activities through the IDC.

Various initiatives have been undertaken to formulate regulations and disseminate knowledge about such regulations among line departments. Most recently, a comprehensive document entitled “Draft Policy Framework and Procedural Guidelines for the Management of Official Development Assistance, Draft Two, January 2000” has been prepared. The primary goal of this report is “to ensure that all role players involved in the management of ODA have a clear understanding of how it should be managed in order to achieve optimal impact. This is to satisfy the interests of the South African Government as well as its partners in the international donor community.” Additionally, key processes are delineated for the donors and implementing agencies for ODA. The proposed guidelines provide the “formal” terms of engagement for bilateral donors around general develop-

ment assistance to South Africa and point to the process for engaging with the government around anti-corruption initiatives. Essentially, a case is being made for a strong coordinating center.

A number of reasons may explain why it is not advisable to apply the current ad hoc and somewhat decentralized approach to soliciting ODA. In addition to virtually all donors requiring a single point of entry to the South African government, such an approach undermines a coherent, coordinated approach to managing ODA; impedes South African ownership of ODA; complicates its overall management; and makes it difficult to ensure that ODA is utilized legally.

A 1998 report on the donor community commissioned by the South African office of the United Nations confirms the need for a formalized approach to ODA. The report cited problems that include:

- unduly complex and problematic mechanisms;
- a general absence of standardized procedures pertaining to all areas of soliciting, procuring, managing, and monitoring of projects;
- weak inter and intradepartmental communication;
- coexistence of numerous coordinating structures; and
- uncertainty as to the degree of provincial autonomy vis a vis national structures in soliciting funds and technical assistance.

The above problems have led to a circumvention of official routes by donors and recipients, as well as delays in concluding and implementing funding agreements, organizational overlap and confusion over lines of authority, accountability and responsibility, actual fragmentation, and duplication of projects.

The responsibility and accountability for the implementation of ODA supported projects and programs are vested in the South African implementing agencies, namely government departments, provinces, and local authorities. The absence of a central decision-making body that determines the allocation of ODA means that any implementing agency can legally approach the donor community directly to solicit assistance. Most sectors have established a relationship with the donor community and think a centralized framework is superfluous. However, it is an

essential instrument in the coherent management of assistance at the sectoral level, particularly as the RDP Fund Amendment Act prescribes the heads of departments and provinces that are accountable for ODA. This hopefully will encourage responsible management of donor funds.

Arguably, decentralization and local ownership are key driving forces behind the new development agenda. Does the South African proposal that centralizes ODA challenge this concept? Probably not, as the main impetus is to establish responsible coordination of donor funds rather than propose any sinister trend towards centralization.

The Development Cooperation Report (DRC) conducted by the United Nations Development Programme (UNDP) is currently underway in South Africa. The 2000 review examines the best way to align ODA to have the greatest impact. Results of the impact of development assistance on South Africa between 1994–1999, particularly in the democracy and governance cluster, will provide further guidelines on how to optimally utilize development assistance to achieve its objectives, including anti-corruption projects.

Terms of Engagement for Donors: Guidelines and Principles

Chapter Three of the above-mentioned document, “General Policy Objectives for ODA,” delineates the terms of engagement from the South African government’s perspective. Essentially, ODA shall “be managed within the context of South African policy and legislation as its overall strategic framework.” This is done “bearing in mind the restrictions imposed by each of the donor governments.” Also, ODA cannot be managed in isolation or used to fund “wish lists” that are not a part of the government’s core development priorities; government has to avoid seeking ODA simply because the budget is inadequate or a donor is interested in providing support.

This strategic approach is designed to address “the process of committing countries providing ODA to some form of agreement that has not been coordinated and standardized but has been driven by the agenda of donor countries wishing to have agreements signed when dignitaries visit SA or vice versa”.⁵

General policy objectives put forward for ODA in the document are to

- increase ODA for the benefit of the poor;
- accept full ownership of donor-supported interventions at the macro and sectoral levels and in all spheres of government;
- align ODA to the MTEF and budget to promote sustainability beyond donor's involvement and ensure donor resources are directed towards governments' development priorities;
- use ODA to complement and encourage departments and provinces to reprioritise their budgets towards the country's development priorities;
- manage ODA by coordination and coherence of various donor-supported programs and projects at the macro, sectoral, and all levels of government, including maximizing international development experience and donor comparative advantages;
- use ODA to enhance long-term sustainability through capacity building and skills transfer as part of all donor programme and projects;
- ensure policy and technology choices relating to development priorities will be determined by the South African government.

The principle that ODA interventions must be aligned with South Africa's reconstruction and development priorities to the fullest extent possible underlies each one of these general policy objectives. Clearly, South Africa is setting the agenda by laying down the ODA ground rules and the practical processes detailed in the document are relatively standard, including donor pledges, overall program support, project identification, project assessment, decision-making around project support, monitoring, and evaluation.

NGOs and Development Assistance

Following the 1994 change in government, many bilateral donors have redirected the majority of their funds to the state to assist in the RDP's development and reconstruction goals. This has had devastating conse-

quences for some civil society organizations. Although the government is aware that a portion of all development assistance is channelled through civil society, it is not accountable for resources the donor community distributes directly to recipients; this assistance is not included in the formal bilateral development cooperation framework.

According to the draft policy framework document, “while the government actively encourages overseas development aid to South Africa it does not interfere with the relationships between foreign donors and local NGOs. This is because government views the overriding procedural objective of the granting of aid to be the simplification of the process, not the ownership of the project. Despite requests for the inclusion of NGOs (from some donors) within the Department of Finance’s realm of management, the Department of Finance remains adamant that it has no intention of allocating, controlling or accounting for donor resources to the NGO sector.”

Donor assistance to post-apartheid South Africa is in a transitional phase, bound to the consolidation of democracy. Among donors, different sets of considerations seem to inform the tripartite relationship between donors, the South African Government, and NGOs. Strategies devised with the view to “consolidating democracy” emphasize either the importance of building long-term capacity within the state or alternatively bolstering a vibrant and plural civil society. The decision to support the state and/or civil society may be determined by donor perceptions of the state’s strengths or weaknesses vis-à-vis civil society.

Currently, while there remains intense assistance for government activities and those NGOs performing government-related services, a significant portion of assistance continues to go to NGOs. Support for civil society is still built into certain bilateral agreements. For example, both the Danish Government and the European Union (EU) ensure that twenty-five percent of their funding goes to civil society organizations. Increasingly, this will be a pertinent factor as the donor community determines that South Africa is moving out of its transition phase

towards consolidation, the stage where developmental initiatives may begin to refocus on civil society.

NGOs are attractive developmental partners because they are financially accessible to donors. In the past, targeting NGOs directly allowed donors to circumvent complicated state tendering procedures. Interestingly, government departments would also form alliances with NGOs to avoid such regulations. However, the RDP Fund Act amendment gives priority to the technical assistance agreement, meaning that if procurement provisions appear in the agreement, South African tender procedures do not apply.

Donors have increasingly asked NGOs to design and implement projects, partly because donors can avoid state control and inefficiencies since the government perceives aid-funded projects as less vulnerable to scarce resources and a corrupt central administration. NGOs are generally cheaper, more effective, and closer to the local population.⁶ Promoting the role of NGOs is one of the best ways to balance state power as they enhance the context and spirit of greater public accountability.⁷

Comment

Some commentators believe that in a context of declining ODA, where government to government agreements necessarily take precedence, NGOs need a framework that guides their relationship with local and international agencies, otherwise they are destined to become increasingly marginalized or alternatively co-opted. Civil society actors are recognizing the need to be organized, especially in attracting development assistance for anti-corruption activities.

Additionally, the social contract between the state and civil society stakeholders requires a more critical review. More clearly stated political principles and administrative policies that regulate future partnerships will significantly help rectify the current relationship, which is characterized by entrenched animosity between state and civil society actors and, in some instances, unbridled competition for donor assistance.

ODA and Anti-Corruption Initiatives in South Africa

This section briefly outlines the corruption debate in South Africa. The key question is “how should donors engage and respond to approaches for assistance from South Africa, particularly from government agencies, that support anti-corruption measures?”

Corruption on the National Policy Agenda

Corruption as a priority domestic policy issue is a relatively recent occurrence and needs to be placed in the context of broader and more pressing objectives of reconstruction and development. It will remain a key policy issue as long as corruption inhibits the Mbeki Presidency’s objectives to improve service delivery and erase the inequalities between South Africans. Donors should be keenly aware that South Africa’s interest in confronting malfeasance is largely shaped by the significant body of literature on the impact of corruption on poverty and development.

While corruption is not a new phenomenon in South Africa, the ANC-led government has taken a number of high profile initiatives to address it following the media’s dramatic exposure of numerous corrupt officials and widespread malfeasance in key sectors including the police, correctional services, and housing and education. In addition to local pressure, the government’s stated commitment towards greater openness, transparency, and accountability is evolving against a backdrop of an international impetus towards promoting good governance.

In terms of nature and extent, no comprehensive diagnostic, integrity survey has been conducted in South Africa although this is being proposed under the United Nations Global Programme Against Corruption. A number of opinion polls and surveys dealing with both the perception and experience of corruption by citizens have, however, been conducted in recent years.

- The national victimization survey in March 1998 found that during 1997 3 percent of the respondents had experienced

corruption by officials (defined as police officers or customs officials accepting payment for services rendered).

- The Institute for Democracy in South Africa (IDASA) has directed a number of opinion studies to measure attitudes towards public sector corruption. In 1995, IDASA's survey found that 46 percent of South Africans felt that "almost all" or "most" public officials were involved in corruption, in 1998 that number increased to 55 percent. Perceptions of corruption are spread across various levels and branches of the public sector with the notable exception of the Office of the President, where the perception is significantly lower.
- A recent opinion survey conducted by the Human Sciences Research Council found that 80 percent of South Africans in December 1998 agree/strongly agree that corruption exists within the civil service.

Misuse of Donor Funds

There have been some high profile examples in South Africa regarding the misuse of donor funds both before and after 1994, within civil society and the state. Examples include Swedish support for the Rev. Allan Boesak's Foundation for Peace and Justice, where money destined for the victims of apartheid found its way into Boesak's personal account; R726,000 for the production of twelve videocassettes on voter education and democracy were spent on building a studio for his wife. Boesak was found guilty for the theft of R259 000 and fraud involving R1.3 million from the Foundation for Peace and Justice and sentenced to six years in prison. His case is currently before the Supreme Court of Appeal.

The use of the term "struggle accounting" devised by Boesak and others to stress that the secretive corrupt nature of the apartheid regime made open and transparent bookkeeping on donor funds almost impossible during the struggle years, raises questions for donors. Can donors interact openly with civil society organizations in cases of severe oppression? What checks and balances can be put in place to prevent a

situation similar to the Boesak case? While regular audits, independent assessments, site visits, etc. may be routine for donors in democratic contexts, other methods to account for donor funds may need to be devised in less conducive environments.

Another highly publicized case of misuse of donor funds was the EU funding of the Department of Health's AIDS play, *Sarafina Two*. After an inquiry by the Office of the Public Protector, donor money was subject to improper tender and contract-awarding procedures with a litany of irregularities surrounding the spending of R14.2 million on the anti-AIDS play. When the furor developed over the project's extravagance, the EU stated that contrary to assertions made before Parliament by the Minister of Health, it had never been asked to approve funds for the play. The EU ambassador to South Africa stressed categorically that there had been no prior authorization and regarded the diversion of funds as a serious misuse of EU support. In this case, there was no evidence or implication of abuse of official position or titles for personal gain, but a clear case of aid diversion that bordered on mismanagement and lack of both transparency and public parliamentary accountability.⁸

The EU's experience with the Department of Health resulted in bureaucratic and regulatory consequences for other South Africa organizations such as the Institute for Security Studies (ISS), which received EU funds following *Sarafina Two*. Comprehensive accounting procedures obviously are necessary to regulate the use of donor funds but stringency needs to be balanced with flexibility, particularly in relation to policy work conducted by organizations such as the ISS.

Taking a Stand

Both the Mandela and Mbeki Presidencies have highlighted the importance of tackling the "moral crisis" manifested by high levels of violent crime and widespread corruption. A number of anti-corruption conferences (supported by donors such as Department for International Development in London, the EU, and United States Agency for Interna-

tional Development among others) have take place in the past eighteen months and are an indication of the importance government attaches to confronting corruption in South Africa. Additionally, several new policing units and initiatives, which have a dedicated focus on fighting crime and corruption have been formed, for example the Special Directorate for Public Sector Corruption within the Office of the National Director of Public Prosecutions.

Following the June elections, which the ANC fought largely on a zero-tolerance anti-corruption ticket, Mbeki's Cabinet formally endorsed resolutions of the National Anti-Corruption Summit held in April 1999. The Public Service Commission was identified as the "flag carrier" of the anti-corruption program, which mandated the government implement the most pressing Summit resolution to hold a meeting of relevant stakeholders including business, labor, and civil society representatives to establish a cross-sectoral task team. This task team has met several times and is constructing the terms of reference for a National Anti-Corruption Council responsible for broad strategic and policy advice regarding anti-corruption activities across all sectors in South Africa. Since there is currently no dedicated budget for this process, donors will most likely be approached for assistance. The Public Service Commission has already convened a donor roundtable. How should donors respond to these requests within the South African government's policy framework? First, donors will have to be persuaded that the political will exists to tackle corruption in South Africa.

Assessing Political Will

Political will is the key ingredient to an effective anti-corruption effort. Without it, government statements to reform civil service, strengthen transparency and accountability, and reinvent the relationship between government and the private sector, ring hollow and remain mere rhetoric. In South Africa, political will around the issue of corruption—public discourse that identifies it as an issue of national concern—appears to

exist. However, how do donors assess the credibility of a government's intention to seriously fight corruption?

Some have suggested a review of environmental and situational factors when assessing a recipient country's political will to tackle corruption. These factors include local ownership, leadership, the degree of analytical rigor evident in working out strategies, the application of tough and credible sanctions included in strategic plans, and the continuity of anti-corruption efforts.⁹

A recent UNDP publication identifies the principal challenge in anti-corruption reforms as distinguishing between reform approaches that are intentionally superficial and designed only to bolster the image of political leaders, and substantive efforts that are based on strategies to create change.¹⁰ Several indicators that demonstrate genuine political will have been developed to make this distinction:

- *Understanding the phenomenon.* Has the regime sought through analytic rigor and information to adequately recognize the context and causes of corruption as well as ways to address it?
- *Issues of process.* Has the regime adopted a strategy that is participatory, incorporating and mobilizes the interests of many stakeholders?
- *Strategic considerations.* Has the regime weighed the strategic dimensions of achieving specific outcomes in relation to the selection of reforms that are desirable, context specific, and cost sensitive?
- *Incentives and sanctions.* Has the regime considered strategies other than criminal sanctions that can mobilize functional relationships to instill normative institutional change?
- *Monitoring.* Has an objective process that monitors the impact of reform and incorporates those findings into a strategy that ensures policy goals and objectives been created?
- *Checks and balances.* Is society pluralistic, allowing meaningful competition in both the economic and political spheres

through institutions, which provide a check on the arbitrary abuse of power?

The South African government's anti-corruption initiative has, in many respects, pre-empted donor concerns. Donor influence, at this stage, around good governance (for example, by raising the issue of corruption) should be viewed as supportive of South Africa's internal anti-corruption policy process. One donor respondent to the United Nations Desk for Economic and Social Affairs (UNDESA) survey on ethics in the public service noted that "South Africa is different to other countries in that it is not donors steering government in a specific direction to tackle corruption and encourage good governance. Rather, South Africa is an example to other countries and leadership around fighting corruption is coming from within the country".¹¹

However, several challenges remain. There is limited analysis about the nature and extent of corruption, or about ways to address it. This is crucial because a lack of understanding and information have been major factors in the ineffectiveness of international reforms. A senior UN official from Vienna visiting South Africa recently raised the concern that the anti-corruption strategy was being devised without comprehensive baseline information. Donors could be asked to fund, for example, a corruption survey. The challenge will be to ensure that established researchers are included in such a project to collate existing, albeit limited and fragmented, research activities on corruption to avoid duplicate efforts. On the basis of such survey information, priority areas for intervention can be mutually agreed upon.

In terms of process issues, sustainable anti-corruption reforms demand a participatory process, which also promotes ownership, involving all stakeholders. The National Anti-Corruption Summit, convened in Parliament, made considerable progress towards addressing this and broad representation. The Cross-Sectoral Task team continues to reflect its commitment to inclusiveness. Sustained participation in these initiatives depends not only on government, with donor support,

providing opportunities for cross-sectoral interaction but also civil society and private sector actors need to demonstrate continued political will by actively organizing, consolidating, and engaging their organizations in the process, requiring both leadership and dedicated resources. Initiatives such as the South African Non-Governmental Coalition (SANGOCO's) Code of Ethics and Business South Africa (BSA's) adoption of the SANCODE code of business ethics are examples of two areas for continued action.

Monitoring the current policy processes around corruption reform falls mainly upon civil society organizations as government's ability to monitor itself, particularly around this issue, is often viewed with suspicion. The Public Service Commission is establishing a monitoring mechanism and is interacting with NGOs that are already doing work in this area to devise a model. NGOs need to be empowered to play this role as does the media by improving its investigative journalism. While the importance of research is often undermined in favor of more tangible service delivery outcomes, it is encouraging that funders such as the EU, AusAid, Ford Foundation, and the Open Society Foundation currently support anti-corruption/governance research initiatives through several independent civil society organizations.¹²

Finally, South Africa has a plethora of statutory agencies to fight corruption. There have been efforts to streamline these agencies' focus to increase their effectiveness. Comparative expertise from donor countries on the nature and functioning of dedicated anti-corruption units in other countries, as well as expertise in other areas such as legal instruments to fight corruption, are important entry points for donor countries to assist the South African efforts.

Assessing Funding Requests

Each of the Utstein partners (Netherlands, Norway, Britain, and Germany) is currently engaged in development assistance to South Africa. However, few projects directly support anti-corruption initiatives. Within

the democracy and governance cluster, several projects promote public service reform. Anti-corruption projects may become an explicit focus area for donors once the national government designates corruption as a priority assistance area.

Donors are already confronting the questions raised above. In terms of the agreed minutes of the 1999 Annual Negotiations on Development Co-operation between South Africa and Germany (7–9 September 1999) the Public Service Commission (PSC) requested cooperation from GTZ for a particular project dealing with the following areas:

- organizational development of the PSC
- anti-corruption initiatives
- development of an instrument for monitoring and evaluating public service
- training for PSC staff

During March 1999, GTZ undertook a project appraisal in South Africa. Conducted by two independent consultants, the appraisal was based on interviews with representatives from the Public Service Commission, other South African areas of government, organizations, and NGOs. As a researcher working in the field, it was encouraging to be approached for an opinion. The appraisal will conclude with a report for GTZ recommending that the project should be established as proposed, suggest changes to the proposal, or reject the project. The appraisal is in progress and it will be interesting to see how the original project proposal differs from the final agreement if it is approved.

In terms of measuring the effectiveness of proposed anti-corruption reforms, the African experience suggests that sophisticated, well-timed, and properly sequenced strategies will contribute to the governance agenda that economic and political liberalization seeks to achieve. Donors who are approached to fund such initiatives should pay attention to questions of timing and sequencing, consistency, details and sustainability, and the level of political commitment necessary to promote and sustain reform in this area.¹³

Conclusion

Donor coordination in the field of anti-corruption activities is crucial. Donors should understand the environment and context in which they operate as well as the key issues. While donors would like a common, coherent, and coordinated approach, using similar standards and criteria when assessing development assistance in the field of anti-corruption, a country by country assessment is crucial for appropriate aid intervention. Institution building, both within the state as well as the strengthening of civil society, is important.

Therefore, a recipient country's ability to articulate its main objectives in development assistance and fighting corruption is just as important as donor coordination. Civil society actors should also coordinate their anti-corruption activities. In this regard, a roundtable of South African research organizations that work on anti-corruption issues will convene with donors. The purpose of this meeting is three-fold: 1) to understand donor priorities for anti-corruption assistance to civil society 2) to brief donors on NGOs' anti-corruption activities and 3) to share potentially new projects to control corruption in South Africa.

Fighting corruption links directly with President Mbeki's vision of an African Renaissance, designed to promote and strengthen systems that will enhance governance on the entire continent. However, such vision, if not given clear content, may become a meaningless vehicle of political intent, devoid of concrete and realizable action. What is certain now is that civil society organizations as well as the international donor community will continue to engage the South African President in his pledge to root out corruption.

Notes

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2. M. Robinson, ed., *Corruption and Development*, p.2, Frank Cass: London , 1998.
3. B. Cooksey, *World Bank Discussion Group on Corruption*, 2000
4. Defined as official resource flows from the international donor community to South Africa in the form of grants, technical cooperation and financial cooperation, where the South African government is held at least partially responsible and/or accountable for the management of such resources.
5. Documented in the Quarterly Report IDCC no. 2 1994.
6. G. S. Maipose, “Aid Abuse and Mismanagement in Africa: Problems of Accountability, Transparency and Ethical Leadership” in *Corruption and Development in Africa: Lessons from Country Case Studies*, edited by K. Hope and B. Chikulo, p. 97, 2000.
7. Ibid.
8. op. cit. p. 95
9. D. Brinkerhoff, “Identifying and assessing political will for anti-corruption efforts” *Working Papers – Implementing Policy Change*, USAID, No 15.1999
10. “Corruption: Integrity improvement initiatives in developing countries”, United Nations Development Program.
11. Beth Hogan, USAID South Africa, interviewed for the UNDESA survey on Ethics in the Public Service in Africa, November 1999.
12. These organizations include the Institute for Security Studies (ISS), the Institute for Democracy in South Africa (IDASA) the Centre for the Study of Violence and Reconciliation (CSV), the Public Service and Accountability Monitor (PSAM) and Transparency International—South Africa.
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Terms of Engagement: Towards Strategy and Guidelines for Donor-Recipient Interaction Against Corruption

Steven Langdon and Heather Baser

THIS PAPER EXAMINES THE QUESTION, “what terms of engagement should bilateral donors develop in their relations with recipient countries?” The focus is on the political process of donor-recipient interaction. It argues that

- donors should move away from conditionality arrangements, and stress engagements with recipient countries that are based on performance rather than promises;
- country frameworks against corruption should be developed through donor-recipient interaction and cooperation, stressing local ownership and leadership in country-specific strategies;
- non-engagement and disengagement should be options chosen by donors in circumstances where recipients’ initiatives are seen as non-credible, local ownership is clearly absent, or agreed monitoring benchmarks are consistently missed;
- within country frameworks, cooperative interaction should focus around institution-building, wide incorporation of stakeholders,

- joint monitoring processes, tracking the implementation of oversight and transparency institutions, public service reform, and priority funding and other support for anti-corruption agencies;
- continued donor support for civil society groups and regional networks should be maintained at lower levels even where disengagement takes place.

The overall thrust of the paper is that improved aid effectiveness should be the goal that drives new donor approaches—not just the need to rationalize donor agencies' internal operations in response to tighter financial circumstances.

Starting Perspectives

Considerable rethinking is taking place on the potential role of donor financial aid in helping to alleviate poverty in poorer countries. In part, this is because donor agencies recognize that tighter financial constraints, which most now face, require making harder choices—the result of donors seriously reconsidering the effectiveness of aid.

Collier, Dollar, and Lancaster, among others, present a new development perspective that says donor aid is ineffective in shaping recipient country policy, and, therefore, is ineffective in alleviating poverty particularly when such policy is poorly directed. But aid can have quite significant pay-offs in a positive policy context and should be concentrated in such settings.¹ On close inspection of the policy indicators they utilize, their evidence looks convincing if perhaps a little too broad.

From this perspective, significant corruption is a key aspect of policy failure and donors are likely to be ineffective in changing policies that would fight corruption. Aid provided in such a context is wasted. But all this could change. Aid that is coupled with a significant indigenous change impetus could be very effective in supporting and strengthening a reform process. Donor engagement, seen in this light, should respond to meaningful recipient reform initiatives.

Work such as that of Isham, Kaufmann, and Pritchett underlines the positive impact of open, participatory governance (as opposed to corrupt

cronyism) on economic performance, and on providing a setting where aid efforts can contribute.²

Brinkerhoff,³ however, presents a somewhat different dimension to this thinking by suggesting environmental and situational factors that donors can review and sometimes support when analyzing a recipient country's political will to tackle corruption. Genuine reform initiatives require local ownership in the anti-corruption fight, says Brinkerhoff, and this is reflected in who leads in shaping local plans, the degree of analytical rigor evident in working out strategies, the extensive involvement of local stakeholders, the application of tough and credible sanctions, and the continuity of anti-corruption efforts. However, a crucial point remains. Because donors can intervene to help reformist forces gain information and analytical skills even before that broader political shift takes place, aid should not be strictly focused in cases where the change impetus is already under way.

Widespread agreement in recent literature asserts corruption is deeply rooted and difficult to analyze. Brinkerhoff stresses that it is a complex issue and "a challenging long-term undertaking."⁴ Doig and Theobald conclude, "corruption is a symptom rather than a cause of underdevelopment."⁵ Their various case studies argue that accelerating globalization, combined with reduced capacity of the state apparatus in many developing countries, is widening opportunities for lucrative rent-seeking from extensive new capital flows and is also reducing capacities to impose sanctions. From this perspective, aid donors are unlikely to have an impact on corruption in many cases except through "a program which addresses the fundamental roots of economic backwardness and inequality."⁶ Effective aid will have to be thought through strategically even in the context of significant initiatives specifically designed to counter corruption.

Towards an Engagement Strategy

There are, then, no easy and universal answers to the classic engagement questions: How do donor countries have influence? Where is the point of entry? What general strategy should be adopted and applied by donors as

a group? But there are lessons that donor countries have been learning, partly from the aid effectiveness debate, and partly from the experience of sector-based programming.

The main lesson is that donor-led initiatives based on significant conditionalities negotiated with recipient governments are now increasingly viewed as ineffective. “After twenty years of experience,” conclude Collier and Dollar, “we can say pretty clearly that conditionality has not typically led to successful reform.”⁷ Jones recently summarized the evidence: “a general consensus is now emerging that conditionality as it has been applied under structural adjustment programs (ex-ante conditionality in multi-tranche operations) has failed to bring about sustainable improvement in economic policies or institutions.”⁸

Recommendation One: *Based on these perspectives, terms of engagement against corruption should adopt alternatives to ex-ante conditionality.*

Analysts of conditionality and its effectiveness to address problems have typically distinguished among project-based conditions such as counterpart funding and accounting requirements; sector-based conditions such as real resource increase commitments to a sector or policy area; macroeconomic conditionalities such as money-supply or fiscal balance levels; and what some have called “level four” or cross-cutting, non-economic conditionalities in the areas of governance, environmental norms, and poverty reduction targets.⁹ The critique of ex-ante conditionality has been especially influential in recent thinking about sector wide approaches to donor-recipient interaction. Given growing skepticism about macroeconomic conditionality, there has been substantial questioning of sector-based conditionality—with insights that are also relevant for level-four concerns such as corruption.

As noted by Foster et al in a Dublin meeting paper, “there is no consensus at sector level of the appropriate role of conditionality within sector wide approaches, even though there is active discussion within the

donor community... It is difficult to strike a balance between stop-go financing, and maintaining a credible threat [of sanctions] especially where the dependence on donor finance is substantial.”¹⁰ Such considerations have led to new forms of donor-recipient interaction at the sector level, emphasizing what Foster et al describe as “support to policy analysis and dialogue... the experience of joint working, rather than hard conditions.” But in practice this has not been an easy process. It has depended on the following:

- Donors seriously require recipient countries to demonstrate “systematic and objective indicators of ownership,”¹¹ so that feasible and credible joint policies are established and implemented for each sector.
- Donor recognition that a partnership approach and reliance on dialogue are “not compatible with (sic) attempt to secure leverage over policy”¹² but should instead be aimed at consensus building with a realistic view that this process is slow and uncertain.
- Donors committed to extending preparatory phases of sector initiatives and adding components that build local staff’s skills, extend local consultative capabilities, and strengthen local institutional structures. As a Danish analyst notes, “while conditionality has generally failed, ex-ante capacity building can be used to a limited extent, if aimed at strengthening the analytic basis for policy making and broadening the involvement of stakeholders in policy processes.”¹³
- Donors and recipients agree that “continuous interaction in a joint process” is the goal that requires early and regular monitoring of results, and that the quality of donor involvement during implementation (and in interaction with various national institutions) is crucial. As the analyst above notes, “donors could help to develop instruments—such as participatory dialogues and workshops assessing and debating policy options—that involve all relevant parties in an effort to improve the analytic

basis of policy making, priority setting, resource allocation, and other forms of decision making.”¹⁴

A recent experience in Nigeria suggests the immense importance of this sort of approach. At the request of the new Obasanjo government, the Ministry of Finance and the World Bank put into motion just exactly that sort of continuous interaction in a joint process to try to reform government procurement systems. Dozens of hard-hitting detailed recommendations resulted, including depoliticizing tender boards and easing customs clearance and handling procedures. World Bank officials were excited by the process of interchange, but remained uncertain about the likelihood of any action following quickly. However in practice, Nigerian authorities have accepted nearly all the recommendations and are moving to promptly implement them because they feel both a sense of ownership in the process, and an urgency to counter corruption in ways that are truly effective.

Country Frameworks Against Corruption

The Maastricht Conference most likely will result in a plan of action against corruption. This plan should reflect the important lessons learned from sector wide programming.

Recommendation Two: *The plan of action should adopt a country-by-country framework that*

- *reflects differences and particularities among recipient countries*
- *stresses donor concentration in those recipient countries that demonstrate ownership of an anti-corruption agenda and seriously pursue it*
- *moves beyond interaction with national executives to incorporate more governance institutions and civil society groups in significant ways*
- *emphasizes joint working rather than conditionalities in a partnership process of continuous interaction, stresses*

cooperation in building local analytical skills and consultative links, in a joint way, and underlines the importance of detailed implementation and monitoring

What this recommendation suggests is that the heart of an action plan must move toward a set of country-specific frameworks in which donor groups develop broad-based, jointly pursued partnership approaches to counter corruption. Differences in country frameworks should reflect the varying specifics of corruption characteristics, degrees of local ownership, local institutions and skill levels, character of cooperating stakeholders, and the political/historical cohesiveness of given societies.

It is not always possible to work out country frameworks in a credible way since they must be seen as serious joint efforts, meant to achieve results that can be monitored. Otherwise, they represent one more gesture that is ineffective en route to marginalizing many developing countries in a global economy.

The question at this stage is what guidelines for engagement can make joint country frameworks really matter.

Guidelines on Credible Engagement

Some of the most important points to consider when constructing country frameworks emerge from others' experiences in developing anti-corruption efforts as well as from engagement approaches used in other contexts such as sector wide approaches.

Recommendation Three: *Donors must be prepared to reject engagement in country framework partnerships where recipient governments' initiatives are seen as non-credible and local ownership is clearly absent.*

Consistent with recognizing particularities and differences among countries, and efficiently allocating limited donor resources, there are clearly various country cases where significant donor assistance will not effectively address corruption. These are cases of serious policy failure as underlined by the work of Collier, Dollar, and Lancaster; or cases where

underdevelopment and global pressures are so powerful (in Doig/Theobald terms) that corruption is a symptom of much deeper imbalances; or examples where political will is completely absent as in the Brinkerhoff framework.

Donors should examine the credibility of a country's political commitment by reviewing

- the extent to which support for government action is widespread and multi-leveled
- how deeply local analyses have probed the character of the country's corruption
- whether there has been extensive mobilization of varied stakeholders
- whether enforcement initiatives have identified serious and credible sanctions against corruption
- whether there is evidence of a continuity of concern about corruption matters in government and among stakeholders

Negative conclusions on all these points should lead to a donor's refusal to engage whereas positive conclusions on several of these significant political indicators should be an essential basis for establishing a country framework partnership.

Recommendation Four: *Country particularities should shape what constitutes effective anti-corruption strategy in any given context and determine how best to focus donor engagement.*

Particularities matter. The emerging views in the literature clearly suggest that country cases need to be examined carefully and separately so as to evaluate policy stances, to analyze the environmental and situational factors around political will, and to understand how globalization is affecting a given context. Diagnostic surveys of varying countries' corruption experiences are crucial, particularly service delivery surveys as they probe the extent of effectiveness/ineffectiveness of different institutions/ministries/agencies.

However, more broadly based surveys, focus groups, and local-level research can also be very useful. For instance, they aid in identifying national and other institutions that have high potential credibility in leading anti-corruption efforts. Often there may be important lessons for donors to use in shaping their approaches to ongoing dialogues, just as there are for recipient country representatives.

Ghana offers very instructive insight in this regard. Leaders of Transparency International, Ghana, which is based in Accra have tended, for instance, to see district level governments as mere creatures of the president with no local credibility and serious problems of local financial abuse. But a recent detailed survey study by the Institute for Electoral Systems (IFES), an independent U.S. agency, found that these governments, on the contrary, were well regarded by local civil society groups, active and quite efficient in service delivery, and often a source of some strength in building integrity.¹⁵ In the same way, many World Bank analysts (drawing on experiences in Asia where parliaments tend to be drawn from traditional political elite families and are rarely independent voices) have tended to disregard the potential role of parliament in the governance system of Ghana. But a 1999 survey of several thousand Ghanaians in a national sample by U.S. universities and the Centre for Democracy and Development in Accra, found that the level of trust by Ghanaians was higher for Parliament (more than 74 percent) than for the law, the courts, the police, the political parties, the Electoral Commission, or traditional chiefs.¹⁶

These conclusions have led the Ghana Core Country Team (the World Bank sponsored anti-corruption network in African countries) to rely quite heavily on the Parliamentary Finance and Public Accounts Committees as key institutions to brief and rely on in developing impetus against corruption. This is in marked contrast to the situation in Tanzania, for instance, where a late 1997 survey found that only 21 percent of respondents believed Parliament was “doing their best to reduce corrup-

tion in the country,” compared to a 49 percent rating for the President, and 24 percent for the Cabinet.¹⁷

Recommendation Five: *Donor partnerships with country framework recipients must be based on clear signs of ownership and political leadership on both sides, demonstrated by consistent close interaction among broad groups of stakeholders, follow through on agreed actions, and joint monitoring and adjustment of plans.*

Assessment of ownership and recipient country leadership within a country framework is inevitably at the heart of maintaining effective strategies against corruption. These are not, however, easy concepts to operationalize. As Foster et al note, “indicators used to assess ownership include: Are government priorities backed by budget allocations? Who within government has contributed to the development process? Staff at several levels or just one? Has government gone through internal processes to secure real commitment? Does the government produce robust arguments when donor positions conflict with their views? Who has endorsed the program? Parliament, cabinet, (the President)?”¹⁸ In addition, this list should include an anti-corruption context—how involved are other stakeholders such as civil society, business, and the media?

Leadership assessment also needs to include a method to judge consistency not just in determining political will (what Brinkerhoff has called “the intent of societal actors to attack the manifestations and causes of corruption in an effort to reduce or eliminate them”¹⁹) but in the broader sense of leadership’s capacity to achieve results within a political context, as reflected by a “(a) strong personal commitment to programme goals; (b) ability to anticipate problems, flexibility in pursuing goals and skills in bargaining; (c) political sensitivity to national and local aspects of the programme; and (d) ability to hire good staff and inspire it to work.”²⁰

This broad-gauged notion of political ownership or responsibility is highlighted by the case of Tanzania. The 1995 election of President Mpaka put someone in office with the political will to highlight corrup-

tion yet unable, in the aftermath of his election, to demonstrate real ownership or responsibility in the anti-corruption fight. The Mpaka Administration kept most senior political leaders whose integrity was questionable. Understaffing continued in the Prevention of Corruption Bureau so that years later only 44 of 130 positions were filled. The World Bank concluded in 1998 that Tanzania did *not* meet “the credibility test for application of a no-bribery clause in IDA-funded procurement.”²¹

These realities have also meant that the country framework in Tanzania has started with more limited medium-term objectives. For example, an effective review of the Auditor General reports is built by what are still very weak parliamentary public accounts committees (in contrast to situations in Uganda and Ghana with much stronger, more active committees.)²² The limited staffing of Tanzanian anti-corruption agencies means they lack credibility, and have been accused of being major sources of corruption through their own operations.

Recommendation Six: *Agreed monitoring indicators must be key parts of frameworks, with wide identification and review of the points to be assessed including*

- *ownership/leadership indicators as noted above*
- *tracking of the implementation of oversight agencies and of sanctions applied, and*
- *regular review of transparency and accountability scorecards*

Tracking indicators should be multi-faceted, broad-based, and reflect the experiences of other countries. The Uganda case, for instance, is one where corruption continues to be prevalent according to many observers. But progress is suggested by (a) more condemnation of corrupt senior office holders through parliamentary censure, for instance, supported by active parliamentary committee investigations and media reports; (b) growing numbers of police investigations resulting from the Public Accounts Committee hearings; and (c) increased, though still inadequate, enforcement and monitoring of the asset declaration requirements for senior office holders.

Recommendation Seven: *Public service reform should be a priority in country frameworks, with special attention to measures such as merit recruitment, satisfactory pay scales, training, and internal systems of monitoring and transparency.*

Engagement discussions, in many cases, should pay considerable attention to reforming public service. This has been a key conclusion in many countries that are initiating serious anti-corruption action. For example, in Ethiopia the President's Office led public service reforms; and in Botswana the low perceived levels of corruption are associated with changes in public service that include an emphasis on merit systems of recruitment, quality training, and good salaries.²³

Recent initiatives to tackle high levels of corruption in Indonesia have also stressed public service reform. Indonesia, already plagued with a poorly compensated public service that lacked merit-based recruitment and established complex dependencies between senior and junior civil servants, was weakened further in the 1980s and 1990s by the rising cost of living in urban areas and the accelerating gap between public and private sector wages.²⁴ This country's response was to develop a national institutional review that initially includes an assessment of the Indonesian civil service known for widespread bribes and kickbacks in procurement practices.

The questions that will have to be asked in the Indonesian case about engagement are, as suggested above, key political ownership and leadership questions such as:

- Are reform commitments widespread and at how many levels of Indonesian government?
- How many key stakeholders, including senior civil servants, are involved?
- Has there been in-depth analyses examining the extent and methods of corruption that have penetrated the country's governance system?
- Have internal processes been undertaken inside state structures to build commitment?

- Do key Indonesian leaders, including the military, have strong personal commitments?
- Does the government have the political capacity and bargaining skill to institute reforms?
- Does the government have the political sensitivity and roots in local areas to maintain credibility on these issues?
- Will the government be able to attract and motivate good staff to implement anti-corruption activities?

These are very difficult questions for the present political regime in Indonesia and donors are justified in carefully considering the answers before full engagement.

Recommendation Eight: *Donors, in partnership with recipients, should regularly examine implementation and other measures associated with aid delivery to avoid contributing indirectly to corruption pressures via their impact on existing incentive systems.*

This recommendation relates to reform areas such as public service and suggests that donors must carefully monitor internal operations, especially policy area initiatives in recipient countries. These activities should be assessed to ensure that implementation procedures designed to solve public service problems do not have negative effects with respect to corruption. The case of Tanzania is a particularly disturbing example of a donor-sponsored initiative, which created special project units where public sector workers had, inter alia, greater access to higher salaries and privileged training. The incentives to these units effectively worsened already declining morale and integrity standards in the entire Tanzanian public service.²⁵

Recommendation Nine: *The success of country frameworks in abating corruption depends upon ensuring that integrity goals are cross-cutting priorities within a competing context of scarce public resources.*

Anti-corruption efforts are fundamental concerns that should not be undercut in major ways by a country's other development priorities. In

Uganda, for example, the President highly regarded surveys that revealed Ugandans think unacceptable corrupt practices are prevalent. Diversion of many important social resources in health, education, and agricultural extension is common. As a result, significant institutional reforms were initiated including mandatory public disclosure of senior office holders' personal assets; institutionalization of the Inspector General of Government (IGG) as the monitor of public disclosure and other integrity points; and revitalization of several parliamentary public accounts committees (with slightly different mandates) to pursue financial abuses in government expenditures. Despite this leadership, there has been only limited improvement in the prevalence of corruption according to the IGG.²⁶ His office maintains that extremely limited resources make it impossible to adequately monitor the annual asset declarations of 2000 office holders, and prevents the opening of district-level IGG offices despite the shift of much of the financial authority to these local levels.

These financial constraints seem to result from international financial institutions stressing the importance of two other priorities in Uganda: (1) divestiture of public companies, which has been a source of various corruption cases and (2) severe restraints on public expenditure, which secure Uganda's compliance with the Heavily Indebted Poor Countries Initiative (HIPCI) performance standards for three years and permit significant International Financial Institutions (IFI) debt forgiveness. No one would want to make the case that the HIPCI goal is not an essential priority. But a country framework against corruption has to emphasize the very high importance of making anti-corruption agencies effective if this issue is to achieve central significance.

Recommendation Ten: *Anti-corruption agencies that are adequately funded with strong leadership and the independent capacity to launch prosecutions are crucial parts of successful integrity strategies, and must be financially safeguarded as fundamental priorities.* Botswana's relative anti-corruption success, for instance, demonstrates the great importance of a well-funded Directorate on Corruption and

Economic Crime (DCEC), which is a marked contrast to the IGG's problems in Uganda and the understaffing of the Prevention of Corruption Bureau in Tanzania.²⁷

Successful anti-corruption agencies also depend on effective oversight institutions, oftentimes created by independent parliaments and their committees. In the case of Ghana, and unlike Uganda, the Finance Committee reallocated the budget to finance district offices for the primary independent anti-corruption agency, the Commission on Human Rights and Administrative Justice (CHRAJ).

Disengagement and Non-Engagement

Beyond engagement guidelines, other questions that should be confronted are: What can be done to lessen disbursement pressure in cases where disengagement is justified because agreed targets are consistently missed and ownership/leadership tests are failing? Are there lower-intensity methods to sustain a useful role in non-engagement/disengagement cases? Are there behind-the-scenes to support anti-corruption actors?

The basis for disengagement from country frameworks should be considered within a regional context. Thus, ending support for a national action plan should be discussed within a broader African context, so that disbursement pressures are minimized. Disengagement with a failing African country, for example, could, today, be explained within the context of potentially useful engagement with Nigeria, given the restoration of a viable set of activist legislative committees now exercising serious oversight. Breakdown of partnership arrangements due to a failure to meet monitoring targets should also be assessed within the context of regional economic and other pressures.

There is a strong case for continuing engagement with civil society groups where inadequate conditions exist for a country framework against corruption. Poor governance in Bangladesh prohibits donor engagement, given widespread bribery, a breakdown of trust across stakeholders within the state sector, ineffective oversight institutions such as the Public Accounts Committee, and the open acknowledgment of

illegal campaign actions by key legal leaders such as the Minister of Justice. Yet the civil society institutions in Bangladesh are among the most active and effective anywhere in the world, especially the work with poor women by the Grameen Bank and other micro-credit organizations. Donor support to Transparency International, Bangladesh helps to keep anti-corruption concerns on the public agenda and lays the groundwork for potential donor engagement in future reforms.²⁸

Long-term considerations should be particularly underlined in the complex context of anti-corruption efforts. In Tanzania, for instance, donor support in the early 1980s for the Economics Department of the University of Dar Es Salaam through the International Development Research Council has produced key anti-corruption results years later. Various Tanzanian economists, who were trained thirty years ago, now work in Tanzania with the World Bank, or are in parliamentary positions where they are advocates for anti-corruption legislation and activities.

Behind-the-scenes activity is possible in diverse ways. Work through international institutions like the United Nations, or through regular diplomatic missions, may both represent approaches that donors can use to keep abreast of countries' changing circumstances, so as to track the potential for engagement or for limited initiatives such as study missions or workshops. However, a more unusual and significant initiative in the African context is a network of parliamentarians, the African Parliamentarians Network Against Corruption (APNAC). APNAC has moved from its initial phase as a regional workshop into a serious player, building continent-wide ties against corruption. Using limited external funding and internet connections, it has cultivated relationships with members of parliament from certain problem countries such as Kenya and Zimbabwe as well as with other parliamentarians from countries where more credible anti-corruption efforts have been instituted such as Ghana, South Africa, Benin, and Uganda. The organization has its own website [www.apnac.org] and is continuing to build support for reform throughout Africa. Recently, for example, APNAC sponsored an anti-corruption

workshop in Tanzania prior to this year's elections to encourage a political focus on reform strategies. It also initiated interaction with the National Assembly of Nigeria and Transparency International, Nigeria to examine a code of ethics for public office holders.

Less institutionalized networks of parliamentarians have formed in South Asia and South East Asia that have facilitated ongoing connections between political leaders are undertaking credible efforts against corruption such as Senator Pimental, Chair of the Senate Blue Ribbon Committee Against Corruption in Philippines and members of parliament in countries where anti-corruption activity is more difficult to sustain, such as Cambodia, Malaysia, Indonesia, and Bangladesh.²⁹

The question of linkage must also be considered in this context. Are there cases where the breakdown or non-viability of a country framework against corruption should lead to donor disengagement across the broad range of development assistance areas? It is likely that such cases exist such as the Congo-Zaire under Mobutu but what criteria for disengagement should donors use?

Conclusion

There is an overall implication of this paper. There are two broad reasons why donors may wish to come together to assess anti-corruption strategy. One is to prepare common approaches, which provide better coordination of activities, more careful divisions of efforts, and more effective allocation of scarce resources. The other broad reason could be to shift strategy and develop the basis for common thinking and analyses would permit genuine partnership with aid-recipient countries. Such serious partnerships would involve more country-by-country diversity in approach, more serious engagement in continuous interaction, and more complexity for donors as they move forward in differing ways with varied monitoring targets and responsive agendas.

The analysis of aid effectiveness suggests that the second reason should be stressed in discussions and recommendations. Performance,

not promises, should be the focus, which explains the focus of this paper—a partnership strategy based on local ownership and recipient leadership. This may represent more complexity, but it also seems to be the route to more successful results.

Notes

1. Paul Collier and David Dollar, “Target Aid to Performance not Promises,” Development Outreach World Bank Institute, Fall, 1999, pp. 18–21; Carol Lancaster, “Aid Effectiveness: The Problem of Africa,” *Ibid.*, pp. 22–24; see also Paul Collier and David Dollar, “Aid Allocation and Poverty Reduction,” World Bank Development Research Group paper, Oct. 20, 1998.
2. Jonathan Isham, Daniel Kaufmann and Lant Pritchett, “Civil Liberties, Democracy, and the Performance of Government Projects,” *The World Bank Economic Review*, 11:2, 1997, pp. 219–240.
3. Derek Brinkerhoff, “Identifying and Assessing Political Will for Anti-Corruption Efforts,” *Working Papers—Implementing Policy Change* (USAID,) No. 15, Jan. 1999.
4. Brinkerhoff, *op. cit.*, p. 2.
5. Alan Doig and Robin Theobald, ed., *Corruption and Democratisation*, Frank Cass: London, 2000.
6. R. Theobald, “Conclusions: Prospects for Reform in a Globalised Economy,” *Ibid.*, p. 157.
7. Collier and Dollar, *Development Outreach*, p. 20.
8. Stephen Jones, “The Conditionality Debate: Implications for Bilateral Donor Support for Sector Programmes,” Interim Report on a DANIDA Study, prepared for Dublin Seminar on Sector Wide Approaches, Dublin, Feb. 8, 2000, p. 6.
9. *Ibid.*, p. 2.
10. Mick Foster, Andy Norton, Adrienne Brown and Felix Naschold, “A Framework Paper for the Meeting of the Like-minded Donor Working Group on Sector Wide Approaches,” Paper for Ireland Aid,

- Dublin, Feb. 8-10, 2000, section 3.5.1.
11. Jones, *op. cit.*, p. 10.
 12. *Ibid.*, p. 11.
 13. O. Therkildsen, P. Engberg-Pedersen and J. Boesen, "Aid Policy and Practice: Sector Support — From Policy Making to Implementation Processes," Issue Paper, Centre for Development Research, Copenhagen, August, 1999, p. 5.
 14. *Ibid.*, p. 6.
 15. Stephen Snook et al, "Civil Society in Twenty Districts in Ghana: Surprises and Results," IFES Paper, 1998.
 16. Popular Attitudes to Democracy and Markets in Ghana: Survey Report, CDD: Accra, Report No. 2, Nov. 1999, figure 11.
 17. Quoted in *Tanzania: Report of a World Bank Anti-Corruption Mission*, World Bank, Africa Region, April 8, 1998, p. 6.
 18. Foster et al, *op. cit.*, section 2.1.
 19. Brinkerhoff, *op. cit.*, p. 3.
 20. Therkildsen et al, *op. cit.*, p. 9.
 21. *Tanzania: Report of a World Bank Anti-Corruption Mission*, p. 25.
 22. See evidence of this in the Tanzanian anti-corruption strategy summary prepared for the Durban conference in South Africa, October 1999.
 23. See R. Theobald and R. Williams, "Combating Corruption in Botswana: Regional Role Model or Deviant Case," in Doig and Theobald, ed., *op. cit.*, pp. 127-8.
 24. Bruce Bailey, "Corruption in Indonesia," CIDA Working Paper, Ottawa-Hull, February 2000.
 25. This point is made explicitly in *Tanzania: Assessment of the Capacity Building Impact of the World Bank Portfolio*, Capacity Building Technical Unit, Africa Region, World Bank, Oct., 1997, pp. 37-38.
 26. See David Watt et al, "Democratisation or the Democratisation of Corruption? The Case of Uganda," in Doig and Theobald, ed., *op. cit.*, p. 55ff.

27. See Theobald and Williams, *op. cit.*, pp. 119-126ff.
28. An example of such involvement is outlined in Transparency International–Bangladesh, “Plans & Programs: Towards New Millennium,” Dacca, 1998.
29. More information on these various parliamentary network initiatives against corruption is available on the website of the Parliamentary Centre, in the context of discussions of the annual Laurentian Seminar sponsored by the World Bank Institute, CIDA and other donor agencies. See [<http://parlcent.parl.gc.ca>].

Best Practice Guide and Bad Practice Warnings

Glynnis Davies

ATTAINING BEST VALUE FOR MONEY is a key procurement objective for international development. This guide emphasizes good practice, which we define as those methods and processes that improve value for money by (1) eliminating inefficiency, (2) reducing corruption, and (3) improving effective procurement.

This guide's intended purpose is to be an aide memoir for officers who need to review procurement practices in the field. It is not meant as a substitute for a comprehensive audit, but highlights potential problem areas.

This guide summarizes some of the key best and bad practice aspects of government-funded procurement. Section A establishes some key principles, followed by Section B, which is a guide to generally applicable good/bad practices and Section C is a checklist.

Section A: Key Principles

1. The objective is best value for money. Best value for money is the optimum combination of whole life cost and quality that meets the customer's requirement.¹

2. Inefficiency and corruption are the enemies of best value for money. Best practice procurement motivates all parties to search for the best way to achieve best value for money and this search can, if pursued, resolutely eliminate both inefficiency and corruption.
3. Corruption is bad for business. “Corruption distorts the operations of markets and deprives ordinary people of the benefits which should flow from them.”²
4. Open decisions are usually the best decisions. Transparency means creating a decision-making process that is open to the participants³ and to subsequent audit. Documented records capable of peer and lay evaluation should be maintained at all decision-making stages. They do not have to be long but they must be clear.
5. Separation of duties is essential. The person requiring a purchase must be a different individual from the person placing an order or contract and the payment must be made by yet another individual.
6. Never hid in teams. Teams are a proven exceptionally effective means of delivering high quality outputs. Unfortunately, they can often be used to obfuscate responsibility. People with procurement responsibility⁴ are *personally accountable* and must not sign joint reports that are part of the procurement process without also stating (in writing) their own professional opinion on the supported matters.
7. Use the simplest solution(s). Needless complication creates inefficiency and more opportunities for corruption. Fast, simple solutions administered by the best quality personnel are usually more efficient and less corrupt than many checks and controls.

Section B: Generally Applicable Good and Bad Practices

<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
1. Need identified/project inception The scope and purpose of a project, its budget, program, and procurement strategy are decided.	Prioritize budget to meet strategic needs	Need generated where none genuinely exists or genuine need exaggerated.	C D
	<ul style="list-style-type: none"> • Focus on the desired end product • Decide how to achieve it for least cost/time/effort • Be prepared to manage the supply chain 	Fit end product to available delivery process. Accept existing inadequate supply chains without challenge.	B C D
	Decide package size to get best value from market. This may involve splitting large contracts or 'bundling' smaller ones to get the optimum size.	<ul style="list-style-type: none"> • Placing contract too large for market (decreases competition and increases risk of failure) • Advisor proposes to split package and manage interfaces (ask 'Who benefits most?') • Split minor supplies into small packages for benefit of unsustainable 'briefcase' companies 	B C D E B E D
	Management by 'Project Champion' supported by trained managers and administrators. Duties clearly defined. Good teamwork by people make their independent professional opinion clear while working toward common goals.	<ul style="list-style-type: none"> • Management subservient to autocratic leadership • Duties not defined • Individual accountability or decisions avoided by use of boards and committees 	B C D E

RISK LEVELS: A–Best practice, generally applicable; B–Bad management; C–Fraud: Grand Corruption Risk; D–Fraud: Petty Corruption Risk; E–Institutional (but not illegal) corruption.

<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
1. Need identified/project inception (continued)	Contract management strategy makes the best use of client, consultant and contractor/supplier resources.	Disproportionate or inappropriate roles assumed by consultant or contractor not contributing to the achievement of Best Value for Money	B E
	Payment strategy (method) for contract to best motivate the supplier taking into account management resource and experience of client	Payment strategy (method) inappropriate leading to loss of control or contractual dispute	B C D
2. Specifications	Clear and complete	Unclear and incomplete	B C D
Stating what is wanted.	Write performance specification, not a detailed project description.	Specify brand names or contractors	B C D
	Limit details of how the procurement is to be provided (even for a service) to things that actually matter	<ul style="list-style-type: none"> • Set out the methods or working and how procurement is to be provided, often using out-of-date knowledge • Documents contradict themselves • Overspecify (and limit competition) 	B C D
3. Identify tenderers	High value: <ul style="list-style-type: none"> • National or international advertisement • Assess against objective criteria • Restricted list 	<ul style="list-style-type: none"> • Too long (e.g.>10 or open tendering) or too short (<3) tender lists • Inviting firms that are not capable of good quality performance to bid • Single tenderer 	B C D
Decide a list of potential suppliers or other supply source (e.g., commodity market)			

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<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
3. Identify tenderers (continued)	Medium value: <ul style="list-style-type: none"> • As high value or • Use approved regularly updated suppliers list or • Framework (call off) contract supplier 		
	Low value: <ul style="list-style-type: none"> • Framework (call off) contract supplier (selected as for high value) • Shopping (assess against objective criteria) if not on framework 	Shopping <ul style="list-style-type: none"> • without knowledge of market • ignoring competition 	B D
	Select framework supplier and updated suppliers list as if High Value enquiry	Ad hoc changes to lists without proper competitive process	B D
	Purchase in commodity market if available, competitive and appropriate	Failing to identify inadequate market and not managing the supply chain accordingly	B D
4. Enquiry process			
	Issuing the enquiry (Invitation to Tender-ITT) to the identified tenderers		
	Enough time provided to allow tenderer to understand risks and prepare best value tender	Give 'sitting tenant' or other tenderer with direct knowledge of your needs an advantage by failing to give others adequate time to prepare tender	B C D
	Great care taken to ensure all tenderers have same details and opportunities	Individual tenderers given more or different information than others	B C D

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<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
4. Enquiry process (continued)	Documents issued same day to all tenderers	Documents issued at different times	B C D
	Ensure tenderers are fully briefed by providing opportunity (if relevant) to visit site and for detailed briefing (if needed). Usually best for all bidders to visit/be briefed at same time.	Restrict opportunity for site visits and limit other assistance	B C D
	Answer a tenderer's questions promptly in writing with copies to all tenderers	Failure to issue written answers to tenderers' questions at same time to all tenderers	B C D
	Single point of contact (normally a procurement officer) with tenderers and all conversations logged	Tenderer has choice of client staff (particularly senior staff, CEOs, etc.) who will answer questions, give advice, etc., directly when approached	B C D
5. Tender opening H = High and Medium Value L = Low Value The arrangements for receiving and opening priced tenders from suppliers. Offers under a framework agreement may be treated as ordinary mail, unless in competition, in which case normal rules apply.	Received sealed bids by notified date and time. Return late bids unopened. (H & L)	Allow late bids	C D
	Keep secure and confidential until opening date and time (H & L)	Treat as normal mail	C D

RISK LEVELS: A—Best practice, generally applicable; B—Bad management; C—Fraud: Grand Corruption Risk; D—Fraud: Petty Corruption Risk; E—Institutional (but not illegal) corruption.

<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
5. Tender opening (continued)	Open in public or in formal tender opening (H)	Open when received as normal mail	C D
	Open in formal tender opening panel (L)	Open when received as normal mail	C D
	Announce price(s) and key details (if any) to all bidders (H)	Keep information confidential unless there is a commercial, previously unannounced, reason not to do so.	C D
	Record in security indexed tender register (H & L)	Enter in loose-leaf, unindexed book that can be easily amended	C D
6. Evaluation/Assessment Analyse tenders to decide which one provides best value for money.	Notify assessment criteria in ITT	Do not notify assessment criteria. Let the tenderer guess!	B C D
	Ensure proper segregation of duties with named, accountable technical and procurement officers co-operating by <i>independently</i> assessing and recommending actions	Assessment committee collectively examines tenders and makes recommendation without personal, individual accountability	B C D
	Before evaluation: Contact with bidders only to clarify minor issues and if recorded in writing with technical and procurement representatives present. Best use a questionnaire.	Before evaluation: Bidders contacted by single representative for meeting for which there is no verified record.	B C D

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<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
6. Evaluation/Assessment (continued)	After evaluation: Contact with bidders to clarify outstanding issues. Best use a questionnaire and technical and procurement representatives must be present at any meetings.	After evaluation: Tenderers contacted by single representative for meeting for which there is no verified record.	B C D
	Final evaluation recommends action and is signed by technical and procurement officers against their independent written comments indicating their support or otherwise for the proposal.	Technical and procurement officers produce unsigned report or make joint recommendation.	B C D
	For high value or sensitive contracts an independent assessor is appointed and includes a report in the final evaluation.	High value and sensitive contracts are evaluated without independent assessment.	C D
7. Award Formally instructing the supplier to proceed	Approval given based on recommendations supported by independent assessor and subject to financial commitment rules	Recommendation still approved even in serious breach in procedures	C D
	Order/contract is signed/issued by Procurement Department	High or medium value order/contract signed/issued by user department	D
	Secure delivery of order/contract to supplier	Insecure delivery of order/contract	D

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8. Generally Some other factors affecting good procurement procedures	Transparency adopted at all stages in the process	Information is kept unnecessarily confidential and artificial 'need to know' rules applied	B C D
	Documented evidence available of the reason for all decisions	Actions taken on the basis of unsupported memos and no record to allow independent verification that proper action has been taken	B C D
	Office housekeeping should be excellent	Untidy offices	B D
	Disciplined open plan offices	Cellular offices with closed doors	B C D
	Only staff and bonafide visitors/contractors allowed on premises	Easy access for non-employed messengers, family members, public, etc.	B C D

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Section C: Questions

The following questions are intended to assist anyone seeking to make a judgement on the effectiveness of a procurement system or a procurement action (such as an individual contract). Some answers can be satisfactorily resolved by asking questions of the participants in the process, but others need an examination of the relevant papers and before drawing a conclusion. These are not meant to be substitutes for a full procurement audit, but help to highlight areas that need attention or an in-depth audit. Table C1 consists of general questions relating to both systems and individual procurement, while Table C2, is more specific to individual procurement actions.

Table C1: Systems and Individual Procurement

	<i>Question</i>	<i>What we are looking for:</i>
<i>Leadership and management</i>		
1. Leadership	Is there a top level and influential manager championing the cause of best practice procurement?	Support at the top level to validate best value activity and provide 'political' approval
2. An informed client	Are there leaders in every key budget centre capable of understanding the critical procurement issues?	People who have confidence (based on knowledge) to challenge bad practice and direct the attainment of best practice
3. Mission	Is best value defined and seen as the focus of all buying activity?	An ethos ("a passion for best practice") that will motivate participants to exceptional effort
4. Strategic thinking	Are procurement staffs encouraged to see their jobs in strategic terms?	Strategic solutions, i.e., those that focus on key objectives are likely to be sustainable, effective, and fraud resistant
5. Supply chain management	What emphasis is being put on the management and development of better supply chains?	A refusal to accept supply chains (however long or complex to manage) that are inefficient

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9. Office	Is office housekeeping excellent?	Offices where papers are easily located with or without the presence of the regular occupants
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11. Premises	Who has access to the office areas?	Only staff and bonafide visitors/contractors allowed on premises
<i>Procedures</i>		
12. Rules	Are the procurement rules designed to make working round them difficult?	Without creating excess bureaucracy, procurement rules should not be weak.
13. Transparency	Are the reasons for procurement decisions documented and capable of post action reviews?	Explanations in detail appropriate to the scale of the procurement, always written to allow a non-specialist to understand key decisions
14. Separation of duties	Is there proper separation of duties with named, accountable technical and procurement officers?	Named officers cooperating but <i>independently</i> assessing and recommending actions
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	<i>Question</i>	<i>What we are looking for:</i>	
<i>Procedures (continued)</i>			
16.	Rules applying to panels and committees	Are there controls present to prevent committee decisions being a means of removing individual responsibility?	Clear rules known to all committee members and always followed
17.	Disciplinary process	Is staff aware of their duties, the need for their actions, and are they subject to disciplinary action proportional to abuse of the procedures?	Documented and fully understood procedures. Evidence of application.
<i>Audit and control</i>			
18.	Procurement audit	Are there trained procurement auditors available with an independent internal audit function?	Trained people independent of the procurement function
19.	Best value audit	Do auditors examine best value for money issues as well as financial mismanagement?	Auditor capable of encouraging best value for money, and fully understand procurement process
20.	Part of the process?	Is the audit department part of the approval process?	Auditor's role separate from the approval process (Note: Audit may advise on interpretation of procedures and best practice, etc., but not as part of the approval process)
21.	Gatekeepers	Are there roles for third party gatekeepers in the host organization?	The use of 'trusted third parties' as procurement agents or as members of the assessment panels, etc., may be appropriate
<i>People</i>			
22.	Staff selection	Is staff chosen for commitment to objectives and honesty as well as technical potential?	Of the technically capable we are seeking those most motivated to achieve best value
23.	Training	Is there a programme to get procurement staff trained to an international professional standard?	CIPS or equivalent

	<i>Question</i>	<i>What we are looking for:</i>
<i>Advisors (Consultants)</i>		
24. Selection	Are advisors chosen to support the key objectives of their clients?	Of the technically capable we are seeking those most motivated to achieve best value
25. Best practice	Are advisors sought who will actively promote best practices and combat corruption?	Advisors are enthusiastic to promote best practices and are committed to combat corruption
26. Performance	Are advisors rewarded for exceptional performance?	Simple to understand incentives rewarding attainment or bettering goals set by client
27. Capacity	Is there a need to build capacity in these areas among the advisors?	Active supply chain management to improve advisors' value

Table C2: Individual Procurement

	<i>Question</i>	<i>What we are looking for:</i>
<i>Need identified</i>		
1. Need	Is there a real need for the procurement?	An appropriate needs justification (brief for minor items, detailed for larger procurements)
2. Package size	Is the procurement package the right size for the market?	Size of package optimised to both need and market capacity
3. Management strategy	Is the client's system for managing the procurement the most effective?	An efficient appropriate system, not influenced by 'vested interests'
4.	If external advice is taken in deciding strategy, is it unquestionably in the client's interest?	If advisor can benefit from advice given to client, it must be clear that this has not influenced the nature of the advice

	<i>Question</i>	<i>What we are looking for:</i>
<i>Need identified (continued)</i>		
5. Market resource	Does procurement strategy make best use of market (client, consultant and supplier) resources?	Best use of what is available as opposed to formulaic imposed strategies
6. Payment method	Does the payment method best motivate supplier and protect client?	Considerations of options (lump sum, schedules, targets, etc.) and other commercial factors
<i>Specification</i>		
7. Description of supply	Is there a proper written specification?	Clear (brief as possible) description
8. Basis	Is it detail or performance based?	Preferably performance based
9. Restrictions	Does it unnecessarily restrict suppliers?	No brand names, processes, place of origin, redundant standards, etc.
10. Excesses	Is everything requested needed?	No 'gold plating'
<i>Identifying tenderers</i>		
11. Tender lists	Is the tender list created following a best practice process?	See Table B, Section 3
12. Frameworks	If this is repeat work, is there a framework contract?	If repeat work, there should be a framework arrangement
<i>Enquiry process</i>		
13. Time	Have reasonable time periods been allowed?	Enough time provided to allow tenderer to understand risks and prepare best value tender (EU or IBRD periods if applicable)
14. Equal opportunity	Do all tenderers have same details and opportunities?	Everyone has same information and 'sitting tenants' not given special favour
15. Documents	Are documents issued same day to all tenderers?	Same day issue

	<i>Question</i>	<i>What we are looking for:</i>
<i>Enquiry process (continued)</i>		
16. Briefing/visits	Are tenderers fully briefed by providing opportunity (if relevant) to visit site and for detailed briefing (if needed)?	All bidders receive same briefing (e.g., visit/briefing at same time for all bidders)
17. Questions	Are tenderers' questions answered promptly in writing with copies to all tenderers?	Prompt and to all tenderers
18. Single point of contact	Is there a single point of contact (normally a procurement officer) with tenderers and all conversations noted?	Single person and records kept
<i>Tender opening</i>		
19. Sealed bids (non-framework)	Are sealed bids received by notified date and time?	Sealed, time limited bids
20. Late bids (non-framework)	Are late bids returned unopened?	Returning as normal procedure
21. Security (non-framework)	Are bids kept secure and confidential until opening time and place?	Secure process
22. Formal opening (high value)	Are bids opened in public or in formal tender opening panel?	Formal process
23. Formal opening (low value)	Are bids opened in formal tender opening panel?	Formal process
24. Public announcement (high value)	Are price(s) and key details (if any) announced to all bidders?	Formal announcement
25. Tenders records	Are tenders recorded in security indexed tender register?	Is there a maintained security register?
<i>Evaluation</i>		
26. Assessment criteria	Are assessment criteria notified in Invitation to Tender?	Clear criteria to allow tenderers to see exactly what client wants

	<i>Question</i>	<i>What we are looking for:</i>
<i>Evaluation (continued)</i>		
27. Contact with bidders	Is contact with bidders before evaluation only to clarify minor issues?	Minor issues only, always recorded in writing and with technical and procurement representatives present. Use of a written questionnaire if several questions.
28. Contact with bidders	Is contact with bidders after evaluation only to clarify outstanding issues?	Outstanding issues only and questionnaire used. Technical and procurement representatives present at any meetings.
29. Final evaluation	Does final evaluation clearly recommend action and is it signed by technical and procurement officers against their independent written comments indicating their support or otherwise for the proposal?	The named officers individually stating clearly what action they propose and why, even if they are members of an evaluation panel
30. Independent assessor	For high value or sensitive contracts is an independent assessor appointed whose report is included in the final evaluation?	Use of 'trusted third party' creating confidence in process
<i>Award</i>		
31. Recommendation	Is approval given based on a recommendation supported by independent assessor and subject to financial commitment rules?	Proper audit trail of approvals
32. Order/contract	Is order/contract signed/issued by Procurement Department?	Documents prepared and signed by officers who understand the procurement and contractual aspects of what they are doing
33. Mail	Is there a secure method of delivery of order/contract to supplier?	Secure delivery/receipt process

Notes

1. This definition (from ‘Setting New Standards’) is universally applicable.
2. Transparency International identifies this as a key practical result of corruption.
3. Data and decisions should be distributed as widely as possible, unless there are exceptionally genuine issues of commercial confidentiality. Even then, information may be released possibly within a relatively short period.
4. For example, a user/technical officer and a procurement officer sitting on an evaluation panel.

2. Inefficiency and corruption are the enemies of best value for money. Best practice procurement motivates all parties to search for the best way to achieve best value for money and this search can, if pursued, resolutely eliminate both inefficiency and corruption.
3. Corruption is bad for business. “Corruption distorts the operations of markets and deprives ordinary people of the benefits which should flow from them.”²
4. Open decisions are usually the best decisions. Transparency means creating a decision-making process that is open to the participants³ and to subsequent audit. Documented records capable of peer and lay evaluation should be maintained at all decision-making stages. They do not have to be long but they must be clear.
5. Separation of duties is essential. The person requiring a purchase must be a different individual from the person placing an order or contract and the payment must be made by yet another individual.
6. Never hid in teams. Teams are a proven exceptionally effective means of delivering high quality outputs. Unfortunately, they can often be used to obfuscate responsibility. People with procurement responsibility⁴ are *personally accountable* and must not sign joint reports that are part of the procurement process without also stating (in writing) their own professional opinion on the supported matters.
7. Use the simplest solution(s). Needless complication creates inefficiency and more opportunities for corruption. Fast, simple solutions administered by the best quality personnel are usually more efficient and less corrupt than many checks and controls.

Section B: Generally Applicable Good and Bad Practices

<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
<p>1. Need identified/project inception</p> <p>The scope and purpose of a project, its budget, program, and procurement strategy are decided.</p>	<p>Prioritize budget to meet strategic needs</p>	<p>Need generated where none genuinely exists or genuine need exaggerated.</p>	C D
	<ul style="list-style-type: none"> • Focus on the desired end product • Decide how to achieve it for least cost/time/effort • Be prepared to manage the supply chain 	<p>Fit end product to available delivery process. Accept existing inadequate supply chains without challenge.</p>	B C D
	<p>Decide package size to get best value from market. This may involve splitting large contracts or 'bundling' smaller ones to get the optimum size.</p>	<ul style="list-style-type: none"> • Placing contract too large for market (decreases competition and increases risk of failure) • Advisor proposes to split package and manage interfaces (ask 'Who benefits most?') • Split minor supplies into small packages for benefit of unsustainable 'briefcase' companies 	<p>B C D E</p> <p>B E</p> <p>D</p>
	<p>Management by 'Project Champion' supported by trained managers and administrators. Duties clearly defined. Good teamwork by people make their independent professional opinion clear while working toward common goals.</p>	<ul style="list-style-type: none"> • Management subservient to autocratic leadership • Duties not defined • Individual accountability or decisions avoided by use of boards and committees 	B C D E

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<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
1. Need identified/project inception (continued)	Contract management strategy makes the best use of client, consultant and contractor/supplier resources.	Disproportionate or inappropriate roles assumed by consultant or contractor not contributing to the achievement of Best Value for Money	B E
	Payment strategy (method) for contract to best motivate the supplier taking into account management resource and experience of client	Payment strategy (method) inappropriate leading to loss of control or contractual dispute	B C D
2. Specifications	Clear and complete	Unclear and incomplete	B C D
Stating what is wanted.	Write performance specification, not a detailed project description.	Specify brand names or contractors	B C D
	Limit details of how the procurement is to be provided (even for a service) to things that actually matter	<ul style="list-style-type: none"> • Set out the methods or working and how procurement is to be provided, often using out-of-date knowledge • Documents contradict themselves • Overspecify (and limit competition) 	B C D
3. Identify tenderers	High value: <ul style="list-style-type: none"> • National or international advertisement • Assess against objective criteria • Restricted list 	<ul style="list-style-type: none"> • Too long (e.g.>10 or open tendering) or too short (<3) tender lists • Inviting firms that are not capable of good quality performance to bid • Single tenderer 	B C D
Decide a list of potential suppliers or other supply source (e.g., commodity market)			

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<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
3. Identify tenderers (continued)	Medium value: <ul style="list-style-type: none"> • As high value or • Use approved regularly updated suppliers list or • Framework (call off) contract supplier 		
	Low value: <ul style="list-style-type: none"> • Framework (call off) contract supplier (selected as for high value) • Shopping (assess against objective criteria) if not on framework 	Shopping <ul style="list-style-type: none"> • without knowledge of market • ignoring competition 	B D
	Select framework supplier and updated suppliers list as if High Value enquiry	Ad hoc changes to lists without proper competitive process	B D
	Purchase in commodity market if available, competitive and appropriate	Failing to identify inadequate market and not managing the supply chain accordingly	B D
4. Enquiry process			
	Issuing the enquiry (Invitation to Tender-ITT) to the identified tenderers		
	Enough time provided to allow tenderer to understand risks and prepare best value tender	Give 'sitting tenant' or other tenderer with direct knowledge of your needs an advantage by failing to give others adequate time to prepare tender	B C D
	Great care taken to ensure all tenderers have same details and opportunities	Individual tenderers given more or different information than others	B C D

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<i>Stage in procurement process</i>	<i>Best practice</i>	<i>Bad practice</i>	<i>Risk</i>
4. Enquiry process (continued)	Documents issued same day to all tenderers	Documents issued at different times	B C D
	Ensure tenderers are fully briefed by providing opportunity (if relevant) to visit site and for detailed briefing (if needed). Usually best for all bidders to visit/be briefed at same time.	Restrict opportunity for site visits and limit other assistance	B C D
	Answer a tenderer's questions promptly in writing with copies to all tenderers	Failure to issue written answers to tenderers' questions at same time to all tenderers	B C D
	Single point of contact (normally a procurement officer) with tenderers and all conversations logged	Tenderer has choice of client staff (particularly senior staff, CEOs, etc.) who will answer questions, give advice, etc., directly when approached	B C D
5. Tender opening H = High and Medium Value L = Low Value The arrangements for receiving and opening priced tenders from suppliers. Offers under a framework agreement may be treated as ordinary mail, unless in competition, in which case normal rules apply.	Received sealed bids by notified date and time. Return late bids unopened. (H & L)	Allow late bids	C D
	Keep secure and confidential until opening date and time (H & L)	Treat as normal mail	C D

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5. Tender opening (continued)	Open in public or in formal tender opening (H)	Open when received as normal mail	C D
	Open in formal tender opening panel (L)	Open when received as normal mail	C D
	Announce price(s) and key details (if any) to all bidders (H)	Keep information confidential unless there is a commercial, previously unannounced, reason not to do so.	C D
	Record in security indexed tender register (H & L)	Enter in loose-leaf, unindexed book that can be easily amended	C D
6. Evaluation/Assessment Analyse tenders to decide which one provides best value for money.	Notify assessment criteria in ITT	Do not notify assessment criteria. Let the tenderer guess!	B C D
	Ensure proper segregation of duties with named, accountable technical and procurement officers co-operating by <i>independently</i> assessing and recommending actions	Assessment committee collectively examines tenders and makes recommendation without personal, individual accountability	B C D
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<i>Procedures (continued)</i>			
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17.	Disciplinary process	Is staff aware of their duties, the need for their actions, and are they subject to disciplinary action proportional to abuse of the procedures?	Documented and fully understood procedures. Evidence of application.
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19.	Best value audit	Do auditors examine best value for money issues as well as financial mismanagement?	Auditor capable of encouraging best value for money, and fully understand procurement process
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22.	Staff selection	Is staff chosen for commitment to objectives and honesty as well as technical potential?	Of the technically capable we are seeking those most motivated to achieve best value
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25. Best practice	Are advisors sought who will actively promote best practices and combat corruption?	Advisors are enthusiastic to promote best practices and are committed to combat corruption
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Table C2: Individual Procurement

	<i>Question</i>	<i>What we are looking for:</i>
<i>Need identified</i>		
1. Need	Is there a real need for the procurement?	An appropriate needs justification (brief for minor items, detailed for larger procurements)
2. Package size	Is the procurement package the right size for the market?	Size of package optimised to both need and market capacity
3. Management strategy	Is the client's system for managing the procurement the most effective?	An efficient appropriate system, not influenced by 'vested interests'
4.	If external advice is taken in deciding strategy, is it unquestionably in the client's interest?	If advisor can benefit from advice given to client, it must be clear that this has not influenced the nature of the advice

	<i>Question</i>	<i>What we are looking for:</i>
<i>Need identified (continued)</i>		
5. Market resource	Does procurement strategy make best use of market (client, consultant and supplier) resources?	Best use of what is available as opposed to formulaic imposed strategies
6. Payment method	Does the payment method best motivate supplier and protect client?	Considerations of options (lump sum, schedules, targets, etc.) and other commercial factors
<i>Specification</i>		
7. Description of supply	Is there a proper written specification?	Clear (brief as possible) description
8. Basis	Is it detail or performance based?	Preferably performance based
9. Restrictions	Does it unnecessarily restrict suppliers?	No brand names, processes, place of origin, redundant standards, etc.
10. Excesses	Is everything requested needed?	No 'gold plating'
<i>Identifying tenderers</i>		
11. Tender lists	Is the tender list created following a best practice process?	See Table B, Section 3
12. Frameworks	If this is repeat work, is there a framework contract?	If repeat work, there should be a framework arrangement
<i>Enquiry process</i>		
13. Time	Have reasonable time periods been allowed?	Enough time provided to allow tenderer to understand risks and prepare best value tender (EU or IBRD periods if applicable)
14. Equal opportunity	Do all tenderers have same details and opportunities?	Everyone has same information and 'sitting tenants' not given special favour
15. Documents	Are documents issued same day to all tenderers?	Same day issue

	<i>Question</i>	<i>What we are looking for:</i>
<i>Enquiry process (continued)</i>		
16. Briefing/visits	Are tenderers fully briefed by providing opportunity (if relevant) to visit site and for detailed briefing (if needed)?	All bidders receive same briefing (e.g., visit/briefing at same time for all bidders)
17. Questions	Are tenderers' questions answered promptly in writing with copies to all tenderers?	Prompt and to all tenderers
18. Single point of contact	Is there a single point of contact (normally a procurement officer) with tenderers and all conversations noted?	Single person and records kept
<i>Tender opening</i>		
19. Sealed bids (non-framework)	Are sealed bids received by notified date and time?	Sealed, time limited bids
20. Late bids (non-framework)	Are late bids returned unopened?	Returning as normal procedure
21. Security (non-framework)	Are bids kept secure and confidential until opening time and place?	Secure process
22. Formal opening (high value)	Are bids opened in public or in formal tender opening panel?	Formal process
23. Formal opening (low value)	Are bids opened in formal tender opening panel?	Formal process
24. Public announcement (high value)	Are price(s) and key details (if any) announced to all bidders?	Formal announcement
25. Tenders records	Are tenders recorded in security indexed tender register?	Is there a maintained security register?
<i>Evaluation</i>		
26. Assessment criteria	Are assessment criteria notified in Invitation to Tender?	Clear criteria to allow tenderers to see exactly what client wants

	<i>Question</i>	<i>What we are looking for:</i>
<i>Evaluation (continued)</i>		
27. Contact with bidders	Is contact with bidders before evaluation only to clarify minor issues?	Minor issues only, always recorded in writing and with technical and procurement representatives present. Use of a written questionnaire if several questions.
28. Contact with bidders	Is contact with bidders after evaluation only to clarify outstanding issues?	Outstanding issues only and questionnaire used. Technical and procurement representatives present at any meetings.
29. Final evaluation	Does final evaluation clearly recommend action and is it signed by technical and procurement officers against their independent written comments indicating their support or otherwise for the proposal?	The named officers individually stating clearly what action they propose and why, even if they are members of an evaluation panel
30. Independent assessor	For high value or sensitive contracts is an independent assessor appointed whose report is included in the final evaluation?	Use of 'trusted third party' creating confidence in process
<i>Award</i>		
31. Recommendation	Is approval given based on a recommendation supported by independent assessor and subject to financial commitment rules?	Proper audit trail of approvals
32. Order/contract	Is order/contract signed/issued by Procurement Department?	Documents prepared and signed by officers who understand the procurement and contractual aspects of what they are doing
33. Mail	Is there a secure method of delivery of order/contract to supplier?	Secure delivery/receipt process

Notes

1. This definition (from ‘Setting New Standards’) is universally applicable.
2. Transparency International identifies this as a key practical result of corruption.
3. Data and decisions should be distributed as widely as possible, unless there are exceptionally genuine issues of commercial confidentiality. Even then, information may be released possibly within a relatively short period.
4. For example, a user/technical officer and a procurement officer sitting on an evaluation panel.

***The OECD Convention and
Its Impact on Future
Anti-Corruption Strategies***

The OECD Convention and Beyond: The Supply Side of the Development Aid Business

Hansjörg Elshorst

TRANSPARENCY INTERNATIONAL (TI) WAS ASKED to contribute its views to three of the conference workshops, procurement, institutional development, and the Organisation for Economic Co-operation and Development (OECD) process. Due to some misunderstanding this was communicated only when the papers were already due. We therefore provide as a summary (1) an introductory note common to each of these three subjects and (2) excerpts from existing papers on the specific subjects.

The wording of the questions provided to TI suggests that government ownership will be an important issue common to the different workshops discussing the bilateral contribution. Not surprisingly, this has been a dominant issue in reactions to official aid within the TI movement. Underscoring government ownership of development on the part of donor agencies is seen as one of the causes for increasing corruption in the nineties and when discussing strategies to fight corruption, this creed should be revisited. This revisiting process may fit particularly well into an anti-cooperation conference about the contribution of bilateral donors.

In many northern countries development cooperation, in the beginning of its implementation, was seen as a task of societies not just governments. Initially, bilateral activities included an interest in economic, cultural, and academic cooperation. Civil society in its classical configuration such as churches, unions, and charitable organizations played a major role long before the term “civil society” was introduced. Parliaments and media took a large interest in development.

By contrast, multilateral cooperation by its mandate was cooperation between governments and government-controlled organizations. The private sector and civil society gained prominence only recently. The instruments, however, remained predominantly government centered and controlled. Money loaned by donors was widely considered owned by the borrowing government. In spite of that, discussions about ownership arose in the multilateral area in the late eighties. This may have been a reaction to mounting conditionalities, which multilateral organizations tried to retain control despite government ownership.

Structural adjustment and sector loans on a massive scale, co-financed by bilateral donors, gave ample possibilities to experiment with a form of government ownership where the government actually disposed of large-scale funds. Without taking sides in the ongoing dispute about the success of these instruments, anti-corruption proponents blame them time and again for the rise of rampant corruption.

Widespread corruption and an assessment of the effectiveness of aid have led to the conclusion that government ownership of development resources can only work when good governance exists. However, this leads to two possible consequences (1) donor agencies feel justified when they drop countries from their portfolio because they do not meet the preconditions of good governance, and (2) forms of development cooperation are chosen that help reduce the negative consequences of giving resources to corrupt administrations.

In many countries, good governance is absent because institutions have been corrupted. In TI's view it is not an acceptable solution to

abandon dozens of countries and leave them in a situation in which neither trade nor aid is accessible to them. TI's argument that the North, South, and East are all responsible for corruption clearly applies to aid—there is a giving hand when there is a receiving one.

Smaller donors may discover that restricting their cooperation to countries where they practice good governance is a more realistic option than establishing it as a precondition or objective for development cooperation. In view of different interests, this is not feasible for big countries and organizations. For them, requiring good governance as a precondition for development cooperation is a dangerous trap. They will have to continue to work with many countries that do not meet this requirement. To do so will require donor administrations to engage in decision making on the political level, which could result in political fallout for the some of the unavoidable failures in such cooperation.

There is widespread agreement behind the debate about government ownership that development has to be owned by those who are supposed to develop themselves. In the multilateral world, this has been translated into government ownership of resources. Since the early 1980s, many bilateral organizations tried to promote ownership in a different way. They took a pluralistic approach to development, strengthened self-initiative, empowered partners outside of government, and promoted stakeholder participation throughout the entire project cycle. While this was partly done together with government, it is not likely that government on its own would promote this approach as passionately as many development organizations. This is also probably true under conditions of good governance as the German reunification process has proven in the North. How governments handle such initiatives when obliged to apply them can be studied in cases where multilateral organizations made participatory elements part of their conditionalities.

Many vital government services suffer from a dramatic shortage of funds. This is one of the arguments for putting all available resources behind these services. However, the structural deficits in government

budgets are so enormous that very limited bilateral funds have to be employed in a more effective way to be relevant. This does not contradict the quest that much more resources from the outside are badly needed. Despite their present limitations, they are relevant if they contribute to institutional reforms that improve resource mobilization, increase efficiency of public services, and transfer enviable public obligations into private responsibility.

TI is convinced that such reforms cannot be expected from the public sector alone. A coalition is needed, bringing together change agents in the public sector with interested and affected parties in civil society and the private sector. TI expects contributions to facilitate such coalitions that are determined to fight corruption from the bilateral development organizations. It is for this reason that TI takes a stand that may appear to debate different approaches to promote ownership and reforms within the development community.

There is a common denominator in the following contributions to the three different workshops:

- TI has developed a tool to improve public procurement, the Integrity Pact. It is clearly a major public responsibility to mobilize the capabilities of the private sector for public objectives. The Integrity Pact presents a way in which bidding companies and civil society can, to some extent, compensate for deficiencies within the public sector.
- Bilateral donors have invited TI to talk about what would be the most relevant bilateral contribution to contain corruption. TI has underlined the need to reform corrupt institutions and it has pointed to the specific competence of bilateral donors to promote reforms. It draws on the variety of its development organizations to coordinate work within government administrations that can mobilize external pressure towards change.
- The OECD process, getting legislation passed in OECD countries and beyond, is clearly a public sector responsibility. However, the

convention would not have materialized and will not be effective without the active cooperation of civil society and the private sector.

OECD Convention and Recommendations

TI's Role: Inviting Others to Join

TI supports OECD's monitoring process in four ways.

1. It participates, after invitation, in all meetings relevant to further develop and monitor the entire process.
2. TI promotes the process of ratifying the convention, working with all political forces to accelerate the parliamentary process, and lobbying with others where the process has stalled.
3. The organization complements the monitoring process of legislation and its application from civil society's perspective as established by the OECD.
4. It continues to lobby where legislation is inadequate or lacks implementation.

Potential Role of Donors

Donors can underline their support of the convention by establishing preconditions for participation in donor funded programs. They can require that major companies institute anti-corruption compliance regulations after an initial grace period, and enact and enforce criminal prosecution of any violators.

The OECD Convention: Where Does Implementation Stand?

The OECD Convention to Combat Bribery of Foreign Public Officials was signed December 1997. It did not go into effect until February 1999 and then, only in those nineteen countries that ratified the convention. Encouraging thirty-four industrialized countries, home to most of the major international corporations, to commit to criminalizing bribery overseas was a huge step forward. For the first time, the supply side of

international corruption would be severely restricted. Unfortunately, one year later the convention is in danger.

Three G-7 countries, Germany, Canada, and the United States (U.S.), according to the relevant national chapters of TI, have passed acceptable legislation implementing the convention. France, Italy, Japan, and the United Kingdom (U.K.), four of the G-7, have failed to take appropriate action. At Transparency International, we believe that jeopardizes the convention's success because, as a practical political reality, the effectiveness of the convention depends on coordinated action by the major exporting states. Until all G7 states are in full compliance, other governments will be reluctant to enforce restrictions against their companies. Why should they if major competitors are free from such shackles? However, France now seems well on its way to passing satisfactory legislation. This is encouraging and puts the onus on the other three.

The Italian Parliament has not completed ratification and implementation of the convention and we have been unable to verify any future action. Japan has passed grossly deficient implementing legislation. Major changes are necessary to meet convention requirements. It is unclear what, and if, the Japanese Government is prepared to take corrective action.

When the British Parliament ratified the convention in 1998, the government claimed new legislation was needless as an anti-bribery act passed before the First World War could be construed to apply to foreign as well as domestic bribery. It is an intriguing argument in theory. But in practice, no prosecutor in the past ninety years has ever used the law to bring a case involving foreign bribery. There have been indications that the British Government might consider new legislation, but enactment is unlikely before 2001. Such delay serves as a ready excuse for delays by other countries.

The next six months are critical. If Italy, Japan and the U.K. come into full compliance before the OECD Ministerial meeting in June, the uncertainty hanging over the convention will disappear and the other laggards can be expected to comply by year's end. If not, the risk of

loosing momentum is serious. Support will erode, and the convention could become another promising international initiative that failed.

The OECD does not police companies nor does the convention give the organization punitive powers. That is the purpose of implementing legislation. However, the OECD monitors the effectiveness of those laws. Through this monitoring process, governments willing to take effective action are assured they will not be left out on a limb. We are confident that the anti-bribery working group led by Professor Mark Pieth of the University of Basel has the professional competence and objectivity needed for its work. Nevertheless, our concern about the magnitude of this task compels us to make the following suggestions to strengthen the monitoring program:

- The monitoring group's work must have effective political support. Governments with deficient laws are subjected to strong peer pressure at the ministerial level. The sooner ministers learn that lesson the sooner the convention will have a real impact on bribery in the international marketplace. Tolerance for excuses and delays in correcting deficiencies will signal other governments and corporations that the convention is not taken seriously.
- A realistic monitoring process is a long-term effort. Phase 1, reviewing implementing legislation, cannot be completed in one year. Phase 2, assessing enforcement programs, is considerably more demanding because it requires visits to the countries being monitored, and an evaluation of enforcement programs, which is more complex than Phase 1. Even if monitors held regular two-month site visits, they would need nearly six years to review the original thirty-four signatories. Subsequent reviews to address deficiencies, plus additional accessions, would result in a decade-long effort. It is TI's impression that Phase 1, alone, stretches available resources to the limit. Staffing and budgeting plans must be put in place that reflect the magnitude, duration, and importance of the monitoring process.

- Increased participation by the private sector and civil society will also improve the effectiveness and credibility of the monitoring process. While some governments support such an increase, others prefer a more covert process that is limited to governments reviewing other governments. We recognize that confidentiality may be required in some parts of the process such as deliberations among monitoring team members. However, there should be the presumption of transparency, with OCED deciding areas of confidentiality, not the government under review. The public is interested in the convention's implementation, especially where governmental resolve is in question. The convention can be made to work. It is up to the rest of civil society to convince politicians that it is, indeed, what they want.

Other OECD Recommendations

While the criminalization of bribery of foreign public officials is being ratified and tax deductibility has been abolished, the following recommendations¹ should be adopted.

Accounting Requirements: External Audit and Internal Company Controls

The OECD recommends that member countries take the necessary steps to ensure that laws, rules, external audits, and internal company controls are aligned with the following principles and fully executed to prevent and detect bribery of foreign public officials conducting international business.

Adequate Accounting Requirements

1. Companies should maintain accurate, detailed records of income and expenditures, identifying the specific components of each transaction. Off-the-books transactions and accounts should be prohibited.

2. Companies should disclose the full range of material contingent liabilities in their final statements.
3. Member countries should adequately sanction accounting omissions, falsifications, and fraud.

Independent External Audit

1. Member countries should determine whether the requirements to submit for external audit are adequate.
2. Member countries in consultation with professional associations should develop sufficient standards to ensure that external auditors are independent, permitting them to provide an objective assessment of company accounts, financial statements, and internal controls.
3. Auditors should alert management when appropriate corporate monitoring bodies uncover any irregularities and possible illegal acts.
4. Auditors should notify competent and appropriate authorities of all possible illegal acts of bribery.

Internal Company Control

1. Member countries should encourage the development and adoption of adequate internal company controls including standards of conduct.
2. Company management should outline their internal control mechanisms, particularly those designed to prevent bribery, in their annual reports.
3. Boards of directors and supervisory boards should create independent monitoring bodies such as audit committees.
4. Companies should provide protection for persons not willing to violate professional standards or ethics under instructions or pressure from hierarchical superiors.

Public Procurement

The OECD recommends the following:

1. Member countries support the World Trade Organization's efforts to reach agreement on transparency in government procurement.
2. Authorities suspend those enterprises that insist on bribing foreign public officials from competing for public contracts since it is in violation of members' national laws; and procurement sanctions levied against businesses guilty of bribing domestic public officials apply also in foreign public official bribery cases.²
3. In accordance with the recommendation of the Development Assistance Committee, Member countries should require anti-corruption provisions in bilateral aid-funded procurement, promote the proper implementation of anti-corruption provisions in international development institutions, and work closely with development partners to combat corruption in all development cooperation efforts.³

International Cooperation

The OECD recommends that its members in accordance with local laws take the following actions to combat bribery in international business transactions:

1. Consult and cooperate with appropriate authorities in other countries' investigations and legal proceedings in bribery cases, including extradition, and sharing information and evidence.
2. Make full use of existing agreements and arrangements for mutual international legal assistance and, where necessary, create agreements or arrangements for this purpose.
3. Ensure that national laws support this cooperation.

Notes

1. As adopted by the OECD Council on 23 May 1997: Revised Recommendation of the Council on Combating Bribery in International Business Transactions.
2. Member countries' systems for applying sanctions for bribery of domestic officials differ as to whether the determination of bribery is based on a criminal conviction, indictment or administrative procedure. But in all cases it is based on substantial evidence.
3. This paragraph summarizes the Development Assistance Committee (DAC) recommendation, which is addressed to DAC members only, and addresses it to all OECD Members and eventually non-member countries that adhere to the recommendation.

Recommendations

CONFERENCE PARTICIPANTS TOOK PART IN six working groups that contained approximately thirteen to sixteen people representing various stakeholders. Each group utilized the background papers prepared to examine the following questions as a basis for discussion and to formulate recommendations.

Working Group One: What guidelines and procedures can donor countries develop to prevent and suppress corruption in their aid projects and programs?

Working Group Two: How can bilateral donors as funding bodies coordinate their policies and activities more efficiently and effectively with international financial institutions and other multilateral organizations to make the best use of their expertise and avoid overlap and omissions?

Working Group Three: How can donor countries contribute to the collection and use of data and statistics on corruption and how can they help devise monitoring criteria and mechanisms and utilize them for their own programs?

Working Group Four: How can bilateral donors help recipient countries build institutions that prevent and suppress corruption?

Working Group Five: What terms of engagement can bilateral donors develop in their relations with recipient countries?

Working Group Six: The Organisation of Economic Co-operation and Development (OECD) and beyond—what is the future of the supply-side of the development aid business?

Common Themes, Conclusions, and Recommendations

A number of themes and conclusions recurred during the discussions and several consistent conclusions emerged. They include:

1. Anti-corruption efforts alone are not adequate. They need to link to wider efforts that build and support good governance. Reducing poverty is the main goal of development cooperation and therefore, the Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Papers (PRSP) prepared by partner countries should incorporate anti-corruption efforts.
2. Both donor and recipient countries are responsible and have a preventive role to play in developing and implementing anti-corruption efforts. Donor and partner countries must work together, building and maintaining credibility by being accountable to their taxpayers and constituencies in the use of public funds. Governmental commitment to responsible, transparent financial systems and procedures are vital aspects of good governance.
3. Recipient countries must develop and control their own programs and projects, which means they are accountable for responsibly managing these activities.
4. Partner countries should generate support for anti-corruption strategies by building a coalition that promotes reform. The range of stakeholders in donor and partner countries should include the private sector, civil society, international financial institutions, multilateral organizations, and international and regional non-governmental organizations.

5. Combating corruption must be a priority and recommendations from this conference must be action-oriented, sustainable, cost-effective, and monitored.

Recommendations

While each working group examined a different question, several recommendations consistently recurred, oftentimes with a different focus but similar in scope. These common solutions are categorized in the following areas:

1. **Risk Assessment:** A regular cost-effective assessment of the risks of corruption to development assistance should be conducted. Assessment should take place throughout the development aid process, starting during the planning stages, continuing throughout implementation, as well as after the designated completion of these activities. Donors and partners should carry out joint reviews and audits of projects, programs, and personnel. Local assessment should be especially supported.
2. **Selectivity:** Selectivity should be a guiding principle in programs, which means development agencies need to focus their efforts on countries, sectors, and projects, including procedures, where anti-corruption efforts are more likely to be effective. Civil society should be selected for increased reliability, performance, and other comparative advantages especially in circumstances where governments' commitment is weak.
3. **Transparency:** There must be transparency of all joint assistance efforts. Donors should provide information about the selection of countries and sectors as well as spending levels. Subcontracting, accounting, and auditing procedures should be conducted openly and follow best practice policies.
4. **Lessons Learned:** It is vital to assess programs and projects after their completion and share what has been learned, both from the donors' and recipient countries' perspectives. A "virtual resource center" could facilitate sharing these lessons.

5. **Performance:** More effort is needed to set performance targets for tackling corruption. Governmental will must be translated into and measured by performance. Donors should support the preparation of research data and the development of monitoring capacity in partner countries. The media can provide assessments of anti-corruption efforts. Through independent media, intended beneficiaries can measure performance. Institutions should be selected based on individual country situations and the ability of these institutions to perform.
6. **Facilitate and foster twinning:** Local ownership should be a priority in aid programs, which means facilitation and support for local initiatives are essential. Sustainability is an important factor in deciding which projects to subsidize and therefore, twinning should be supported. Building links between institutions in the donor and partner countries to promote an exchange of knowledge and experience can strengthen institutions fighting to curb corruption. However, twinning can also occur on a regional basis. For example, countries that have been relatively successful can share lessons learned with other countries, which have yet to achieve any measurable progress in their reform programs.
7. **Financial procedures:** Donors should provide resources, financial and education and training, to devise better auditing and accounting procedures in recipient partner countries. Reforming these institutional policies and procedures is essential. All branches of government should be included in this process.
8. **Watchdogs:** Donors should support institutions that can produce better watchdogs, focusing not only on the executive but all branches of government. They must recognize and support the overriding importance of civil society, particularly an independent media.
9. **Monitoring:** Donors should support creating improved monitoring techniques. Monitoring is an extension of assessment and

better methods and procedures should lead to better implementation and enforcement. However, improved systems require data from research and polls, both local and regional. Donors should especially support international policies that include donor peer review or better monitoring capabilities through OECD's Development Assistance Committee (DAC) procedures and eventually a United Nations' (UN) convention.

Reports from the Working Groups

Working Group One

1. Donors should help create “clean” countries. “Clean” aid, alone, is not sufficient.
2. Donors need to jointly build capacity. They should work country by country to develop an agreement that delineates what constitutes best procurement and financial practices, along with appropriate sanctions for violators. Institution building measures must accompany any agreement on procedures.
3. A risk assessment before initiating projects or programs helps donors and recipients to jointly produce measures that mitigate risks. Selectivity is crucial. In situations where risks are high and mitigation is difficult, funding should stop.
4. Temporary procedures to ensure efficient, transparent procurement and financial management will be required in some countries while reform and capacity building take place. Donors and partners should jointly agree to these measures rather than try to impose several different systems. The DAC peer review should include a provision that encourages donor cooperation.
5. There is a risk that donor policies designed to answer to their taxpayers' about development aid can appear to abdicate partner governments from their responsibility. It is important that partner governments have ownership of aid and understand they are accountable to their electorates to responsibly manage that aid.

6. Auditing before, after, and during activities is imperative. Donors should formulate mechanisms that allow them to share audit outcomes and learn from other's mistakes.
7. More detailed checking of procurement policies is a vital part of financial and fiscal accountability. Someone must guarantee that the funded activity was actually implemented.
8. Since program and project funding both have local outputs, local people can help police delivery. Donor transparency about projects and programs is key to confirming delivery is properly monitored.
9. Political will to combat corruption can come from many sources. If the partner government lacks the political will, other stakeholders, especially civil society can play a useful, active role. Donors should support these stakeholders in their anti-corruption activity, particularly the media.
10. Integrity pacts require further examination to determine their cost benefit.
11. Sharing blacklists could pose legal problems. Donors need to consider this approach separately.
12. Hotlines and other reporting mechanisms are potentially valuable if properly managed. A screening process would help reduce false accusations. Independent investigations and protecting whistle-blowers are important elements. Donors should work individually to create these protections and share lessons in properly managing hotline-style operations.
13. The private sector can be an ally in combating corruption. Many companies share the desire to eliminate it and donors should seek out and work with sympathetic private sector partners.

Working Group Two

1. A strong emphasis on local ownership and control of development strategies and programs is important. Donors are increas-

ingly willing to contemplate forms of assistance, which promote budgetary support. The introduction of the CDF and the PRSP reinforces the partner countries' leadership and necessitates improved coordination among development agencies. Utstein initiatives can promote better coordination but need to be linked to wider donor efforts wherever possible.

2. Donor coordination: Ideally, the partner country should create the framework for dialogue with donors. Where this is not yet taking place, the World Bank and other multilaterals such as the United Nations Development Programme or the European Community can provide a focal point. Such agencies can initiate a donor coalition and framework for interaction and dialogue with governments. Bilateral donors can actively participate in these arrangements. Various models are appropriate such as ad hoc arrangements established and led by different groups of donors. Another catalyst for action is the Utstein initiatives.
3. Local ownership: The CDF and PRSP processes present opportunities for agencies to link their efforts closely to locally led development strategies and programs. Countries' should include plans for tackling corruption in the CDF and the PRSP. A key aspect of the fight against corruption is the development of local capacity to prepare transparent expenditure plans in the budget, to manage and account for resource use, and to audit the outcome. Building local capacity to conduct these functions is crucial and can be done in several ways. Joint government and donor audits of expenditure are desirable and bodies such as INTOSAI can assist with strengthening local audit institutions.
4. Alternatives for Policy Dialogue: Developing agencies can be more effective if their response corresponds to the level of commitment demonstrated by partner countries. In those countries where commitment is strong, the focus will be on strengthening state capacity. Where there is less resolution for

reform, agencies may need to undertake anti-corruption work with non-governmental stakeholders (civil society, private sector, media etc). Development agencies should concentrate their efforts on countries where they can make a difference and where joint donor activity can be the most productive.

5. The International Dimension: Corruption is a global problem and development agencies can have a more comprehensive affect if they include an international component in their reform strategy. The OECD Convention is an important initiative for tackling corruption. Donors should aggressively support ratification and implementation and help establish similar instruments in other regions. The OECD has also tackled international money-laundering issues and opportunities are emerging to produce a regional strategy. The DAC can coordinate and review development agencies' policies and practices in the area of anti-corruption. Reform benefits immensely from lessons learned and donors should collectively improve their efforts to learn lessons from existing strategies and more widely share available information.
6. The Utstein Partners and development agencies generally should consider:
 - supporting partner countries' poverty reduction strategies that address governance and propose anti-corruption programs. Initial efforts should concentrate on collaboration with the World Bank to finalize a tool kit/sourcebook, which includes potential anti-corruption initiatives, for the PRSP.
 - increasing the level of assistance to countries that can develop and implement anti-corruption plans in the context of poverty reduction strategies. Possible mechanisms include the World Bank Institute.
 - financing a virtual resource center that addresses all aspects of corruption including the exchange of information and best practice approaches as well as its political dimension.

- forming a donor working group that supports and reviews efforts to encourage the OECD's DAC to coordinate donors' anti-corruption policies and activities.
- endorsing the World Bank's efforts to advance an integrated approach that improves public expenditures' management and financial, audit, and procurement systems in partner countries; and creating toolkits with the World Bank's input to develop this approach.
- providing technical assistance and financial support to build capacity in partner countries using these tool-kits.

Working Group Three

Transparency, credibility, reliability, and ownership are the four overarching themes that are the core of this working group's recommendations. There is a need for a Transparency International review of aid and aid agencies, field research and information on procurement, global, country specific, and donor data as well as improved accounting procedures. More specifically this group recommends the following:

1. Assess existing data and organizations/entities involved in data collection on the basis of their reliability, transparency, and accessibility.
2. Strengthen the existing data capacity and build the capabilities of new local independent data collection agencies such as governmental institutions and NGOs.
3. Build national, regional, and global databases. At the national level, data should be collected on an annual or biannual basis utilizing instruments such as corruption perception and household surveys, and judicial statistics.

Working Group Four

1. The analysis and diagnostics of the institutional environment is a useful first step in a participatory process of institution building/strengthening. A thorough assessment gives countries the data

needed to approach donors/institutions for assistance that targets specific strategies, increasing reform programs' potential for cost effectiveness. The analyses should include an examination of existing information and be shared among all relevant donors and agencies. The costs of such analyses should be low relative to project costs.

2. Donors should promote twinning/networks of institutions between North-South and South-South of groups such as journalists, trade unions, parliamentarians, local governments and ombudsmen as these networks seem to foster sustained capacity beyond the project cycle, create opportunities for cost-sharing, and enlarge political support for development cooperation.
3. Donor agencies' should strengthen their expertise to deal with corruption issues more effectively and, if necessary, conduct self-assessments that focus on areas such as appropriate anti-corruption policies in governance, available expertise, current instruments/approaches, and staff incentives.

Working Group Five

This group's proposals address how to structure the relationship between developing and developed countries in combating corruption. They are based on the underlying principles that corruption represents a failure of governance; where it is endemic, the impact of poor governance is likely to be systematic and widespread; and successful anti-corruption strategies require a holistic approach, which is determined by the circumstances of each country and may involve:

- reforming political governance and the public sector;
- private sector promotion of responsible business practices and partnerships;
- restoring a system of checks and balances among the separate branches of government, executive, legislature, and judiciary;

- utilizing the effective advocacy potential of civil society as well as monitoring by local communities;
- watch dogs inside government such as anti-corruption commissions and ombudsmen;
- supporting the PRSP process and emerging CDF with anti-corruption efforts;
- including the development of good governance and respect for human rights in reform strategies as this particular focus provides an increasingly powerful basis for remobilizing national and international support; and
- including the political, economic and structural capability of each country as criteria for selecting projects and programs.

The group's recommendations are:

1. The primary responsibility for combating corruption must lie within each country—its government, other institutions of the state, the private sector, and civil society. Government commitment is vital to success along with its ability to implement new policies, generate political support, its technical capacity, and its financial resources. Donor understanding of these constraints and support in these areas are important.
2. Donor government support should reflect governments' will to combat corruption. However, governments should not be penalized for their current weak performance if they demonstrate a strong commitment to reform.
3. It may be helpful to develop a sector-wide approach, which could be known as the "accountability sector." However, it is important that this is a joint donor project, including a collective institutional analysis and basket funding to those governments that demonstrate not only commitment to reform but are also capable of establishing and implementing reliable accounting and procurement procedures. Donors should not develop individual

programs that support government policies and resources. The governance program in the Poverty Reduction Strategy Papers should include an anti-corruption component facilitated by expanding the corruption information in the World Bank's source book on governance and poverty.

Working Group Six

1. Extend the capacity to enforce the OECD convention by increasing awareness and information about the its provisions to governments, civil society, and particularly the business sector in recipient countries.
2. Financially support monitoring mechanisms that are incorporated in the OECD convention.
3. Include aid agencies and activities in peer reviews and OECD convention monitoring.
4. Encourage recipient countries to develop regional instruments to fight corruption.
5. Support a UN convention against corruption with special emphasis on monitoring mechanisms and common standards on accountability and transparency for both donors and recipient countries.

Discussion Results

A panel discussion was held on the last day of the conference to share the working groups' conclusions and recommendations. Two important and controversial issues were debated, untying aid and exit strategies and disengagement. Conference participants discussed how untying aid increases recipient countries' management responsibilities but exit strategies and disengagement tend not only to stymie development but more important disproportionately affect the poor and disenfranchised. As an alternative, some proposed a substantial reduction in aid if there is no performance and little will, but always with the understanding that the

possibility to reestablish assistance is available as countries demonstrate a commitment to reform. However, some participants contend there are rare cases where the only option is disengagement. These are usually crises where the international community has decided to take collective political action. In such cases, no single country has the ability to alter the situation and donor countries should have exhausted all possible alternative solutions prior to withdrawal.

Additionally, Working Group One prepared very specific guidelines for the role of the Supreme Audit Institution (SAI). The following is a synopsis of that discussion.

Subtheme: The Role and Experience of the Supreme Audit Institution in Preventing and Detecting Fraud and Corruption

The discussion group emphasized that most SAIs believe their main contribution with respect to prevention and detection lies in improving overall transparency and accountability, supporting an environment that limits opportunities for misconduct, and creating a climate of good governance. The following issues were among those addressed in the country papers and the discussion sessions of the congress:

- *Strong Financial Management.* SAIs think it is critical that they specifically describe the extent of their role in prevention and detection. They generally agree that fostering strong financial management based on reliable, sufficient, and timely reporting including disclosure of deviations and effective internal control systems represent the basic elements of their role. A strong standards framework and the institution of internal auditing and audit committees provide the bases for their position.
- *SAIs' Mandate.* Most SAIs consider their audit mandates sufficient although some think more investigative powers could be practical. Normally, they do not have the authority to prosecute acts of corruption discovered during audits. They discussed the difficulty in conducting investigations as irregularities usually result from

audit work that is not designed to confirm public servants' improper behavior. Further, some SAIs indicate that specific investigative authority is unnecessary since the responsibility for investigation and prosecution lies within the sphere of other specialized public bodies and within the management of the audited body itself. These SAIs think they are more effective if they maintain close collaboration with all the organizations, those being audited and those charged with prosecutorial power, identifying better practices and using these practices as indicators.

- *Public Service.* Another issue that was raised during the debate was the need for honest, able and well-motivated public servants. In fact, SAIs discussed selecting public servants exclusively on their records of integrity and capability. Although few reported the existence of government-wide formal codes of ethics, many currently have some set of standards. When establishing a code of ethics for this purpose such as the INTOSAI Code of Ethics, it was suggested that certain principles for public servants' conduct should be defined, such as integrity, objectivity, impartiality, honesty, and professionalism.
- *Resources.* Many SAIs indicated they lacked the necessary resources to perform their work. This serious problem will have to be addressed in some manner. Perhaps INTOSAI can be a vehicle to help address this concern.

Subtheme: Methods and Techniques to Prevent and Detect Fraud and Corruption

The auditor and his work are significant elements in reducing and detecting fraud and corruption although the SAIs' mandates and activities vary widely. They agree, however, that it is more cost effective to deter and prevent than to detect and investigate. Some of the more significant aspects specifically addressed in the country papers and the discussion sessions follow:

- Most want SAI audit reports readily available to the public in a timely fashion; however, a wide range of practices exist concerning how and when audit findings are made public.
- They think they should pay more attention to developing their relationship with the media.
- SAIs recognize that some programs have more inherent control weaknesses than others, and that these high risk programs by their nature or function foster an environment that favors fraud and corruption.
- SAIs generally agree that recommendations are more effective when they aggressively follow up; however, most reported they do not have a system to track implementation of recommendations.
- Fraud indicators are usually difficult to identify although generic indicators are nearly always present and auditors must rely on technical experience, professional judgement, and a firm understanding of how fraud is committed to successfully recognize them. Most SAIs considered lack of experience and training was their biggest obstacle in this respect.
- SAIs generally agree they should more closely collaborate to facilitate exchange of fraud and corruption experiences.
- SAIs' positions on financial disclosure, public servants' declaration of assets and interest, vary widely. Some are convinced of their utility while others believe that disclosure is ineffectual in preventing abuse. Most reported, however, that in their countries some form of financial disclosure reporting, primarily by senior public officials and politicians, is required. Many stated the government should assume sole responsibility for reviewing disclosures.
- Although few SAIs had systems in place to receive complaints/irregularities from the public, many contend such a system can strengthen a preventive environment and help identify fraudulent activity.

The Accords of Montevideo

SAIs agree that fraud and corruption are significant problems affecting all countries in varying degrees and that the SAIs can and should endeavor to create an environment that is unfavorable to abuse. As provided in the Lima Declaration adopted by INTOSAI in 1977, Guidelines in Auditing Precepts, SAIs agree they should be independent and have adequate mandates that enable them to effectively contribute to reform. SAIs also agree that where possible they should

1. seek an adequate level of financial and operative independence and breadth of audit coverage;
2. take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and aggressively follow up SAI recommendations;
3. focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators;
4. establish an effective means for the public dissemination of audit reports and relevant information including establishing good relations with the media;
5. produce relevant audit reports that are understandable and user friendly;
6. consider increased cooperation and appropriate exchange of information with other national and international bodies fighting corruption;
7. intensify the exchange of experiences on fraud and corruption with other SAIs;
8. encourage the establishment of personnel management procedures for public service that selects, retains, and motivates honest, competent employees;
9. encourage financial disclosure guidelines for public servants and monitor compliance as part of the ongoing audit process;
10. use the INTOSAI Code of Ethics to promote higher ethical standards and a code of ethics for public service;

11. consider establishing a well publicized method to receive and process public information on perceived irregularities;
12. continue work regarding fraud and corruption through INTOSAI's existing committees and working groups. For example, the Auditing Standards Committee will consider these issues as part of developing implementation guidelines within a broader standard framework.

The consequences of corruption are no longer disputed. There is a widening recognition that effective action is required if the world is to make progress in the urgent task of eradicating poverty and, in particular, if the international development goals for 2015 are to be achieved.

Developed countries have also acknowledged that grand corruption in developing countries has its origin in trade with developed countries and is facilitated by money laundering in international financial systems. Globalization and increasing interdependence mean that all countries need to alleviate corruption worldwide.

Our Approach

Primary responsibility for combating corruption belongs to the government, civil society, and the private sector of the concerned country. We attach a high priority to supporting reformists in developing and transitional countries who are committed to action and we encourage them to work collaboratively.

In our support, the Utstein Partners adopt a similarly collaborative style in order to reduce the administrative burden associated with collaborative activities and increase the effectiveness of our efforts. We are working towards supporting common policies such as harmonizing our procedures, and providing joint funding, and shared program management.

Our aim is also to join with other like-minded development agencies in pursuing the objective of combating corruption. We wish to work with the United Nations system, regional development banks, and our fellow bilateral development agencies. We attach particular importance to working with the International Monetary Fund and the World Bank. Bank President, James Wolfensohn, has been the leader in mobilizing development efforts against corruption. The Comprehensive Development Framework and the Poverty Reduction Strategy program provide a policy framework to effectively pursue anti-corruption strategies.

In our own countries, we work within the government to promote development objectives in international trade and financial policy. We

collaborate with the private sectors to promote responsible business practices and encourage mutually supportive links between civil society on a North/South and South/South basis.

Priorities for Action

In order to improve our understanding of anti-corruption policies and define our vision for the future, the Government of the Netherlands organized a working conference on combating corruption in Maastricht in April 2000. Recommendations from that conference will help guide the future actions of the International Development Ministers in addition to the following:

1. We will support programs for governments in developing and transitional countries committed to reform and combating corruption. The objective is to help these countries generate political support for reform, develop technical capability, and secure financial resources in the area of governance so they can develop and implement anti-corruption policies. We will provide this support on a collaborative basis. An Utstein partner will be the leader in each country on behalf of the other partners. We will work wherever possible in collaboration with the World Bank and other like-minded agencies. Plans for such collaboration are now in progress.
2. Support for civil society, the media, the judiciary and the legislatures to institute and participate in systems of checks and balances, advocacy and monitoring, and high standards of corporate governance in the private sector is one of our top priorities. These actors are especially important to build a constituency for reform where government lacks commitment. We will continue to provide support to these actors even in those cases where we are unable to operate through government because of its lack of commitment.
3. To reinforce our cooperation and learning, we will establish a virtual expert center. Its functions will be to coordinate our

anti-corruption activities, develop networks of non-governmental actors committed to reform, identify sources of expertise in our countries, exchange expert information, and undertake critical research. Because Utstein Partners have offered informal funding, officials are confident that the virtual center can be financed if Ministers approve it.

4. We will encourage developing country governments to address governance and corruption issues in all the Poverty Reduction Strategies Papers (PRSP). We welcome the inclusion of governance in the World Bank's guidelines for PRSP and want to collaborate with all concerned to include a clear focus on anti-corruption policies and plans within PRSP guidance and programs.
5. We will work within our own governments to ensure the laws of the Organisation of Economic Co-operation and Development (OECD) Convention on the bribery of foreign public officials are fully implemented. We will seek ways to strengthen the capacity of the OECD Secretariat, monitor implementation of the Convention, and encourage the business community to adopt effective codes of corporate conduct. We will provide support where necessary for the efforts of the OECD Financial Action Task Force to extend anti-money laundering networks to Africa and Asia.
6. We are ready to help strengthen financial management and procurement systems in developing countries, particularly those where several Utstein partners are engaged and to harmonize our own approaches to procurement in an effort to reduce corruption risks in international development assistance. There will be many cases where such strengthening will be a prerequisite for channeling more program development assistance or budgetary support. We are also ready to act against national companies that have engaged in corrupt activities. Previously, those companies

involved with multilateral development agencies were conveniently excluded from legal repercussions. However, in an effort to support multilateral agencies' strategies to reform procurement processes, we will support legal actions against national enterprises that do not comply with anti-corruption policies.

Conclusion

We believe that a commitment to combating corruption is a necessary basis for an effective development relationship. We have adopted the measures outlined above to help us fulfill our responsibilities for combating corruption in development. We welcome the views of our partners and peers on our plans. We repeat our invitation to governments, civil society, and the private sector and to other development agencies to join us in a collaborative approach to this vital enterprise which will serve the interests of us all.

Notes

1. On 25 and 26 June 1999 the Ministers for Development Cooperation of the Netherlands, Germany, Norway and the United Kingdom met on the Norwegian island of Utstein. During this meeting the four Ministers decided to join forces and intensify their cooperation on a number of issues. The four ministers have since then become known as "the Utstein Group."

Combating Corruption in Development: A Statement by the Utstein Group¹

Our Goal

We, the International Development Ministers of the Netherlands, Germany, Norway, and the United Kingdom are committed to reducing the damaging effects of corruption on development. We are ready to work within governments, civil society, the private sector, and other development agencies, both multilateral and bilateral, that share our commitment.

The Problem

Corruption occurs in all regions of the world but it is particularly harmful to developing countries because they are already the most vulnerable. Corruption diverts scarce resources from development, deters investment, and retards economic growth. Corruption undermines democratic political systems and is a barrier to the delivery of basic services and the provision of security to the poor.

The consequences of corruption are no longer disputed. There is a widening recognition that effective action is required if the world is to make progress in the urgent task of eradicating poverty and, in particular, if the international development goals for 2015 are to be achieved.

Developed countries have also acknowledged that grand corruption in developing countries has its origin in trade with developed countries and is facilitated by money laundering in international financial systems. Globalization and increasing interdependence mean that all countries need to alleviate corruption worldwide.

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In our support, the Utstein Partners adopt a similarly collaborative style in order to reduce the administrative burden associated with collaborative activities and increase the effectiveness of our efforts. We are working towards supporting common policies such as harmonizing our procedures, and providing joint funding, and shared program management.

Our aim is also to join with other like-minded development agencies in pursuing the objective of combating corruption. We wish to work with the United Nations system, regional development banks, and our fellow bilateral development agencies. We attach particular importance to working with the International Monetary Fund and the World Bank. Bank President, James Wolfensohn, has been the leader in mobilizing development efforts against corruption. The Comprehensive Development Framework and the Poverty Reduction Strategy program provide a policy framework to effectively pursue anti-corruption strategies.

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3. To reinforce our cooperation and learning, we will establish a virtual expert center. Its functions will be to coordinate our

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Conference Participants

Al Haji Muhammad Abdullah

Serious Fraud Office
Old Parliament House
Accra, Ghana

Heather Baser

Canadian International Development Agency
P.Q. Hull, Canada

Per Øyvind Bastøe

Norwegian Agency for Development
Oslo, Norway

Bas Berends

Ministry of Foreign Affairs
The Hague, Netherlands

Suzanne Blankhart

Ministry of Foreign Affairs
The Hague, Netherlands

Giorgio Blundo

Graduate Institute for Development Studies
Geneva, Switzerland

Guro Bull

Ministry of Foreign Affairs
Oslo, Norway

Lala Camerer

Institute for Security Studies
Cape Town, South Africa

Ana Maria Campero

Defensora del Pueblo de Bolivia
La Paz, Bolivia

Jeremy Clarke

Department for International Development
London, United Kingdom

Claire Daams

Faculty of Law Basel University
Basel, Switzerland

Glynis Davies

Department for International Development
London, United Kingdom

Koen J.E. de Feyter

University of Maastricht
Maastricht, Netherlands

Peter de Haan

Ministry of Foreign Affairs
The Hague, Netherlands

D. de Jong

Ministry of Justice
The Hague, Netherlands

Louk de la Rive Box

European Centre for Development Management
Maastricht, Netherlands

Boris Divjak

Prosperitet–International Consulting Partners
Bosnia, Herzegovina

Robert A. Doig

Liverpool Business School
Liverpool, United Kingdom

Franziska Donner

Deutsche Gesellschaft Tech. Zusammenarbeit
Eschborn, Germany

Bartlet Édes

Communications
SIGMA
Paris, France

Peter Eigen

Transparency International
Berlin, Germany

Hansjörg Elshorst

Transparency International
Berlin, Germany

Maarten B. Engwirda

European Court of Auditors
Luxembourg, Germany

Thomas Feeley

United States Agency for International Development
Washington, D.C.

Cynthia Fontenova

World Customs Organization
Brussels, Belgium

Ferdinand Francken

Ministry of Foreign Affairs
The Hague, Netherlands

Lara Gabriel

Ministry of Foreign Affairs
The Hague, Netherlands

Huguette Bokpé Gnacadja

Female Lawyer's Association of Benin
Cotonou, Republic of Benin

Annette Gosses

Ministry of Foreign Affairs
The Hague, Netherlands

Cheryl Gray

Public Sector Group
World Bank
Washington, D.C.

Candido Grzybowski

The Brazilian Institute of Social and Economy
Rio de Janeiro, Brazil

Geert Heikens

European Commission
Brussels, Belgium

Janne Heiskanen

OSCE Secretariat
Vienna, Austria

Eveline Herfkens

Ministry of Foreign Affairs
The Hague, Netherlands

Ric Hettinga

Ministry of Foreign Affairs
The Hague, Netherlands

Edward Hoseah

Prevention of Corruption Bureau
Dar es Salaam, Tanzania

Paul Isemnan

Organisation for Economic Co-operation & Development
Paris, France

Fu Jie

Minister of Supervision
China

Brenda Juntunen

World Bank Institute
Washington, D.C.

Sanne Kaasjager

Ministry of Foreign Affairs
The Hague, Netherlands

Julius Kandie

Attorney General's Chamber
Nairobi, Kenya

Matts Karlsson

World Bank
Washington, D.C.

Daniel Kaufmann

World Bank Institute
Washington, D.C.

Wilhelm Kellner

INTOSAI–Austrian Court Audit
Vienna, Austria

Lawrence Kilimwiko

Association of Journalists and Media Workers
Dar Es Salaam, Tanzania

U. Klrvstad

Ministry of Foreign Affairs
Oslo, Norway

Musikari Kombo

National Assembly of Kenya
Nairobi, Kenya

Sahr Kpundeh

World Bank Institute
Washington, D.C.

Steven Langdon

Parliamentary Centre
Ottawa, Canada

Petter Langseth

United Nations–CICP
Vienna, Austria

Marco Leidekker

Ministry of Justice
Schedeldoekshaven 100
The Hague, The Netherlands

Hua Lemeng

The Hague, Netherlands

Janvier Litse

African Development Bank
Abidjan, Côte d'Ivoire

Stephen Lord

General Accounting Office
Washington, D.C.

Betty C. Maina

Institute of Economic Affairs
Nairobi, Kenya

Nick Manning

World Bank
Washington, D.C.

Aileen Marshall

Global Coalition for Africa
Washington, D.C.

Ine Måreng

Ministry of Foreign Affairs
Oslo, Norway

Mette Masst

Norwegian Agency for Development
Oslo, Norway

Miria R.K. Matembe

Ministry for Ethics and Integrity
Kampala, Uganda

Weredewold Woldie Menshu

Ministry of Justice
Addis Ababa, Ethiopia

Sigrun Mrgedal

Ministry of Foreign Affairs
Oslo, Norway

Erich O. Ogoso

Nation Media Group
Kampala, Uganda

Ahmedou Ould-Abdallah

Global Coalition for Africa
Washington, D.C.

Kjetil Paulsen

Ministry of Foreign Affairs
Oslo, Norway

Peter Pedersen

Asian Development Bank
Manila, Philippines

Tilman Pfeleiderer

German Investment and Development Company
Köln, Germany

Shafiur Rahman

Islamabad, Pakistan

Franck Rasmussen

Swedish International Development Agency
Stockholm, Sweden

Koos Richelle

Ministry of Foreign Affairs
The Hague, Netherlands

Justice Aaron Ringera

Kenya Anti-Corruption Authority
Nairobi, Kenya

Signe Röpke

Ministry of Foreign Affairs
Copenhagen, Denmark

Camilla Rrssaak

Norwegian Agency for Development
Oslo, Norway

Augustine Ruzindana

Parliament
Kampala, Uganda

Jürgen Schmid

Federal Ministry for Economy and Development
Bonn, Germany

Ute Seela

Ministry of Foreign Affairs
The Hague, Netherlands

Shuwang Shao

Ministry of Supervision
Beijing, China

Vijay Shunglu

Office of Comptroller & Auditor General
New Delhi, India

Christoph Sigrist

Kreditanstalt für Wiederaufbau
Frankfurt/Main, Germany

Maureen Silos

Moiwana'86–Human Rights Organization
Paramaribo, Suriname

Rick Stapenhurst

World Bank Institute
Washington, D.C.

Pieter Stek

World Bank
Washington, D.C.

Albrecht Stockmayer

Deutsche Gesellschaft Tech. Zusammenarbeit
Eschborn, Germany

Pauline Tamesis

United Nations Development Programme
New York, New York

Elisabeth Thioléron

Organisation for Economic Co-operation and Development
Paris, France

Massimo Tommasoli

Organisation for Economic Co-operation and Development
Paris, France

Michel van Hulten

Lelystad, Netherlands

Puk van der Linde

Ministry of Economic Affairs
The Hague, The Netherlands

Henk van der Vegt

Ministry of Foreign Affairs
The Hague, Netherlands

N. Vittal

Government of India
New Delhi, India

Nelleke Kruijs Voorberge

Ministry of Foreign Affairs
Den Haag, The Netherlands

Rengen Wang

Beijing Municipal Supervision Bureau
Beijing, China

Ewa Westman

Swedish International Development Agency
Stockholm, Sweden

John Wiebler

US Agency for International Development
Washington, D.C.

Roger Wilson

Department for International Development
London, United Kingdom

Lindiwe Zulu

Department of Foreign Affairs
Pretoria, South Africa

About the Contributors

Heather Baser is a senior policy advisor concentrating on capacity and institutional development and anti-corruption activities for the Canadian International Development Agency. She has advised international organizations and governments such as the World Bank, the Dutch government, and the United Nations Development Programme on new aid modalities and terms of engagement. Among her publications are “Working Together to Fight Corruption—State, Society and the Private Sector in Partnership,” which she coauthored with Robert Klitgaard in *Governance Innovations: Lessons in Experience* (1997) and *Review of Technical Assistance Loans in the World Bank*, with Peter Morgan and Nimrod Raphaeli (1996).

Per Øyvind Bastøe is managing director and consultant for the Norwegian Agency for Development. His consultant services range from governance, evaluation, and result-based management to organizational change, and knowledge and human resource management. He is the

author of several books on planning, budgeting, organizational development, and social sector improvement. His last book, *The Changing Organization*, was published in 1995 both Norway and Sweden.

Lala Camerer is senior researcher for the Institute for Security Studies, an independent applied policy research institute in South Africa. She specializes in issues dealing with corruption, commercial crime, and criminal victimization and is currently heading a project on anti-corruption strategies. As a consultant, she has been asked to examine ethics in African public service for the UNDESA project.

Jeremy G. Clarke is deputy chief governance advisor on Africa policy and economics for Great Britain's Department for International Development. His research has focused on Eastern and Southern Africa and the Pacific in the areas of economic policy and management; public sector management and reform; institutional development and change management in the public sector; and anti-corruption policy analysis and project appraisal. He served on the Prime Minister's task force, Africa Partnership Initiative 2000 and has authored several books on public sector management including *New Public Management and Development: The Case of Public Service Reform in Tanzania and Uganda* and *The Internationalisation of Public Management—Reinventing the Third World State*.

Patrick Conway teaches graduate level courses in international trade, finance and economic development at the University of North Carolina. He is the author of numerous publications in the areas of international economics and economic development. His research focuses on the international aspects of transition for former Soviet economies; the macroeconomic impact of IMF adjustment programs; and the theoretical explanations and empirical implications of international trade between developed and developing countries. He has served as a Peace Corps volunteer in Côte d'Ivoire and a research fellow at the Brookings Institution in Washington, D.C.

Glynis Davies is responsible for Great Britain's Department for International Development's procurement policy and is currently working on improving the transparency, efficiency, and effectiveness of its procurement practices.

Hansjörg Elshorst is managing director of Transparency International. Throughout his career, he has combined his interests in social science and economics working as senior advisor to the World Bank in strategy and resource management in East Asia. He was also a journalist for several Munich newspapers, assisted in the German Parliament, and managed the German Agency for Technical Cooperation. He speaks several languages including German, English, French, and Spanish.

Eveline Herfkens is the Netherlands' Minister for Development Cooperation. Her many years of government service began as a development cooperation policy officer in the Ministry of Foreign Affairs; and continued as a member of the Lower House of the States General, a committee member and treasurer of Parliamentarians for Global Action, and a Labour Party council member. She has chaired the Dutch Fair Trade Organization and was Executive Director of the World Bank. Her expertise and commitment to development were catalysts to join her colleagues in the creation of the Utstein Group, four ministers working collaboratively to reduce the damaging effects of corruption in developing countries.

Mats Karlsson is vice president for external affairs and a member of the World Bank senior management team responsible for corporate leadership and strategy. He manages the Bank's global communications programs, which consists of outreach to key constituencies such as government officials, parliamentarians, NGOs, national and multinational corporations, and academics. Prior to joining the Bank, he was the state secretary for the International Development Co-operation at the Swedish Ministry of Foreign Affairs.

Daniel Kaufmann is senior manager at the World Bank Institute. He is a researcher and advisor in the fields of governance, finance, and regulatory reform and has designed new empirical governance methodologies with World Bank colleagues. State leaders, senior officials, and civil society frequently consult him on strategies to improve governance. He has published in leading economic and public policy journals. Among those publications are “Governance Matters: From Measurement to Action” with A. Kraay and P. Zoido-Lobaton in *Finance & Development* (2000); “Are Foreign Investors and Multinationals Engaging in Corrupt Practices in Transition Economies?” with J. Hellman and G. Jones in *Transition* (2000); and “Why do firms hide? Bribes and Unofficial Activity After Communism” with S. Johnson, J. McMillan and C. Woodruff in *Journal of Public Economics* (2000).

Wilhelm Kellner is director general of the Austrian Court of Audit. He supervises audits of major government entities including the Federal Chancellery, and the Ministries for Foreign Affairs, Social Security and Generations, Public Services and Sports, and National Defence. He is a member of the General Secretariat of the International Organisation of Supreme Audit Institutions and specializes in helping to shape the role of these institutions in the fight against fraud and corruption.

Sahr J. Kpundeh is a member of the governance team in the World Bank Institute. He has been a consultant to the United States Agency for International Development, the United Nations Development Programme, and several other commercial firms on issues relating to anti-corruption and good governance. He is the author of *Politics and Corruption in Africa: A Case Study of Sierra Leone* (1995); coauthor of *USAID Handbook for Fighting Corruption* (1998); coeditor of *Corruption and Integrity Improvement Initiatives in Developing Countries* (1998); coeditor of *Curbing Corruption: Toward a Model for Building National Integrity* (1999); and editor, *Democratization in Africa: African Views, African Voices* (1992).

Steve Langdon is senior associate at the Parliamentary Centre, Ottawa, Canada. He directs economic policy and governance projects. Currently, as a member of the World Bank team he is negotiating reconstruction credit with Nigeria, focusing on transparency strategies. His work in sub-Saharan Africa, Bangladesh, the New Independent States, Thailand, Canada, and Mexico has examined key governance issues such as strengthening democratic institutions, public sector reform, and anti-corruption strategies. He is the author of several publications including *Global Poverty, Democracy and North-South Change* (1999); "Industrial Dependence and Export Manufacturing in Kenya," *Africa in Economic Crisis* (1986); *Industrial Adjustment and Trade Relations with Less-Developed Countries* (1978).

Mette Masst is assistant director for the Norwegian Agency for Development, and manager of the its good governance and anti-corruption project. She has also worked for the Agency in Zimbabwe and Mozambique.

Rick Stapenhurst is a member of the governance team at the World Bank Institute concentrating on issues in accountability and integrity, political risk analysis, investment decision making, government policy development and implementation, and institutional analysis and assessment. He has worked throughout sub-Saharan Africa, as well as the Asia Pacific and Eastern Europe. His publications include *Political Risk Around the North Atlantic* (1993), *Industrial Democracy Today* (1979), and numerous articles in the business and academic press. Before coming to the World Bank, he was the director of Multilateral Development Banks at the Canadian International Development Agency and an adjunct professor for international marketing at the University of Ottawa and McGill University.

Albrecht Stockmayer directs the Organisation for Economic Co-operation and Development-PUMA's outreach programs as well as the OECD's governance outreach initiative in Paris. He has published several

books and articles on the law and finance highlighting international investment, decentralization, and corruption. He has advised the World Bank, the United Nations, the European Union, and numerous African and Latin American countries primarily in the area of institutional development of core public sector institutions.

Michael Wiehen is a member of the board of directors for Transparency International, Deutschland. For more than thirty years, he served the World Bank in its legal department and various management positions, among them country director for Southeastern Europe, South Asia and Eastern and Southern Africa. His vast experience has contributed to the development of the integrity pact concept and he has been asked to monitor developments at the OECD. He is a member of the Munich Bar and serves as a trustee of the Mountain Institute, which advances and seeks to preserve mountain cultures and environments in Appalachia, the Himalayas and the Andes.

Ugljesa Zvekic is senior crime prevention and criminal justice expert for the Southern Africa Regional Office of the United Nations Crime Prevention and Criminal Justice Programme. His current activities focus on information capacity building for informed decision-making and international standards and norms. He is a permanent visiting professor in the methodology of social science research in Belgrade and the honorary professor of criminology at the University of Hull, United Kingdom. He has published extensively in the areas of crime prevention, development and crime, corrections, victimization surveys and corruption.