

SUMMARY
Day 2, Workshop 4

ROLE OF DONORS AND INTERNATIONAL FINANCIAL INSTITUTIONS

International Co-ordinator: Hansjörg Elshorst, Managing Director
Transparency International

South African Co-ordinator: Richard Calland
Idasa

Chair: Alan Doig, Professor of Public Services Management
Liverpool Business School, John Moores University

Panelists: Cheryl Gray, Director, Public Sector Reform, World Bank
Barbara Turner, Acting Assistant Administrator for Global
Programmes, USAID
Manohar Golpelwar, Director, Indian Institute of Youth Welfare
Brian Cooksey, Tanzanian Development Research Group

Rapporteur: Janine Hicks, Programme Manager
Provincial Parliamentary Programme

Presentations:
The World Bank's Anti-corruption Agenda
Ms Cheryl Gray

Ms Gray made the point that corruption is not a new concern. She highlighted increasing World Bank attention to this issue, from reform initiatives in the 1980s, through rising international attention and activism on the part of non-governmental organisations (NGOs), to the Bank's adoption of a comprehensive anti-corruption policy framework in September 1997.

This framework envisions action on four fronts:

- preventing fraud and corruption in Bank-financed projects;
- assisting countries that ask for help in curbing corruption;
- mainstreaming concern for corruption in Bank country analysis and lending; and
- participating in international efforts to address corruption.

In addressing the Bank's work with clients, the second and third parts of the strategy, Ms Gray highlighted the complex issues and trade-offs involved:

- The Bank's mission to alleviate poverty is affected by the fact that some of the world's

worst poverty is in countries with high levels of corruption. The Bank cannot avoid countries with high levels of corruption, but the compromise of focusing on tighter project lending where the risks of corruption are greater is difficult to implement in practice.

- The Bank needs to determine whether to focus on individual projects, where it is easier to control corruption risks, or on systemic reform. The fungibility of aid is also an issue, where government budgets are freed up for other uses. The impact of uncoordinated donor activities also has an impact - a process of systemic help owned by the country concerned is to be preferred.
- There is trade-off between policy reform and institution capacity-building, with the Bank placing greater emphasis on institution-building and government ownership of reform.

Ms Gray identified areas in which the Bank can help countries reduce systemic corruption, by enhancing a state's capability through institutional strengthening and addressing aspects of policy and reform likely to be critical in reducing corruption. This includes reform in the area of rules and restraints on bureaucracy, in conjunction with the "voice" of the citizenry and the private sector, competitive pressure and awareness-raising, a critical element in setting priorities. She stressed the valuable role research into citizens' responses to and impressions of corruption has played in this process. She gave examples of the public identification of inefficient government services, unofficial payments to public officials and tracking the impact of public spending on delivery.

She made the point that corruption is a systemic problem of weak institutions, and gave an overview of the Bank's strategy in combating corruption by helping governments reform policies and strengthen institutions. This strategy includes the following action:

- deregulating the economy;
- reforming public sector management;
- strengthening "accountability" institutions and public oversight; and
- decentralising government structures to bring services closer to the people.

The Bank has several programmes underway in many countries, such as the following:

- service delivery, in Uganda, Guinea and Tanzania;
- tax administration in Lama;
- judicial reform in Albania, Guatemala and Morocco;
- administration and civil service reform in Albania, Bolivia and Ghana;
- fiscal decentralisation in Ethiopia, Hungary and Thailand;
- procurement reform in Berlin, Georgia and Colombia; and
- infrastructure privatisation in Argentina and India

Ms Gray stressed the importance of the roles of different players, from governments taking the lead on reform, international financial institutions furthering broad policy change and institution-

building, and bilateral donors contributing towards in-depth institutional development, to NGOs, the media and civil society contributing their knowledge to formulating solutions, "whistle-blowing" and providing pressure for change. She concluded by stating that there is room for great optimism and commitment, while keeping realistic expectations in seeking progress, but not expecting perfection.

The International Donor Community: Addressing corruption, common approaches, and donors as part of the solution

Ms Barbara Turner

Ms Turner spoke to the above issues as a representative of the international donor community. She pointed out that in developing countries where resources are most scarce, the impact of corruption is the greatest, and that donors are not as at risk as these countries themselves are. She stated that everyone is concerned about corruption, as it diverts public investments away from social services and into capital projects, lowers compliance with regulations and reduces the ability of government services and infrastructure to reach the poorest segments of society, so increasing budgetary pressures on government.

She made the point that corruption also increases the cost of business and the bureaucratic process, with the result that scarce resources go to the processes rather than the people they were intended for. In the political realm, corruption undermines democracy and good governance, reducing accountability, undermining the rule of law and resulting in the unequal provision of services. More importantly, corruption erodes the institutional capacity and legitimacy of government.

Ms Turner expressed the opinion that there is a convergence among bilateral donors, developing country leaders, government and civil society upon formulating a common approach to combating corruption. This does not entail mere enforcement of laws, but a broader approach comprising the engaging of civil society and strengthening and redirecting government institutions.

USAID does not wait for political will for anti-corruption reforms within government. Instead, it pursues public education campaigns, training of journalists and strengthening of anti-corruption NGO, working in conjunction with the business community. Strong political parties also provide a strong anti-corruption platform.

Ms Turner called on all sectors to continually reassess ways to:

- promote open budget processes to make government income and spending more transparent and accessible;
- streamline government procedures;
- reduce governments' involvement in financial activities, eliminating opportunities for corrupt dealing and introducing systems of checks and balances;
- introduce incentives to encourage officials to act in the public interest;

- improve the ethics of the judiciary, through training and introducing transparent appointment and case-tracking systems;
- build transparent financial management systems, improving audit techniques.

The combination of stronger institutions and an increasingly active civil society will strengthen the rule of law and diminish corruption.

Ms Turner spoke to examples of USAID's recent efforts to help fight corruption, including:

- emphasising the role of an independent media and investigative journalism in raising public awareness and shaping political platforms in the Philippines;
- setting standards of conduct for government employees in South Africa;
- developing measures to cut red tape and reduce the number of opportunities for public officials to solicit bribes, through the Investor Road Map project in Tanzania;
- enhancing the administrative capacity of governments to account for public funds in Bolivia through the Popular Participation Law;
- contributing to computerised financial management systems in Latin America;
- assisting judicial reform in Georgia;
- promoting co-operation between city administrators and citizens' groups and supporting public awareness campaigns in the Ukraine;
- the building of larger alliances, such as developing partnerships between bilateral donors and the international development banks; and
- supporting Transparency International in its development of its Sourcebook, annual corruption perception index and conducting of anti-corruption activities in nine countries.

Ms Turner spoke of the need for donors to co-ordinate a comprehensive approach to funding, and aim to be part of the solution in the design and implementation of their diverse programmes. There is a need to examine donor procurement procedures, ensure access to donor flows and increase transparency and accountability within donors' own projects. Donors should also pursue partnerships with allies in the anti-corruption field, such as international organisations and the business community, and obtain information from recipient countries to identify policies and practices that create opportunities for corruption. Ms Turner concluded by stating that USAID is optimistic as a result of the commitment and determination shown to root out corruption.

Corruption-related recent experiences with instruments used by international agencies
Mr Manohar Golpelwar

Mr Golpelwar started off by stating that corruption comes as a result of the combination of monopoly and discretion, without the influence of accountability and transparency, and that it can only be reduced, and not wiped out. He pointed out that in India, 40% of the population of one billion live below the poverty line index, earning less than \$280 per annum. The system in India does not enable donors attempts to improve the condition and standards of living of India's citizens. He stated that corruption breeds poverty by reducing public resources and impacting on the poor. It needs to be tackled at various levels.

He identified a range of problems encountered in projects supported by donors, ranging from a project to deliver one blackboard to each school, where there are no teachers or buildings, to donors' liaison with the elite group that occupy India's decision-making bodies, yet represent only 10% of India's society. Donors have also handed over grants to agencies known locally to be corrupt, with the result that funds do not reach the intended beneficiaries. The Indian government also ensures that its favourites apply for funding and receive the state's recommendation. Government does not want to increase transparency in bureaucratic and budget processes, as this results in the diminishing of its power.

Mr Golpelwar gave some recommendations on how to improve the situation. He stated that NGOs and other civil society organs must have a role to play in the donor decision-making process. This does raise the issue of the sustainability and transparency of NGOs. When donors grant funds, they should draw in parliamentarians and relevant NGOs in that sector, to increase transparency and reduce corruption. They should publicise details of funding allocated to projects, to enable civil society to monitor spending and delivery.

He also stated that there is a need for monitoring and evaluation mechanisms to ensure that money is spent as planned and intended projects are carried out. There is also a need for awareness training of bureaucrats, community members and beneficiaries themselves, to ensure that all role players are aware of intended projects, how they are to be implemented and how money is to be spent. He called for greater transparency mechanisms in these processes.

Do aid agencies have a comparative advantage in fighting corruption in Africa?

Mr Brian Cooksey

The focus of Mr Cooksey's presentation was on aid as an industry and the overall impact it has on sub-Saharan African countries. As a starting point, he acknowledged that there is a lot of corruption in Africa and that aid agencies should be congratulated for the steps they have taken to curb this. He stated that there was a need to "problematise" the issue to identify an approach for the aid industry to take in addressing corruption and the unintended consequences of their actions.

He stated that in his view the current donor approach to corruption is to threaten to reduce aid, and that this factors out the role the aid industry has played in creating this situation. He said that the aid industry had created unacceptable, corrupt and elitist governments in the last 30 years, and called for an examination of the role of the aid industry in funding corruption, both then and now.

He stated that donors requirements of transparency and accountability on the part of recipient governments should be applied to their own agencies as well.

Mr Cooksey said that research had demonstrated the failure of technical assistance aid to bring about poverty alleviation in Africa, and stated that the aid industry does not have a good track record in this regard. He pointed out that sub-Saharan Africa owes approximately \$200 billion to the rest of the world, and primarily to donor agencies in the form of international funding

institutions such as the World Bank, the International Monetary Fund and the African Development Bank. Africa's current debt arises from past borrowing, and its future debt will arise out of current borrowing.

In addressing the need to open up the aid process and apply the same standards of transparency and accountability as required of recipients, Mr Cooksey stated that aid is pumped into patronage-based, unaccountable structures, which in turn fuels the patronage system of African politics. He said that technical assistance is not generally appreciated by African governments, and that attempts at structural adjustment has not had the positive results anticipated. None of this has had an impact on debt alleviation.

In addressing the negotiation of projects, he spoke of the "disbursement culture" of the aid industry, where task officers are required to spend in certain sectors, regardless of the outcome of previous funding. He said that project management units do not display accountability in this regard, and called again for mechanisms to apply transparency and accountability rules to donors themselves, to break the cycle of corruption, aid and development.

He concluded by calling for discussion on how the aid industry can address these issues, what role Transparency International should play in monitoring aid and the corruption and patronage surrounding aid projects, and the political nature of corruption and the role of aid in funding this.

Plenary discussion:

The Facilitator summed up issues for discussion in plenary, namely:

- the role of civil society;
- the role of donors;
- the need for political will; and
- the transformation of institutions;

to effectively tackle corruption. He pointed out that neither civil society nor political leaders can undertake this alone, neither can corrupted institutions reform themselves. He stated that there is a need for development organisations to play a role in strengthening the capacity of people in institutions, pointing out that these organisations do not have a good track record in this regard. He asked participants to comment on how institutions can be changed to bring about good governance, what role donors can play in this regard and how they should change their approach in doing so.

The following points were made by participants:

- Bangladesh is living on aid dollars. With the majority of citizens living below poverty level, everyone wants the opportunity to make money, which fuels corruption. Questions must be asked on how donors give money and whether this adds to corruption, why the World Bank is inaccessible and why donors have not achieved what they set out to do.

- In Zambia, donors give money for project and budget support. If the government spends this money on other projects, donors do not accept responsibility for this, calling this "fungibility". These funds should be earmarked for designated projects and donors should take action against governments if funds are not spent accordingly. This is the largest source of grand corruption.
- The World Bank does not have control over money once it has been given. Similarly, USAID cannot tell a country how to spend its own money. When a country spends its own money on arms and seeks money for aid, donors cannot impose their views, no matter how uncomfortable they are with this scenario. It was suggested that a technical process be implemented, as opposed to "imposing" views, through public expenditure reviews, to ensure that donor funds are not abused.
- Questions were raised about accountability processes within donor agencies. The World Bank is accountable to its Board of Executive Directors, which represents owner countries, as well as to its financiers and clients. The World Bank has a high level of internal accountability, making documents public and introducing a hotline.
- The importance of institutional development in Kenya was raised, and the need for stakeholders both within such institutions and external services to be workshopped on addressing corruption. The point was made that bilateral donors should be more flexible and only assist in transformation if the will of the institution is there.
- US Treasury representatives pointed out that this office assesses World Bank loans, and reflected on the changes within the World Bank in that it is now addressing corruption and leading the way in combating this, and is prepared to cut off assistance where necessary. Participants were told of a national money laundering strategy, expanding the list of crimes committed abroad to include corruption, enabling authorities to prosecute individuals.
- Comments were made on World Bank financial management in South Asia, where funds are not used for the intended purpose. Progress has been made in that Russia monitors the use of World Bank funds, and in Asia, projects affected by corruption have been closed down.
- In commenting on transparency and accountability in donor institutions, the point was made that in tackling corruption, donors have to themselves practice transparency, as the integrity of donor institutions is at stake. Donors were asked how they tackle corrupt projects. World Bank representatives replied that firms are blacklisted, this list is put on the website and sanctions are applied. USAID issues bills of collection.
- In commenting on the need for transparency in donor institutions, it was suggested that the procurement process be made available via the Internet, with details of business plans and activities made available, particularly in the field of co-operative development. A call was made for the deliberation and dialogue on strategies in countries to be opened up for

civil society to contribute.

- Representatives from the Africa Development Fund Bank stated that the bank has been through a difficult period, and that the bank has acquired a bad reputation as a result. Progress has been made, however, to improve this image. Since 1995, the Bank has been restructuring and "retooling" for development effectiveness, streamlining its recruitment procedures, forming an ethics squad and formulating new procurement guidelines. The Bank has recognised that it needs a clean institution before it can tackle corruption. It has since become involved in privatisation, judicial and civil service reform, policy and good governance initiatives. The Bank is strategically placed to play an important role in governance in Africa, where the impact of corruption is higher on poor countries.
- Representatives from USAID spoke about using accountability as a weapon against corruption. As a long-term institution-building initiative, USAID is supporting supreme audit institutions (SAI), assisting with training and networking, establishing memoranda of understanding and conducting control reviews to assess audits performed. Fund recipients contract to an audited programme, a fund accountability statement and an accountability audit of the programme. USAID does not enter into statement audits of expenditure and income with government, but encourages host governments to adopt this for greater accountability.
- In commenting about accountability in development work, it was suggested that when funds are transferred to a country, responsibility for those funds is transferred, and governments have to be accountable to some body, be it their Parliament or Auditor-General. If not, the donor has to assume this responsibility. If the country is not accountable, the donor should cut off aid.
- Questions were asked on how the donor process can be opened up. A comment was made on the situation where NGOs are able to convince donors that they have the in-house capacity to manage grants, they have a better chance of being funded. This reduces the diversity of grants and results in professional or elite NGOs. Where governments persuade aid organisations to reduce aid to NGOs and redirect funds to government to channel, this has a serious impact on NGOs. With an emphasis on institution-building in government, civil society is in danger of being cut out of the picture.
- The point was made that despite steps taken by international funding institutions, the efficiency of these depends on the serious implementation by recipient governments. Donors and governments have to be responsible to ensure that projects are properly implemented, and should make use of local co-operation in this regard, in the form of the public and private sector.
- Representatives from the UN Development Programme made the point that corruption is a result of the failure of institutions, and the lack of good governance. This highlights the need to build the capacity of institutions in the fields of financial management, judiciary

and legal resources, technical solutions and awareness-raising. An overriding principle is the need to establish political will. This is not the exclusive right of government, but also that of the private sector and civil society. In this regard, there is a need for a global alliance between all players, such as government, the private sector, civil society, international organisations and Transparency International.

- Comments were made on the need to involve civil society and trade unions in World Bank spending, and concerns raised around the fungibility of funds, over which the World Bank has no control. This has resulted in Zambia in a presidential "slush fund". The point was made that colonial legacies need to be taken into account, and a new approach required to patronage networks to prevent aid from rigidifying these problems.
- The opinion was made that donors have created a "mess" abroad, in that their impact on institutions is driven by what is required at home, and not by the beneficiaries. Questions must be asked concerning donor accountability, from what perspective and to whom. The accountability partner cannot be government on its own, since this comprises only one part of society and is sometimes part of the problem itself.
- Questions were asked about the instruments available, and the creation of a partnership fund for transparency suggested. This could fund civil society organisations to monitor corruption independently.
- The point was made that World Bank funds and international aid do not address countries' priorities in terms of their real needs, and that there is a need for greater transparency in the selection of projects and training for self-sufficiency. In addition, the need for the beneficiary country to own the process and "sit in the driver's seat", was stressed.
- In addressing donors' role in accountability and their relationships with civil society in this regard, questions were asked around with which NGOs donors should consult. The point was made that the people of a country have the right to be represented by their government, and that it would be illegitimate for donors to select with whom they should consult, as these would not be real representatives of a country. Donors are therefore obliged to consult with government.
- The view was also expressed that donors do not make leaders corrupt, since comes as a result of weaknesses in the system that is not the fault of donors. Donors should be encouraged to avoid such situations, to strive towards accountability and transparency in their procedures and promote and assist in the combating of corruption.

Closing remarks:

Panellists were given the opportunity to address issues raised during the plenary discussion, and responded as follows:

Mr Golpelwar:

Donors expect accountability from governments whose representatives are often corrupt or even criminals. In developing country strategies, donors should make use of a participatory, consultative approach, bearing in mind that government bureaucracies do not represent the ordinary people of a country.

Mr Cooksey:

In combating corruption, donors should improve their internal controls and procurement procedures, and impose harsher penalties, bearing in mind that "zero corruption" is not possible. Donors should also draw on popular and political pressure from outside and inside a country. Donors should also evaluate the channelling of aid to countries that are responsible for human rights abuses, and recognise that they are in fact funding such abuse through the fungibility of donor funds. Donors should stop giving aid to countries where there is systematic corruption, as this undermines their credibility. Corruption requires a political and not a technical solution.

Ms Turner:

There is a need for networking and dialogue around these issues, and for a balance in donor approach to civil society and government. Donors cannot merely cut off aid because of the impact this would have on a country, being tantamount to abandoning the people of a country. Civil society and the private sector need to recognise their own investment in their own country, and the responsibility they bear in addressing their country's problems. In enhancing transparency, donors should make greater use of the Internet.

Ms Gray:

Addressing corruption requires a combination of tackling political issues, such as the patronage system of government, and technical issues. Many donor projects are successful, and donors should concentrate on how to improve transparency in these initiatives, through, for example, public expenditure reviews, which should be set as prerequisites for funding, and proper financial management. There is also a need for society to respond to known cases of corruption and mismanagement.