

Corruption and anti-corruption: the role of development assistance

Harald Mathisen

CMI / U4 Anti-Corruption Resource Centre

Does it matter?

Corruption costs the developing world about **\$80 billion a year** –
an amount approximately equal to the total of all development assistance

- Warning: Corruption is one of many constraints to development.

Medical-militaristic language

- Corruption
 - *Disease*
 - *Social cancer*
 - *Virus*
 - *Beast*
- AC *crusades*
 - *Fighting...*
 - *Combating...*
 - *Eliminating...*
 - *Eradicating...*
 - *War on...*
 - *Root out...*
- Capital punishment
 - China & Vietnam

Prevalence of the word "corruption" in The Economist and Financial Times combined

- 1982-1987: on average 229 times/year
- 1989-1992: on average 502 times/year
- 1993: 1076 times
- 1995: 1246 times
- 2006: 2831 times

1980s

high-profile demonstrations vs. corrupt leaders
first international anti-corruption conferences

1990s

End of Cold War, rise of democracy, new media, global market
World Bank agenda-setting
founding of Transparency International
OECD Convention adopted, aimed at supply side issues

2000s

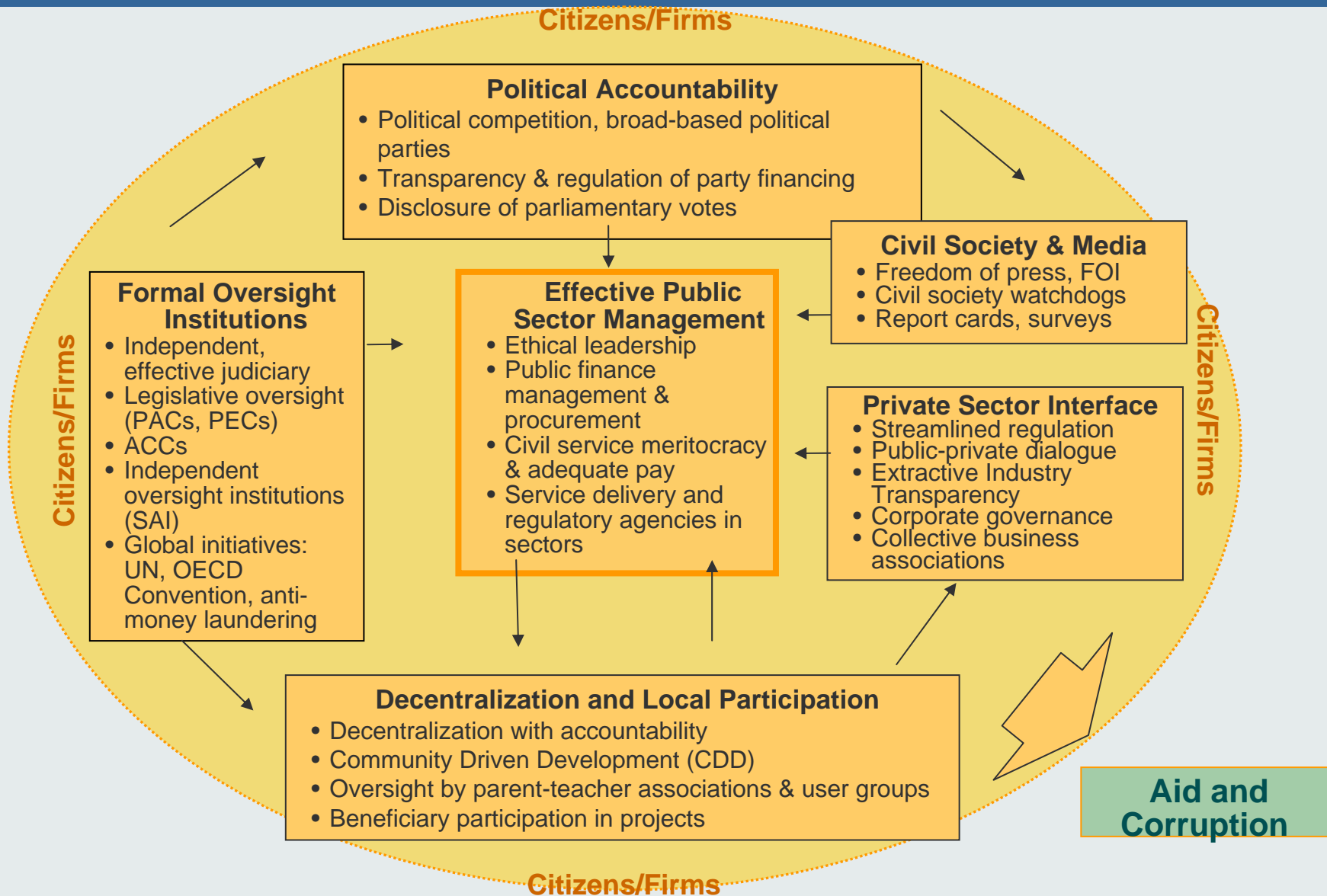
UN Convention against Corruption comes into force

The rise of an effective anti-corruption reform agenda?



Corruption and governance - What we know:

- **Governance:** The manner in which the State acquires and manages its authority to provide public goods and services.
- **Corruption is an outcome**—a consequence of the failure of accountability relationships in the governance system.



Thinking like economists and lawyers :

- **Reduce number of transactions vulnerable to corruption**
 - Reduce public sector size, liberalize financial sector, competition for service provision
- **Reduce gains from corrupt transactions**
 - Raise public sector wages, scale down individual projects
- **Increase probability of being caught**
 - Asset declaration, investigative journalism, protection of whistle blowers, financial management, civil society watchdogs, judicial independence, budget transparency, Supreme Audit Institutions and Anti-Corruption Agencies
- **Increase magnitude of penalties**
 - Bureaucratic penalties, prosecution

The usual framework for coordination of AC reform - both post-war and regular development contexts:

- Anti-Corruption “Strategies” or “Action Plans”

“Good practice”

- Based on corruption diagnosis/assessment of the political culture
- Participatory drafting process
- Locally owned, not donor-driven
- Buttressed by broad support in civil society: NGOs, trade associations, labor unions.
- Sequenced
- Measurable
- Adequate resources

Realities

- Medicine prescribed without diagnosis
- Lacking local ownership (particularly in conflict-affected countries, Afghanistan)
- Undifferentiated laundry list of reforms (most)
 - Government's capacity to deliver undervalued
 - No indicators, time frames
- Fragmentation/depletion of responsibilities
- Private sector often absent

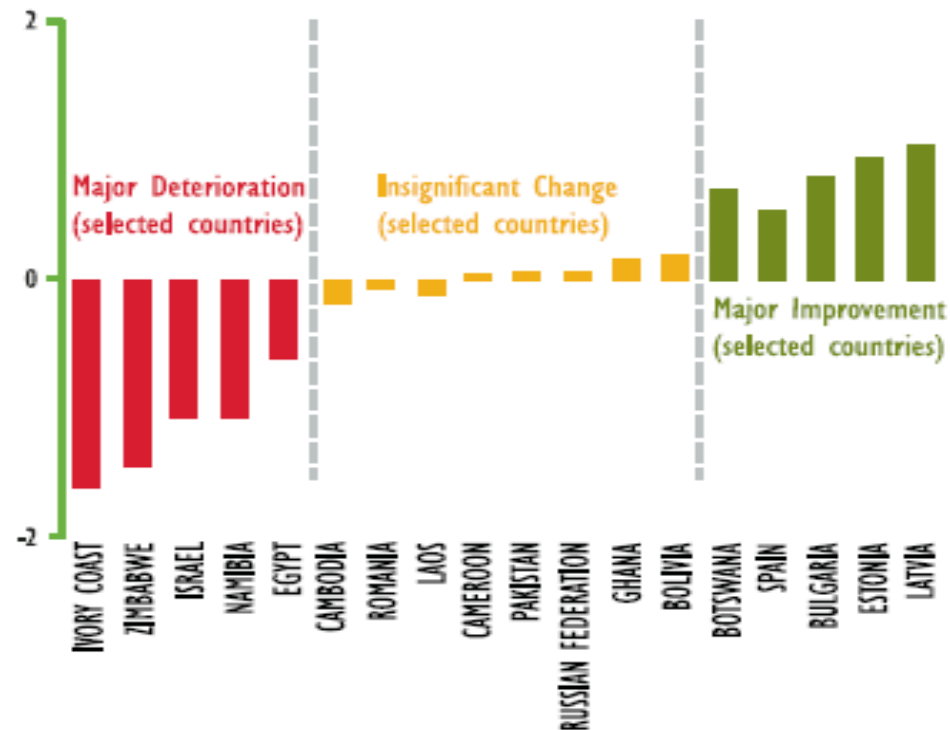
Critiques of traditional donor approaches:

- Corruption perceived as a generic problem – recommendations vary little from one society to another
- Approaches imposed from outside – lack of local ownership
- Sometimes focus on just one pillar (i.e. Anti-Corruption Commission)
- Poor coordination
- Too little attention on the “supply side” – developed country firms

Interventions Implemented with no Supportive Evidence of Efficacy

Type of reform
1. Raise awareness of public through seminars
2. Raise awareness of public officials through seminars and training
3. Establish an ethics office
4. Appoint and Ombudsman
5. Establish anti-corruption agencies
6. Raise public sector wages
7. Reduce wage compression
8. Fry a big fish
9. Appoint an enlightened leader

Changes in control of corruption in selected countries, 1996–2005



Why are we failing – donor factors

- **Information overload**
- **Knowledge insufficient for the need of pro-integrity reform**
- **Bilateral agencies, not good learning institutions**
- **Practitioners are constantly reinventing the wheel**
- **Strategy formulation often happens in a vacuum.**

The failure to learn and share:

- **Lack of resources**
- **Field staff are extremely pressed for time**
- **No systems for harvesting information**
- **Some people do not want to share their knowledge**
- **Rotation of staff**

How we access information

Speed dating approach

Little knowledge used or developed

Surveys

Opinion/Perception

Survey Internet

Some knowledge use and development

Partnership Approach

Some local knowledge used

Own-Reasons Approach

Best Practice

Long-term relationship

Knowledge with unknown spill-overs

Is aid a part of the problem?

- Donors as a potential cause of corruption
 - Act of commission
 - Aid increases the rents and corruption
 - Aid is positively related with corruption (Knack 2001)
 - Aid decreases corruption (Tavares 2003)
 - Aid decreases corruption at low aid levels, but increases corruption at high aid levels (Dalgaard and Olsson 2006)
 - Aid may cause corruption in countries with certain characteristics, aid increases corruption in ethnically fragmented societies (Svensson 2000)
 - Unhealthy practices
 - Push for privatizations
 - Rapid aid disbursement patterns

Is aid a part of the problem?

- Donors as a potential cause of corruption
 - Act of omission
 - Giving aid to corrupt governments
 - More corrupt government does not receive less aid (Alesina & Weder 2002,)
 - Need for success stories (Hanlon, Cooksey, Mwenda & Tangri)
 - Pressure by donor agencies to disburse aid (Easterly 2003)

Is budget support a part of the problem?

- New aid modalities – increased debate
- Level of corruption seen as a key when deciding if a country is “ready” for budget support
- In practice we see a mix between project and budget support with 20.7 of all aid being DBS
- Very inconclusive evidence

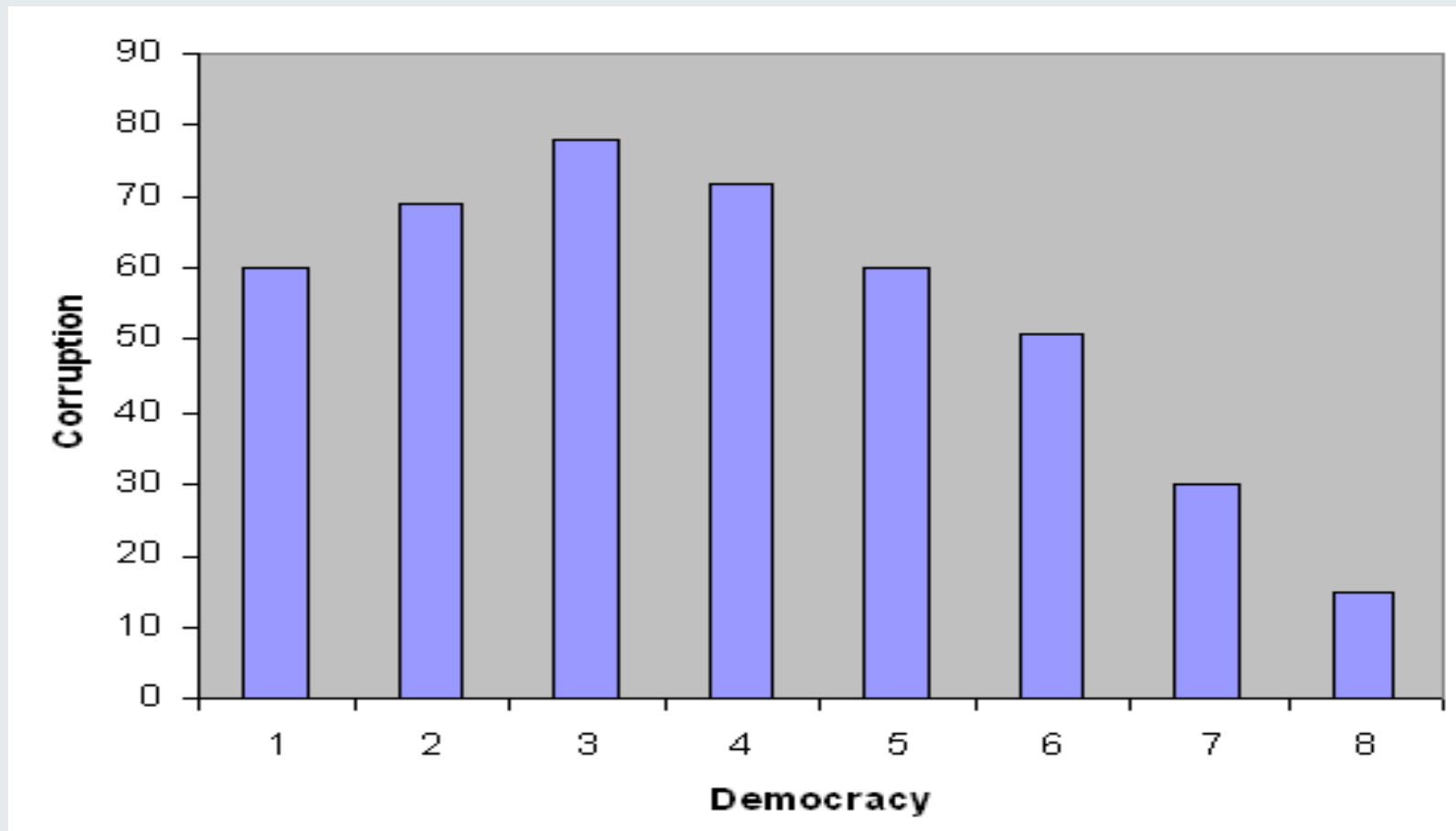
Why budget support?

- Budget support is meant to reduce the transaction cost in aid delivery
- Budget support is thought to improve donor coordination
- It should facilitate a more intense policy dialogue
- DBS strengthens domestic institutions as funds are on budget, thus increasing domestic revenue and citizen accountability
- Facilitate long term planning by providing stable and predictable financial flows

Evidence and risks:

- Large scale diversion and misallocation of funds
- Increase the power of the incumbent government
 - What kind of risk are we willing to accept and what timelines do we work on

Why are countries failing – country factors:



One last critique:

Anti-corruption reforms reduced to technical changes

New wave of reforms – what countries do not want:

- Industry-specific transparency initiatives that help reduce the risks of the “resource curse” (publishing oil company contracts, for example)
- Political finance – introduction of disclosure systems for political party finance, governance reform
- Independent monitoring of large procurement/concession awards
- Generation of credible information (diagnostics, surveys, etc.)
- Asset declaration regimes

Missed opportunities, so far...

- Sectoral efforts - work more directly at the interface between governments and citizens and firms, “islands of integrity”
- Focus on local strategies and initiatives - in some settings the entry point might be bottom-up participatory reform, such as community-driven development.

Takk for meg

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