

Working towards common donor responses to corruption

Joint donor responses *vis-à-vis* corruption in Afghanistan: Myth or reality?

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AFGHANISTAN

In 2006, OECD Development Assistance Committee (DAC) Ministers of Development expressed a desire to move towards more effective collective responses to governance issues, particularly corruption. In 2007 the OECD Policy Paper on Anti-Corruption “Setting an Agenda for Collective Action” proposed development of a voluntary code of conduct for co-ordinated donor responses to deteriorating corruption contexts. The DAC Network on Governance (GOVNET) was tasked with producing a framework for joint responses. As a necessary first step, the Anti-Corruption Task Team (ACTT) of GOVNET commissioned a retrospective study by independent consultants of how donors have responded to corruption in practice, in order to understand better the opportunities, constraints and incentives for more effective collective responses.

Three case study locations were selected by the ACTT – Afghanistan, Indonesia and Mozambique. These countries were selected to ensure coverage of a range of corruption “situations”, different donor architectures, different aid delivery mechanisms, varying degrees of donor harmonisation and a geographical spread of countries in Africa and Asia, including one conflict or post-conflict state. The case studies were carried out by independent consultants between June and August 2008 and included a short country visit, interviews with a range of key stakeholders, and desk-based review of relevant documents. Each case study led to a set of recommendations that are intended to be of use beyond the specific country context and inform development of a code of conduct for collective donor responses. Recommendations are therefore not addressed specifically to the case study country.

This report presents the findings of the Afghanistan case study, and is the executive summary of the full report. As in other post-conflict and conflict settings, corruption in Afghanistan has only emerged slowly as a publicly and politically acknowledged problem. In recent years it has, in fact, become one of the major threats to security, reconstruction and development. Although the government of Afghanistan (GoA) has taken several institutional and legal measures to fight corruption, it has not proved able to provide a strong lead, given competing priorities. The formal measures do not appear to have had any real impact, nor do they have sufficient political support. Initially, donors focused urgently on Afghanistan’s stabilisation and reconstruction. Military and foreign policy objectives of donor countries have continued to crowd out other concerns. Donors initially prioritised safeguards to protect development aid from abuse; the response to wider corruption began in 2006. Worthwhile donor-led anti-corruption initiatives at the technical level tend to be secondary to political priorities for donor countries. To date, powerful political, operational and geo-strategic constraints on the donor side have hindered effective joint donor responses to corruption. And, although donor countries have called for explicit anti-corruption commitments by the GoA, these calls have not always been communicated with clear expectations of concrete actions. Differing political priorities among donor countries appear to contribute to mixed messages and the resulting differences in donor approaches to tackling corruption have reduced the impact of the intended messages.

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This report has been prepared by a consultant commissioned by GOVNET, and will inform the development of DAC guidance on joint responses to corruption.

Country Context

Devastated by more than two decades of protracted conflict, Afghanistan has – since the fall of the Taliban in 2001 – faced a set of highly complex and interrelated challenges for its peace-building, reconstruction and development agendas. These issues have been further complicated by the international “war on terror” and the fight against the drugs trade. One of the poorest countries in the world, Afghanistan has had to deal with a succession of power struggles; the loss of government control over an increasing number of districts to insurgents or warlords; parallel systems of formal and informal rules and institutions; poor governance; a lack of economic opportunities; lack of rule of law and rampant corruption; a burgeoning opium economy; and growing insecurity and insurgency. The heavy financial dependence on foreign aid, donor countries’ differing political priorities and time scales, and the geo-political interests of some donor and neighbouring countries constitute an additional set of challenges. Primarily as part of the international war on terror, the international community has made a sizeable political, military and financial commitment to help Afghanistan address these daunting challenges.

During the political transition phase between the ousting of the Taliban in late 2001 and Presidential elections in 2004 the key priorities were to ensure security and to quickly put the Afghan state administration back on its feet by reforming or establishing the necessary systems and capacity for service delivery. Following the elections in 2004, this endeavour was accompanied by unconditional support from the international community for the government of President Karzai as well as the informal leitmotiv of donors “not to weaken what you try to strengthen”. At the same time, President Karzai accorded stability a higher priority than reforms, and compromised with provincial power holders and former warlords to bring them into the national government. However, initial popular support for the GoA has been fading due to slow delivery of development benefits to the population as well as rampant corruption. Some within the international community at both political and technical levels express similar frustration.

Official development assistance and aid architecture

Official development assistance to Afghanistan amounted to USD 3 billion in 2006. That figure represents almost half of the lawful economy and roughly 90% of the overall national budget.¹ It also makes Afghanistan one of the most aid-dependent countries in the world. The donor landscape is a heterogeneous mix of some 62 countries, multilateral agencies and international development banks. In view of the sheer number of donors and their different aid structures and approaches, it comes as no surprise that “moving to a whole-of-international-community approach has its complexities” (Middlebrook & Miller LLC, 2008).

International aid is delivered through a mix of modalities that reflect different donor policies (whether or not government systems are used, the degree of tied or untied aid, procurement and fund management requirements, etc.). Roughly one-third of aid for Afghanistan is channelled through the national core budget, controlled by the GoA, while two-thirds is provided through the external budget, controlled by donors. The main reasons cited by donors for not using Afghan public financial management systems more than they do include the general lack of confidence in the Afghan system and concerns about corruption.

External budget assistance has been widely criticised by the GoA, civil society and some donor agencies as lacking in transparency and alignment with government priorities, not representing value for money, and being vulnerable to corruption. This can represent a challenge to credibility when donors call for the GoA to improve transparency and tackle corruption. Many Afghans consider high pay for consultants and advisors, as well as overheads for NGOs and contractors, to be a form of corruption and the Afghan government is concerned about value for money in off-budget aid. The considerable international resources that are channelled through Provincial Reconstruction Teams (PRTs) are a further source of concern, due to lack of transparency and accountability to the beneficiaries and to alleged corruption at provincial and local levels.

¹ The overall national budget consists of the *core budget* and the external budget: the national core budget comprises the operating budget for recurrent costs – mainly salaries – and the development budget under which national programmes are financed. The *external budget* comprises all foreign assistance, excluding security spending, that is managed outside the direct control of the GoA.

The United States is the largest donor, providing around one-third of all aid – mostly through the external budget – since 2002. Other major donors are Canada, the Netherlands, the EC, Germany, Japan and the United Kingdom as well as the World Bank and ADB. Norway, Sweden and India also make substantial contributions.

In order to create a formal structure for aid co-ordination between the government and the donor community, the Joint Coordination and Monitoring Board was established in 2006. The JCMB, which oversees and reports on progress with the Afghanistan Compact² is jointly chaired by the GoA and the UN on behalf of the international community, and includes security sector actors. In 2006 the GoA also established a Consultative Group (CG) and Working Group structure that brings together donors and government institutions to identify priorities and measure progress. Governance and corruption have been discussed, but in a fragmented way. Among the eight CGs, one was dedicated to “Governance, the Rule of Law and Human Rights” and another to “Economic Governance”. These touched on corruption, while the issue was dealt with more fully in a Cross Cutting Thematic Group under the leadership of a governmental institution with very little capacity and no political support. Following the restructuring of the JCMB in the second half of 2008, one of the three new Standing Committees, on Governance, Justice and Human Rights, will cover corruption.

The degree of trust between the international community and the government has changed significantly since President Karzai was elected President. Initially, the international community placed a good deal of trust in the GoA. However, disappointment, frustration and disillusionment with President Karzai’s government have emerged in large parts of the aid community. Slow progress, unkept promises, political interference from the highest levels of government with appointments and the lack of political will to go against corruption have disenchanted donors at political and technical levels alike.

The emerging corruption situation

Although Afghanistan has been the setting for corrupt practices throughout its history, a couple of factors have created new sources and opportunities for corruption. One is the sheer size of its drug economy, which accounts for roughly one-third of the national economy. Unprecedented large inflows of international assistance, with pressure to spend resources quickly, are another. These account for about half of the lawful economy. Corruption has soared to levels not seen in previous administrations, and the President and other government officials publicly recognise that corruption is a serious threat to peace and development. A survey of corruption perceptions conducted in 2006 by Integrity Watch Afghanistan found that around 60% of respondents thought President Karzai’s administration to be more corrupt than the regimes of the Taliban, Mujahideen or the communists. Half of the respondents indicated that they had had to pay bribes within the last six months, and the majority felt that corruption erodes the moral fabric of society. The seriousness of the issue is further highlighted by the Investment Climate Assessment for Afghanistan (2005), with 53% of enterprises citing corruption as a major or severe constraint. That makes it one of the top four constraints for business, along with electricity, access to land, and access to finance. Finally, the deterioration of the situation is reflected in the Corruption Perception Index produced by Transparency International: Afghanistan’s score has fallen³ continuously, from 2.5 in 2005 to 1.5 in 2008; it now ranks among the bottom five countries.

Public positions and services are seen as being for sale; extortion by police and drug-related corruption are major issues. Afghan officials estimate that 25-40% of Afghan government officials are “directly benefiting through transportation fees, profits, or bribes from the drug trade” (Goodhand, 2008). In general terms, corruption has become a tool of political power in a society where the political system and institutions are characterised by deeply rooted neo-patrimonial structures and values. In addition, high levels of political and other uncertainties result in short time horizons for officials, creating incentives for rent seeking.

² The Afghanistan Compact is the 2006 high-level agreement between the GoA and donors on what the GoA is going to achieve in different priority areas over the next 3 or 4 years. It contains a series of benchmarks that are monitored through the JCMB meetings.

³ The Corruption Perception Index scores countries on a scale of zero to 10, with zero indicating high levels of corruption and 10, low levels. That ranking is based on data from country experts and business leaders at 10 independent institutions, including the World Bank, Economist Intelligence Unit and World Economic Forum.

Government and donor responses to corruption

Despite strong statements from the President and other government officials recognizing corruption as a serious threat to peace and development in Afghanistan, government leadership – in the form of concrete action to address the problem – has so far been elusive. The initiatives that are undertaken are often perceived as window-dressing. Lines of responsibility among agencies tasked with fighting corruption have not been clear. In 2004 President Karzai created the General Independent Administration Against Corruption (GIAAC), which ultimately lacked political support and institutional capacity. Also in 2004, the GoA signed the UN Convention against Corruption (UNCAC). Subsequently, some donors advocated that concrete anti-corruption benchmarks be included in the Afghanistan Compact (agreed in 2006). The United States and United Nations were, however, more supportive of the GoA preference for a softer high-level benchmark concerning ratification of UNCAC, which was eventually adopted.⁴

Subsequent efforts to move the anti-corruption agenda forward focused at the political and technical level on developing a comprehensive anti-corruption strategy. The GoA and international community undertook to draft the strategy as part of the Afghan National Development Strategy (ANDS). Meanwhile in a separate move, President Karzai established a high-level Inter-institutional Committee to identify the root causes of corruption and suggest remedies. That resulted in the Afghan-owned Azimi Report. Released in mid-2008, the report comprised a diagnosis of the situation and recommendations for action. The ANDS was elaborated and finalised in parallel, but the relation between the two is unclear.

In early 2007 President Karzai appointed a new head of GIAAC. As this was an expatriate Afghan who had been convicted for drug trafficking in the United States, the donor community responded by refusing to work with GIAAC. The President promised to resolve the GIAAC leadership question by the end of 2007, but at the time of writing the same individual was still in place.

Prior to the Paris Ministerial Conference, in June 2008, held to bolster efforts to support Afghanistan the GoA drafted a new anti-corruption law. This law foresees not only the abolition of GIAAC but also the creation of a new anti-corruption institution that will report directly to the president's office. It will have the specific mandate of overseeing implementation of the Azimi Report and co-ordinating anti-corruption efforts within the government.

Given the efforts being focused on stabilisation and security early on, the donors – for their part – found it difficult to raise corruption issues publicly or in political dialogue. Structured responses to corruption through integrated approaches in core governance and sector reforms were not considered until recently. Concrete anti-corruption work supported and often initiated by the international community really began only in 2006. And up to the time this case study was written, donors did not seem to have either a specific or an integrated approach to deal with drivers of corruption stemming from the all-pervasive drug economy.

At the political level some donor nations have been advocating concrete anti-corruption measures in different high-level GoA-donor forums since 2006, but rarely has there been a common position among all donors. More joined-up public donor positions could have helped GoA to prioritise concrete action. One problem is that donor nations in Afghanistan do not appear to use existing mechanisms of political dialogue to develop a joined-up approach either to addressing corruption or to dialogue with government concerning corruption.

On the other hand, an informal donor group on anti-corruption at the technical level, including the World Bank, the United Nations Development Programme, the United Nations Office on Drugs and Crime, the UK Department for International Development and Norway among others, has been working since late 2006 to co-ordinate their work and produce joint policy positions *vis-à-vis* the GoA. Other donors, in particular the United States, have preferred to pursue dialogue on corruption

⁴ The benchmark was: "The UNCAC will be ratified by end 2006, national legislation adapted accordingly by end 2007 and a monitoring mechanism to oversee implementation by end 2008". Although adoption and implementation of UNCAC are internationally recognised as important, this time line was considered unrealistic and the benchmark legalistic as it did not allow tracking of lower-level progress in tackling corruption.

issues with government through bilateral channels. The informal donor group has been working at the technical level to i) co-ordinate to the extent possible their agencies' input on anti-corruption issues into the policy dialogue at the national level; ii) produce a discussion paper on anti-corruption reform (the Anti-Corruption Roadmap of early 2007); iii) send a joint letter to the government chair of the JCMB in September 2007 in order to express its unease with the leadership of GIAAC and to reinforce their expectation for the GoA to take concrete anti-corruption measures as laid out in the Roadmap (WB, ADB, DfID, UNDP and UNODC, 2007); and iv) co-ordinate their anti-corruption programming, such as carrying out Vulnerability to Corruption Assessments (VCAs) in several Afghan ministries and sectors. However, donors in Afghanistan have very few staff dedicated to corruption. Continuous and pro-active engagement in policy dialogue with other donors and the GoA on anti-corruption project development and oversight constitutes a great challenge.

Incentives, opportunities and constraints for joint donor responses to corruption

The factors inducing donors to work jointly on anti-corruption have until recently been largely outweighed by disincentives, although there are indications that this situation is changing with corruption being increasingly acknowledged as a key threat to security, state building and efforts to combat narcotics. So far, the main factors bringing a group of donors together include recognition of a need for co-ordination, in particular in the absence of government leadership; belief in and adherence to the principles of aid effectiveness; and protracted inaction on the part of the GoA.

The main factors pulling donors apart can be divided into those context-related and those related to the donors. The context-related factors include the absence of a clearly identified, politically mandated and credible government counterpart that could serve as permanent interlocutor; the lack of an ongoing government-donor dialogue forum; and lack of GoA commitment or capacity to co-ordinate donors on the issue. Meanwhile the priorities of donor countries, particularly those most influential, have been focused on higher-order political objectives, such as stability, security and narcotics. At the technical level, these most influential international political actors have not been fully integrated into the donor co-ordination group. That may contribute to the apparent lack of collective technical discussion on the risks of corruption for other objectives. Important discrepancies remain between the GoA and donors as to what corruption means in the Afghan context, where the main problems lie, and what the solutions could be. This has prevented donors from formulating a joint position and reaching a common view with the GoA.

The donor-related factors include the fact that concerns over and analysis of corruption have not kept pace with stronger pressures to deliver large volumes of aid quickly. Donor countries have been subject to strong pressure from domestic constituencies and the international media to record successful interventions in Afghanistan. This may have hindered early donor engagement in and political dialogue on corruption with the GoA. However, more recent international media coverage⁶ has highlighted the limited progress and challenges of tackling corruption given that context.

Donor staff are subject to enormous delivery and coordination pressures which may have crowded out opportunities to engage with anti-corruption work. The large number of donors and agencies involved both in the military operations and in the development agenda poses its own huge co-ordination challenge. High staff turnover in donor country agencies impedes a more profound understanding of country dynamics, and lost institutional memory often increases the transaction costs of inter-donor co-ordination. The apparent lack of dialogue space connecting technical-level suggestions of donors with political declarations of their home governments has led to less concrete political declarations.

5 The UN Special Representative had reportedly sent an instruction to UN agencies not to work with GIAAC.

6 See for example the *Financial Times* article of 11 October 2008 quoting leaked documents that "blame rampant corruption for destroying faith in the government and exacerbating the Taliban insurgency". The article reports that "foreign countries ... have had their hopes of a crackdown on corruption repeatedly dashed ... and narco-corruption is worsening".

Effectiveness of responses

Donor responses to corruption in Afghanistan must be viewed in the double context of a fragile state with soaring levels of insecurity and two international wars fought against terrorism and opium production. The ensuing complexities of interrelated and mutually dependent but also competing agendas for peacebuilding, stability and security – as well as for state building and development – have no doubt created a challenging environment for anti-corruption work. And indeed donor efforts to address corruption, both explicitly and indirectly through governance reforms, have lacked coherence. Donors have paid little attention to promoting transparency and local accountability.

Certain explicit and public donor responses to corruption in Afghanistan have not themselves sent mixed messages, as donors have rallied behind a few joint positions. However, in striving to achieve an overall joint public position, the agreed public messages often appear to lose traction. Given the overwhelming military and foreign policy objectives pursued by donor countries, donor calls for GoA action on corruption have remained unanswered. Donors have not yet reached any consensus on how to react if mutual agreements with the GoA are not fulfilled. Some of the most influential donors have not favoured a stronger public stance.

If until now the donors' approach has implicitly prioritised security and development outcomes rather than stronger public messages on the need to address corruption, the situation is now changing. Corruption has become such a virulent issue that the GoA and donors now acknowledge that it threatens peace and development, with special risks and challenges linked to the corrupting power of the drug economy. Even where there are overwhelming foreign policy imperatives, earlier collective consideration could have been given to address corruption risks. There has been a significant shift in donors' approaches and they are now dedicating more capacity to anti-corruption work. However, many analysts point to the profound challenges of attempting to reverse deeply entrenched corruption patterns at this later stage.

Donors' anti-corruption efforts are generally conceived in the context of wider governance reforms and concerns. There is now considerable analysis of the dynamics of Afghanistan's political economy and neopatrimonial network structures, but donors still face the challenge of how to incorporate this understanding into their technical approaches. Also, exploring the links between corruption and the omnipresent and powerful interests of the drug trade as one of its strong drivers is still in its infancy, and the way to address this doubly complex issue is far from clear.

Donors have increased their responses to corruption in Afghanistan since 2006, and donor calls on the GoA for action are increasing in frequency and volume. However, donors still have limited staff capacity dedicated to this issue, making it difficult to systematically integrate measures to control corruption in sector strategies and reform programmes. For example, attempts to foster accountability of the GoA and donors to the Afghan population are only at a preliminary stage.

Finally, donors in Afghanistan have established safeguards to protect development aid funds through multilateral trust funds which are intended to help strengthen the government's public financial management (PFM) systems and, at the same time, each agency's own control systems. However, donor credibility in tackling corruption is limited due to local perceptions about donor transparency, accountability and value for money in the use of off-budget funds. A group of donors has started to work on a collective initiative in this regard, but some of the most influential donors are yet to join.

Recommendations to donors for joint responses to corruption

- Integrate anti-corruption measures into key sector policies and reform programmes, and accompany these with simple monitoring and clear public accountability mechanisms. The selection of priority policies and reforms should, in each country, be based on a clear understanding of the specific local political economy, as well as knowledge of which forms of corrupt practices produce the greatest harm to state legitimacy and grievances for the local population. In addition, selection should ideally be made from among the priority reforms of the partner government as anchored in its national development strategies or similar national policy frameworks. Donors with a lead in the selected sectors could be tasked by the donor group to take the lead in integrating an anti-corruption dimension into that sector.
- In order to send meaningful messages, take a collective stance on corruption; agree or negotiate with the partner government the creation of a shared vision and pursue adoption of a broadly agreed common approach. Such a joint donor-government position on corruption should be based on/embedded into national policy frameworks, and identify concrete steps and measures for the government and donors alike. This position should contain donor commitments to foster their own transparency and accountability – to lead by example.
- Link donors' technical-level anti-corruption work more closely with the high-level political dialogue carried forward by the political branches of donor governments and vice versa.
- Explore opportunities at headquarters, internationally, and in the country to include influential members of the international community in joint anti-corruption responses.
- Foster accountability by partner governments and donors toward national stakeholders, in particular parliaments, civil society and the media. Open performance reviews of partner government-donor agreements to external oversight.
- Foresee and use future opportunities for relevant anti-corruption work, in particular during and following elections by, for example, supporting credible candidate vetting processes, election campaign monitoring, and development of an anti-corruption agenda for the incoming government.
- Provide sufficient human resources and staff time within donor agencies dedicated to anti-corruption work, both individually and collectively. Agree and potentially fund collectively at least one mid- to senior-level donor co-ordinator for anti-corruption-related governance issues.

Recommendations specifically for post-conflict settings

The following recommendations are particularly relevant for post-conflict settings but have partial relevance for other contexts, *e.g.* countries in political transition and highly dependent on aid.

- Take early action collectively to consider the risks of corruption even in political transitions and post-conflict contexts. Include consideration of the risks and consequences associated with providing large aid volumes where systems and capacity are weak and patronage networks are entrenched.
- Using multidisciplinary approaches, develop more knowledge of the dynamics of corruption in conflict settings, including the links with stability, security, (illicit) resource exploitation and the drug trade, as well as of local attitudes toward rejecting or tolerating it. This will serve as a basis for identifying priorities and appropriate approaches or responses. Deeper understanding of the complexities is indispensable to ponder the effects of the trade-offs between tolerance of corruption and stability.
- Be self-critical and promote transparency and accountability in aid vigorously. This should include the development and adoption of “Do No Harm” principles for donors with regard to practices on their part that can fuel corruption, in particular in post-conflict countries.

