

Introduction

1. This information note sets out the GOVNET's recent progress in the field of anti corruption and proposes options for the future. A set of *Draft Principles for Donor Action in Anti Corruption* presented at the *Partnership Forum on Improving Donor Effectiveness in Combating Corruption* in December 2004 and subsequently endorsed by the GOVNET in January 2005 are submitted to the DAC for information as Annex 1.

Background

2. The DAC's current concerns with corruption have evolved over a decade initially from work to strengthen and harmonize donors' efforts in aid-funded procurement. In 1996, with the Recommendation on Aid Funded Procurement¹, DAC members agreed to introduce anti-corruption provisions in bilateral aid-funded procurement. The anti-corruption provision of the Recommendation was adopted by all DAC donors and was later integrated into the OECD Revised Recommendation of the Council on Combating Bribery². In 2003, the GOVNET reviewed donors' lessons learned in the fight against corruption³. The report concluded that donors have made little progress in addressing corruption. Limited capacity, competing priorities and piecemeal approaches have constrained any strategic impact at the field level, beyond one or two well known small scale examples.

Recent Developments.

3. The context in which donors operate is, however, changing. The latest developments relating to anti corruption efforts are as follows:

- Firstly, donor-driven perspectives have given way to approaches that place donors in a role that supports developing countries' own anti-corruption efforts. This important message has been set out in the 2005 Paris Declaration in which donors and partners jointly commit to taking concrete action to address corruption and transparency. The Paris Declaration represents a clear agreement that setting development objectives is the primary responsibility of developing countries, with donors playing a supportive role.
- Secondly, international cooperation and understanding of corruption have advanced. Since the entry into force of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 1999, the OECD has set high standards for effective anti-bribery systems in its member and non-member countries, in addition to developing policy standards in the field of ethics, integrity and corruption prevention in the public service. The OECD has also contributed to bringing up and addressing the issue of corruption in development assistance and to open dialogue between aid donors and recipients. Efforts by the Council of Europe, the European Union, and more recently, the United Nations with the signature in December 2003 of the UN Convention against Corruption (UNCAC), have also promoted more coherent, binding and rules-based frameworks for addressing corruption.

¹ DCD/DAC(96)11/FINAL

² OECD Revised Recommendation of the Council on Combating Bribery in International Business Transactions, 1997

³ DCD/DAC/GOVNET (2003)1, Synthesis of Lessons Learned of Donor Practices in Fighting Corruption

- Thirdly, the prospects of very significant increases of aid—possibly an additional \$50 Billion per year by 2010 and beyond—has raised the stakes for both donors and partner countries. There seems little doubt that corruption will take a prominent place on the agenda of OECD and partner countries for the next decade. In some countries, systems may not be adequate to absorb large increases in resources without increasing wastage or fuelling leakage and corruption. Donors may face pressures to disburse larger amounts of aid more quickly. Stronger governance and anti-corruption provisions, accountability and financial management capacity will be needed both by recipients and donors.

Principles for Donor Action in Anti-Corruption

4. As a response to this changing context, a *Partnership Forum on Improving Donor Effectiveness in Combating Corruption* took place in December 2004. The DAC Chair encouraged DAC members to develop a collective framework and agenda for donor action in anti-corruption; donors need to demonstrate serious collective engagement in the fight against corruption and to integrate this work more closely into aid effectiveness and harmonisation efforts. In the context of the identified need for enhanced collective effort, participants in the DAC Forum gave strongly positive feedback to the *Draft Principles for Donor Action in Anti Corruption*, which were subsequently finalised and endorsed by the GOVNET (Annex 1).

5. A survey was also conducted in ten developing countries⁴ to test the extent to which the principles were being applied in the field and to identify any gaps or improvement needed to reflect current practice. The survey took the form of a questionnaire that was completed by a country-based focal point on behalf of and in consultation with the local donor community. The overriding emerging conclusion was that the draft principles reflected best practice and that their widespread application would enhance effectiveness in combating corruption. The draft Principles were informally presented to the donor community, partner countries and civil society representatives in the context of an OECD-ADB Expert meeting on preventing corruption in the Tsunami relief efforts held in Jakarta in April 2005, as well as during the IV Global Forum on Corruption held in Brasilia in June 2005. On both occasions, strong support was expressed, especially from partner countries, who welcomed this initiative.

6. The Principles embrace the key areas and activities where donors should work together to ensure that they support country-led anti-corruption strategies and that aid programmes do not foster corruption. Specifically, the Principles emphasize the need to support and strengthen the capacity of civil society for strengthening the demand for reform, and promoting and monitoring transparency and accountability in the fight against corruption. At the same time, they underline the need for OECD donors to work at home in their own countries on areas such as repatriation of assets, money laundering, or the ratification and implementation of the United Nations Convention against Corruption.

Developing the Draft Principles.

7. These draft Principles serve to illustrate DAC members' strong commitment to taking concerted action in the fight against corruption. As such, when finalized they may form a valuable stand-alone point of reference for DAC members. It is likely, however, that more impact will be achieved when the Principles are integrated into future work that the DAC and the OECD more widely will be undertaking over the coming months. One significant opportunity will be the DAC policy paper on Anti-Corruption.

⁴ Bangladesh, Georgia, Kosovo (Serbia and Montenegro), Mozambique, Nicaragua, Nigeria, Tanzania, Uganda, Vietnam and Zambia

DAC policy paper on Anti-Corruption.

8. This action-oriented paper, which is currently under development in the GOVNET, will address areas where concerted donor approaches are most needed and that would have most impact, given the rapidly evolving international context. It is important to note that the approach will recognise that it is impossible to ring fence donor aid from the context of the challenges of integrity and corruption facing each developing country. As such, this work will not just deal with the integrity of aid, but will address corruption in developing countries and what donors can do to help partner countries fight it. At this point it is anticipated that key features of the paper will include:

- How to deal with the most corrupt countries or where leadership is weak;
- How to help partner governments make progress on selected 'actionable indicators', where concrete action can be taken and improvements can be measured;
- How to tackle political corruption, including issues relating to political party campaign finance;
- How to support 'demand' side interventions: support to civil society and the media;
- How to address 'supply' side issues: what OECD governments can do within their own countries to help in the fight against corruption in developing countries.

Most of these issues strongly resonate with the DAC's harmonisation agenda. Further linkages with the work of the DAC Working Party on Aid Effectiveness (WP-EFF) will be explored on an ongoing basis.

OECD-wide Strategy on Anti-Corruption

9. An informal inter-directorate group of the OECD Secretariat has been set up with a view to develop an organisation-wide strategy for OECD anti-corruption work. Such a strategy would address challenges such as the scaling up of aid, the entry into force of the UN Convention against Corruption (UNCAC) and the growing demand from the citizens in OECD countries for integrity and accountability in the public and private sectors.

10. This effort, which is still work-in-progress, will cover a wide range of issues including corruption prevention, detection, criminalisation and punishment. By identifying complementary expertise within the OECD, the strategy would aim to further support integrity and anti-corruption reforms in member countries and strengthen the global influence of the OECD.

Critical path and next steps.

- **Principles for Donor Action in Anti-Corruption** are presented to the DAC for information. They will underpin the DAC policy paper on Corruption and Aid Effectiveness and the OECD-wide anti-corruption efforts.
- **A Piloting of the Principles** in a few developing countries will occur at the end of 2005/early 2006. This initiative will be conducted with DAC donors that are engaged in the fight against corruption in the selected countries. The Piloting will aim at testing the impact that the Principles would have on collective donor action if they were applied in the field and will inform the development of the anti-corruption Policy Paper.

- **DAC policy paper on Anti-Corruption** will be developed in the course of 2005 and presented to the DAC in 2006. This work will provide donor-focused operational and action-oriented policy guidance on anti-corruption. The paper will be based on the main orientations for collective action set out by the Principles.
- Across the OECD, inter-directorate collaboration on anti-corruption will continue.

ANNEX 1

DRAFT PRINCIPLES FOR DONOR ACTION IN ANTI-CORRUPTION

Principle No. 1

We will collectively foster, follow and fit into the local vision

Meeting the MDGs requires, inter alia, a commitment to fighting corruption and to meet commitments agreed in relevant international and regional conventions including the UN Convention Against Corruption (UNCAC) and the recommendations of the Financial Action Task Force (FATF) on anti-money laundering. Whenever feasible, these endeavours should be led by the host government.

At the country level, donors should:

Collectively:

- Promote with government the development of a shared government-donor vision/strategy and collaborative mechanism(s) for anti-corruption dialogue and action, ideally based on government commitment to implement the UN Convention (or other relevant instrument).
- Share diagnostics, knowledge and analysis through such mechanism(s), identifying gaps and reviewing progress.
- Engage with other key actors through such mechanism(s) (e.g. civil society, media and the private sector).
- Support and strengthen the capacity of civil society for strengthening the demand for reform, and promoting and monitoring transparency and accountability in the fight against corruption.
- Work, where government commitment is weak, with local and international civil society and private sector actors as the primary alternative, but recognising that strengthening government commitment is the essential objective in the long term.
- Take time to understand local political, economic, social and historical contexts and challenges, and develop responses that are appropriate to them.
- Favour long-term responses over short-term, reaction-driven inputs, but without losing the capacity for making quick responses to support new initiatives and emerging reformers where these opportunities arise

As individual donors:

- Agree to present our anti-corruption assistance explicitly as being contributions to the shared vision/strategy⁵ and the collective donor approach.

⁵ This should not be taken to imply any obligation to move to formal pooling arrangements, financial or otherwise.

Principle No. 2

We will acknowledge and respond to the supply side of corruption

Donors recognise that corruption is a two-way street. Action is needed in donor countries to bear down on corrupt practices by home-based companies doing business internationally. The OECD Anti Bribery Convention has helped to underline the responsibilities that OECD member countries themselves have on the ‘supply side’ of corruption. Donors need to work more effectively within their own domestic environments, with key relevant departments responsible for trade, export credit, international legal co-operation and diplomatic representation, as well as with the private sector.

Development agencies should:

- Foster stronger action by relevant domestic departments in their own countries against the supply-side of corruption in areas such as bribery by donor country companies, money laundering, repatriation of assets or the ratification and implementation of major international Conventions such as the OECD Convention against Bribery.
- Inform counterparts in other development agencies of this engagement.
- Engage proactively with the private sector in partner countries
- Ensure that accountability and transparency measures are included in all areas of donor assistance
- Contribute to strengthening inter-country co-operation (mutual legal assistance, mechanisms for asset recovery) both by strengthening capacity in developing countries for making requests for international legal co-operation and by collaboration with domestic departments where appropriate.

Principle No. 3

Knowledge and lessons should be marshaled systematically and progress needs to be measured

It is essential to make better use of existing knowledge and lessons learned, supporting governments in making it an integral part of the policy making process. It is also important that clear baselines and targets are set, while progress is systematically assessed against results.

At country level, donors should:

- Collectively foster knowledge gathering to inform policy and operational action, drawing, wherever possible, on local capacity.
- Encourage government to develop systems that better connect evidence with policy development.
- Foster the systemisation and publication by government of the measurement, and the reporting of progress on anti-corruption efforts.

At the global level, donors should:

- Develop a systematic approach to dividing up efforts for undertaking strategic research/knowledge gathering and synthesis and in sharing results.