



**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

Cancels & replaces the same document of 20 March 2007

**AN AGENDA FOR COLLECTIVE ACTION FOR IMPROVING GOVERNANCE TO FIGHT  
CORRUPTION**

**Discussion paper**

**DAC High-Level Meeting, 3-4 April 2007**

*This document is submitted to the HLM for COMMENT and ENDORSEMENT under Agenda item 2.*

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## **AN AGENDA FOR COLLECTIVE ACTION FOR IMPROVING GOVERNANCE TO FIGHT CORRUPTION**

### **PREAMBLE**

This paper argues that political leadership can accelerate the collective efforts in fighting corruption through better governance. Proposed actions for Ministers include:

- Signalling the importance of the idea that corruption is a symptom of weak governance and that the ultimate concern is poverty reduction. This should be underlined in policy statements and speeches and in dialogue and activities with partner countries.
- Prioritising governance assessment work jointly with other donors. Ministerial backing for a DAC-hosted international meeting to publicly share governance assessment experience would add momentum.
- Supporting the development of OECD DAC common response principles to reduce uncoordinated responses to corruption and promote the idea that coherent responses, based on joint assessment work, can improve aid effectiveness.
- Enhancing donor credibility in dialogue with partner countries by acknowledging the role that OECD countries play in corruption and providing enhanced support to 'supply-side' actions.
- Working to ensure that what donors have learned about support to governance and aid effectiveness is applied to the implementation of UNCAC.

### **QUESTIONS FOR DISCUSSION**

- Do Ministers and Heads of Agency agree to take on the Agenda mentioned above?
- Do Ministers and Heads of Agency agree that the DAC Chair should deliver a short statement on their behalf, reflecting these commitments and HLM discussion, at the IMF/World Bank Development Committee on 14-15 April 2007?

## AN AGENDA FOR COLLECTIVE ACTION FOR IMPROVING GOVERNANCE TO FIGHT CORRUPTION

### I. Introduction

1. 2006 saw international momentum gather in the global fight against weak governance and corruption, with reinvigorated action at all levels.

- Individually, OECD countries are responding by strengthening “whole of government” approaches to anti-corruption in partner countries, and addressing issues of bribery by their own nationals.
- Internationally, groups such as the Nordic+ and the U4 partnership are working closely together to share their experience and knowledge.
- The multilaterals are taking a leadership role — with 140 signatories and 84 ratifications/accessions to date, the United Nations Convention Against Corruption (UNCAC) is now prominent as a key global anti-corruption instrument.
- And the World Bank has undertaken a major review to frame a new governance and anti-corruption strategy as an integral part of its work to reduce poverty and promote growth. This will be discussed for a second time after the HLM at the Spring Meetings in Washington.

2. For its part, the DAC now considers the time is right to support an agenda for collective action against corruption which is more sophisticated and more concerted. This is a pressing issue since the risks associated with a piecemeal response, in which various donor organisations act in a deliberate but uncoordinated way, are set to escalate as and when aid levels increase. At the same time, the increased focus on governance and anti-corruption offers new opportunities for co-ordinated collective action.

### II. The changing context of anti-corruption efforts

3. Future efforts to address corruption must take account of a rapidly changing international context. Five new elements in the context are especially important:

- The prospect of a very **significant increase of aid** — possibly an additional \$50 billion per year by 2010 and beyond — has raised the stakes for both donors and partner countries. As donors are pressed to disburse larger amounts of development assistance more quickly, effective governance and anti-corruption measures will assume growing importance as central pillars of the framework of mutual accountability between donors and recipient countries.
- In this context, there has been a growing recognition that corruption poses several distinct types of **risk to the enterprise of international development**. The combination of fiduciary risks, the potential undermining of development effectiveness, and the risks to their reputations for donor countries of aid to countries with corrupt leaders, has focused attention on corruption as a core concern.
- At the country level, **donor-driven perspectives have given way** to approaches which place donors in a role which supports developing countries’ own anti-corruption efforts. The 2005 Paris Declaration on Aid Effectiveness supports the principle that setting development objectives is primarily the responsibility of developing countries themselves, with donors playing a supporting part to domestic coalitions of government, political parties, civil society and the private sector.

- At the same time, donors have been learning to approach anti-corruption work in the framework of a wider appreciation of countries' **governance challenges and political economy issues**. Simply put, donors have learnt that 'politics matters'. Formal institutional models adopted by OECD countries are not necessarily suitable for developing countries with different governance and political systems. Understanding these systems, and the conditions that generate high corruption risks, makes it simpler to identify more effective entry points and ways of working with domestic reform coalitions.
- Last but not least, there is growing recognition of the **shared responsibilities of OECD governments** in the control of corruption. A number of initiatives, including the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and the 2003 UN Convention Against Corruption (UNCAC), have recognised that corruption is a two way street. Active promotion of these initiatives in OECD and partner countries is of vital importance.

### III. A coherent agenda

4. This paper, which is based on proposals approved by the DAC, highlights a number of frontiers for collective action where co-ordinated political leadership is needed if the multiple risks associated with corruption are to be successfully managed.

#### *Weak Governance or Corruption? The political rhetoric matters.*

5. Corruption is invariably an outcome or symptom of unresolved problems in the governance system of a country, and must be viewed in the context of the wider environment of the political economy. This is more than a semantic issue. In the worst cases, the consequences of direct assaults on the symptoms of poor governance have led to the creation of institutions, such as anti-corruption commissions, which in some instances have failed to address the root causes of corruption and have instead served simply to clone underlying corrupt patterns of behaviour. Anti-corruption efforts must achieve an effective balance between strengthening weaknesses in the overall governance system and targeting strategic changes that are most immediately necessary, and this balance will be different in every country.

6. There is much that Ministers can do to reinforce the importance of this broader understanding of corruption and its causes, both through policy statements and in dialogue and activities with partner countries. Donors must be consistent in their message that political will and robust governance structures are vital in the fight against corruption and that anti-corruption strategies led and supported by partner country governments will yield better results. Audiences must be reminded that the ultimate concern for better governance is poverty reduction and sustainable economic growth.

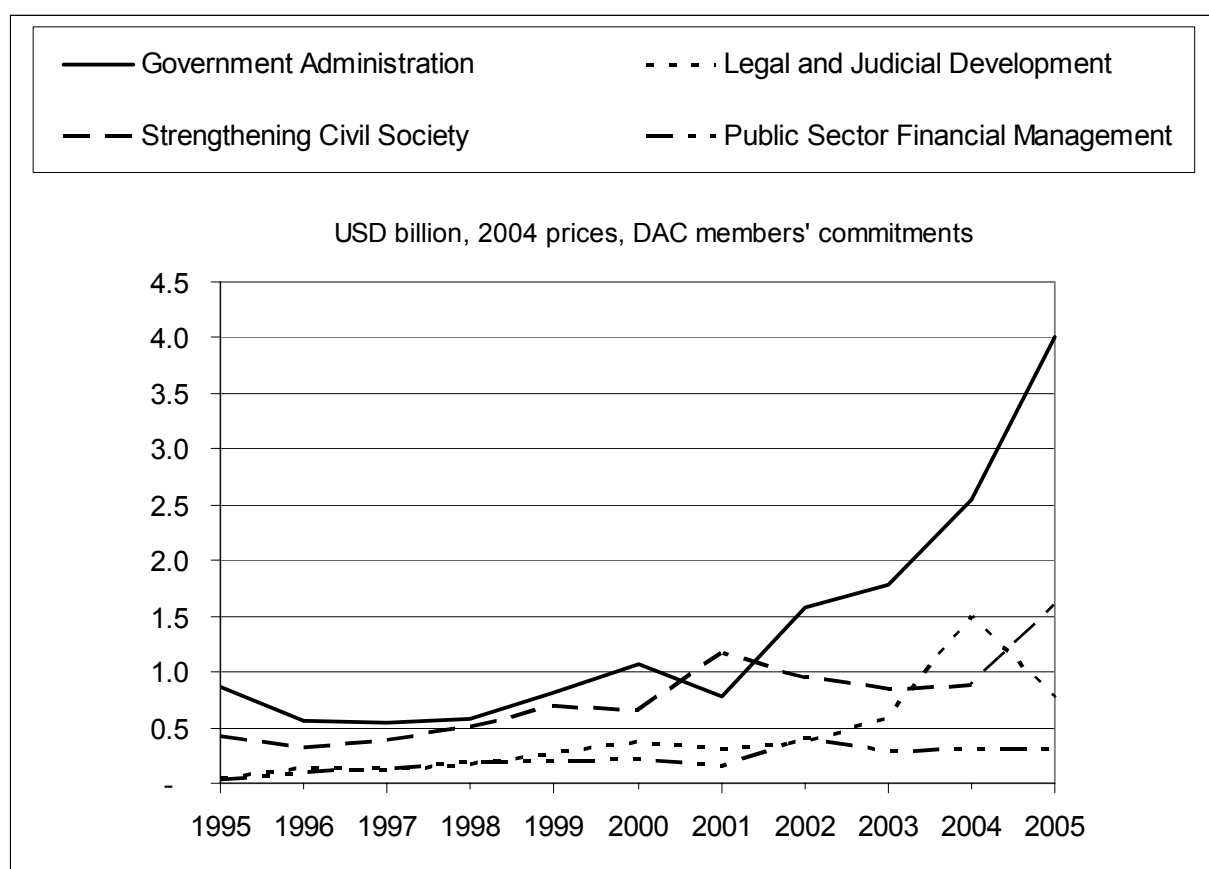
#### *Donor initiatives must be centred on more comprehensive initiatives at the country level.*

7. At the country level, what has generally been lacking is systematic and sufficiently sustained coverage of areas where powerfully complementary efforts are necessary to address endemic corruption. In supporting governance reforms, donors have traditionally focused on strengthening bureaucratic capability, such as public financial management and administrative reform. But good governance is not just about government. It is also about political parties, parliament, the judiciary, the media, the private sector, civil society and citizens in general. Strengthening the demand for good governance requires actions across all these groups, to build strong constituencies for reform and integrity in the institutions of government. In this regard, figure 1 below suggests that some rebalancing of efforts may be needed to strengthen areas such as the rule of law and inclusion of civil society and the private sector, although we should be alert to the risks of donor funding triggering a proliferation of local NGOs, societies and foundations, which may

distort the authenticity of the voice assumed to represent civil society. Support to indigenous initiatives needs to be part of our approach.

8. In countries where the corruption risk is high, agreeing to some **division of labour among donors** can help to ensure that all entry points and all local supporters of anti-corruption measures are adequately supported. This means different donors undertake to apply their best intellectual and practical efforts to different parts of the governance framework influencing corruption, recognising that donor organisations are often not able to play an active role in all critical areas. While posing a challenge to donor co-ordination at country level, this approach helps ensure more consistency in attempting to improve governance across the board.

#### Aid Commitments for Improved Governance



Data from CRS Development Online database, <http://www.oecd.org/dac/stats/idsonline/>

#### *Co-ordinating joint governance and corruption assessments.*

9. Plans are advancing for the DAC to put a spotlight on a number of joint donor assessments, which will analyse specific areas of corruption risk and governance failure. They will be conducted within a governance framework, in order to develop action plans suited to the circumstances and level of political will in a country, and capable of being carried forward in a country-led way. Whenever possible, such assessments will be country-led, undertaken jointly by key members of an existing or prospective local reform coalition and a group of donors, and will utilise any existing analysis (for example, the results of African Union-NEPAD Peer Review Mechanism). Promising cases are underway in Rwanda, Ethiopia and Cameroon. A DAC GOVNET-led mission to Cameroon has helped spur a multi-donor and government partnership called CHOC, “Change Habits – Oppose Corruption”, which was signed on 19 February 2007.

10. Many of the problems of advancing such collective approaches to governance assessment are mirrored in the constraints of implementing the Paris Declaration. These include the slow passage of high level political commitments to harmonise operational practice, high transaction costs, and pressures to spend, which create inconsistencies and contradictions in the internal incentives systems in donor agencies<sup>1</sup>. But there are additional constraints, particular to the field of governance, associated with the challenges of making the case to tax payers in OECD countries for aid to countries where there are risks of corruption. These include public and parliamentary concerns about accountability and transparency in the use of aid — hence the need to track and closely scrutinise the quality of governance in each country and to determine (at least in part) the priorities, modalities and volumes of aid and provide qualitative feedback on outcomes achieved. These factors provide strong incentives to keep governance assessments mainly a bilateral concern and there are risks of a proliferation of analytical tools, studies, and missions. Nevertheless, there is much to be gained from joint work in this area and Ministers can act to shape the incentives which will maximise opportunities for co-ordinated approaches.

11. A better shared understanding of the root causes of corruption through governance assessments can illuminate the often qualified, partial and temporary nature of political ownership and political will, moving beyond a box-ticking “on-off” understanding of commitment to fight corruption. Assessments can explore the hidden incentives behind why local politicians will or will not associate themselves with a fight against corruption, bringing to the fore issues of patron-client relations, kinship, ethnicity and competing ideas about what legitimacy means. Many of the unfulfilled international expectations about addressing corruption can be put down to under-estimating the power of these forces. Moreover, joint assessments may help share the unwelcome consequences of difficult decisions facing donors about sharing sensitive findings with partner governments and civil society.

***More co-ordinated donor responses to corruption at the country level.***

12. In particular, joint assessments can build shared understanding of each context, which in turn can underpin common response principles to be used in the unavoidable situations where efforts to improve the governance framework are unsuccessful and where corruption is seriously affecting poverty reduction efforts. Unco-ordinated responses to corruption inevitably send mixed signals — in the worst cases in some African countries, corruption triggers the withdrawal of one donor, only for the gap to be plugged by another, OECD or non-OECD. The net effect of such actions serves only to undermine the overall credibility and predictability of the donor community.

13. There are no magic bullets here and each donor treads a different political tightrope, depending partly on public opinion and parliamentary concerns at home. For example, a limited operational reaction to a corruption scandal can be justified on the grounds that poor people should not be punished just because they live in a country with bad governance. On the other hand, such an approach can lock donors and governments together in a polite fiction which may strain the credulity of local civil society. In many cases, what OECD Ministers for Development or Foreign Affairs *say* about corruption matters as much as what they *do* with aid — statements and speeches are condensed into sound bites which can have far reaching consequences not just in the international media but also as signals to capital markets and investors across borders.

14. In 2006 DAC Ministers and Heads of Agency discussed initial ideas concerning more harmonised responses to poor governance, particularly corruption. The themes included the need for more serious advance preparation and dialogue, and the desirability of graduated responses that minimise the damage to recipient planning and institutional development. The DAC is in the process of developing Ministers’ ideas into a voluntary code of common response principles which will be rolled out in the

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<sup>1</sup> ODI Working Paper 248, Paolo de Renzio et al, Incentives for Harmonisation and Alignment in Aid Agencies, June 2005.

course of 2007/8 and which will be informed by work on joint governance assessments. Box 1 below provides illustrative themes:

**Illustrative Themes for Common Response Principles**

Donors should:

- Adopt transparent and honest processes for dialogue at the country level.
- Follow a co-ordinated “whole- of-government” approach when responding to corruption.
- Strive for collective international positions on corruption agreed across all donor countries.
- Adopt a transparent and calibrated response to isolated corruption scandals and other signs of increased corruption risk.
- Sustain a dialogue with partner countries on the likely donor responses to various governance scenarios.
- Involve key non-DAC donors in the country-level responses to corruption.
- Do more to address the domestic responsibilities of OECD countries in addressing corruption.
- Promote and enforce anti-corruption efforts in aid funded programmes.

***Tackling the global incentive environment starts with acknowledging that corruption is not just a developing country problem.***

15. Much work is underway in the OECD and elsewhere to address private sector bribery, money laundering, weak banking regulations and returning illegally acquired assets held in OECD countries. As the OECD’s 2006 Development Co-operation Report concludes, greater acknowledgement of these “supply-side” problems can also make the position of donors more credible in their dialogue with partner governments over governance issues.

16. For this reason, the DAC will provide active support to the OECD Working Group on Bribery in pushing forward the implementation of the OECD Convention on Bribery of Foreign Public Officials. Similarly, it is increasingly important for donors to support the implementation of UNCAC. These measures will help to ensure that aid effectiveness lessons are consistently applied as and when new resources for implementation materialise, particularly to guard against a proliferation of fragmented small projects.

***By helping global actions to curb trans-national corruption while also working with country-level reform coalitions, donors may be able to create important synergies between the different levels of the anti-corruption effort.***

17. Efforts to change the international incentive environment for corruption do not need to be restricted to tighter controls and greater legal redress. Indeed, these efforts may be more effective if they are accompanied by initiatives to improve the positive side of the incentive structure. For example, the recently proposed Global Integrity Alliance (GIA) illustrates a type of complementary initiative that promises to transform the incentive environment in a positive way by building a global movement for integrity, leadership and state-building. Other valuable initiatives include an Internet-portal for SMEs, launched by Denmark, and the preventative measures contained in the UNCAC.