



## Addressing corruption in fragile states: what role for donors?

Harald Mathisen

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## Summary

Fragile states pose different challenges for addressing corruption than normal development contexts. Development partners therefore struggle to find effective strategies for addressing corruption. A reluctance to deal with the issue has been standard practice as political leaders in fragile states are seen to block reform when faced with an aggressive anti-corruption reform agenda. Development partners have therefore hoped to address the issue at a “later stage”, in order to get deals signed, to “get the job done”, or to retain a good relationship with the government.

Recent experience, however, shows that neglecting the corruption problem from the outset is a dangerous strategy, as corrupt elites use the interlude to entrench themselves in politics and set up predatory schemes, which makes reform difficult to achieve at a later stage. The need to engage has also been underscored by the international security and anti-terrorism agenda, the need to prevent further conflict, the aim to meet the MDG’s, and the recognition that corruption looms in the background as a serious obstacle to positive development outcomes.

It is emphasized that the traditional donors have not managed to develop the anti-corruption agenda with its emphasis on state building, beyond broad principles for donor engagement in fragile states. The report represents an attempt to bridge the divide between the fragile states literature with its broad principles for engagement, and the recent international experience and research on corruption. The target audience is anyone wanting to tailor strategic reform initiatives in fragile states and difficult partnerships. Guidance is provided on a series of categories running from the *design and preparation phase*, *implementation phase* and *evaluation phase*. In addition, a series of cross-cutting themes such as aid conditionality and the need for rethinking aid modalities are discussed.



# Addressing corruption in fragile states: What role for donors?

*By: Harald Mathisen,*

*U4 Anti-Corruption Resource Centre*

The scale and complexity of problems related to corruption in poor governance and emergency environments can at times seem insurmountable. At present an estimated 900 million<sup>1</sup> people, live in fragile states, one of several concepts devised to describe states where weak state capacity and/or political will hinders the development and implementation of pro-poor policies.<sup>2</sup> The concept generally refers to a broad range of failing (Zimbabwe), failed (DRC), and recovering states (Sierra Leone). However, the distinction among them is not always clear in practice, as fragile states rarely travel a predictable path of failure and recovery.

Fragile states pose different challenges for addressing corruption than normal development contexts. Development partners therefore struggle to find effective strategies for addressing corruption. As a consequence corruption is rarely addressed in aid programs, or one hopes to do so at a “later stage”, in order to get a deal signed, to “get the job done”, to retain a good relationship with the government. Sometimes the problem is avoided simply because it is so difficult or uncomfortable for all parties<sup>3</sup>.

Evidence from Bosnia, Nicaragua, Mozambique and beyond shows that neglecting the corruption problem from the outset is a dangerous strategy, as corrupt elites use the interlude to entrench themselves in politics and set up predatory schemes, which makes reform difficult to achieve at a later stage. In recent years, the development community has instead increasingly focused attention on “better performers”. The trend is to reward these with more resources, a notion popular with influential aid agencies.<sup>4</sup> The argument is that aid dollars and aid interventions are most effective in relatively strong institutional and policy settings.

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<sup>1</sup> DFID, 2005, Turner M. & Wolf M. “*Why we need to work more effectively in fragile states*”. There is no agreed list of failed/fragile states. <http://www.dfid.gov.uk/pubs/files/fragilestates-paper.pdf>

<sup>2</sup> We will use the concepts of *failed states* and *fragile states* as synonyms, knowing that there is a lack of conceptual clarity in this area. Another concept, used by the World Bank, is “low income states under stress”, or LICUS.

<sup>3</sup> See for instance: UN General Assembly (March, 2006) Report of the Office of Internal Oversight Services on the investigation conducted by the Investigations Task Force into fraud and corruption allegations at Pristina Airport  
<http://www.u4.no/themes/fragile-states/documents/fraud-corruption-pristina-airport.pdf>

<sup>4</sup> USAID AC Strategy

[http://www.usaid.gov/our\\_work/democracy\\_and\\_governance/publications/pdfs/ac\\_strategy\\_final.pdf](http://www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/ac_strategy_final.pdf)

However, the corollary of this policy – disengaging from poorly performing countries – is now increasingly acknowledged as not being an option. Reasons for wishing to engage are varied, including the international security and anti-terrorism agenda, the prevention of further conflict, meeting the MDGs and the recognition that corruption looms in the background as a serious obstacle to positive development outcomes.

Possible donor interventions to enhance reform vary considerably in failed states. In some countries donors will have tremendous leverage over government decisions on reform because of huge transfers of [financial] resources, or even through the presence of troops from donor countries.<sup>5</sup> There are also likely to be substantial differences in the types of actor present in fragile states. Post-conflict or post-crisis environments attract a particularly wide variety of actors. Individual donor agencies are sometimes also involved through more than one of their operational arms.

One finds that country authorities are likely to be fragmented, with unclear relationships between different elements of the government or indeed competing authorities (such as ‘warlords’). And there is often an absence of a PRS partnership model. All of these factors mean that the interface between international and national actors has the potential to be very fragmented and extremely complex.<sup>6</sup>

Regardless of the problem being rooted in state fragility (lack of power and capacity, unable to reform) or state predation (abuse of power, unwilling to reform), or in the worst case scenarios of emergency or post-conflict settings, concerted engagement by development agencies is urgently needed. We say this knowing full well that there has been limited research showing a positive relationship between donor practices and aid effectiveness. At present, the agenda on difficult partnerships is still being fashioned and the nature and scope of emerging solutions is unclear.

So far, the traditional donors have not managed to develop the anti-corruption agenda, with its emphasis on state building, beyond broad principles for donor engagement (OECD 2005).<sup>7</sup> Bringing the corruption problem to the fore only highlights the need to provide the donor community with practical advice for working in difficult, often badly governed and sometimes conflict-prone environments. The latest international thinking points to several things development agencies should avoid in their aid programmes, both for fragile states and more generally. For example, Nancy Birdsall refers to the “seven deadly sins”<sup>8</sup> that some aid agencies commit and should avoid:

- Impatience with institution building
- Pride (failure to exit)
- Ignorance (failure to evaluate)

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<sup>5</sup> In most cases troops will be under UN or NATO command and come from non-aid giving countries like Nigeria and Bangladesh.

<sup>6</sup> See ODI report “Harmonisation and Alignment in Fragile States” : <http://www.oecd.org/dataoecd/20/56/34084353.pdf>

<sup>7</sup> The DAC has, however, instigated a process of piloting its draft principles in a number of countries over the next two years, which might lead it to refine its advice: <http://www.oecd.org/dataoecd/59/55/34700989.pdf>

<sup>8</sup> Seven Deadly Sins: Reflections on Donor Failings. Nancy Birdsall. Center for Global Development. Working Paper Number 50, 2004: <http://www.cgdev.org/content/publications/detail/2737>

- Sloth (pretending ‘participation’ insufficient for ‘ownership’)
- Envy (collusion and coordination failure)
- Greed (stingy, and worse, unreliable transfers)
- Foolishness (underfunding of regional public goods)

This report will try to marry these “don’ts” with the “dos”, without pretending to present a complete solution. Several recent international initiatives have resulted in principles for action. The most important are the 12 Principles for International Engagement in Fragile States, and DAC Principles for Donor Action in Anti-Corruption, agreed to by OECD-DAC in 2005. The aim of this report is to take on board recent international experience and research and present more operational advice to complement it. In addition I will present some new fresh ideas on aid modalities and delivery. The target audience is anyone wanting to tailor strategic reform initiatives in fragile states and difficult partnerships. The bullets listed below represents a hierarchy to what should be the most imitated concerns and what should follow from getting it right at the outset. The points listed as *cross cutting themes* can be of great relevance to anyone applying an anti-corruption perspective to the work in fragile states.

### **Design and preparation phase:**

- Mapping and analysis first, action second
- Do no harm
- Be critical to A-C plans, actors and so-called best practice

### **Implementation phase:**

- The starting point – early victories and enforcement
- Build systems and national capabilities
- Build public trust
- Where possible, align support with local policies and systems
- Support islands of integrity
- Organise stakeholders and losers
- Support civil society

**Cross cutting themes:**

- Coordinate donor responses
- Use conditionality with care
- Focus on results-based management
- Be politically sensitive
- Protect aid money from diversion

**Evaluation phase:**

- Explore a new aid architecture
- Prepare for the if/when

# 1. Design and preparation phase:

## Mapping and analysis first, action second

Before rushing into planning processes or action, practitioners should give thought to Emil Bolongaita's conclusion in his well-researched article on international experience in fighting corruption:<sup>9</sup>

*“A review of the global experience shows the need to be selectively strategic in anticorruption reforms. Measures that worked in some countries have proven to be ineffective, if not counterproductive, in others. In many ways, the failures or shortcomings have been due to a flawed understanding of the nature of corruption in a country and its governance environment. This flaw was often compounded by an inadequate appreciation of the prerequisites for success of the anticorruption instruments being considered. In effect, no strong fit between the nature of the problem and the design of policy was achieved.”*

The World Bank LICUS initiative has prepared a taxonomy of fragile states that groups cases with similar sets of challenges and suggests a broad range of appropriate actions.<sup>10</sup> The 2005 Fragile States Report distinguishes among four types of LICUS:

- Those experiencing deterioration
- Those facing prolonged political crises or impasse
- Those that are post-conflict or in political transition
- Those experiencing gradual improvements

The Bank then proposes different business models for intervening in each of the four types.<sup>11</sup> Even though the Bank's work on this issue is commendable, donors will have to increase analytical precision and conduct expensive and time-consuming analysis before taking action.<sup>12</sup>

One of the key stumbling blocks to concerted donor action in difficult partnerships is differing assessments of the existing institutional environment. Therefore, in order to move forward with alignment, a diagnostic exercise should be carried out jointly between actors, or by one agency on behalf of several. This analysis must not be seen by the host government as an imposition, or ownership will be low, and the chance of the work being fed into government policy small. At the very least, donors must take this on board and open up a dialogue with national constituencies on what should be implemented after the analysis is done.

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<sup>9</sup> “Controlling Corruption In Post-Conflict Countries”: [http://kroc.nd.edu/ocpapers/op\\_26\\_2.pdf](http://kroc.nd.edu/ocpapers/op_26_2.pdf)

<sup>10</sup> The 2006 LICUS review gives the best overview “Engaging with Fragile States. An IEG Review of World Bank Support to Low-Income Countries Under Stress”  
[http://www.worldbank.org/ieg/licus/docs/licus\\_ce.pdf](http://www.worldbank.org/ieg/licus/docs/licus_ce.pdf)

<sup>11</sup> International Principles and World Bank Business Models :  
<http://www.worldbank.org/ieg/licus/models.html>

<sup>12</sup> An example of a country study that unmasked the hidden nature of the corruption problem: Donor roles in face of endemic corruption – Albania in the policy debate, Harald Mathisen, CMI, (2003) :  
<http://www.u4.no/document/showdoc.cfm?id=48>

Obviously, the different contexts donors operate in require that responses should be tailored to the level of political will and the capacity to implement reform found in each situation. What might be appropriate in an isolationist state like Myanmar (with little will to reform) might differ greatly from what should be prescribed for a post-conflict country like Haiti (with little state capacity). It follows that the first two dimensions to consider, that is, a political commitment (or willingness) to reduce corruption and the capacity to do so, need to be carefully examined. These are, however, not unrelated categories and may indeed have the same root cause. Other factors that the donors will have to take into account are the types of corruption in play and potential domestic and foreign spoilers. The DfID Drivers of Change framework is a good tool in this regard.<sup>13</sup>

What is needed, then, is something more than a stakeholder analysis, or a good government assessment of how a country's institutions measure up against a particular model. It requires a much more open-minded investigation of the opportunities for pro-poor change in a given country context. The nature and history of the aid relationship must come under review, but, more importantly, a study should analyse the very deep-seated factors – the history of state formation, geography, demography, ethnicity, class structures and the resource base of the state – which directly affect the political community and the basis of political accountability. Other factors are more susceptible to change in the medium term, including how power is shared between institutions, how relationships are conducted (through personal networks or through more rules-based systems), and the capacity of different groups to organise. The latter is imperative to understand in fragile states as decision making processes are not institutionalised and the role of informal institutions based on [military] power and patronage are underemphasised. All these factors will influence the feasibility and likely impact of different policy choices.

In cases of extreme urgency, donors should know that for every country there is a lot of information already available to draw from. Apart from the vast amount of country knowledge present in the development agencies and [often not canvassed], other sources such as national academics based home and abroad, journalists, civil society and the intelligence community are very useful if a rapid appraisal of corruption is necessary.

The DAC should provide backing and encouragement to the fast-tracking of joint corruption assessments. The piloting of joint assessment approaches has already been proposed by a number of agencies, taking into account the existing modalities of working on governance issues in particular countries.<sup>14</sup> A multi-donor mission to Cameroon has already taken place, for example.<sup>15</sup> The pilot exercises are expected to be undertaken

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<sup>13</sup> Drivers of change: <http://www.gsdr.org/go/topic-guides/drivers-of-change>

<sup>14</sup> DAC Evaluation Series (2006) *Guidance for Managing Joint Evaluations* : <http://www.oecd.org/dataoecd/29/28/37512030.pdf>

<sup>15</sup> The Cameroon example shows promise in this regard as it has also harmonised the donor position through what is known as the 8+6 committee of ambassadors. The heads of mission now meet regularly and devise strategies and policies to influence, guide, and pressure the Cameroon government to stay on track in its fight against corruption. “An Arrival and a Fresh Start: Partnerships in Cameroon after the HIPC Completion Point” :

[http://old.developmentgateway.org/download/256485/ENen\\_update.pdf#search=%22multi%20donor%20mission%20Cameroon%22](http://old.developmentgateway.org/download/256485/ENen_update.pdf#search=%22multi%20donor%20mission%20Cameroon%22)

with local partners and with government agreement.<sup>16</sup> They are intended to analyse specific areas of corruption risk and governance failure in order to develop action plans suited to the circumstances and capable of being carried forward in a country-led way.

There are limits to how far outsiders can really understand how another country and society work, however. Proposing that external actors should start with a much better understanding of the country context does not imply that they should engage in ever more sophisticated attempts at social and political engineering. The purpose is to make them more effective at supporting local pressures and incentives for pro-poor change.

## Do no harm

Madalene O'Donnell, writing on post-conflict scenarios, asks a series of basic questions relevant to all donors in fragile state partnerships.

*“Is it realistic to address corruption in post-conflict countries? After all, many of these states cannot even provide minimal public order, so how can they be expected to control corruption? An important critique of international post-conflict efforts is that international actors are already trying to do too many things at once, overwhelming absorptive capacity and failing to set priorities with national counterparts. Is corruption one of those second-order priorities that can wait? Shouldn't the basic institutions be created before they are cleaned up? Shouldn't the emphasis be on disbursing state and international funds quickly rather than carefully?”*

The USAID anti-corruption strategy shares these concerns and holds that some countries are not ready for AC reform. The agency policy is that the aim in the least developed countries must first be to “build knowledge foundations on democracy, build basic institutions, discuss the roles of different actors, support civic education, oversight at local level, schools clinics, local farmers associations, churches, associations of headmasters, parent teaches associations, local journalists, etc”.<sup>17</sup>

While some specific anti-corruption initiatives might be misplaced in very weak capacity and governance settings, we would emphasise that there should be no contradiction between building the foundations of democracy and increasing the scope for accountable government. O'Donnell, again commenting on the post-conflict situation, states that “the challenge is to target the types of corruption which, if not addressed, can derail the entire transition, but to do so in ways that do not create large additional demands on already overwhelmed reformers within and outside fragile state structures.” This is important, and the challenge then is rather to get a good understanding of the nature of the problem and the potential spoiling effect of AC tools under such circumstances.

Two examples illustrate O'Donnell's point. One is taking care not to strengthen groups with criminal links in the transition period. The former structures of the security services in wartime Bosnia, for example, have proved difficult to dislocate, due to their links with

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<sup>16</sup> Ghana has been suggested as another possible country with which to conduct such joint assessments, which would be conducted by DANIDA, USAID, DFID and GTZ. GTZ might finance a drivers of change study which would complement this effort.

<sup>17</sup> “Post-conflict Corruption: A Rule of Law Agenda?":  
<http://www.u4.no/themes/ces/postconflict/odonnell.pdf>

embedded networks. The second example is the automatic setting up of anti-corruption agencies that in fact worsen the situation by becoming super-corrupt entities, used only to sweep problems under the carpet.

Another problem occurs when action to help build systems and institutions is undermined by behaviour in another context which undercuts capacity, or fails to produce demand for such capacity to match the intended supply. An obvious example is the damaging long-term effect of the establishment of Project Implementation Units, as well as the systemic effects of divergent salary and benefit structures on civil service incentives. Plans to give out non-essential personal benefits within programmes to key persons in the form of travel, language courses, access to vehicles, furnished offices, remuneration and so on must be stopped.

### **Be critical to A-C plans, actors and so-called best practice**

The challenge put forward by Bolaingita and O'Donnell is to understand how the different instruments available to AC reformers are useful in a certain context. There is unfortunately a tendency in the world of anti-corruption for “experts” to be brought in to help devise a strategy, write a law, and create an action plan that is nothing more than a blueprint of what has failed elsewhere.

A clear note of warning must be sounded with regard to this kind of advice, as weak governance and capacity situations attract many kinds of donor, each with differing frameworks and ambitions. There is always a fear that donors will crowd out national policy makers with their small army of consultants who are able to present policy that the donors want to see implemented. In some post-war countries there is very limited capacity and the international community has become the government, as in Bosnia.

These strategies operate according to best practice; they are often holistic, meaning they contain a full laundry list of things to be done. But they fail to match the context with the appropriate action – in other words, good analysis comes to no meaningful use. To date, the worst prescription has been the massive funding of anti-corruption commissions. Only under certain conditions can such institutions function effectively. These conditions are not present in countries which can be described as fragile.

The all too familiar mistake is to identify a shortcoming somewhere and then try to fix it without looking at the underlying causes that produce and reproduce the problems. An example from the judicial sector would be to address the weaknesses of judges and courts without considering that this may transfer the locus of corrupt practices onwards to the prosecutor's office and the police department.

Prescriptions are most often grounded in a technocratic approach, rather than in a political economy approach which recognises those underlying and deeply entrenched structures which are fomenting corruption. Strategies most often fail to deal with grand or political corruption, even though most sound analysts conclude that corruption has permeated the state, and involves actors at the highest levels of business and government. It seems as though the discovery of a network of relationships overwhelms reformers who are naïve or unprepared to counter the preponderance of corrupt elements.

As reforms are to be nationally owned and driven under the current refocus on national ownership of the development process, donors are trying to facilitate a process where

national actors are drawn in. However, civil society and other levers of horizontal accountability are very weak in most fragile states. Consequently, the processes end up being leadership driven. Implantation is exclusively left to the executive, the chief culprit according to most analysts. Reforms are thus highly susceptible to failure – to delays, resistance, even sabotage.

## **2. Implementation phase:**

### **The starting point – early victories and enforcement**

In order to get positive momentum the entry point for a strategy must be carefully considered. Evidence from countries such as Nigeria point to the need to secure some significant and highly publicised early victories – the conviction of figures thought to be untouchable and the cleansing of rough institutions.

The focus and outcome of policies and programmes should be to make corruption a high-risk and low-reward activity. The probability that corrupt officials will be detected, investigated and prosecuted must be made credibly high. Only when corrupt elements calculate that the risks seriously outweigh the rewards will corruption be controlled.

Sending a signal to all the actors that it is not “business as usual” is what development partners have been asking for but seldom get. The debate as to whether one should proceed at all without clear evidence of a serious intention to fight corruption. It will be argued in this paper that the nature of engagement must reflect the levels of trust between the government and the development partners.

Bangladesh may serve as an example to the difficulties involved. It has been hard to get a clear indication that the authorities are serious about fighting corruption, so that the development partners have focused on thinking long term, being patient and so on. This can easily become a nice fluffy pillow that leads to the preservation of the status quo.

So even though we would emphasise the non-interference of donors we find the international community is so deeply involved in fragile states that it is not unreasonable to demand a serious attack by the government on well connected individuals and partisan institutions in order to ensure that those sacrificed are not only political opponents. To get to this point the international community must stand together, using all its diplomatic clout and not being afraid of linking these demands to promises of better relations and more development assistance. The standard reply by authorities in fragile states to counter such demands is the claim that they are too weak to do much. This is in most cases a false statement. If you ask ordinary people in the same countries they will tell you that the authorities are much more powerful than meets the eye. Key concessions to ask for are:

- When investigators and prosecutors literally fear for their own security as is the case in Palestine, the first step will be to secure key people and institutions.

- When this is secured the second step is see convictions or at least removals of key spoilers of anti-corruption reform in politics and in public administration
- Increasing dissemination of and access to critical government information, such as budgets, public expenditure and revenue.
- Increased transparency in major procurements, including the active and informed involvement of civil society as a watchdog.
- Increased transparency of political party and campaign finances.
- Decreased use of public resources for political campaigning.
- Public declaration of assets, particularly of elected officials and key political appointees.

The starting point seems to be clear. Countries urgently need a wake-up call in the form of some high profile prosecutions/convictions, and equally important is the dissemination of an information key to corrupt officials. Then development partners will have to support reform that can bring back confidence and hope in the population and belief the public service. Demand should ultimately and ideally come from within.

### **Build systems and national capabilities**

Addressing corruption in difficult partnerships is indeed a multi-level game and donors must merge an immediate response with a long-term approach to building capacity and improving national systems. Caution is needed as the history of anti-corruption has shown that corrupt elites see no problem in managing a simultaneous process of reform and plunder.

Mozambique can serve as an example. The international community has moved on to the massive task of reforming the country's civil service without pausing to see whether anyone is taking on political and grand corruption. Nigeria, on the other hand, serves as an example of the opposite situation. Here we find prosecutions and a positive growth in expectations and trust but little follow-up in terms of building systems and more sustainable reforms.

If analysis shows that there is room for administrative reform the questions are where to start and what matters most in preventing corruption? The short answer according to O'Donnell is that "it depends" – on where corruption is most pervasive, whether leadership exists to address it, whether priority should be given to types of corruption that more directly impact on security, economic or political objectives at hand, and so on. These will always be context-specific decisions.

- Often the biggest fraud, in monetary terms, lies in the area of public procurement.
- For the investment climate, corruption in the courts and legal system, undermining contract enforcement and property rights, is of particular concern.

- From the perspective of political legitimacy, the reputation and trustworthiness of the head of state matters as well as corruption in the agency most visible to the public – the police (especially traffic police).
- For building public trust, tackling corruption in the institutions where people interact with the state most closely and are at their most vulnerable is imperative to reform. Our prime concern is the health, education and justice sectors.
- Corruption in border agencies (border police, customs, immigration) is often of concern to international security and trade specialists but it also undercuts public revenues.
- Citizens may not pay much attention to whether corruption is predictable or arbitrary, but this is tremendously important to firms.<sup>18</sup>

Where state institutions are weak, it is likely that donors will share the goal of strengthening them. However, attempting to carry out a large number of activities at once, thus spreading limited human, financial and institutional capital over a range of tasks simultaneously, will lead to failure. Consequently, a process of mapping out all the current activities, limiting the number of interventions, prioritising and making a logical sequence to take account of existing institutional capability, as well as mobilising additional capacity should be the starting point.

The World Bank task force on Low Income Countries Under Stress recognises that, given low capacity and other constraints, reforms must be chosen that meet the least resistance and that offer quick pay-offs to groups that are potential constituencies for further reform. Asset declaration by public officials is one such visible reform area. However experience show from Uganda and Albania that the effectiveness of such enforcement mechanism is hampered by lack of capacity. So no demands should be put on national systems that would be impossible to meet in the short term.

The World Bank Annual Review of Development Effectiveness 2006, chapter on Strengthening Public sector Accountability<sup>19</sup>, notes that it is important to balance technocratic reforms with coalition building across a broad spectrum of affected interests. It is noted that “this may require incremental changes, identifying reform opportunities that are politically acceptable, and creating momentum. In Senegal for example, building political consensus and taking a gradual approach made the difference between successful and unsuccessful regulatory reform in different sectors.”

Partner governments should also be encouraged to undertake reforms to bring national systems up to assessment standards. This includes diagnostic reviews to identify weaknesses, and comprehensive action plans to strengthen capacity, embedded in national strategies. Donors and partners could form specialised joint cross-cutting groups, analogous to SWAs, to help design and implement action plans, and ensure they are

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<sup>18</sup> Ibid.

<sup>19</sup> “Strengthening Public Sector Accountability” :

[http://siteresources.worldbank.org/EXT2006ANNREVDEVEFF/Resources/arde\\_chap4.pdf](http://siteresources.worldbank.org/EXT2006ANNREVDEVEFF/Resources/arde_chap4.pdf)

reflected in donor assistance strategies. This would indicate to partners that reform may not always be threatening, but rather offer an opportunity.

Simultaneously with calls for concrete and visible action, the donors must start a parallel process of helping countries to build up effective, accountable financial management systems for raising and using public resources and improving fiscal planning. Without such systems in place it will be impossible to repair the fractured relationship between state and society and to track eventual progress.

## **Build public trust**

The last two points underscore an issue often neglected in the haste to do something in chaotic fragile states, namely, that of building trust in society. Interpersonal trust and trust in government institutions are key determinants for reducing corruption in fragile states. People who have faith in others and encounter a functioning civil service are more likely to endorse strong standards for ethical behaviour. The logic is that if public officials are corrupt, people will assume that others are as well. In order to function in such a society citizens engage in corrupt acts even though they think that they are morally wrong. Transitional countries are particularly hard hit as state capacity breaks down and some groups visibly experience rapid social mobility, signalling that the only way to prosper is to engage in corruption.

The ethics of public officials and the design of political institutions are central as they signal what kind of “game” is being played in society. Corruption in the health, education and justice sectors is most important as these are the arenas where citizens most often interact with the state, and it is here that they are most vulnerable. A significant problem with low interpersonal trust is that it is so hard to change.

When reforms are undertaken and early results come in it is imperative that donors help to publicise even small successes in order to demonstrate that reform is actually possible, and in that way to start building trust. In fact having an effective communications strategy is of great importance. The draft World Bank Anti-Corruption strategy recommendation is equally relevant for other parties:

“The communications plan must provide for consistent messages to be conveyed to all relevant stakeholders: government officials in the implementing agency; contractors, suppliers, and consultants who may be involved in bidding on the project; members of civil society affected by the project; and (as appropriate) the local press. The role of the media may be especially important if the plan includes the use of publicity—both positive and negative stories—as a tool for reducing the level of fraud and corruption in Bank projects. The objective would be to highlight both noteworthy achievements in quality, cost-effectiveness, and sustainability, as well as any incidents of alleged collusion, fraud, or corruption. Further, feedback from each of the groups noted above will enhance the positive impact of these communications.”<sup>20</sup>

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<sup>20</sup> “Strengthening Bank Group Engagement on Governance and Anticorruption”:  
<http://www.worldbank.org/html/extdr/comments/governancefeedback/gacpaper.pdf>

## **Where possible, align support with local policies and systems**

In fragile states, donors find either little to align to, or multiple policy frameworks with unclear and highly politicised interrelationships. Donors must make sensible choices about which framework to align to, or help authorities to reconcile these different policies.

It often seems as though the international community is less concerned with a lack of willingness to fight corruption than with a lack of capacity for implementing reform. Donors have tools for dealing with this low capacity and are always willing to provide capacity themselves. Where political will or capacity is lacking, the standard reaction is to move to state-avoiding activities which place little emphasis on policy and systems alignment. This often results in the setting up of parallel institutions, which jeopardises the long-term development of indigenous state institutions. Donors bent on achieving quick successes have bypassed the budget process, parliament and local government institutions and have circumvented the state in order to deliver services, build highways, construct schools, and so on.

In post-war and disaster situations a reliance on non-state actors is needed in the initial phase, but we find that even in more functional systems donors are over and over tempted to go around even semi-functional national systems and award performance based contracts to firms and NGOs. One extreme example of this is Mozambique, where donors once let an international company take over the running of the customs administration. In Bosnia, too, we find that the reform of the customs administration has been extremely donor driven. Questions can be raised about the sustainability of these efforts.

The 2006 World Bank Annual Review of Development Effectiveness<sup>21</sup> has again underscored this point “Development interventions are more likely to generate sustainable results when the local beneficiaries have authority and responsibility for financing and operating them. In the education sector, for example, empowering communities to manage education funds has increased parental involvement in schools and brought improvements in facilities and teacher attendance, although there is little evidence yet that it has improved educational quality.”

While some emergency situations may force development partners into taking overall responsibility, they, together with the international NGOs providing relief, must not stand in the way of fostering country ownership by taking over the whole supply chain of development. The same concern should be raised over the development partners’ focus on harmonisation and direct budget support. Although welcome in efficiency and effectiveness terms, donor harmonisation appears to have concentrated the overall power and influence of donors at a country level, thereby crowding out other stakeholders, including CSOs.

Another more practical concern is an insistence by some donors on having their “flag” waving over every bridge, road, hospital and school they support. In order to facilitate a development process leading to increased public trust, it is the government’s efforts that should be highlighted. Budget support is positive in theory because it is supposed to force donors to be hands off. In effect, people need to see a functioning national state that takes care of their needs in a non-discriminatory way. Basic, yes, but in many fragile states donors have taken over responsibility for the running of the state.

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<sup>21</sup> “Strengthening Public Sector Accountability” :  
[http://siteresources.worldbank.org/EXT2006ANNREVDEVEFF/Resources/arde\\_chap4.pdf](http://siteresources.worldbank.org/EXT2006ANNREVDEVEFF/Resources/arde_chap4.pdf)

The agreed aim under the current aid regime is for partner countries to assert ownership through a clear, results-based medium-term agenda, and for aid to be completely aligned to this agenda at the country level. The hope is that this will happen by having partner governments set priorities in national development frameworks such as Poverty Reduction Strategies (PRSs) and in some cases through Direct Budget Support.<sup>22</sup>

These processes are meant to be broad and inclusive but have ended up being oriented to donors/national elites, and in most cases they do not have a strategy for engaging or building public trust. The Joint Evaluation of budget support has pointed out that in the interests of downward accountability one could establish tripartite forums between government, donors and CSOs to share information and discuss the aid relationship (underlying principles, funding levels and allocations, disbursement triggers and conditions, and so on).<sup>23</sup> We would add that for this to be effective efforts must be made to involve the population, for example on local committees which decide how resources should be distributed.

Donors must not become obsessed with making sure that all the most critical issues of the moment are included in planning in order to get national systems up to a certain level. It is more important to give careful consideration to how and by whom the contributions are designed and planned, and to assess whether there is true ownership in place. The critical point is to find commitments and the right incentives for change in the pillars of the state, especially the executive and judicial institutional pillars.

This PRS alignment model relies on the existence not just of comprehensive technical capacity, but also of a clear national development 'vision' advanced consistently by political actors who have internal legitimacy and external credibility. Such circumstances do not exist in many fragile states, or even in a few more stable contexts where national priorities are not yet visibly and coherently focused on development. In these cases, donors must develop unified planning frameworks like those we have seen in Sudan, Liberia, East Timor and Haiti. Joint efforts should converge on identifying a vision and strategy which, over a reasonable transition period, foster national systems that can take the lead in the planning and implementation of policies in a transparent and effective manner.

### **Support islands of integrity**

In most fragile states, it will not suffice to follow the standard donor recipe of building an effective public sector with a meritocratic, adequately paid civil service, participative budgeting, transparency and competition in public procurement (e-procurement, for example), transparent fiscal reporting and so on.

Where no government strategies exist and where there is little interest in developing any, much less implementing what is agreed upon or signed up to, international actors should consult a range of national stakeholders and seek opportunities for intervention both within and outside the regime.

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<sup>22</sup> These PRSs should have at least the following attributes: clear outcome-based targets; sound, growth-oriented macroeconomic frameworks; a clear costing of programmes over the medium term; and the active engagement of national stakeholders. (ODI opinion)

<sup>23</sup> The full report can be found at the Action Aid website:  
[http://www.actionaid.org/index.asp?page\\_id=1236](http://www.actionaid.org/index.asp?page_id=1236)

Surprisingly, the greatest neglect is of the former, where many reform-minded individuals are located. Practitioner experience shows that there will always be groups within the public sector, the governing party, different sectors and institutions, who can 'champion' anti-corruption or pro-accountability reform.

Where commitment is weak, there is at least the possibility of dialogue, even though implementation may be sluggish. Analysts often conclude that there is “no political will” for reform, but when such elements exist international actors have an important job in raising the standing of such champions by making sure that they command important resources. They must also be protected from arbitrary termination, relocations and so on.

Another concern is that donors often fail to identify sectors or institutions capable of being reformed in an environment otherwise characterised by pervasive corruption. One example is the education sector in Kenya, which has been left untouched by most donors even though the leadership is committed and the Ministry has many times over been able to prove that it is performing well. Rather than disengaging, increasing efforts to support these “islands of integrity” might lead other sectors and institutions to see the benefits of improving performance. Rather than allowing a hostile governance environment to lead to passivity, international actors should take action in a coordinated manner.

Some pessimists would argue, however, that if one supports an island of integrity in a sea of corruption it is only a matter of time before the rot spreads to all the sectors and levels within the system.

### **Organise stakeholders and losers**

In countries with very little political will or capacity, an effective anti-corruption approach could emphasise the importance of horizontal accountability – of supporting autonomous accountability – to promote outside actors committed to AC reform. Experience in countries such as Uganda suggests that initiatives emanating from constitutional bodies, civil society and the media are likely to make more impact than largely executive-driven approaches.

Finding the appropriate balance between state and non-state capacity development is very difficult. The answer will to some extent depend on what the partners want to achieve. Support given only to non-state actors sends a strong signal that trust has broken down and that the donors would like to see change. However, it might be premature and potentially destabilising to channel support only to civil society in countries where central government is weak and there is no state monopoly of power.

There has been a tendency among smaller bilateral donors to avoid politics and considerations of power in society. Even so, consideration should be given to the fact that all efforts to reduce high-level corruption are political. According to one influential report, “Local elites cannot be evaded or wished away... we know from decades of painful experience that benign neglect, indulgence, or isolation seldom loosens these groups’ hold on power.”<sup>24</sup>

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<sup>24</sup> Centre for Global Development (2004) *On the Brink: Weak States and US National Security* : <http://www.cgdev.org/content/publications/detail/2879>

If the goal is to facilitate change, the most effective tool is to organise the losers into a system against status groups and predatory elites. This would be an alliance not only of civil society but of all who stand to lose – churches, unions, the media and excluded sections of the private sector. At least one political party should be included. This would open a way into formal politics, and at the same time provide incentives for other parties to compete in proving that they are just as “clean”. It should be noted that if democrats and civil society fail to embrace the cause, then non-democrats, right-wing populists and Islamists will do so.

Ideally, the norms and standards this coalition stands for should be developed into a full political programme with elements such as the disclosure of wealth and funding by political parties, politicians, civil servants and magistrates. This would then set the agenda for the election campaign and provide a basis for the monitoring and exposure of the current government by other elements of the alliance. These strategies are most effective when states are under political and economic stress.

While building such a coalition is a standard prescription for regime change, it is not as straightforward as it is often thought to be. In the context of failed states, the problems of collective action are magnified: it is difficult to find local groups that will have the resources to exercise leadership in mobilising and managing a coalition. In many instances, the coalitions disband if no results are seen or as soon as donor funds dry up. Nevertheless, some donor groups are learning from these experiences and are experimenting with ways of providing seed money for coalition-building that can be converted into sustainable support.

Democratic revolutions should therefore not be encouraged without proper analysis. There is a danger that the glue that holds coalitions together [opposition to the regime] is not strong enough once the spoils of victory is to be divided and normal politics is to assume. Another problem often associated with broad movement are that they risk being transformed into vehicles of personal enrichment for leaders and cadres as we have seen with the ANC in South Africa. To date, anti-corruption popular revolutions have not seemed able to lead to lasting progress as they pre-empt political contention and weaken or co-opt civil society, leading to “thin revolutions” that cannot be sustained.

## **Support civil society**

Where political will is in question, donors support civil society to facilitate change at some time in the future. Much can be gained, however, from considering how civil society can be more practically integrated into supporting ongoing reforms in the public sector. An example would be linking civil society to oversight of the implementation of decentralisation processes or the reform of the health sector at a local level. The forthcoming DAC Policy Paper on Anti-Corruption (2006) highlights several examples that showcase the need to be flexible and adjust support to local circumstances. One such organisation is the Partnership for Transparency Fund (PTF),<sup>25</sup> an international NGO dedicated to helping civil society play an effective role in the design, implementation and monitoring of national anti-corruption programmes.<sup>26</sup>

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<sup>25</sup> Source: Partnership for Transparency Fund : <http://www.partnershipfortransparency.info/>

<sup>26</sup> PTF provides financing of up to \$25,000 for specific, discrete and time-bound activities or projects initiated by civil society organisations and aimed at fighting corruption.

Examples of activities supported by PTF include:

- supporting Argentina's Center for the Implementation of Public Policies Promoting Equity and Growth (CIPEC) to work with six ministries in implementing the country's Freedom of Information Act;
- supporting a pilot project in Costa Rica to map forest resources in an ecologically sensitive area and to use the map to develop an anti-forest corruption plan;
- assisting Transparency in India to work with the Delhi state government to establish and make effective Citizens' Charters (brief public documents that provide the essential information that citizens need to know about the services or functions of a public agency), overseen by independent Ombudsmen;
- assisting Pakistan's NEDIANS, an association of professional engineers, in working with the Karachi Water Supply and Sewerage Board to establish an Integrity Pact for the public tendering and implementation of a \$100 million water supply expansion scheme, leading to estimated savings on the engineering contract of \$2 million;
- supporting a media campaign in Nicaragua to reduce the highly excessive pensions and perks of retired presidents and top officials, leading to the introduction of new legislation;
- supporting Government Watch (G-Watch) of the Philippines Ateneo School of Government to monitor the Department of Education's delivery of textbooks to schools, including a partnership involving 15,000 Boy Scouts and Girl Scouts and partnering with Coca Cola Company to assist in the delivery of textbooks to schools; and
- funding of a pilot project in Tanzania's Mwanza Region to track local government expenditure on education and health services.

Other relevant initiatives are support for access to information, local participation and community empowerment, oversight by parent-teacher associations and user groups, and citizen involvement in the budget cycle at national and local levels, supported by public expenditure tracking systems. The Uganda Debt Network can serve as an example to an NGO that has done very good work in this area. Another would be the local chapter of TI in Kenya.

Another non-expensive strategy is to support religious communities. Such organisations and institutions do receive much less money than official development projects, but they are generally less short-sighted. In ex-Zaire, for example, Catholic missions were a kind of passive observer, sharing the fate of the poor, and did start to play an important role when official development aid was withdrawn and state institutions collapsed.

Many self-help structures in dissolving (failed) states are basic cells of integrity in a corrupt environment, and IFIs and development agencies should consider these structures as vehicles for changing attitudes. To this end, official development agencies need more freedom to conclude project agreements with non-governmental institutions. But leadership must come from civil society itself or government. There is a danger of the donors getting too far ahead.

However, the greatest care must be taken not to support NGOs set up solely to attract donor funding. In Palestine, hundreds of NGOs were set up in 2006, after the Hamas election victory, by Fatha supporters who could no longer access government funds.

Another powerbroker in many societies, often left out of plans to improve integrity, is the national and international business community. In a country such as Bangladesh, the challenge for the smaller donors is to identify the niches where their limited support can have an impact and to work in ways that will create private sector support and pressure for public sector financial management reform. Procurement is an obvious area, as the private sector wants a level playing field with streamlined regulations and the breaking-up of monopolies. On the international front, there is significant support for transparency in the extractive industries.

### 3. Cross cutting themes:

#### Coordinate donor responses

The international community is putting an extreme administrative burden on recipient countries under the present aid regime. In fragile states, there is no capacity for dealing with an uncoordinated group of donors.

*“Managing aid flows from many different donors is a huge challenge for recipient countries, since different donors usually insist on using their own unique processes for initiating, implementing, and monitoring projects. Recipients can be overwhelmed by requirements for multiple project audits, environmental assessments, procurement reports, financial statements, and project updates. According to the World Bank, developing countries typically work with 30 or more aid agencies across a wide variety of sectors, with each sending an average of five missions a year to oversee their projects. The donors all want to meet with the same top government officials, leaving them with much less time to deal with pressing matters.”<sup>27</sup>*

At the country level, donor to donor harmonisation and aid alignment is often in place where there the aid to GDP ratio is high, donors co-finance through general or sector budget support, and where there is a well-developed framework and at least a partial political will to fight corruption (Uganda, Tanzania, Mozambique, Vietnam, Cambodia and Nicaragua, for example). In non-aid dependent countries where large donors have great economic interests (such as Nigeria and Angola), isolationist states (such as Zimbabwe and Myanmar), weak states (such as Tajikistan) and in conflict and post-conflict countries (Sudan, Afghanistan, Nepal and Haiti, for example), frameworks for aid coordination and donor collaboration on corruption are usually poorly developed or non-functional. In these countries the government not only fails to provide a framework for donors to align to, but the donors themselves are often fragmented and sometimes even competing.<sup>28</sup>

This topic has recently received much needed international attention and in some cases we find the limelight of coordination to be intense. Some researchers point out that donors tend to be caught up in discussing today’s operational and security concerns rather than in coordinating and strategic planning for the medium term. Others point out that aid allocation criteria to fragile states are not developed and who gets what and when is unclear. Certainly, some states or regions receive too little or too much aid, making what is available to be distributed unevenly spread.

An emerging lesson is that an absence of government leadership on AC, or an inability to prioritise, as have been seen in countries such as Yemen, can be abated by donor community speaking with one voice. In Yemen, this has brought about promises of

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<sup>27</sup> Kanbur and Sandler, 1999, The Future of Development Assistance: Common Pools and International Public Goods, Overseas Development Council Policy Essay No. 5 (Washington: Overseas Development Council).

<sup>28</sup> In Afghanistan, for example, the Ministry of Finance receives technical assistance for customs modernisation from the World Bank, USAID, EU, and DfID (WB LICUS review 2006).

country leadership, which is a positive first step. There is therefore an urgent need for donors to prioritise the harmonisation agenda at the country level, with an emphasis on the coherence of donor policies.

Where donors are struggling to find a common vision and their policies cannot be fully harmonised, their objectives must at least be complementary. A starting point in fragile states would be to promote the coherence of non-aid policies and bring together the defence, diplomacy, development, aid, trade and intelligence communities in order to minimise fragmentation and duplication and maximise complementarities and common purpose.<sup>29</sup> The second step is for all the actors in the international community to join in establishing a high-level donor coordination group to develop a clear and coordinated message on corruption to the government; to encourage and monitor the mainstreaming of corruption in the forms of donor assistance; and to encourage greater synergy between donor corruption programmes.

Leadership of “donor coordination groups” should, if possible, be held by one strong donor which will facilitate communication between the government and the donor community at large. Bilateral donors can often serve as leaders, since they are commonly considered less interventionist than the World Bank, for example, and cultivate special relationships with certain countries. However, in most cases it would be natural for the lead to be taken by the main contributor in a certain area. There is also a case to be made for greater donor specialisation on certain sectors and for some donors not to get involved in some countries, instead allowing likeminded donors to take the lead on behalf of a larger group.

Joint efforts among donors can include common assessments, the joint funding of sectors and institutions, common procurement systems and common reporting and financial requirements. Positive steps in this regard have been facilitated by the Budget Support donors. The result has been more and better donor coordination and closer aid alignment. Even donors that do not give budget support will be drawn into coordinated sector policy discussions.

In many “established” difficult partnerships, such as those with Uganda and Mozambique, initiatives like these have been tried out. The donors have done a good job in these countries and have moved far ahead of the international harmonisation agenda. Donor coordination and aid alignment have been successful at both harmonisation and alignment. The result is a much improved dialogue with the government and better aid practices. However, they have not been able to achieve meaningful results in the fight against corruption.

In Uganda, multilateral and bilateral donors have established a collective position on AC, which has been effective in negotiating with the authorities. Acting with “one voice” has not only reduced the transaction costs for the government of dealing separately with each donor, but has also enabled donors to increase their leverage vis-à-vis officials in order to get some reforms going. Nothing indicates, however, that this increased political capital has been translated into a stronger emphasis on fighting corruption.

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<sup>29</sup> Some would argue that such a view is highly unrealistic, if not impossible, in many places, like Pakistan and Afghanistan.

In Kenya, a much less donor-dependent country with less donor cooperation and unity, more significant change has nevertheless taken place. This indicates that donor coordination per se can do little more than reduce transaction costs between donors and vis-à-vis the government – at least if no aid conditionality is in play. Other factors embedded in national politics are clearly more important.

### **Use conditionality with care**

There is a clear and inescapable tension between country ownership on the one hand and donor priorities and conditionality on the other. The impact of aid conditionality on persuading governments to address corruption has been questioned, mainly because aid flows often continue even if conditions are broken. In the front line against the war on terror, donors continue to tolerate corrupt practices (warlords and nepotistic ministerial appointments in Afghanistan, for example), and where countries accept the policies of international financial institutions, such as trade liberalisation and macroeconomic reform, pressure is effectively taken off.<sup>30</sup> At the country level, conditions have also often been too complex, shifting and numerous to be practical.

Positive outcomes from aid conditionality would be expected in heavily donor-dependent countries where donors are well organised. The evidence from Uganda and Ethiopia tells a different story, as these regimes are willing to sacrifice aid in order to hold on to power. The only progress made has been in cosmetic changes, such as the prosecution of one or two individuals of minor importance. In recognising this, the donor community has been asking these countries for governance reforms linking aid to the expansion of civil liberties and administrative reform. This governance conditionality is soft by nature, and with large-scale budget support in place, these countries know that aid money will remain on the table. It remains to be seen whether governance-focused conditionality will be effective.

The same concern is raised over policy conditionality. It does not appear to be any more successful for anti-corruption than for other purposes, unless it reflects government's real priorities. A broad consensus has emerged from studies of policy conditionality that policy changes cannot be "bought" in this way. Domestic political considerations emerge as the prime factor in determining economic and political reform, and donor pressures do not easily influence these. Kenya under Moi in the 1990s is an example. Insofar as the new Kenyan government is now making a more serious AC effort (a commitment which has brought back most donors), genuine electoral competition and an active civil society appear to have been the crucial elements in this change, not conditionality.

There must, however, be a line in the sand for what the international community can accept. Regimes that operate as a de facto mafia, for example, should not be supported. Le Billon states that the international agencies should be ready to suspend non-

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<sup>30</sup> One will often hear in the world of development cooperation that “no one model fits all”, and that interventions and modalities must be tailored to local circumstances. Issues like the donor/government history, quality of national systems and indeed corruption are supposed to come into play and determine the level and mode of aid delivery. Recent research by Alesina and Weder indicates that donors neither favour nor sanction corrupt countries. Speck has broken down the figures and found that the US gives more money to corrupt governments while the international agencies have a more balanced approach. Scandinavian countries are seen to favour cleaner countries. This indicates that there are factors other than performance that determine aid flows to highly corrupt countries.

humanitarian aid to avoid consolidating the power of corrupt politicians.<sup>31</sup> However, such direct measures should only be undertaken when there is a clear consensus in the international community as to the status of the regime, and only when there is strong donor coordination on the ground.

In these worst cases the donor community could also consider restrictions on travel for regime dignitaries and their families, expulsion from international fora or even more drastic means. But this kind of pressure should only be applied with the greatest care as it may backfire into isolationism and repression.

Another lesson, however, is that external pressure can be successfully applied in countries which aspire to join international fora such as the WTO or EU. A good example is Albania, where a persistent campaign from the international actors in Tirana informed everyone, including the electorate, that the lack of progress in talks was due to the government's unwillingness to address these issues in a genuine way. A combination of diplomatic methods and public shaming did not induce the former government to change its position. This was, however, picked up by the electorate, which became aware that their low living standards were linked to 1) corruption 2) the sitting government. In July 2005 the governing party lost power in a campaign that was fought by the opposition on an anti-corruption ticket.

The way out of the conditionality conundrum is to provide partner countries with credible medium-term commitments, and to minimise the variability of aid over the partner government's fiscal cycle. Donors should programme aid through a multi-year framework, aligned with national budgeting and programming cycles. They should fully disclose both the expected flows and any triggers for their reduction or suspension if the terms of the agreement are not respected. The aid agreement should be a public document.

Ideally, donors and partner governments should move from binary "yes/no" to graded "more/less" types of trigger, and increasingly base these on monitorable results set in the PRS. Donors should use partner governments' performance assessment frameworks to monitor progress against the PRS. Indicators must, however, go beyond creating strategies and passing laws to implementing real reforms that increase transparency and establish real accountability in key government functions and sectors. In Afghanistan, for example, the single "anti-corruption" indicator in the National Development Plan is "ratification of UNCAC by the end of 2006". This overly general, much less unrealistic, prescription is highly unhelpful to the case for reform.

Governments bent on improving their image and increasing aid flows will be keen to help develop some "evidence-based" indicators. Successful use of outcome-based conditionality may help build a consensus for broad-based sector-wide and general budget support among key donor constituencies.<sup>32</sup>

Donors should also look for "sideways" entry-points, relying more on what actually matters for government. Government may not care that much about the poor (aid money),

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<sup>31</sup> Le Billon, 2005 Overcoming corruption in the wake of conflict, Transparency International, Global Corruption Report 2005:  
[http://www.transparency.org/content/download/4270/26215/file/corruptio%20%20n\\_post\\_conflict\\_%20rec.pdf](http://www.transparency.org/content/download/4270/26215/file/corruptio%20%20n_post_conflict_%20rec.pdf)

<sup>32</sup> This part draws heavily on the work of ODI on aid effectiveness; see, for example, De Renzio P. ODI opinions, Feb 2006: The primacy of domestic politics and the dilemmas of aid: What can donors do in Ethiopia and Uganda? : [http://www.odi.org.uk/publications/opinions/65\\_politics\\_aid\\_feb06.pdf](http://www.odi.org.uk/publications/opinions/65_politics_aid_feb06.pdf)

but it might care about economic growth, about FDI, and about its international reputation. Threats to trade and the voice of the private sector are potentially much more powerful levers than donor funding, especially in countries that are not aid-dependent.

### **Focus on results-based management**

In difficult partnerships generally, but more specifically in emergency and post-conflict situations, donors are faced with the combined challenge of the need for rapid disbursement while having to deal with poor oversight systems and inadequate monitoring institutions. In learning from past experience it is crucial to budget for, and establish, oversight institutions properly from the outset. Steven Radelet emphasises the need to demonstrate the effectiveness of aid through improved monitoring, evaluation and results-based management.

*“Aid programs should aim to achieve very specific quantitative targets, and decisions about renewing or re-allocating aid going forward should be based on those results. There are three basic objectives: (1) helping donors allocate funds towards programs that are working; (2) detecting problems at an early stage to help modify and strengthen existing programs; and (3) improving the design of future programs. Stronger monitoring and evaluation would help improve principal-agent relationships so that aid agencies have clearer incentives and taxpayers have better information about the impact of aid on its intended beneficiaries”.*<sup>33</sup>

Building reliable monitoring and evaluation processes should thus be an integral component of implementation. The literature on performance management is clear: what is measured is what gets done. Emil Bolongaita writes in this study of the Philippines:

*“In my study of the Office of the Ombudsman, I found that the principal performance measure used by the organization to measure itself and its staff was case disposal rate – that is, the rate at which they are able to act upon complaints relative to the number of complaints it receives. Acting upon a complaint could mean that it is dismissed, forwarded to another office, or filed as a case in court. Nowhere in the organization’s plans or programs entailed measuring itself based on outcome-oriented standards, such as conviction rate, rate of winning appeals, citizen satisfaction of Ombudsman performance, etc.”*<sup>34</sup>

The emphasis on monitoring should not sideline the state but instead provides an incentive for it to improve its performance while diagnosing key problems. But if there is too much pressure to show short-term results, the risk is that donors will get back into the driving seat and that the longer-term objectives of strengthening local institutions and policy-making processes will be undermined.

Orienting technical and financial assistance towards checking on the sensible use of funds should not, however, become overly focused on the Ministry of Finance and a few selected ministries in the capital. There is only so much an accountant can find out. The monitoring of public sector expenditures and projects should include views from users of public services and investments. This may take the form, for example, of establishing

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<sup>33</sup> Radelet S. *“A primer on foreign aid”* Working Paper 92, 2006, Center for Global Development : <http://www.cgdev.org/content/publications/detail/8846/>

<sup>34</sup> Bolongaita E. *“Controlling corruption in post-conflict countries”* Kroc Institute, Occasional Paper, No 2, 2005 : <http://www.u4.no/document/literature.cfm?id=211&key=58>

local citizen oversight boards within existing health programmes to keep officials accountable for budget expenditure in hospitals and clinics, and of creating internal audit units at the municipal level to monitor the procurement process within local governance programmes.

Publication of all monitoring efforts may serve to increase democratic accountability. These same monitoring efforts could also be directed towards international aid agencies, increasing the accountability of both national and international actors.

Donors should encourage peer review mechanisms like NEPAD at an early stage and be active in establishing a monitoring mechanism under UNCAC that will be meaningful in the sense that countries would feel compelled to take the necessary steps to be in compliance.

### **Be politically sensitive**

Donors tend to see elites only as part of the problem (vested interests getting in the way of reform), rather than as part of the solution. Steps should be taken to maximise the chances of finding common ground with local power holders and opinion formers. A starting point would be for donors to avoid jargon and to look for language that removes unnecessary obstacles to dialogue. Particularly in countries with an unstable political environment (such as Zimbabwe), AC activities may be interpreted as undermining those in power.

At the same time, working with corrupt governments can be used by the regime to gain legitimacy and entrench its position. In-country donor AC collaboration on priorities and initiatives therefore needs to be undertaken with care, with actions directed towards upholding what the state is formally committed to: for example, statements by political leaders, international AC conventions and laws relating to the transparent and accountable use of public funds.

Post-conflict deal negotiators and dignitaries are more comfortable speaking about accountability than corruption, although the former is part of the solution to the latter. Packaging is therefore important and needs to be taken seriously. Two identical anti-corruption initiatives can be presented in different ways depending on the context. However, some agency staff feel that caution has overcome the international actors. Two examples:

*“I would like to see donors being more outspoken on the issues of corruption. If donor ministers and senior staff spoke out about corrupt issues and practices, it would give the general population of all countries a greater sense of the importance of why systems and processes free from corruption is the ideal”.*

*“A more direct involvement in the political sphere has to be accepted. The pure a-political technocratic approach can no longer be maintained in any segment of international cooperation: all policies have political dimensions that would be better be brought into the open and be discussed”.*<sup>35</sup>

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<sup>35</sup> Development agency staff speak out on donor coordination :  
<http://www.u4.no/themes/coordination/quotes.cfm>

## Protect aid money from diversion

Donors must be willing to accept risk and engage even in the most fragile states. But operating in corrupt environments does not exclude taking responsibility for the use of taxpayers' funds. Essentially, donors could support each other in not funding activities vulnerable to corruption if a government is unwilling to address the problem. Another proposition is to focus more on knowledge than on finance, and on using grants rather than loans where feasible.<sup>36</sup>

The mechanisms for aid delivery are clearly crucial in fragile states. Donors must select aid modalities according to country circumstances, in a way that builds government capacity to provide services but at the same time provides adequate safeguards in high-risk environments.

Direct Budget Support (DBS) should remain the preferred modality, but only in those cases where its long-term viability cannot be put into question.<sup>37</sup> This will rule out most fragile states. The drivers-of-change framework has the following sensible advice for the budget support donors if a situation deteriorates:

1. Slower increases in the share of general budget support as a proportion of total aid commitments
2. A reduction in the overall amount of budget support
3. A switch to earmarked budget support for the social sectors
4. Ultimately, delay or cancellation of tranches of scheduled budget support

In the face of blatant abuses of donor funds some hard and uncomfortable choices have to be made. That means retaining some control and not automatically accepting everything a government decides. For example, donors at one point rightly objected when the government of Tajikistan wanted to prioritise infrastructure construction [highly vulnerable to corruption] over the social sectors.

In many countries the third option of sector support, preferably linked to specific service delivery targets, could be the next best option. Aid fungibility would still be an issue. Earmarked support may free up resources that the government can spend as it wishes, but it would be harder to question the legitimacy of the aid being given.

In some contexts DBS is just not feasible and donors must go with third best options of providing project support in order to provide better safeguards against the diversion of funds. Project support should, however, only be considered in specific cases where state fragility or political concerns prevent the use of other modalities, or for specific support to capacity development efforts. The reason is that ad hoc donor funding of projects may reinforce relations of patronage. If projects are the preferred modality, they must still be in the budget. A complete by-pass of government systems should be actively avoided unless there is a serious breakdown of trust.

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<sup>36</sup> The 2006 LICUS review show that absorptive capacity constraints apply at least as much to knowledge products as to financial products. In cases where the donors undertake most of the analytical and advisory activities there will be doubts concerning the extent to which these will be fully used by the government : [http://www.worldbank.org/ieg/licus/docs/licus\\_ce.pdf](http://www.worldbank.org/ieg/licus/docs/licus_ce.pdf)

<sup>37</sup> ODI Blog (2006) Posted by Paolo de Renzio (title: General Budget Support: What Next?) <http://blogs.odi.org.uk/blogs/main/archive/2006/07/26/624.aspx>

The assessment and management of fiduciary risk is becoming increasingly important to the donor agencies. Donors must be willing to accept high levels of risk in a transitional period and use pull factors associated with budget support in a positive way. The move towards DBS should be forcing donors to become hands off in order to spur national ownership. Most governments would like to see higher shares of aid given as DBS, which then can be used to propel the anti-corruption drive to the top of the agenda. Focusing on which absolute standards government needs to meet before proceeding to higher levels of DBS might incentivise domestic leaders. At a minimum, donors must require that a credible reform programme is in place. In effect, however, we have to face the fact that DBS can represent another form of conditionality.

## **4. Evaluation phase:**

### **Explore a new aid architecture**

As mentioned in the introduction, there are strong voices for turning around the conditionality debate: instead of providing aid to encourage reform, some argue that it should be given to countries that have already demonstrated a desire to implement key reforms. In the language of the principal-agent problem, donors should spend less time trying to write contracts that force an alignment of incentives and instead give more aid to countries that on their own demonstrate similar motivations and objectives. Some donors have begun to be more selective, including the World Bank in the allocation of its concessional IDA funds, some European donors in terms of providing budget support, and the US with its new Millennium Challenge Account.

In this section we will explore and elaborate on an option for a new aid architecture that tries to address the twin challenge of the lack of ownership by government and pressure by donors to disburse funds. The idea is to move towards ex-post conditionality, so that aid is used to finance reforms, rather than to buy them. In other words, disbursement would be based on evidence of progress in governance in the social sectors. This option is more likely to succeed in countries with some state capacity.

The challenge for development agencies now is to find an architecture that will facilitate an increase in aid flows in the medium term. The current hope rests with the concepts outlined earlier which focus on partnership, trust, harmonisation, ownership, dialogue, capacity building, and on checking for development-oriented outcomes. In Uganda, for example, it seems that it has not been possible to uphold the focus on outcomes as the donors have tried to fill the vacuum left by a regime that has moved from strong to weak ownership of the development process. Some would also argue that the process has not been genuine on the donor side either in recent years as the driving force has been to disburse with little regard for outcomes. Evidently the goal of the GoU has been to amass as much in aid monies as possible.

How then can we begin to conceptualise a situation where donor funds are used more effectively and where the government can be enticed to get back into the driving seat? The recipe we put forward emerges from the concern that there is too much focus on the grand statements, lofty plans and promises made by many governments in the difficult partnership category, stated intentions that are never implemented. We hold that it is not

the amount of money allocated that is the problem in most countries but rather its illicit use. The problem is made worse by the lack of follow-up on the donor side. The toleration of corruption seems to be high as the development partners are disbursing as usual in the face of so many broken promises.

So is there some way we can reward results rather than promises and in the process minimise the leakages that we now have to endure in the many difficult partnerships? Dr Alf Morten Jerve of the Chr. Michelsen Institute sees the need to experiment with ways of financing development that are not linked to the yearly budget cycle of the agencies. Many have put forward the suggestion that funds be earmarked for regions, specific countries, sectors within countries, or even local level entities like a commune. The point is that the funds would not be removed if results took more time than stipulated to materialise. Conditionality is therefore off the table as funds would be there to fund national priorities.

Some will immediately argue that Uganda indeed has experience of such funding through the Poverty Action Fund (PAF), which was established in 1998 as a response to concerns about the accountability and reorientation of the budget, given additional resources from HIPC and other donors for pro-poor expenditure. The PAF has been instrumental in introducing mechanisms for promoting budget allocations to sectors with strong pro-poor perspectives. However, the Uganda Debt Network (UDN), which has been monitoring government expenditure through the PAF, has documented examples of corruption, major time lags between the release and receipt of PAF funds, and serious problems with the quality of the services delivered, which have compromised the potential impact of the PAF on poverty reduction.

However Dr Jerve, considers that minor modifications to the idea of a fund might make a big difference in terms of what we can expect to achieve. The recommendation is to set up a fund that releases resources to the recipient *after* results have been delivered. We would see funds being released based on the school building actually built in district A, that it has the agreed number of teachers teaching the agreed number of hours to a real number of students, in the first, second, third quarter etc. Likewise, funds would be released for the road leading to the village once it is actually there for all to see. This delayed payment from the fund would mean that the government would have to use its own domestic revenue as the seed money, and the government would carry the risk if the results never emerged. The National Fund money would thus be released based on performance and would only pay for parts that the government would incur.

Some will call this a form of post hoc conditionality that brings little new, and would rightly point out that this model is not equally suited to all forms of aid. It should therefore be noted that other types of fund would exist to support NGOs and other more limited commitments, and funding should be made available to improve government systems further in order to enable them to deliver the results that will be sought. Most importantly, support must be given to building capacity to receive budget support effectively if that is to be brought back in as a result of a proven record of not squandering donor and nationally generated funds.

We would be contradicting ourselves if the model did not allow for long-term democracy-building initiatives supporting drivers of change – a part of the longer-term democratisation process. Indeed, the suggested model would go some way towards

restoring the damaged accountability relations between the government and the electorate as it would become very tempting for the population to vote out a government unable to access funds due to its corrupt behaviour. As the fund would grow due to the failure to deliver, the incentives to vote the regime out would increase.

### **Prepare for the if/when**

Donors should also be “preparing the ground” for a future point at which the government is more willing and able to address corruption. One starting point may be to identify anti-corruption needs that are likely to emerge after an election, for example, and to plan follow-up action so that donors are ready with practical support for any new AC commitments that emerge.

For example, if the current regime faces allegations of grand corruption, demands are likely to arise rapidly for action on recovering stolen assets once political change takes place. Donor countries with major financial sectors may want to outline a contingency plan for how they will assist if/when these demands are made. Work on asset recovery, for example, could proceed well in advance of a regime change, since it mainly requires action between and within individual donor governments.

Under these circumstances it is important for the international community to be able to move quickly to support that newly found political will. Again, collective action allows donors to leverage their relative strengths (some may have more money available, others expertise). The Embassies and stations in fragile states must therefore be given funds and autonomy to act fast and concisely when things turn around.

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Implementing the Virtuous Cycle**

Policy Paper of the Network for Integrity in Reconstruction – [www.tiri.org](http://www.tiri.org)

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**More documents available on the OECD (DAC) website:**

[http://www.oecd.org/document/36/0,2340,en\\_2649\\_33693550\\_34041636\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/36/0,2340,en_2649_33693550_34041636_1_1_1_1,00.html)

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[www.U4.no](http://www.U4.no)

U4 - CMI  
PO Box 6033  
5892 Bergen, Norway  
Tel: +47 55 57 40 00  
[U4@U4.no](mailto:U4@U4.no)