



# The anatomy of a failed anti-corruption project:

A case study from Nepal

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# U4 PRACTICE INSIGHT

## The anatomy of a failed anti-corruption project:

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In 2004 and 2005, the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) implemented the first anti-corruption project involving the private sector in Nepal.

Despite the novelty of a supply-side intervention, however, the effort has not managed to survive the termination of DFID funding. This U4 Practice Insight explores how local ownership, through a combination of actions, inactions, and broader political factors, can dissipate at different stages of the project cycle. Since donor support ended, not a single anti-corruption activity has been continued by the FNCCI.<sup>†</sup>



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<sup>†</sup> This case study is based on (1) the review of project documents and published materials; and (2) interviews with project stakeholders.

## Background

Corruption has never been systematically treated in Nepal. In general, the public sector is indicated as the major source of the corruption problem in the country. Although the private sector is implicated in almost all major scandals in Nepal, it is usually projected as a victim forced to pay bribes by civil servants. Corruption is still not widely talked about in the Nepali corporate world. If at all, businessmen might talk of petty corruption they face on a daily basis.

A rude awakening on private sector corruption took place after the discovery of massive bank-defaulting in the early 2000s, when the country was forced to introduce austerity measures. In early 2002, with increased political instability, the crisis of governance, and the intensification of the Maoist conflict, the Nepali economy collapsed. The unprecedented financial crisis called for donors' budgetary support and this, in turn, called for the assessment of fiduciary risk and reforming financial accountability and control. In the process of belt-tightening, new anti-corruption laws and institutions were created in 2002. During this period, the CIAA, the constitutional anti-corruption agency in Nepal, was seen as the most active. Similarly, during this period, the Poverty Reduction Strategy Paper (PRSP) was drawn up, and the good governance agenda was taken as the fourth pillar of development in the Tenth Five Year Plan (2002-2007). The other three pillars were (1) broad-based economic growth, (2) social sector and rural infrastructure and (3) targeted programmes. The anti-corruption programme was subsumed within the programme of good governance. The DFID-supported private sector anti-corruption project was conceived at a time when good governance, and the anti-corruption drive in the country, were at their height.

## Description of the intervention

The Federation of Nepalese Chambers of Commerce (FNCCI) is the largest umbrella organisation of businessmen and industrialists in Nepal. It represents the interests of over 50,000 businessmen in Nepal.

With financial support from DFID amounting to GBP 196,204, the FNCCI Anti-Corruption Project was implemented in 2004 and 2005, over a period of 27 months.

This was a unique project as it was the first ever project launched in the country to address the problems of corruption from a supply-side perspective, or through the lens of the private sector in Nepal. The project was launched at a time when anti-corruption projects in the country were targeted primarily at the public sector, or to address the problems in the demand-side of the corruption transaction.

The assumption behind the conception of the project was that corruption increases the cost of doing business, and that it seriously damages the competitiveness of the Nepalese industry. The project aimed to reduce both corruption perpetrated upon and practised by the business community. While pursuing this goal, the project sought to involve the business community. Achievement of this goal was expected to reduce overall corruption in Nepal.

The former president of the FNCCI - who pioneered the project together with the then-Chairman of the FNCCI/Employer's Council and head of the CEF - describes the following problems the project was conceived to address: (1) honest businessmen in Nepal were being gradually displaced by dishonest businessmen, (2) there existed general weaknesses in the private sector, resulting in a tendency to opt for short-cut methods, and (3) bribery had become a matter of compulsion rather than a matter of choice for businessmen: "[i]f in earlier days we had to bribe public officials to do something, now, we have to bribe them to not to do something. Earlier, it

was matter of getting positive payoffs (rewards), now; it is a matter of avoiding negative payoffs (punishments).”

The project conceived four layers of outputs; each output, in turn, contained several numbers of activities. The intended outcomes from the project were:

- 1) An anti-corruption programme for the business community effectively run by FNCCI,
- 2) a Code of Conduct in force for the business community,
- 3) continued efforts by the business community, government, and civil society to jointly seek ways to reduce corruption, and
- 4) greater awareness among the general public of the nature and cost of corruption to businesses and consumers.

Under the first output, the FNCCI was expected to establish a Complaints Handling Unit (CHU), and to organise various training, seminars, and workshops for their members on business ethics and corporate social responsibility. Under the second output, the project was expected to develop a Business Code of Conduct to be implemented and monitored by the Corporate Ethic Forum (CEF). Under the third output, various seminars and advocacy programmes were organised on business-related corruption problems between stakeholders, namely, the business community, government officials, civil society members and international chambers of commerce, and to promote an anti-corruption movement in the private sector. Finally, the fourth output sought to launch an anti-corruption campaign to increase public awareness against the vices of corruption in business.

## Project Design

The consultants involved in designing the project had intensive consultations, both at formal and informal levels, with businessmen, bureaucrats, and politicians. A formal consultative programme was organised with FNCCI members and the bureaucrats. Prior to drawing up the project document, intensive personal visits were made to the politicians. Judging by the list of names given in the project document, there was a high degree of consultation and participation in project design. One of the consultants involved recalled that, during the design stage, the business community expressed keen interest in the project. Many businessmen expected that the project would relieve them from the hassles they often experience during the settlement of tax, customs, and other duties with the government.

After a workshop in which FNCCI members participated, a project document was prepared and submitted to DFID (which had indicated a willingness to fund) in December 2002, while the actual agreement to implement the project was signed only in December 2003. The delay was primarily due to change in leadership within FNCCI. With the president's departure, there was no one within FNCCI to take the initiative forward. There was reportedly internal resistance within the FNCCI by “bank defaulters”, who felt threatened by the project. This resulted in the decision to contract the actual implementation to an outside company, a process that further delayed the start of the project.

## Project Implementation

The level of zeal and enthusiasm of businessmen that was observed at the project design phase tapered off by the time of project implementation. The Project Coordinator recalls his difficulty in calling Steering Committee meetings. There was a general apathy and lack of interest within FNCCI leadership to implement the project. Some of these reasons are stated below.

An authority within FNCCI criticised the project for selecting the wrong implementation modality, i.e., contracting out the project to an outside consultant, thereby effectively removing the ownership away from FNCCI to a private sector entity keen on completing project activities according to their contract, without effectively doing anything about corruption in the private sector. The later introduction of overseas travel was seen as an attempt to generate renewed interest of FNCCI in the project.

## Impact

At the end of the project, a detailed review of project outputs was made by an independent consultant (Bajrachary 2006). The objective of the review was to assess and evaluate the project activities against the targets to understand the effects, achievements, and deficiencies.

The project produced some concrete outputs. These included the publication of a Business Code of Conduct, the establishment of a Complaints Handling Unit within the CEF of FNCCI, study reports related to various aspects of business-related corruption in Nepal, the organisation of trainings, seminars, and workshops on business ethics and corporate social responsibility, and the launching of anti-corruption media campaigns.

Since considerable amendments were made in project activities during the implementation phase, one cannot simply compare the original targets in the project document with those achieved at the end of the project. Some new activities were introduced and implemented, while some others were dropped due to practical reasons:

- 1) There was almost a three-fold increase in the number of businessmen coming to participate in the orientation programmes on the Code of Conduct (2182 vs.750). Many of the activities mentioned in the project document seem to have been

implemented. However, some under-achievements were seen with respect to: (1) non-realisation of a proposed trust fund,

- 2) closure of the website upon termination of the project,
- 3) abandonment of the idea to establish a Public Action Committee, and
- 4) the lack of complaints processed within CHU.

The output review also contained a qualitative assessment of the project, using an opinion survey of 180 respondents from nine out of the 44 districts where project activities had been implemented. The questionnaire contained questions about the effectiveness of the project, its timing, adequacy, general weaknesses, and future needs for such interventions.

The output review presented a positive picture on project implementation. But the evaluator had also been hired on a number of occasions by the project as a resource person to run seminars and workshops, which suggests a potential conflict of interest.

## Analysis and Lessons Learned

### Problems of measurement

The project was able to implement a large number of activities, both those that were originally conceived and those added later on. However, the impacts of such activities on achieving the purpose of the project, i.e., “to reduce corruption involving the business community” cannot be known in definite terms. The end-of-year review of the project, made only at output-level, admits that such “an ambitious goal of reducing corruption cannot be achieved within two years.” Not least due to the lack of baseline information on the nature and scale of private sector corruption in Nepal, it is impossible to measure project effectiveness in terms of achieving this goal.

Therefore, the output review study has softened the goal of “reducing corruption” to mean leaving “some positive impacts” in the field. These were meant to “generate awareness against corruption among the business community and the general public”. If one were to re-define the project goal, then it could be safely assumed that the project did have some positive impact. The project did provide an opportunity for the business community in Nepal to talk openly about the negative effects of corruption, and it helped to improve its image by sending signals to the society that the business community is ready to fight corruption along with other civil society organisations.

### Sustainability

However, the predictions on “project sustainability” raised by the project document did not materialise. The project document had assumed that due to personal and commercial interests of the leaders within the FNCCI, the FNCCI would continue to take forward the project objectives beyond its duration, and influence those who are less committed. Importantly, a trust fund of NPR 2 million was expected to be created from the donations from the business community and contributions from the FNCCI to bear the recurrent costs of running anti-corruption programmes, including the future operation of the CEF and the CHU. These commitments - made at FNCCI senior level - were not realised. While the CHU was established, it was practically defunct in the absence of complaints. The targeted amount of money to be collected for the trust fund was also never achieved. The most acclaimed activity of the project, namely the Business Code of Conduct, was never implemented and monitored. By the end of the project, its website was no longer functioning. At the time of writing, the FNCCI is contemplating to establish a Disciplinary Committee to replace the Corporate Ethic Forum and the Complaints Handling Unit. The Committee is also expected to monitor the implementation of the Business Code of Conduct. The proposal for

establishing a Disciplinary Committee further indicates that the CEF and the CHU did not function as planned.

### What went wrong?

Drawing lessons from project implementation, the output review observed that:

- FNCCI must take full ownership. Only then will confidence be built and desired implications generated.
- There is a strong need for the commitment of the top leaders to make the process successful and sustainable.

Indeed, before initiating this project, DFID had decided to base its programming on Nepali-generated ideas in the hopes of avoiding the problems that plagued earlier governance initiatives that lacked national ownership. With its extensive consultative phase, the FNCCI project initially seemed to establish broad-based buy-in.

But, why then, was there no FNCCI ownership, and why was there no leadership? First, the change in FNCCI leadership orphaned the project. Some groups within FNCCI were threatened by the anti-corruption project, and there was apathy and indifference on the part of the new leadership. Second, FNCCI has stated (contrary to donor claims) that it had no role in the selection of the implementing consultants and therefore lost interest in project implementation. Indeed, there are strong reasons to opt for an independent implementing agency in Nepal. First, it provides a safeguard against a possible politicisation of the project within FNCCI. Second, in DFID’s own experience working with other NGOs, when it comes to handling money matters, conflicts and disputes among members of the partner organisations have previously affected project implementation negatively.

In addition, the financial implications of continuing activities beyond the duration of the project were seriously miscalculated; at the end of the two-year project, no material conditions were in place to carry activities forward, despite, at that stage, the project having created a certain momentum, with Code of Conduct seminars being in high demand.

## Conclusion

Revisiting the project nearly three years after its closure brought to the fore a number of lessons to be learnt while implementing donor-supported programmes in a developing country environment like Nepal. Even though the project was conceived prior to the enforcement of the Paris Declaration on Aid Effectiveness, the experience clearly shows that in the absence of local ownership and also local leadership, any innovative and attractive project - in this case, the idea of a project addressing the supply-side of bribery, and complemented the recipient country's macro-level policies for good governance - can fail.

The following is a summary of the reasons:

First, ownership seemed to dissipate from the very beginning of the project. The pioneers who conceived the project abandoned it after a leadership dispute within FNCCI and the new leaders were never sold on the idea. In fact, the intended owner of the project was not made clear during the conception and design phases of the project.

Second, sustainability was assumed to be assured by providing for funding arrangements beyond the project duration, like the creation of a trust fund. Because of the confused ownership issue, however, even the available funds were never used by the project. The donor agency's concern with financial integrity lead to a focus on successful implementation rather than longevity of activities. Because funds went through external contractors, the

FNCCI lacked the capacity to take over the project once donor support ended.

Third, although this point is disputed by most respondents in the output review, the project was likely launched at the wrong time. Many stakeholders in the FNCCI were implicated in the economic crisis, and amid bank defaulting charges, the project operated in an atmosphere of mutual doubt and suspicion. The failure of the Complaints Handling Unit is a direct result of this. The political situation of the country, beyond the control of the project management, also had an effect. Although project activities were not affected by the insurgency, the private sector at that time was pre-occupied with its own survival. The issue of anti-corruption was simply no longer high on its agenda by the implementation phase.

## References

Bajrachary, Pushkar (2006) Output Review of FNCCI Anti-corruption Project. Assessment report submitted to FNCCI Anti-corruption Project, 31 March 2006.









## Abstract

In 2004 and 2005, the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) implemented the first anti corruption project involving the private sector in Nepal.

Despite the novelty of a supply side intervention, however, the effort has not manage to survive the termination of DFID funding. This U4 Practice Insight explores how local ownership, through a combination of actions, inactions, and broader political factors, can dissipate at different stages of the project cycle. Since donor support ended, not a single anti-corruption activity has been continued by the FNCCI.



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