

# International Development Committee

## Oral evidence: Tackling corruption overseas, HC 809

Tuesday 22 March 2016

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Members present: Stephen Twigg (Chair); Fiona Bruce; Dr Lisa Cameron; Helen Grant; Pauline Lataham; Jeremy Lefroy; Mr Virendra Sharma

### Questions 1-39

Witnesses: **Professor Paul Heywood**, Sir Francis Hill Professor of European Politics, University of Nottingham, **Alina Rocha Menocal**, Research Fellow, ODI and University of Birmingham, and **Aled Williams**, Senior Adviser, U4 Anti-Corruption Resource Centre, gave evidence.

**Q1 Chair:** Good morning and welcome. I know that one of our witnesses is not yet here. Alina will join us shortly, but we will start on time and then pick up when Alina arrives. We have two panels this morning. This first panel of three will run for about 45 minutes. Just to give a sense of the timings, we are aiming to cover eight areas in 45 minutes. We will try to be succinct in the questions. Succinct answers are great. Some of our questions, because of the evidence, are directed at individual witnesses; some, of course, will lend themselves to answers from all three panellists. The way I like to do it, because it is efficient, is I do not ask you to introduce yourselves at the beginning, but when you give your first answer please provide some sort of introduction. I am going to start with a question for Professor Heywood. In your submission, you mention that stakeholders including DFID often talk about corruption in broadly undifferentiated terms. Can you tell us why you think this is the case and why that is important for this discussion?

**Professor Heywood:** Thank you very much. I am Paul Heywood. I am a Professor at the University of Nottingham. I am the programme lead of the British Academy-DFID Anti-Corruption Evidence Partnership. I am also the EU DG Home Affairs expert on corruption in the UK, and a board member of Transparency International UK.

Corruption is generally used as a catchall term, but in reality it encompasses a vast array of different types of activity. In terms of defining corruption as the abuse of entrusted power for private gain, that broadly does capture what we think we understand by corruption. If you think about it you could differentiate between different types of corruption—kleptocracy versus nepotism versus bribery—as a whole range of different activities.

It is not just different types. Activities take place at different levels. Some corruption takes place at a transnational level involving vastly complex interconnections between shell companies, governments, different agencies and so forth. Other corruption takes

place at national level. Some corruption takes place at a sub-national level. Some corruption takes place at individual level.

It also varies according to sector—whether it is corruption in the construction sector, corruption in judiciary, corruption in education, or corruption in a range of different sectors. It also differs between being top-down corruption and bottom-up corruption, and reflecting different cultural norms, dispositions and ways of operating.

So you already have a four-dimensional matrix of different types of corruption, many of which are so different in their manifestation, in their motivations and in the way that they operate that it is not actually helpful to lump them all together. Why does it matter? Because if corruption differs that much then if we have an anti-corruption strategy it is going to be too broad to hit the actual targets that you want. You need anti-corruption strategies that are targeted at the specific type of corruption that you are talking about. That is why differentiation and disaggregation is so important.

**Q2 Pauline Latham:** How do you think DFID should respond to different types of corruption through its policy and programming? How can it best incorporate the country context?

**Aled Williams:** My name is Aled Williams. I am a Senior Adviser for the U4 Anti-Corruption Resource Centre, which is a partnership of eight bilateral development agencies on anti-corruption, and one of those partner agencies is DFID.

I agree with Paul that differentiation of corruption types is extremely important for corruption risk assessment. There has been a lot of progress in recent years in the field of the challenges in measuring and characterising the different types of corruption that we see in different country contexts. However, this is still an evolving field where we must recognise that DFID is working in an environment where we still have limited understanding of the way that country contexts matter for anti-corruption outcomes.

One of the issues that we at U4 think is very important to consider in future research, in terms of how anti-corruption outcomes are linked to a country context, is to understand better and have more research on the interdependencies between different types of anti-corruption interventions and how they relate to different types of contextual factors. Contextual factors, of course, come in many different shapes and sizes. We have the country context; we have the sectoral context; we have the different types of actors involved. For example, there is a big difference between the way that large oil and gas companies work in the extractive industries and the corruption risks that they are exposed to, and the types of corruption risk that more junior mining firms, for example working more in exploration, are exposed to.

**Alina Rocha Menocal:** Thank you very much. I am really sorry I am late. I think they twigged that I was Mexican and they checked me more thoroughly.

More seriously, perhaps the first thing I would like to highlight is that obviously we are all here because we understand that corruption is a very serious problem, but it is far from being a straightforward one. There is a lot of moralistic language that comes into play when thinking about corruption. The main point that I would like to make is that corruption is not really a moral problem that needs to be solved but really a social problem

that needs to be much better understood so that it can be addressed more strategically and more intelligently. This then means that we need to develop a much more nuanced understanding of corruption, which includes, among other things, this idea that we really need to understand why different forms and activities of corruption perpetrate each other in different contexts, what the main drivers are, and how we can best address them by looking at how they interact, and all of these things.

The challenge and the frontier for DFID and other donors is to get to much better grips with the underlying political factors that drive corruption, and then design interventions that are politically aware, flexible, strategic and adaptable to the context.

Aled was talking about the need to understand interdependencies among different types of interventions. This is a really important point because oftentimes it might be that there are some specific corruption interventions that are being attempted but there are other interventions that may not be necessarily targeted to corruption that can be even more effective and in combination can have quite a watershed effect. I am thinking of the revolution that happened in Guatemala recently, where there was upheaval about corruption but there were many different factors that helped to explain that. One certainly was a United Nations initiative that was quite politically smart but was quite risky, and had been in place for a long time—10 years—before any of this was able to happen. Also there was a very powerful people's movement, which is the product of sustained donor commitment to Guatemala over years to really help organise citizens and help them gain a greater voice.

**Q3 Pauline Latham:** Can I just ask Professor Heywood to come at it from a slightly different angle? Our predecessor Committee, in its “Parliamentary Strengthening” report, recommended that DFID should include parliaments in their anti-corruption strategy when they reformulate in 2016. I think that parliaments are important in the fight against corruption, and we have just come back from Nigeria, where I was encouraged that the new parliament there, which is very new and inexperienced, has the right idea because they do want to tackle corruption. They are an ideal country to start with, whereas Uganda has just more of the same and they do not have any intentions of changing the corruption. One is right and could do with the help; the other one will not want to be bothered so you are throwing good money after bad trying to help them, in my view. What is your opinion of parliamentary strengthening in terms of anti-corruption?

**Professor Heywood:** Your story demonstrates the truth of the oft-made comment that there is no-one-size-fits-all solution and there cannot be. Parliament is potentially a very important player in an anti-corruption strategy but it is one player. It is one player that can only work in certain conditions. One of the things we need to understand better in any given country context is the relationship between what we might call formal and informal governance. In some countries there are institutional structures that effectively reflect the way that decision-making takes place in that country. In other countries there are formal institutional structures but there is an informal network, which is where decisions take place. In those kinds of situations, any kind of formal structure—any kind of institutional fix, any set of codes of compliance, etc—is meaningless because it does not actually attack where the key decisions are taken.

This goes back to the points that both Aled and Alina were making that we need to understand contextual factors much better, and that means recognising that corruption is inherently a political problem and it is to do with the political organisation of the particular area that you are dealing with. It is not necessarily just a state that you are dealing with. Some of it is international or transnational; some of it is sub-national. It is understanding what exactly it is that you are trying to get at. Parliaments can be part of the answer but only part of the answer.

**Q4 Pauline Latham:** Do you think DFID are well placed to be able to work out which is the best place to go in, recognise and tackle corruption?

**Professor Heywood:** I would say this, given my current position: one of the important things that DFID has done is to launch this Anti-Corruption Evidence Partnership, which is a major £10 million initiative into understanding better exactly what works on the ground where, getting real evidence of specific interventions in specific places to target corruption.

**Q5 Jeremy Lefroy:** What Pauline has said was exemplified by our visit to Tanzania at the end of 2014, when they were just in the middle of the Public Accounts Committee investigation into the so-called escrow scandal. It was the Public Accounts Committee and its then Chair Zitto Kabwe who was very much holding Government to account, so it seems to work in some countries.

Moving on, I was quite surprised, perhaps naively, to understand, in written evidence to us, that further research is required to improve the evidence base on corruption. Corruption had been around since time immemorial. I would have thought there was plenty of evidence around. In what way do you think the evidence base needs to be strengthened, or is this just creating extra work for people who look at these things?

**Professor Heywood:** Corruption is an issue that has only really started to attract major attention in the last quarter of a century. Of course it has existed throughout all time in all regimes everywhere. Why did it start to attract attention? I would argue that one of the reasons was intimately connected to the end of the Cold War and the idea that there would be a universal shift towards liberal democracies.

Linked to that, although Transparency International has done a fantastic job and is a major player in increasing our understanding and attention on corruption, what they did was release something called the Corruption Perceptions Index, which ranked countries according to how much corruption exists within them. That spawned an absolute explosion of work that precisely focused on corruption as a disaggregated thing—one thing, so you could identify how much corruption there is in country A versus country B. There were two major problems with that. First, as we have already explained, corruption does not lend itself to that kind of aggregate understanding. Secondly, it reflects a belief that corruption is a property of countries. Some of the most egregious corruption that we have to deal with at the moment is actually transnational and it is facilitated. It cannot operate solely within a country but nor can it be combated solely within a country. That is one of the reasons that we need to understand more. It is partly because, over the last 25 years, although there has been a huge amount of work on corruption, it has taken place at far too synthetic a level to really drill down to understand what is actually going on.

**Aled Williams:** Of course corruption has been around forever, but the data that we have on corruption is evolving. As Paul said, there was a first generation of global perceptions indices on corruption, like the Transparency International Corruption Perceptions Index but also the World Bank Control of Corruption indicator as part of the World Bank governance indicators. Subsequently we have seen national surveys rolled out. For example, there is quite extensive national survey work on perceptions of corruption in Vietnam, which is supported by the World Bank and DFID. What that means is that we can do more interesting things as we go along. That is where the interesting research hopefully can come from in the next years, hopefully as part of DFID ACE. As these data points increase, we can look at what we learn from that.

**Alina Rocha Menocal:** I was one of the lead authors of the DFID evidence paper on corruption with my colleague Nils Taxell from U4. One of the things we did in that paper was really look at what kind of evidence is out there on corruption: causes, effects, and ways to tackle it. We found that there were some substantial gaps. There is a lot of literature out there but the quality of evidence varies. Also a lot of the evidence that is out there, especially in terms of what has worked where in terms of combating corruption, is far from establishing a solid answer. A lot of the material that we were looking at led us to believe that we cannot firmly ascertain that yes, social accountability efforts will undoubtedly help to combat corruption. It was very difficult for us and DFID to try to have this more nuanced messaging that we did not know for sure. They wanted to have clear answers. The reality of the matter is that unless you have a much broader and deeper evidence base you will not get to that.

In the evidence paper we point to some gaps, including this issue we were talking about regarding interdependencies and how different anti-corruption and other measures may work better together. There is the whole issue about whether or not international efforts to tackle corruption in these broader transnational networks work and whether or not they make a difference. I just want to say, with Paul here and with the work that DFID has been doing on this, there is a lot of promising research that is being commissioned or is about to be commissioned that will hopefully start providing some of the missing pieces of the puzzle. It is also important to recognise that we will probably not get to the answers of this for a while.

**Q6 Jeremy Lefroy:** Thank you very much for that. Do you think that, where there is evidence and it is quite clear, DFID has tailored some programming from the work it does, the results of that and has tackled the things that are clearly problems in a particular country or a particular area, or are we still at the stage where there is a lot of evidence being gathered but that has not really had an impact on any programmes?

**Alina Rocha Menocal:** DFID has been at the forefront. I do not know if you knew Sue Unsworth but she has just very sadly passed away recently. She and others have been at the forefront of really trying to ensure that development work is deeply informed by the politics underneath it. DFID as an agency has been pioneering work on how to not only understand the local context but to try to then, as a result of that, work differently, work in a more flexible and adaptable manner, and really tailor their different programmes and projects to the context.

**Q7 Jeremy Lefroy:** Could you give us an example of where they have done that?

**Alina Rocha Menocal:** For example, on a slightly different but not unrelated topic, I have been involved with DFID in a project on service delivery and legitimacy in difficult settings in Jordan and Lebanon. One of the key questions was how DFID should get involved, especially because DFID did not have a strong presence there, and there was a really intensive process of understanding the real context in Lebanon and Jordan to set up programmes that by design actually look quite different even if the ambition is the same. The idea then is that over time they will be tracking these programmes to ensure that the assumptions that underlie their theory of change is actually right, and if it is not right then try to understand what kinds of tweakings and changes need to be made. This is really at the forefront of development.

It is not easy for DFID and other agencies trying to do what we are calling thinking and working in a more politically aware way to do this, because there are a lot of different constraints, including pressures from above to achieve certain results in certain timeframes, and pressures from below not to meddle with local politics and what-have-you. I would say that they are really trying to make a difference. Part of the reason why they commissioned the evidence paper that I was part of, and also this major five-year research programme, is to really try to understand this better. The purpose of the research programme that has just been or is just about to be announced is really to close the rather challenging gap between having rich research and what this means operationally for programmes, and that is what they are going to be looking at in tracking them over time.

**Q8 Jeremy Lefroy:** That is very helpful, thank you. My final question is to Professor Heywood. Given that the programmes that you are involved in, such as the research project that is funded by DFID and is going to run until 2018 and the Anti-Corruption Evidence Partnership until April 2020, what should DFID do to make sure that money is not wasted on programmes in the meantime while this evidence is coming out? Are there some fairly basic rules that they can put in place to avoid programmes in the meantime getting obstructed or mired because of corrupt practices?

**Professor Heywood:** There have been a couple of inquiries organised by this Committee that have highlighted issues that DFID needs to focus on more in terms of anti-corruption. The second of them was perhaps a bit harsh or unrealistic.

**Jeremy Lefroy:** You are talking about ICAI reports.

**Professor Heywood:** Yes. There are specific corruption risks that are increasingly well understood. We need to ensure that where we have concerns about the probity of Government agencies, we do not just hand aid funding over to them directly. Being aware of corruption risks and potential mitigation strategies is an important factor.

There is another dimension to this. DFID alone cannot be expected to address or solve the problems. These are, by their nature, immensely complex, intertwined, interconnected issues, which involve a whole series of different levels. DFID can only work to the extent that it is supported in its work by other actors doing the right kind of thing as well. I imagine you are going to come on to the question of a one-HMG anti-corruption strategy. It is really important that it is understood that DFID needs support across the range of Government activity, both nationally and internationally, if it is going to be effective.

**Q9 Dr Cameron:** Alina, in your written submission, you state that access to the proceeds of corruption can be crucial in forming the political settlements necessary to end violent conflict. You seem to suggest that in some circumstances aspects of corruption could contribute to stability and development. Could you elaborate on that?

**Alina Rocha Menocal:** I do not suggest; it is a pretty established finding in the evidence. This is where a more nuanced approach to the kinds of causes and effects of corruption is really important, because it gives you a bit of a sense of the complexity, and the real sense that there are no black-and-white answers when one is talking about corruption. When you look at different countries that have emerged from violent conflict, oftentimes one way of doing it—and sometimes it has proven more sustainable than other times—is to entice actors who otherwise can continue to opt for violence to join in because they will benefit from the good of that.

I come from Mexico. I do not know how much Mexican history you know but we had a devastating, really long revolutionary war where there were lots of different militia and big men around. The country was completely ungovernable and unstable. Basically it was through really clever political machinery through a political party to unite all of the different big men who were otherwise opting for violence, through a very clear understanding that it was a strategy of co-optation and clientelism to bring them on board and that ended violence there. Mushtaq Khan has done a lot of work that also shows that in situations of ending violent conflict, the distribution of rents can be extremely important in providing stability. Again, that is only one side of this puzzle. The other side is that also corruption can deepen a lack of trust in government and a lack of legitimacy, so we have to contend with that. It is absolutely not the case that there is only one way of looking at this. There is plenty of evidence suggesting that in different scenarios corruption has been important in terms of providing stability and overcoming fragility.

**Q10 Dr Cameron:** It sounds like it is quite a complex issue in terms of the different layers that we have to address. We are aware that Professor Mushtaq Khan argued that blocking some apparently damaging flows can also do more harm than good if these flows are driven by deeper problems such as absence of industrial policy or “live and let” rules between competing political factions, or the presence of domestic monopolies. What are the panel’s thoughts on this?

**Professor Heywood:** I have spoken in some of my own work of what you could call a corruption trap where, because a country is seen as having particular problems around control of corruption or levels of corruption, aid gets withdrawn or is made much more conditional, but made conditional on the kinds of reforms that sometimes can only come about if they receive the aid that is being prevented from getting there. That is your corruption trap. It is absolutely true that there are situations in which sometimes there is a level of corruption in a regime that is so endemic that the idea that you are just going to say, “We are not dealing with this” is unrealistic. It is equally the case that there are circumstances in which corruption delivers for people on the ground in the light of formal state resources that do not deliver. If corruption is the way around that for individuals in their real lived experience then they might be opposed to corruption but have no option but to use it because it is the only way that they can get access to resources.

**Aled Williams:** This is just building on that. That is one of the reasons that in our evidence we suggest that it is important to consider, from an analytical point of view, the developmental risk of corruption, rather than necessarily focus primarily of the fiduciary risk to the aid agency involved. That is because if we think about the developmental risk, that may mean we can recognise the functionality of corruption in solving some people's problems sometimes, and not be naïve to the fact that corruption sometimes is the default governance setting in a particular context for a particular sector, for example, while at the same time having that lens on the overall developmental impact of a particular approach.

**Dr Cameron:** So a longer-term view as to what impact over time in terms of people's lives our different projects would have.

**Aled Williams:** Yes.

**Alina Rocha Menocal:** Just to reinforce the point that Paul has made, I was just at the World Bank in their fragility and conflict forum and there was an absolutely fascinating presentation by Simon O'Meally, who is leading work at the World Bank on service delivery and violence in violent settings. One of the key findings there is that elite bargains and rent seeking and corruption have been absolutely instrumental in enabling services to work. A key message that emerges from this research is that we really need to understand that combating corruption in one area can probably have an impact in others. We have to be conscientious about that because it is not the case that by tackling corruption you will have no externalities or collateral damage. This is important to highlight.

**Q11 Fiona Bruce:** Good morning. You have already told us that evidence of corruption can be difficult to determine and is weak, so my question is not going to be one that is easily answered. I appreciate that, but it is important that we look at it. What we want to try to understand is what success measures DFID could put into anti-corruption efforts, how evaluation frameworks could be formed, and I am particularly interested in how success could be measured in fragile states with regard to the informal sector, tackling the informal sector, and whether you have any good examples of anti-corruption projects. My last question is regarding timeframes. We have looked a lot, as a Committee, at the fact that many of DFID's measurements are within a three-year timeframe, which obviously, in a fragile state in particular, is probably highly impractical. What are your views on that?

**Professor Heywood:** On that last point, I could not agree more that timeframes are wholly unrealistic if they are on three or even five-year scales. If you take the UK as a country that generally is believed to be relatively corruption-free, although maybe not as much as it should be, and think of the move from what was the co-called old corruption to the current state, that took a period of decades to implement. In most countries where we have relatively low levels of corruption, the broader institutional, social and political arrangements that have created the framework for relatively low levels of corruption have evolved and developed over periods of many, many, many years. We are talking decades, sometimes even longer. The expectation that you can have an institutional fix that will have a real payoff in a three-to-five-year timeframe is pretty unrealistic.

Coming back to measures and what you can do, one thing that is really important to do is to get away from this notion of the aggregate sense of corruption and how much corruption there is. If you have a strategy for a given country and then look and ask

whether there is less corruption in that country at the end of three, five or seven years, that is not a meaningful question. We need to ask what specific types of corruption we are interested in, and can we therefore track changes in those particular areas.

Where are these examples of that? There are a number of interesting examples. There is a project that runs out of Princeton University called Innovations for Successful Societies, which has a whole series of different case studies of particular projects working at pretty local level. Equally, the Legatum Institute, along with *Foreign Policy*, which Alma was involved in as well towards the end of last year, was looking at success stories in tackling corruption. It was taking specific examples of corruption in particular places and seeing how they had been addressed. That is what we need to do. Rather than talking all the time in this undifferentiated way, we need to be much more specific about what we mean where, and track changes in those particular areas.

**Q12 Fiona Bruce:** I absolutely agree. I am thinking for example of a project which some of our Committee members saw when we were in Burundi, where advisers from the UK had gone out, DFID-sponsored, to the tax authority and clearly there was a measure because the tax take had gone up. How can we ensure that, if DFID is involved in anti-corruption measures, there really is some way of measuring? At the end of the day, that is important for the UK people, is it not—to be able to measure the effectiveness of such projects? Do you have specific success measures that you could suggest?

**Aled Williams:** There has been an evolution in terms of monitoring and evaluation work on anti-corruption in the past few years. One of the important things is to establish credible baselines, so that when programmes are initiated there is a reference point later on so that we can look back and say, “Such and such has improved or worsened”. There are different methodologies that have become available to do that. One of the important points is to move from corruption risk identification, which is mainly what we have now within DFID and other comparable aid agencies, to actual, active corruption risk assessment where we are differentiating between different types of corruption—as Paul says, doing that disaggregation—and then consciously making informed choices about how we assess which risks we are going to address and which ones we think are perhaps not so important for the overall developmental impact of a programme.

**Q13 Fiona Bruce:** Which would you address?

**Aled Williams:** I cannot answer that question because that depends on the specific programme, the specific country case and the specific context. That is why we say there is no one-size-fits-all solution. We cannot come and say, “If you do X, this will be addressed”, but what we can propose is that there be a consistent, systematic methodology and a framework that can be used to analyse those issues and then systematically move from risk-identification, through to assessment, through to mitigation measures.

**Q14 Fiona Bruce:** I absolutely agree. Ms Menocal, developing that, do you have any practical examples or suggestions?

**Alina Rocha Menocal:** I was talking about Guatemala earlier, and I said there is an extremely innovative system called CICIG, which is a UN agency combating impunity

and corruption, especially in terms of organised crime. There are a couple of things here. The establishment of CICIG was a very fraught process that involved a lot of negotiation between a lot of different actors in country, based on the understanding that the political elite in Guatemala was so compromised and so embedded with organised crime interests that something really had to be done from the outside. It had firm support from civil society to do that.

The commission was set up 10 years ago, and one of the things here is that it had to be given sufficient time to retrospectively be able to see if it worked. If CICIG had not been able to get rid of the President over the summer, I do not know whether we would be saying it was an unqualified success. Based on the kind of transformation it has brought about in Guatemala now, we can say in hindsight that it has been successful. Here an important lesson is that there has to be an element of perhaps admitting that efforts have to be fostered over time, over a longer time than two years, without necessarily knowing that they will pay off immediately or automatically.

**Q15 Mr Sharma:** When you were responding to Fiona's question you said that it could be country-to-country as well. Different countries have different processes and so the approach will be different in tackling anti-corruption issues.

**Aled Williams:** Absolutely. That is what I am saying; a differentiated approach, which is appropriately contextualised to particular sectors and particular countries, is extremely important, but at the same time that does not mean that a systematic approach cannot be taken to risk assessment and mitigation option assessment as well.

**Q16 Mr Sharma:** Thank you. Ms Menocal, you told the Committee in your submission that to curtail corruption in low-income countries is likely to impede the functioning of the informal sector. That is what you said in the written submission. Given the high amount of the world's poorest in the informal sector, how should corruption be tackled to avoid harming the poorest and how can success in fragile states be measured?

**Alina Rocha Menocal:** You hit the nail on the head. Essentially, from the evidence that emerged as a result of this work we were doing for the evidence paper it came across quite clearly that efforts to formalise the economy, which makes sense for a lot of reasons, also have this collateral damage, which is that they tend to affect those who depend on the informal economy and tend to be poor and marginalised most strongly. This is clearly a case of where there is no black-and-white answer in how to tackle corruption and what to do about it.

We were just talking to a lady from the UNDP in the regional office Turkey and she was also saying that in Albania they had piloted a project to try to encourage small businesses to adopt a much more formal way of handling receipts, and as a result of that a lot of people went out of business. I will answer you in the same way that Aled has, which is that it is impossible to say what will work in every context all the time, but it is absolutely essential to keep in mind that well-meaning efforts to curtail corruption by formalising the economy, for example, can have quite detrimental effects on populations. This is a plea to really understand the context much better and to tailor the interventions according to that.

**Q17 Mrs Grant:** Good morning, everyone. The Prime Minister, in his speech in Singapore, said that the UK had to get its house in order. We have also received evidence that suggests that the UK helps to facilitate global corruption by providing a safe place for stolen funds. My question to you is whether the UK does play a role in facilitating corruption. What should the Government be doing to address this? By Government, I mean Her Majesty's Government, not just DFID.

**Professor Heywood:** Yes, absolutely, the UK is involved as, unfortunately, a facilitator of international corruption. That is because there are very, very significant financial flows that go through the City of London where, although we have rules in place and there are quite clear rules of diligence and politically exposed persons and requirements on a whole host of people to take action, in reality that action is not taken too often. It is not simply flows of money. Clearly London does operate along with a whole series of other financial centres around the world to allow illicit flows of money to end up in various offshore accounts or to support the activities of very, very complex arrangements with shell companies.

London is a point of destination for a lot of corrupt money. We are all acutely aware of the issue of property prices in London being artificially inflated through a whole series of purchases of big properties in the most desirable parts of the city using corrupt funds from a range of different countries. That is enabled: it is enabled by estate agents; it is enabled by lawyers; it is enabled by people who are turning a blind eye to the regulations that are in place and should stop that from happening.

What can we do? A number of things. One is to ensure that more emphasis is placed on actually ensuring the regulations are enforced. Secondly, ensuring that when prosecutions take place punishments are sufficiently relevant to actually hurt those involved. Thirdly, it is a really bad signal to abandon the inquiry into banking culture that was announced as part of the anti-corruption plan but then dropped, so those kinds of issues. Fourthly, the overseas territories should be put under far more pressure to introduce registers of beneficial ownership. Fifthly, the Anti-Corruption Summit has to be used as an opportunity to ensure that there is genuine international action on a lot of these issues around financial flows.

**Alina Rocha Menocal:** There is an interesting dichotomy here because when thinking, for example, of the work that DFID does, there is a very strong zero tolerance towards corruption language and discourse. However, as Paul has said very nicely and very importantly, we really need to have a much more determined and explicit whole-of-Government approach that involves also the work that the FCO and other agencies are doing. I am thinking, for example, of the Litvinenko affair. There is this discourse against corruption but on the other hand that was a case of complete impunity. Perhaps there was a lot less appetite to delve into it, perhaps for very intelligent and politically aware reasons having to do with British political and commercial interests. However, there is this dichotomy of discourse and this assumption that DFID is the one that has to ensure a zero tolerance towards corruption where there may be other interests that may undermine that. This is a very important point. It speaks about the need to have a much more nuanced approach to corruption.

**Aled Williams:** I agree with what the previous two speakers have both said. The role of extraterritorial law in pursuing corruption cases is very important these days. That means

implementing the provisions that already exist in the UK Bribery Act. It also means pursuing, for example, the provisions within the US Foreign Corrupt Practices Act. I think we have seen much more aggressive enforcement of that in recent years.

You are all, I am sure, familiar with the current Petrobras scandal in Brazil. It is very interesting the way that these scandals reveal the networks of influence that then spread across the global economy. A couple of days ago I was looking at a news report in Norway, where I am living, that the Økokrim—the economic crime unit of the Norwegian authorities—is starting to look into a Norwegian firm. It has come to light that they have probably been involved in some aspects of the wider Petrobras case. This needs to come from a number of different agencies and authorities across Government, and of course international co-operation is extremely important.

**Q18 Mrs Grant:** Just going to my last question, which Paul has partially answered, what should be the top two priorities of the Prime Minister's Anti-Corruption Summit, and what would success look like?

**Professor Heywood:** The top priority ought to be genuine international collaboration backed by actual legislative change, enforced with benchmarks, and critically an identified follow-up route for the summit, so it does not become just a one-off event.

**Alina Rocha Menocal:** Here the real imperative, especially for the UK but also other western countries, is to get their own house in order, and start with the understanding that this is an international, global problem that has global causes. If the UK is acting as a hub that enables organised crime then there is a need for self-reflection. Having that, rather than a paternalistic look at what other countries are doing, at this level is very important.

**Aled Williams:** The most recent large initiatives that we have seen have been things like UN conventions, such as the UN Convention against Corruption, and EU-level conventions as well. I would agree that we have more or less the normative frameworks in place for understanding and promoting an anti-corruption approach. What is important is the enforcement aspect.

**Chair:** Thank you very much indeed. Thanks, Helen, and thanks to all three of you for your evidence. There is never enough time for these sessions, but you have covered a lot of ground. That has been immensely helpful, so thank you. We are going to have the second panel, but please feel free to stay in the gallery or to move on. Thank you very much indeed.

**Witnesses:** **Shauna Leven**, Director of Anti-Corruption Campaigns, Global Witness, **Robert Barrington**, Executive Director, Transparency International UK, **Gareth O'Hagan**, Head of Extractive Industries Governance Team, Adam Smith International, and **Oliver Pearce**, Policy Manager, Oxfam GB, gave evidence.

**Chair:** Welcome to our second panel of witnesses. We have almost an hour for this second panel. We have seven areas that we want to cover. In some of them I think there is

an obvious one of you to focus the questioning on. Some we will want to hear from more than one of you, or all of you.

**Q19 Mr Sharma:** Good morning. Tackling corruption in extractive industries could have huge benefits for resource-rich developing countries. How effectively has DFID engaged in anti-corruption efforts in this sector so far, and what could it be doing better?

**Shauna Leven:** Thank you very much for having us here today. I want to speak specifically about the EITI, which I know DFID has been a huge supporter of. Global Witness were big champions of the EITI, and we have been involved in the EITI since its birth. We have seen some challenges around the EITI, particularly over the past year, but these things are never without their flaws. One thing to take away is that the EITI, again, is not a one-size-fits-all solution to the problem of corruption in extractives. Of course, joining the EITI is voluntary so it does not pick up countries like, for example, Uganda, which do not opt in. It should be seen as complimentary to mandatory regimes such as the EU directives and the US Dodd-Frank, which capture another suite of companies. I will leave it there for now. If anybody wants to join in, I am happy to come back and take specific questions.

**Chair:** I am going to come back to the EITI shortly, so that is great, thank you.

**Gareth O'Hagan:** Good morning. I work for Adam Smith International. We implement a lot of DFID's extractive industries projects, mostly technical assistance projects with governments. I will speak from that perspective. In terms of understanding the work that DFID has done in the anti-corruption space, it is important also to understand that a lot of the work is not explicitly labelled as anti-corruption work. A lot of the technical assistance projects are where DFID is directly supporting Government ministries to improve their legislative and regulatory frameworks, their institutional frameworks and their institutional capacity. Within that, even if it has not always been explicitly stated, there is a very clear understanding that a principal intended outcome of that work is to create pressure within those systems to reduce corruption. Looking at that piece of the puzzle, from our perspective DFID has been very successful in achieving that.

In some of my answers today I wanted to also just provide examples that might give a bit of context and make the answers a bit more tangible. DFID worked to support the Government of Sierra Leone to set up the National Minerals Agency, which is the mining regulator in that country. It did not exist before. We were very happy to be involved in that work, and it was a very successful piece of work. It set up this new institution that professionalises the industry and the Government in regulating the industry. Also, it creates very strong, consistent, patient and determined pressure on corruption and corrupt systems and patronage and elite capture that exists in many other institutions. I spent a lot of time there and I remain in touch with people in this environment there, and I can see it happening over time. Referring back to the previous session, where patience and determination are required this kind of work is a very good example of how DFID has been very effective in creating institutions and systems that you can see sustaining over time.

There are just a couple of other points to make. DFID does work in Afghanistan, for example, where it is supporting the Afghan Ministry of Mines and Petroleum to develop a strategy for the sector. That work has, of course with the Government, gone out and

spoken with a lot of civil society and community representatives around the country. Through that work, which DFID is heavily involved in and funding, the finding has been very clear back to the Government about how important reducing corrupt practices is to the people. The Government is now acting upon that. Those are two examples, and there are many others, in terms of non-explicit anti-corruption projects that are providing technical assistance but still have a very strong impact in the extractive industries on reducing corruption.

**Q20 Chair:** Shauna, can I pursue the EITI and Global Witness's evidence? In your written evidence, and I think you have echoed it today, you say that DFID over-relies on formal processes like the EITI. Can you say a little bit more about that, and in particular how effective you think EITI has been? Can you also comment on how it compares with Dodd-Frank and the European Accounting Directive, and therefore what we can learn from that in terms of making the EITI more effective in the future?

**Shauna Leven:** I will start at the end. The EITI is fundamentally different from the EU directive and Dodd-Frank in the US because those are mandatory regimes that cover companies that are listed or registered in either the EU or the US respectively. The EITI is voluntary, meaning that countries choose to join the scheme. Of course, once a country has joined it is mandatory on companies that sit in that jurisdiction. We view them as very complementary.

There is always a question around voluntary mechanisms, as to whether they can ever be as effective as mandatory mechanisms. Particularly around EITI, we have been concerned with the, as we call it, big-tent approach. It encourages as many countries to sign up to be candidate countries as possible. This approach has involved tweaking the standard in a way that we see as the beginning of a race to the bottom. In order to maintain a big-tent approach, you have to lower the requirements to encompass countries like, for example, Angola. We have heard the Secretary in recent years say, "We would love to see Angola join the EITI." So would we, but they have to actually meet the standard for validation. We do not want to change the standard so Angola can become a part of it. There are lessons to be learned from mandatory regimes, which is that they are mandatory.

Could you repeat the beginning of your question?

**Chair:** In your written evidence you said we were over-relying on formal processes.

**Shauna Leven:** Over-relying on EITI—again, it does not capture countries like Uganda, which have not signed up to be part of it. In that sense, if DFID is relying on EITI to tackle corruption in extractives, countries like Uganda will not be covered, simply because they have opted out.

There is also over-reliance on EITI as a technical mechanism. It does not come with as much political pressure as it could. Corruption is a technical issue but it is also a political issue and we need to take a holistic approach towards addressing it. One of the other things that EITI could potentially do but is not currently doing is address issues that go along with extractives—for example, land management. This is an issue that we see come hand in hand with management of extractives, so it could be used as a mechanism to address things like that as well.

**Q21 Chair:** The focus for our inquiry is very much around the Prime Minister's summit in May on anti-corruption. Are these issues that you would like to see addressed at the Anti-Corruption Summit? Is there an outcome with regard to EITI that you would like to see from that summit?

**Shauna Leven:** In a perfect world, yes. We feel that the UK has been a real leader on issues such as beneficial ownership. That is both in terms of public registries of beneficial ownership here at home, but also the EITI has recently committed to a provision around beneficial ownership reporting for companies that are working in EITI countries. We would like the UK summit to be an opportunity again for the Government to show leadership on some of these issues. Through the EITI, I must say it is not one of our priorities for the summit. We would much rather take advantage of other opportunities posed by the summit, but there are certainly opportunities.

**Robert Barrington:** Just quickly on the extractive side, we all know that corruption is rife in the extractive sectors in many countries. A point I would make about EITI is even if the EITI were being perfectly implemented in all countries around the world, and it is clearly not, that would only solve a bit of corruption in the extractive sectors. This perhaps reflects on this issue of formal versus informal processes. It is important to recognise that the EITI is a partial solution to a lot of corruption in that sector.

I might just say also that we think, however, that sectoral approaches are a very good approach to take, because you can focus in on specific types of problem and specific numbers and types of actor. In addition to extractives there are some other sectors in which corruption is both highly prevalent and disproportionately damaging. They would be, for example, defence and security, pharma and healthcare, the judiciary, and construction. If you could focus on those four with extractives you would be quite a lot further on in many countries in solving some of the issues.

**Q22 Chair:** A lot of the written evidence we have had, but also the first panel today, emphasises country context and the specifics in countries. How do you see the interface between what you have just said, around the importance of a sectoral approach, and what others are saying to us in terms of a country context? How do they mesh together?

**Robert Barrington:** I agree and disagree with some of what your group of academics said, by the way. They were right in saying that corruption is an extraordinarily complex issue. You need multi-pronged, multiple approaches. In any individual country you need multiple approaches. You cannot just take a country approach. You need a global approach for issues like illicit financial flows, and you also need cross-sectoral approaches like looking at procurement, and you need individual sectoral approaches. When one is looking at the resourcing that an institution like DFID puts into corruption, just looking at the complexity indicates that it needs an appropriate response.

**Chair:** We are going to come on to some of the specifics that have been mentioned there, and I know there are particular areas of evidence that other witnesses have expertise on. Fiona, did you want to ask a follow-up before we move on to the next question?

**Q23 Fiona Bruce:** Just very quickly I did. You mentioned the judiciary. I wonder whether DFID focuses enough on the expertise we have in this country to help other

countries instigate rule of law, an appropriately trained judiciary and members of their bar council and so forth. Do you think that is something that perhaps we are not focusing enough on?

**Robert Barrington:** It is a very good point. I must say I do not know enough about DFID's approach specifically to the judiciary, but the judiciary in general is a huge issue for people of course, as one would understand. If you are an individual citizen and you are a victim of corruption or you want recourse, if you have got a corrupt judiciary it is double the agony. That is the case in many countries. We cite in our submission that 28% of citizens in Africa who have had contact with the judiciary have had to pay a bribe at least once in the past 12 months. There is also a shocking case study about a small girl in Zimbabwe who was raped. The individual tried to bribe the judge, and in fact succeeded in bribing the magistrate but then failed to bribe the judge. Judiciary is critical.

In terms of UK help, I think there are a number of institutions. Parliament, which was mentioned when you were talking in the earlier bit, likewise is crucial. It will vary country by country. One can make a distinction in countries where there is political will, where you have a Government that has come in that really wants to sort things out, and countries where you do not have political will. You are clearly going to use different mechanisms in each type of country. In countries where there is political will you are actually much better equipped to talk to Parliament and the judiciary, and possibly to make quite big gains quite quickly. In countries where there is not political will, if you are looking at Parliaments you run the risk of being basically aligned with a relatively small opposition group, and that has all sorts of other issues. You might often find in the judiciary that there are islands of integrity, and they are something you can build on.

**Q24 Mr Sharma:** How will DFID co-ordinate across Government to tackle corruption, including with other Government Departments that are delivering ODA? How could it perform that?

**Robert Barrington:** Historically, the UK does not have a great record in co-ordinating across Departments. That is probably an understatement. We have seen a renaissance around the summit I must say. There is now a Joint Anti-Corruption Unit in the Cabinet Office, which is trying to co-ordinate different bits of Government to be more or less aligned. The danger we feel is that after the summit that will all drop away. The many people seconded to that unit will go back to their Departments and do what they did before, and the co-ordination will drop away.

At the same time, the Anti-Corruption Champion is a position that has been up and down in terms of how effective it is and how seriously the incumbents take it. Indeed, it is a post that was a Cabinet Minister, then an attendee of Cabinet and is now not even a Government Minister. The nature of that post and their clout within Government has clearly changed as well. The anti-corruption post was originally in DFID and very well done actually, we felt, by Hilary Benn.

DFID was an island of people who understood more about corruption than the rest of Government. However, I think it is fair to say that even within DFID, amongst many competing priorities for many years, it was not the highest priority. Currently it is a much, much higher priority than it has ever been, and rightfully so because there is a much greater understanding. This is reflected in the fact that corruption is now in the new

Sustainable Development Goals and was not in the Millennium Development Goals. There is an understanding that if you want to achieve your other development objectives you have to work on corruption as well. DFID, I think, understands that and has been promoting that across Government. The danger is that post-summit that message will not be heard, at exactly the time that ODA is being spread amongst more other Departments. That is a big red flag for this Committee, honestly.

**Q25 Mr Sharma:** How do you see DFID work with other international donors, agencies and grassroot civil society organisations on tackling corruption in other countries? What more could be done to ensure a co-ordinated approach.

**Robert Barrington:** I should just say that Transparency International has chapters in around 100 countries round the world, so we see DFID and other governments in many different contexts. DFID is a bit ahead of the pack, with regard to other multilateral and bilateral donors, in its sophistication of understanding. If you are ahead of the pack you hope people will catch up with you, but you are not necessarily talking to an audience that shares the same views.

With regard to co-ordination with other partners, with some partners it is very good—for example the Scandinavians, as you would expect, and increasingly the Dutch—but with others less so. On the ground, it is quite patchy actually. You will find that in some countries the DFID representatives really get it and are very bought into it. I know that our chapter in Bangladesh has had very good experiences. In other countries, it is probably considered a bit peripheral to their work, and so it is not that the message has really got to all the outposts.

**Q26 Mr Sharma:** What approach should the Prime Minister be using in the upcoming summit to establish better policy co-ordination both within and outside the UK Government? How might this be achieved?

**Robert Barrington:** Perhaps I will say something briefly. I do not want to hog the conversation. The first thing to say is that this summit could be extraordinarily important. Most anti-corruption summits are total failures. The reason they are total failures is that some of the people sitting round the table to negotiate the anti-corruption objectives are themselves highly corrupt. They are criminals who happen to have taken over their own Governments. If this summit works it should be people invited who are not the bunch of criminals that try to block everything, but actually people who want things to happen.

I think one of the theories behind the summit is that if you get, to use that discredited term, a coalition of the willing, you can make substantial progress. That is people who really want this to happen, even if it is not the whole world and a UN convention signed up to by 200 countries. One of your earlier questions was about what success look like. We think it is enough countries signing up to enough things that, in aggregate effect, world anti-corruption mechanisms take a really big step forward. It therefore needs lots of things on the agenda that lots of countries can sign up to. It is not one big thing like a United Nations convention. It is lots of individual things about asset recovery, about supporting whistle-blowers, about a level playing field for business—these sorts of things.

In terms of how that gets embedded and has a long-term effect, the good thing about this not being in normal processes like the G7 or the G20 is that you do not get the criminals

invited. The bad thing is that there is no natural home for it afterwards. A big challenge for the Government is to find institutional homes for each of those things so that there is longevity about these things after the summit. That could be the OECD or the World Bank or somebody else.

**Gareth O'Hagan:** I just want to talk a little bit about initiatives and standards in this space. I will get on to a comment for the summit. We work with the Financial Action Task Force and the Public Expenditure and Financial Accountability framework in our DFID funded anti-corruption projects that we are implementing in Uganda and in Ghana. The ability to work within those frameworks can have a lot of impact also in engaging with Government officials on these topics. In terms of initiatives there is also TI's Bribe Payers Index.

These initiatives together can be quite useful, but we wonder and feel that the summit could consider going a step further and trying to build on these initiatives to come up with an international standard or framework. That could be specifically focused on measuring corruption, or at least measuring the institutions and systems that need to be in place, and assessing that in each country. It could be called something like, for example, the probity charter. We have a list of recommended elements to include, which I can go through now or share afterwards, that could be quite interesting for the summit to consider.

It is quite ambitious, but this is an opportunity where ambition could be well-positioned. That is something to consider for the summit, which could potentially set things in motion whereby there is a standard in place where different countries are competing against each other to reduce corruption. It is quite complex, so this will be quite a challenging thing to put in place, but there is enough brainpower in this room and elsewhere, possibly, to come up with the right elements for something like that.

**Chair:** I am going to ask at the end for everyone's priorities and what success looks like. Both of you have kind of already answered it but you can maybe elaborate a bit then, Gareth, on the probity charter, which sounds like a great idea.

**Q27 Jeremy Lefroy:** Could I turn to tax? This will be specifically addressed to Oliver, although please feel free to come in on it. At first sight there does not seem to be a direct connection between corruption and tax, but perhaps, Oliver, you can explain why you feel, in your submission, that this is an extremely important area.

**Oliver Pearce:** It is not just Oxfam or other civil society organisations that believe there is a fundamental link between tax and corruption. The president of the World Bank, Jim Yong Kim, has said that tax avoidance is "a form of corruption that hurts the poor". We understand that there is a spectrum of corruption, from downright illegality to people manipulating the rules in a way that benefits them. We often find that corruptive practices happen when there is a coincidence of money and power. At Oxfam we are particularly concerned about what things like the Anti-Corruption Summit can do to advance the cause of transparency and ensure that effective tax systems are supported, particularly to help developing countries.

We know that in the wide spectrum of illicit financial flows, tax avoidance is an important part of the problem. It is estimated—and we can only deal with estimates due to the nature of the problem—that around \$100 billion of forgone revenue is lost to developing

countries each year because of tax avoidance. Given the links that we have to overseas territories and crown dependencies that are on many lists of tax havens and help facilitate this tax avoidance, it is within the gift of the UK Government to take strong action to show leadership at the Anti-Corruption Summit, and to say that tax avoidance is a corruptive practice. It uses the same secrecy jurisdictions and the same secrecy processes that enable other kinds of corruption, criminal actions, money-laundering and all the rest of it to flourish. We therefore see that it is intimately linked with wider forms of corruption.

**Q28 Jeremy Lefroy:** Thanks very much. That is very clear. You have made the link persuasively. I will open up to others in a moment. First, from 1 January this year Her Majesty's Revenue and Customs has made filing country-by-country reports mandatory for multinational enterprises meeting certain criteria in the UK. Do you think this is going to help? Does it go far enough? What else would you like to see in the fight against corruption?

**Oliver Pearce:** It is a first step, but it does not go far enough. We believe that public country-by-country reporting by multinational enterprises will enable citizens, lawmakers, investors, and small and medium-sized enterprises to understand exactly where those companies are paying taxes and where the revenue flows within a company structure happen. In doing so, for instance, lawmakers will be able to understand if their existing laws within their national borders are fit for purpose, and whether they are in fact collecting the revenues that are entitled to them.

That is really important for developing countries, which often do not have the same level of tax capacity in their tax administrations. By dint of having that kind of information publically available, they will be able to work out where they are potentially losing revenue, through companies operating in a complex way but making use of their country without necessarily always paying their fair amount of taxes there. We see the steps that HMRC took through the Government's action as positive, but there needs to be much greater multilateral action at the international level. That is so that developing countries that are already losing out disproportionately through tax avoidance can also make progress in tackling this scourge.

**Q29 Jeremy Lefroy:** Finally, you mentioned the multilateral level. Would anybody else on the panel like to comment on that, as to how, multilaterally, things might be improved? One of the clear examples of abuse seems to me to be the use of intellectual property to move large sums of money around. We have seen that in the UK in recent weeks and months. Companies claim that they charge even in this country vast amounts of intellectual property, and stick that income into a low-tax jurisdiction, even in another country in Europe. Are there any things that you could perhaps identify that we need to do at an international level?

**Robert Barrington:** As a citizen I find that entirely objectionable, of course. As Transparency International we do not have a line on that, because you can argue whether it is corruption or not. A point I would make is that where we are fully in line with groups like Oxfam on this tax-justice question is that effectively the mechanisms that are used for corrupt proceeds flowing through the system and tax avoidance and evasion are the same. This issue of transparency over the overseas territories is a scandal: that the UK is still

allowing this to happen, and that the overseas territories, over which we have control, at the end of the day, are able to get away with this total secrecy.

**Shauna Leven:** Just to build on that point, one of the things that Global Witness has seen consistently through 21 years of investigating instances of grand corruption all over the world is the use of an anonymous company in a secrecy jurisdiction. It is a real disservice to DFID, who is championing anti-corruption issues, that other parts of the Government are allowing this to happen.

**Gareth O'Hagan:** I would like to just make a comment on a slightly different tack. It is incredibly important to examine the international tax system and make improvements in that regard through international co-operation, with multilaterals and so on. However, it is also important to remember that in many developing countries the impact that has on their tax gap is the same or less than the impact actual tax-expenditure reform and tax-capacity building could have. It is a holistic approach, and it is important to always remember that in-developing-country efforts need not to be neglected also.

**Q30 Jeremy Lefroy:** Certainly we have seen evidence that revenue collection systems in many developing countries are incredibly corrupt. That is presumably why DFID spends a lot of time trying to work with revenue collection systems. Fiona has already mentioned Burundi as one example, but there are many others.

**Gareth O'Hagan:** Yes. We were certainly involved in Burundi in helping improve processes and systems there, and in several other countries. The impact can be significant. The key thing in all of this of course, with extractives or not, is understanding the political economy and making changes with institutions and sectors and individuals where you know you can work with them to drive those through and sustain them. If you can get those people in the tax arena on the more domestic front, as well as with the international work, the impact can be huge.

**Q31 Chair:** Oliver, I am going to ask one last question to you on this before we move on to other questions. Am I right that Oxfam is looking at opportunities, with the Finance Bill going through, to raise some of these questions? Do you want to just tell us a little bit about that?

**Oliver Pearce:** Yes, indeed. We welcome the increased level of public debate in this country around the potential for adopting public country-by-country reporting. We note that, for instance, Caroline Flint's recent Bill highlighted this as one measure that would not only benefit the UK but developing countries. We hope that the increased level of political engagement will lead to an amendment in the Finance Bill. The Chancellor made positive steps in tackling tax avoidance in the recent Budget, which will lead to hopefully increased revenues for the UK Exchequer. We were disappointed that he did not also address measures such as public country-by-country reporting, which would benefit developing countries, having previously stated his enthusiasm for that measure. We look for opportunities where we may make progress on that.

**Q32 Dr Cameron:** Evidence to the Committee cites concern over lack of innovation, a culture of risk avoidance and a failure to learn lessons in the UK Government's anti-

corruption efforts. Do you think that DFID has struck the right balance between innovation and ensuring value for money? What could it be doing better?

**Gareth O'Hagan:** We feel quite strongly about this. Especially in corrupt environments, referring back to my point about political economy, understanding that political economy and the forces that it brings to bear on governance systems, effectiveness and so on, is incredibly important in extractive industries in particular. It becomes very, very strong in many situations when very large sums of money are at stake. The political economy evolves over time. That is one point.

The other point is that with regards to anti-corruption work the emerging evidence and literature is that a process of experimentation can be very important. There is no tried and trusted way. As the previous session was making clear, there is no one-size-fits-all either. It is incredibly important for implementers such as us in this space, or other actors, to be able to adapt and be flexible and to innovate. The systems that DFID has in place currently tend to be quite rigid, where there is a clearly designed programme of work with clearly defined results. That is very important because we need to demonstrate and achieve value for money and impact. We very much welcome that and like working with that. However, it is not suitable to all types of project and all types of intervention. Anti-corruption work and political economy work are very good examples of where it is not the best way to go about things.

Another aspect that can be quite rigid in this context is the concept of payment by results. It is very difficult to define how, when and which results you are going to achieve in an anti-corruption environment because it is so unpredictable. We certainly recommend that these interventions can be more successful and impactful if they can—I do not like to use the term “trial and error”—experiment and innovate, and have contractual and procurement systems in place that can adapt to that. They can maybe strike a compromise, still ensuring that there is pressure on implementers to achieve, which is very healthy, but also allowing for that innovation and flexibility.

There are many individuals in DFID, and there are also discussions underway and intentions to bring this about. That has to be commended. I do not think it is quite there yet. DFID needs to progress in that sense and be selective about when to be rigid and when to allow more flexible structures to achieve impact in the corruption space.

**Robert Barrington:** On the question of prioritising, it is fair to say that, amongst the many competing priorities in DFID, corruption has been perhaps a second-tier issue rather than a first-tier issue in the past. In our contention—and we would say this—it should certainly be a first-tier issue. The corollary of that is that it should not be treated, as your academics were rightly saying, just as corruption. You do need programmes specifically about corruption in governance and so on, but as important for DFID is to mainstream anti-corruption thinking into all the other things it does. Just as an example, if there is a healthcare programme that looks at an anti-malaria programme, then one of the reasons for that failing in many countries will be corruption. It needs to be as mainstreamed in that programme as it is anywhere else.

**Q33 Fiona Bruce:** I note what you say, Gareth, about flexibility, but at the same time it is important to be able to measure whether a project has achieved what it set out to

achieve. Can I ask you the question I asked the earlier panel, which is how success of DFID's anti-corruption efforts can be measured? What measurements could we put in place?

**Gareth O'Hagan:** Achieving success within corruption is a difficult thing to measure. There are certain indicators, and I will refer to them maybe alongside this probity charter. There are certain indicators of having the right systems and checks and processes in place. Those things can be measured. A colleague earlier referenced a methodology for baselining measurement of corruption. I am not sure what that is. I would be interested to see it, because it is difficult to actually measure how much corruption is out there right now, and in a year's time how that is reduced. So the indicators one can measure, but in terms of saying that there is X amount of corruption, that is quite difficult.

In the tax space it is much more measureable, because there is a tax gap. One can identify and can gradually work to close that gap, as has happened in Burundi and other places. It is quantifiable, so that is a good example of an area where that works. In the extractive industries similarly, collecting revenue, licence fees, royalties and taxes is a way to measure corruption.

**Shauna Leven:** I will just jump on the back of that. One of the things that we should take note of is that the first set of data is due to be released, coming out of the EU directives, starting this year in fact. DFID, as well as other institutions around the world, should be using this data to look at payments, revenues and the disparities between them. That can at least help us to start getting a sense of what corruption could look like and how we could measure it, starting with the extractive industries.

**Robert Barrington:** I think by the slightly fudged answers of both panels you will understand that nobody really knows. However, the best indicators that seem to me to exist are the process and risk-type indicators, which are absolutely imperfect but do exist. Then, again as the academics were saying, on project-specific work you can design a set of indicators per project. You can also look at the macro indicators, like levels of bribe-paying in individual countries or in individual institutions. That indeed is being considered as one of the measures for the SDGs. There are things like that, but they themselves are quite imperfect because they only measure certain things in certain circumstances. When you talked earlier about what more work and research needs to be done after 25 years, I think this is one of those areas.

**Shauna Leven:** Just to add again, if we are looking to perfect some of the measurements that are, as Robert says, completely imperfect at the moment, public registries of beneficial ownership would be a very good way in to accessing a lot more data on grand corruption.

**Q34 Jeremy Lefroy:** Just coming back to something that Robert mentioned about mainstreaming this work in DFID's programmes, I think that is a very important point. If I could perhaps give an example, since he raised malaria, in 2014 DFID in Tanzania stopped a bed net distribution programme for pregnant women and women who had just had babies, because of real concerns about misuse of funds and corruption. I understand why they did that, and it was the right thing to do. However, as a result, bed nets were not distributed to pregnant women for many, many months, if not more than a year. You have the problem that it is right to build anti-corruption methodology into every programme, but then the question

is what you do to that programme if you discover corruption. It is the people who need the help most who are most affected. I wonder if you could comment on that.

**Robert Barrington:** Yes, very much so. As you will have seen from our submission, TI supports a zero-tolerance approach to corruption but, having said that, we encounter corruption all over the world and our 100 chapters experience it day in, day out. We have got walk-in and legal centres for individual citizens to report it. We are utterly pragmatic about the fact that, whether you are a citizen or a company, you are going to encounter corruption the whole time. A zero-tolerance approach is not that you suddenly turn off the tap the moment you find something that you do not like. You cannot operate like that.

I would say two things about that example. The first is I would be really interested to look at the project design and see whether that really had taken into account the fact that corruption was likely to be a factor that was encountered and had tried to design its way through that. That is critical. Most international development agencies can be a lot more sophisticated about that. The second is, once you have found it, what you do. We are not in favour of punishing citizens who themselves are the victims of corruption, because you punish them twice-over. In those circumstances you need an approach that tries to not punish the citizens but also make sure you are not lining the pockets of the corrupt.

**Q35 Mrs Grant:** Does the UK play a role in facilitating corruption? If so, what should the Government do about it?

**Robert Barrington:** Unambiguously, yes.

**Shauna Leven:** Yes, absolutely.

**Robert Barrington:** I do not think there is any doubt about that. The role of the UK as a centre of global money-laundering is widely acknowledged. There is loads of data. The overseas territories, as I said, are an enduring scandal, because that is something within our control that we are not controlling. That is a big part of the problem.

We should not neglect also that companies listed and registered in the UK, whether they are pure British companies or others that are using us as a flag of convenience, serially pay bribes overseas. That is a big problem as well. The Bribery Act was intended to address that, but at the same time the Serious Fraud Office's budget was slashed from about £50 million to about £30 million. It has never been properly restored, and our estimate is that it needs to be about £75 million to be functioning properly. These are relatively small amounts of money in terms of the ODA budget and the GDP and so on. There is no doubt that the UK plays that role but there are mixed signals from the UK Government about what it really takes seriously.

**Shauna Leven:** I echo everything that Robert said. I would also add that the issue of anonymous companies is one that we have a unique opportunity to tackle with the Prime Minister's Anti-Corruption Summit. When we look at anonymous companies around the world, the overseas territories feature prominently. American anonymous companies feature prominently, and one of the things that we see when we speak to both jurisdictions is that neither will move until the other moves. If we can use this opportunity to address it, on the one hand we might make serious progress in the global scheme of things. We already are seeing countries, one by one by one, announce public registries.

**Oliver Pearce:** I would like to elaborate on those points raised in relation to the overseas territories. After the Lough Erne summit in 2013, the Prime Minister did ask for the overseas territories to develop action plans around introducing public registries of beneficial owners. In April 2014 he followed up and wrote to the leaders of those overseas territories and crown dependencies to ask them to adopt registries. We are now almost two years later and, frankly, that seems to be rather a long expression of patience. We think that the time has come for political will to be exerted. We are concerned that, with the Anti-Corruption Summit almost upon us, the UK's own credibility is rather at stake if it is not seen that the overseas territories and crown dependencies are not even outlining action plans about how they will introduce public registries of beneficial ownership. We really do think that that is one pretty cost-free thing that the UK Government can do to re-establish its leadership in this area.

**Mrs Grant:** Noted.

**Gareth O'Hagan:** I agree with what Robert said. One point from our perspective is that it is good to see DFID and the Foreign Office working closely together in this space in many of the countries they operate in. They are both using ODA now as well. We should see more of that.

**Q36 Mr Sharma:** Very briefly, Oliver touched on there being the question of the political will before we go further. The British Government have shown that there is a political will to tackle it. However, there will be other countries where, because of the global economy and global trade now, governments or officials will have a half-hearted approach or have no political will. We can give examples where there is no political will from the top level to the bottom. How can the Prime Minister create that environment, using the summit platform, to create a consensus of international policy or approach to tackle corruption?

**Robert Barrington:** I have a couple of quick points. The first is to invite to the summit the people who do have the political will. That is a very good starting point. Put in place the beginnings of an international system with those that can then be spread to others. What is notable about political will is that it can flip very quickly as governments change in countries. One has seen that, to take three examples, in Sri Lanka, Nigeria and Guatemala in the last 12 months. You have seen quite a change in political will. When you get that flip you have often got a window of only two or three years while it exists, so you have to capitalise on it. If the summit can put in place the beginnings of a framework so that when countries have political will you can get them, then that would be a good starting point.

**Q37 Fiona Bruce:** What contribution do you think the SDGs could make towards tackling corruption? I am thinking in particular of goal 16, which is a new goal, just to remind ourselves, to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. I am particularly interested in hearing about the extractive industries as an example. When we were in New York, at the announcement of the SDGs, some of us went to a session in which they were saying, "We are going to look at this in a really concerted way." Has progress been made on that? Do you know, Gareth?

**Gareth O'Hagan:** Yes, I have been in touch with folk at the UNDP around this and working out the role extractives should play in contributing to achievement of the SDGs. I will go back to my earlier point about how many DFID technical assistance projects,

which have the objective of supporting institutions improving governance and capacity, can have a significant impact on creating accountability. They do that by creating tension within institutions, for example, and creating transparency through having good governance systems, like licence management software where the licences and the payments are published online. That kind of work can have a significant contribution to that SDG. I know the UN folk, and many will be supporting and working with them over time.

I do not know if you have seen this. There is a consultation at the moment about how the mining sector should play a role in the SDGs, which is being run by UNDP, if that is of interest. It is on my to-dos to look closely at that and give some feedback as part of that consultation. I expect that the extractives industry can play a big role in achieving that SDG.

**Robert Barrington:** I just have two points on the SDGs. The first is the danger of the SDGs, as we all know, is that with so many SDGs and so many indicators some of them will get lost. All of us really need to emphasise to DFID that SDG 16 is one of the key ones, because a lot of the others' success hangs off SDG 16. It needs to be prioritised by SDG and not be one that gets lost or downgraded.

The second point is that another new thing about these SDGs is that they do not just refer to certain countries in the world. They refer to us as well. The Government need to be pretty clear what they are going to do about SDG 16 in this country. I will just make the point that the UK has a national anti-corruption plan, which is a good thing. We have no anti-corruption strategy, and we think that is badly needed.

**Q38 Jeremy Lefroy:** We have not mentioned in this session the role of journalists and journalism in rooting out corruption. I think particularly back to the 1990s, and the Goldenberg scandal in Kenya, which almost brought the country's economy to its knees. It was a combination of internal and external factors. I will not go into the details, but it was Government plus outside bodies. It really needed a strong free press to expose that. In that case, elements of the Kenyan press did a good job. I wondered if you had any comments on how DFID can actually support that kind of investigative, factual-based journalism that can bring some of those things to light, and if you have seen any evidence of that happening.

**Robert Barrington:** I entirely support your contention, by the way. It is certainly TI's experience that, particularly in the absence of political will, there are three things that become very important. There is the media and journalists, civil society and whistle-blowers. One needs support mechanisms for all of them. Altogether—it is not one or the other—collectively, particularly in the absence of political will, they can make a real difference. There will be all sorts of issues for DFID about who it can and cannot support, because it can create political difficulties, but there are mechanisms for supporting these groups that are quite well established.

One thing we have witnessed around the world is that the space for civil society is narrowing down. That is a huge concern to TI. It is not just narrowing down in terms of legislation and so on. It is intimidation. I have colleagues who have been murdered in the last two years, which has never happened previously in TI. There is lots of intimidation, security threats and so on. This is a really serious problem. One other thing this summit

could really do is talk about the media, whistle-blowers and civil society, and the need to support all of those.

**Q39 Chair:** We have four more minutes. There are four of you, so my final question—do the maths—is to ask for one thing that you think could come out of the Anti-Corruption Summit that you would want.

**Oliver Pearce:** Increased transparency through public country-by-country reporting, a commitment by all those attending the summit to implement it in their own countries, and alongside that public registries of beneficial ownerships, including action plans announced by the overseas territories. That would be great leadership and a great step forward for developing countries, and a precursor to a second generation of reforms of international tax systems.

**Gareth O'Hagan:** I will go back to my point on this charter for probity: a commitment to develop a charter for probity that includes many of the elements that we have discussed today, such as the beneficial ownership register, strong public financial management systems and probably a long list of indicators that can demonstrate that a country is meeting a lot of the requirements to tackle corruption.

**Shauna Leven:** For the UK to continue to show leadership on the anti-corruption agenda by cleaning up our own house. That includes extending our own public registry of beneficial ownership information to the overseas territories, better due diligence on the Tier 1 (Investor) visas, and cleaning up the facilitators of corruption. We have not really spoken about that, but that would include ensuring that banks face meaningful consequences for laundering money and that lawyers and estate agents and accountancies are appropriately regulated.

**Robert Barrington:** I agree with all of those. I would say two things. First of all, do not let the criminals spoil things. Keep them out, or if they attend shut them up. The second thing is that the UK needs to get its house in order if it is going to have any credibility talking about these things. We have mentioned five things we think are the UK getting its house in order: proper funding of the Serious Fraud Office, a plan for how to deal with the overseas territories, two issues about the City and the role in global money-laundering, and finally—and I say this with great respect to the people here—acknowledging that there are corruption issues in UK politics, and those need to be addressed as well.

**Chair:** Thank you very much indeed. This has been a fantastic evidence session. We have covered an enormous amount of ground in just under an hour. We are really, really grateful to you. It may well be that we will want to follow up individually with each of you on some of the specifics of what you have just managed to say in under a minute each. Thank you very much indeed for your evidence here today.