

Written Submission to the UK Parliament International Development Committee
“Effectiveness of UK Aid Inquiry”, 2020

Submitted by the U4 Anti-Corruption Resource Centre (www.u4.no) at the Chr. Michelsen Institute (www.cmi.no), Norway

Executive Summary

- Corruption in its various guises is well established as an impediment both to aid effectiveness and broader development goals: this is why anti-corruption efforts are a core aspect of official development cooperation;
- More transparent aid is on aggregate linked to lower levels of corruption in recipient countries;
- Aid transparency measures focused primarily on fiduciary risk management may miss the bigger picture of the many ways corruption can undermine fundamental aid and development objectives as laid out in the SDGs;
- DFID’s strong record on aid transparency is likely beneficial from an anti-corruption perspective: it provides data that enables others to identify and flag corruption problems in recipient countries, offering avenues for corrective measures and lessons for other UK departmental aid spenders;
- The UK should continue to promote clear-eyed, evidence-based analysis of discrepancies between states anti-corruption commitments in multilateral spaces and their actual performance;
- The global leadership demonstrated by the UK in attempting to stem the problems of illicit financial flows linked to foreign corruption should not be unwittingly compromised in any realignment of the UK’s foreign policy agenda.

About U4 and CMI

This submission draws on research and learning through the U4 Anti-Corruption Resource Centre’s activities. U4 is a center for applied research and training on anti-corruption based at the Chr. Michelsen Institute, Norway, an applied social science research institute focused on global development issues. U4 works in partnership with nine bilateral aid agencies: BMZ-GIZ (Germany), Ministry of Foreign Affairs of Denmark, DFAT (Australia), DFID (UK), Ministry of Foreign Affairs of Finland, Global Affairs Canada, Norad (Norway), SDC (Switzerland), Sida (Sweden), who provide core funding and guide our work via a Steering Committee. More information about U4 is available on our website.

Theme 2: How effective and transparent is the UK aid spent by the Department for International Development (DFID) compared to aid allocated to other Government departments and to the cross-Government funds?

Since we have not conducted formal evaluations of the effectiveness of UK aid spending, we will limit our response to published findings on the transparency of UK aid and the likely effects of this transparency on anti-corruption and the SDGs. It is theorized that aid transparency effects corruption prevalence in recipient countries because the more information is publicly available about aid financing, goals, modalities and recipients, the more likely it is that watchdogs in the recipient country (or elsewhere) will be able to call out observed abuses and discrepancies. Christensen et al (2010) find empirical support for more transparent aid on aggregate being linked to lower levels of corruption in recipient

countries. Corruption in its various guises is well established as an impediment both to aid effectiveness and broader development goals and this is why anti-corruption efforts accompany other interventions as a core aspect of official development cooperation. The detrimental effects of corruption are not limited to fiduciary risks directly related to aid spending: fundamental aid and development goals (e.g. reducing conflict, improving public health, improving educational outcomes, securing economic prosperity and reducing socioeconomic inequities) are known to be threatened by corruption within the broader recipient context – even if project funds themselves are well protected from leakage.

A salient example is that of international support to Cambodia’s education sector as discussed by Baker and Milne (2019). A Public Expenditure Tracking Survey (PETS) traced material and fiscal flows from the central government, through provincial treasury and the Ministry of Education Youth and Sport (MoEYS) provincial level tiers to the bank accounts of local education providers (So et al 2017). Through a random survey of 10 provinces, research found that funds at the district treasury level and at district offices matched budgetary allocations (So et al 2017). School accounts showed that schools received the full amount due to them and school accountants knew the correct amount to which their school was entitled (So et al 2017). But research has also found that there is a huge range in values in annual school operating accounts in Cambodia as well as delays in schools budgetary disbursement requests, suggesting that some schools regard public funds as a financial afterthought to an illicit side-economy of rents and private sector donations (Baker and Milne 2019). Although more research is needed on shadow school economies in Cambodia, it appears that what should, in principle, be free educational services and materials that are partly financed by foreign aid are used to extract illicit rents from pupils and their families, who may not be able to pay (Baker and Milne 2019). Thus, although in fiduciary risk terms PETS research shows that leakage in aid spending to Cambodian schools is negligible, corruption in the form of illicit rent extraction in some schools may still be undermining Cambodia’s achievement of Sustainable Development Goal 4: to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

There is empirical support for aid transparency from an anti-corruption perspective, therefore, even if transparency measures focused primarily on fiduciary risk management may miss the bigger picture of the many ways corruption in recipient countries can undermine fundamental aid and development objectives as laid out in the SDGs. Of the official bilateral development actors included in the 2018 Aid Transparency Index, DFID is the top performer (ahead of, for example, the United States Millennium Challenge Corporation, Global Affairs Canada, and the Swedish International Development Cooperation Agency) and is categorized as “very good” (PWYF 2018). DFID publishes aid data at least monthly, making financial and budgetary information available, and it does well on project attribute indicators as well as on providing joined-up development data. PWYF’s 2018 report noted some room for improvement at DFID in the areas of publishing subnational locations of activities, in publishing contracts and tenders, and in promoting the use of published data. DFID’s aid transparency performance is contrasted by PWYF (2018) with that of the Foreign and Commonwealth Office (FCO) who are categorized as a “poor” performer given that it was found to publish data less than quarterly, with information about allocations and country strategies published inconsistently. Conditions, tenders and contracts were found by PWYF not to be published at all. From an anti-corruption perspective, DFID’s strong record on aid transparency is likely to be beneficial because it provides the data that enables others (i.e. researchers, journalists, whistleblowers) to identify and flag corruption problems in recipient countries, thus offering avenues for early corrective measures to be taken. DFID’s experience in the area of aid transparency is likely

to offer useful lessons for other departmental spenders of the UK aid budget interested in anti-corruption goals.

Theme 3: How should the national interest be defined, and what weight should it be given, in relation to targeting UK aid?

Given U4's mandate, we will focus our response on the UK aid policy environment from an anti-corruption effectiveness perspective. The SDGs provide an important multilateral framework for development policy and practice, aimed at achieving mutual human security goals across aid providing and receiving countries. At the same time many states are questioning the relevance of the multilateral approaches and commitments built up over the past few decades and are forging their own development trajectories (Sidiropoulos 2020). The UK itself is in the midst of reviewing its global relationships via the Integrated Review process and in light of the UK's exit from the European Union. In view of these developments: how could the UK national interest be best defined from an anti-corruption effectiveness perspective? The definition of national interest is a matter for democratic debate and processes (such as this IDC inquiry) in established democracies, but two salient observations can be made from an anti-corruption perspective.

First, multilaterally agreed frameworks such as the UN Convention Against Corruption (UNCAC) provide crucial benchmarks and standards in anti-corruption work that are common for all signatory states. Such benchmarks offer opportunities for enhancing state-to-state dialogue and for addressing mutual corruption challenges between aid providers and recipients, such as asset recovery. Both anti-corruption researchers and practitioners have, however, recently been questioning whether multilateral mechanisms in the anti-corruption space are increasingly serving as "good governance façades" that mask deteriorations in basic conditions for addressing corrupt practices and other governance challenges, such as space for civil society and media (Dudley 2020). From an anti-corruption perspective, therefore, and given the known effects of corruption in exacerbating social conflict, undermining health and education goals, and increasing socioeconomic inequities, it would appear in the UK's national interest to continue to take a critical, yet constructive, approach to established anti-corruption multilateral agreements and mechanisms. In particular, the UK should continue to promote clear-eyed, evidence-based analysis of discrepancies between states anti-corruption commitments in multilateral spaces and their actual performance. Maintaining this type of analysis, facilitating its rapid communication to the UK's aid and diplomacy cadres, and working with like-minded states to devise appropriate responses, is critical for maintaining momentum on international anti-corruption goals as part of the SDGs.

Second, there is by now a substantial body of evidence that illicit flows rooted in foreign corrupt practices is sometimes facilitated by actors, mechanisms and loopholes in OECD jurisdictions, including in the UK and its dependencies (see Lohaus 2019 for a summary). The size and prominence of the UK's financial and legal services sectors, as well as the attractiveness of its property market, mean that proceeds of corruption abroad have been laundered via UK jurisdictions, thus entering the licit economy. Considerable efforts have already been undertaken by UK authorities to stem these problems in recognition of their detrimental impacts on corruption prevalence in aid recipient countries and therefore on broader development goals. The creation and pursuit of Unexplained Wealth Orders is one example (Lohaus 2019). From an anti-corruption perspective, it is important that the global leadership demonstrated by the UK, most notably under former Prime Minister David Cameron, in attempting to stem the problems of illicit financial flows linked to foreign

corruption should not be unwittingly compromised in any realignment of the UK's foreign policy agenda, for example through a loosening of enhanced due diligence requirements on UK based financial service providers in the case of politically exposed persons (PEPs). Recent World Bank research provides strong empirical evidence that there is more work to do in countering the illicit flows generated by overseas corruption and the impact this has on undermining the SDGs (Andersen et al 2020).

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