Anti-Corruption Strategies in Foreign Aid: From Controls to Results

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Abstract

Almost everyone agrees that corruption is an obstacle to social and economic progress in developing countries. Yet this consensus about the existence of the problem does not extend to agreement over how rich countries and donor agencies should deal with it – or even if it should be addressed directly at all. This essay looks at how foreign aid agencies have changed the way they deal with corruption over the last 25 years in terms of improving the integrity of funders and recipients while strengthening international cooperation. It argues that current approaches rely primarily on transactional controls and, to a lesser extent, on investments in transparency and raising global standards of governance. Much less is being done with regard to selectivity and paying for results.

The essay concludes with an assessment of current initiatives and proposes a new strategy that directly incorporates information that is often neglected: data on development results. With better information on what programs actually achieve, funders would be able to (1) prioritize the application of investigative resources, (2) test the effectiveness of control strategies, (3) implement pay for results programs and (4) be selective about providing aid on the basis of objective criteria.

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Contents

Introduction

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What is corruption?

A standard definition of corruption is “the abuse of public office for private gain” (e.g. Bardhan). This definition is embedded in concepts of “Rule of Law” and emerges from western models of public bureaucracy. It is useful for distinguishing corruption from criminal actions in the private sector; however, it is also criticized for being too narrow. Common use of the term “corruption” tends to include actions by a wide range of private as well as public actors whenever they are abusing some public trust; hence, Transparency International’s definition is “the abuse of entrusted power for private gain.” For example, private doctors and pharmaceutical companies may be accused of corruption if they profit at the expense of patients’ health. However, this definition does not encompass another sense in which corruption is applied, that of politicians abusing their office to expand political power – even when not used for personal gain. The word corruption comes with enormous moral baggage, generally requiring proof of intent. It is also difficult to define corruption in cases where the appropriateness of particular decisions (e.g. when allocating scarce resources) involves choice criteria that are contested or vary significantly across social contexts.

This essay does not offer a precise definition of corruption. Instead of setting a strict boundary for what is and is not corruption, it proceeds with the following two principles firmly in mind:

- Definitions of corruption should not be so expansive that they encompass actions which are better characterized as inefficiency (e.g. when textbooks fail to arrive due to poor planning not theft).

- Identifying actions as corrupt necessarily implies moral judgments which in some cases may complicate rather than facilitate analysis and action.

Corruption is problematic for foreign aid[1] because of the many ways funds can be stolen. Large scale embezzlement is one risk facing foreign aid. However foreign aid programs also involve procurement through local public officials who benefit from rigging bids, altering contract specifications to favor particular companies, and falsely certifying the quality and delivery of goods and services. Public officials may establish their own shell companies or NGOs in order to extract funds from aid programs. Contractors and consultants may bill for work that was never performed; provide substandard services; and inflate costs. Furthermore, local officials may divert project assets to personal use; pad foreign travel expenses; employ "ghost workers"; invent fictitious costs; and lease warehouses or equipment back to contractors at high prices.[2]

While these kinds of abuses make foreign aid less effective in terms of improving growth, welfare and development in low- and middle-income countries, corruption challenges foreign aid programs in even larger ways. Foreign aid may actually undermine domestic progress toward better governance if it legitimates and provides financial resources to sustain corrupt governments (Svensson 2000; Tavares 2003). Furthermore, addressing corruption through foreign aid is particularly difficult because aid relationships and transactions cross national borders, thereby involving distinct national authorities, standards and institutions.

Background: corruption becomes an issue for development aid

Prior to 1995, the term corruption was rarely used in official documents of aid agencies. To the extent that aid agencies addressed corruption, they did so by using bureaucratic procedures, developed by western governments, to assure the financial integrity of their operations. This primarily involved procedural controls focused on assuring fair and competitive awarding of public contracts, financial audits, and external audits conducted by governmental authorities (e.g. General Accounting Office for USAID in the case of the United States). Multilateral agencies differed in that their external controls were accountable to multiple stakeholders by way of their Boards.

In this pre-1995 period, many people believed that aid funds were less likely to be diverted than domestic funds in recipient countries because the existence of an external agent (bilateral or multilateral agency) increased the likelihood of detection and sanction. And it is plausible: many projects were supervised by external agents who verified the quality of

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[1] I will use the term "foreign aid" to refer to grants and concessional loans provided by bilateral and multilateral agencies to low- and middle-income countries with the primary aims of promoting growth, social welfare and institutional development.

[2] For a brief summary, see Michael Kramer, "Corruption and Fraud in International Aid Projects," U4 Brief 2007:4, Bergen, Norway: Chr. Michelsen Institute. http://www.u4.no/publications/corruption-and-fraud-in-international-aid-projects/

procured works (e.g. roads, dams). On the other hand, without evidence, it is also possible that aid funds were *less* effectively controlled in many projects, due to the weak accountability chain between domestic project management, foreign aid agencies, and ultimately to taxpayers in donor countries.

Table 1: Selected international anti-corruption initiatives since 1990

Financial Action Task Force Against Money Laundering (FATF)	1990
Transparency International Founded	1993
Inter-American Convention Against Corruption	1996
Wolfensohn Speech	1996
World Bank Governance Indicators	1996
Office of the Chief Compliance Officer EBRD	1999
USAID Handbook to Fight Corruption	1999
Institutional Integrity WB	2001
UN Convention Against Corruption	2003
SIDA, "Anticorruption Strategies in Development Cooperation,"	2004
Office of Institutional Integrity IDB	2004
OECD "Policy Paper and Principles on Anti-Corruption"	2007
Extractive Industries Transparency Initiative (EITI) begins to operate	2007
Cross Debarment Initiative of WB, ASDB, AFDB, IDB, EBRD	2010
First International Corruption Hunters Alliance Meeting	2010

In the mid-1990s, corruption began to be discussed openly by international aid agencies and recipient governments (See Table 1). This change was the result of many factors, including the massive reshuffling of geopolitical interests at the end of the Cold War along with publications like *Controlling Corruption* and *Lords of Poverty*. The trend toward openly addressing corruption was marked by several developments. First, Transparency International was founded in 1993 with the aim of drawing public attention to the scale of corruption and its impact. In 1995, for the first time, Transparency International published its Corruption Perceptions Index which, despite a number of shortcomings, still served as an effective tool for mobilizing international action against corruption. This marked the beginning of a period in which civil society organizations began to play more prominent and public roles in documenting corruption and advocating reforms. Second, multilateral organizations negotiated a series of important declarations and agreements. Latin American countries that emerged from military dictatorships and inward-looking economic strategies in the 1980s were opening their political systems and economies in the 1990s. In this context, the Organization of American States negotiated and adopted the Inter-American Convention Against Corruption (ICAC) in 1996, the first international compact to formally address corruption. In parallel, the OECD developed its anti-bribery convention which was signed in 1997 and the United Nations adopted the Convention Against Corruption in 2003. Third, prominent figures began to speak publicly and explicitly about corruption. For example, the World Bank's President, James Wolfensohn, used his 1996 speech to the Board as an opportunity to name corruption as a key obstacle to development. All these events pushed multilateral agencies in particular, but also bilateral agencies, to adopt new anti-corruption initiatives in their efforts to assist development in low- and middle-income countries. It also marked the beginning of new initiatives to improve the internal integrity systems of these agencies, and to expand the research, policy debates, and programs aimed at good governance.

25 Years of Foreign Aid and Anti-Corruption

Since the early 1990s, the international community has pursued a growing number of anti-corruption activities under three broad categories of action: improving the integrity of funders, improving the integrity of recipients, and providing global anti-corruption support that improves the integrity of both.

Improving the integrity of funders

Bilateral and multilateral agencies have undertaken a series of measures to improve their integrity as funders of development programs. Bilateral agencies entered the 1990s with structures for dealing with allegations of corruption based on their domestic public financial integrity institutions, though often without special provision for the peculiarities of development programs. By contrast, the multilateral development banks (MDBs) had elaborate systems for monitoring spending in foreign countries but lacked detailed procedures and systems for preventing, investigating and sanctioning corrupt acts. Thus, in the last 25 years, the bilateral agencies have mostly built upon and strengthened their existing institutions of inspection, auditing, and policy dialogue with recipient countries while MDBs have initiated a number of changes aimed at building institutions and procedures to assure the integrity of their own operations.

Bilateral agencies have addressed the integrity of their operations by clarifying codes of conduct and training their staff; by strengthening audit controls; and in some cases establishing new or specialized investigative offices. They have explicitly undertaken peer reviews to learn from each other and improve their practices, sharing experiences through the OECD's Development Assistance Committee (DAC) and institutions like the U4 Anti-Corruption Resource Centre (U4). In the last 10 years, bilateral agencies have tried to improve the coordination of their responses to corruption by following principles articulated in an OECD policy paper (OECD 2007). This approach placed anti-corruption efforts within the context of improving good governance in recipient countries and argued for a rational process of assessment, benchmarking, and coordinated response.

Over the last 25 years, all of the MDBs have instituted new departments and procedures to improve their integrity. Prior to the 1990s, allegations of corruption tended to be handled on an *ad hoc* basis by their legal departments or specially appointed investigators. Since, then most have adopted whistleblowing mechanisms, expanded internal and external auditing procedures, created investigative offices (e.g., the Asian Development Bank's Office of Anticorruption and Integrity, the World Bank's Integrity Vice-Presidency), revised codes of ethics for staff, established semi-judicial procedures for imposing sanctions on contractors, and negotiated collective agreements on debarment. This process has required that MDBs navigate a series of difficult legal challenges related to respecting the sovereignty of their clients, negotiating commonly accepted definitions for abuses, and adopting credible and respectful standards of evidence. Coordination among the MDBs has required further negotiation to establish the bases under which decisions in one institution can serve as the basis for actions in another, as in the case of cross-debarment rules. Such control mechanisms represent the most systematic effort by funding agencies to improve the integrity of their programs and it is visible in the expansion of staff and offices dedicated to these functions.

Improving the integrity of recipients

Beyond addressing their own integrity, bilateral and multilateral agencies have sought *to improve the integrity of recipients*. These activities include direct support for creating anti-corruption commissions, building investigative and judicial institutions, implementing new public procurement systems, and establishing public financial management practices that mimic institutions common in high-income countries. They include efforts to make government activities more transparent and strengthen civil society groups that can hold governments accountable. In some cases, agencies use corruption indicators to be more selective about recipients – whether allocating concessional resource with a formula that includes corruption measures (as at the World Bank) or setting a corruption threshold below which countries are ineligible for funding (as at the Millennium Challenge Corporation – MCC).

Global anti-corruption support

The final category is a range of initiatives that provide global support to anti-corruption efforts. These are standards, services, or institutions which can benefit everyone without exclusively applying to any one country or setting. They include legal conventions that clarify abuses and facilitate international cooperation in prosecuting fraud and abuse, like the OECD Anti-Bribery Convention and the United Nations Convention Against Bribery. They also include efforts to increase the transparency and accountability of international transactions, such as the Extractive Industries Transparency Initiative (EITI), The Financial Action Task Force on Money Laundering (FATF), or the International Aid Transparency Initiative (IATI). Other global initiatives aimed at corruption include research into the causes, consequences, and extent of corruption; public rankings of corruption (e.g. Transparency International, the World Bank's Worldwide Governance Indicators - WGI); protocols for international cooperation on recovering stolen assets, tracking the assets of prominent persons, and pursuing criminal investigations; and support networks for those engaged in high-level anti-corruption investigations (e.g., the International Corruption Hunters Alliance).

Basic Questions about Corruption and Development

Many more people are working directly on anti-corruption initiatives than in the past and concerns over corruption are a regular part of international debates about the effectiveness of aid. Yet a number of essential questions about this work remain unanswered. In particular:

1. Is corruption so bad that we need to spend so much time and money dealing with it?
2. Are the costs of improving the integrity of funders worthwhile given how little we know about the impact of such initiatives on corruption and development impact?
3. Can outside agents make any difference in helping (or pushing) recipients to operate with greater integrity?
4. Do public goods improve integrity?

Is corruption so bad that we need to spend so much time and money dealing with it?

We know that funds are stolen from public agencies and aid programs and that resources are manipulated for purposes other than those for which they were intended. But this is true of almost any public program and even occurs in private firms and non-profit organizations. The critical question is to know the extent to which corruption interferes in the achievement of public goals such as the provision of public services or promotion of general social and economic development. If we knew with some precision that 3 percent of overseas development aid programs failed to achieve their goals because of corruption, then we could take proportionate steps to keep it under control. If on the other hand, the proportion exceeded 30 or 40 percent, we would have to take much stronger measures. Thus, accurately estimating the extent and impact of corruption is vital for deciding how many resources to put into anti-corruption efforts and to help identify which policies and efforts are useful.

Furthermore, the extent and impact of corruption is not simply the diversion of resources from their intended uses. The effects of corruption on achieving program goals and on the functioning of public institutions in the public interest are more important than the amount of funds that might be diverted. Small levels of corruption can have far-reaching effects on social welfare and public institutions when they influence allocative decisions, distort the formation and operation of public institutions, or create obstacles to social accountability of public institutions. In other cases, programs may achieve their goals even when funds are not used according to plans or procurement rules. Thus the amount of effort put into controlling corruption really depends on the extent to which the control efforts improve or hinder development.

If aid agencies do not know how bad the problem is, they cannot judge whether they are applying too few or too many resources to their control efforts. They also have no basis to judge the effectiveness of their control efforts.

Are the costs of improving the integrity of funders worthwhile given how little we know about the impact of such initiatives on corruption and development impact?

The standard response to a corruption scandal is to redouble efforts involving fiduciary controls, procurement rules, and financial management reforms. But do the costs of strengthening these mechanisms outweigh the benefits?

Controls can impede aid effectiveness in a number of ways. One tradeoff involves the direct cost of applying procedures, monitoring compliance, auditing, investigating and applying sanctions. If these costs are high relative to the amount of corruption or their effectiveness at reduction corruption, then the effort may backfire. Another tradeoff involves the impact on support for agencies and countries that take controlling corruption seriously and expose themselves to unfavorable comparison with organizations that are less rigorous and open. For example, when Zambia detected and reported corruption in a health sector operation financed by the Global Fund, donors punished the country by withdrawing funds rather than acknowledging a success of the control system (de Vibe et al. 2013; Savedoff et al. forthcoming).

In addition, enhanced controls may also have little impact on corruption if agencies fail to utilize them. Existing procedures may be perfectly adequate *if* they were implemented fully. However, most agencies are evaluated in terms of the amount of money that they disburse, which can discourage full implementation of controls and encourage downplay of risks, avoid confrontations, and explain away accusations as unfounded or mistakes (Berkman 2008).

Even when fully implemented, enhanced controls may be ineffective at reducing corruption and improving impact. Since they only apply to a small share of recipient countries' overall investment portfolio and money is fungible, recipients can follow anti-corruption procedures set out by agencies for handling project funds but reallocate domestic resources to uses that are more easily diverted. Another approach, assigning procurement and financial management to external agents such as UNDP or Crown Agents, may reduce corruption of one kind only to make room for another – reducing financial abuses but opening opportunities for diverting physical supplies and materials.

When funders allocate resources to anti-corruption efforts and set priorities for applying those resources, the decisions seem to be driven by how these activities will affect their reputations. Decisions seem to be influenced more by media attention and domestic politics than by the level of corruption in a particular recipient country. Furthermore, the costs of many corruption control procedures are invisible to managers. So funders may, ironically, be investing too little in controlling corruption at the same time that they are spending too much on activities that are supposed to control corruption but are ineffective. In the absence of better information, it is impossible to know.

Can outside agents make any difference in helping (or pushing) recipients to operate with greater integrity?

Historical research on countries which have become less corrupt identify many contributing factors, almost all of which are domestic. Thus, it remains an open question whether external agents can influence recipient countries in ways that improve their integrity. An alternative approach for external funders is to be selective, working only with recipients who are judged to have integrity – both to assure that aid is used as intended and with a small chance of working as an incentive to improve governance.

In practice, aid agencies have focused on procedural levers in their efforts to encourage greater integrity, using such exercises as Public Expenditure and Finance Assessments (PEFAs) and Public Expenditure Tracking Surveys (PETS). Aid agencies have supported the creation of anti-corruption commissions and national ombudsperson offices. They have also encouraged greater transparency and accountability to citizens through legislative action, like the passage of Freedom of Information Acts, and direct support to Civil Society Organizations. Unfortunately, research and evaluations have continued to question the utility of anti-corruption efforts, particularly when the domestic political context is not favorable (Norad 2008; Persson et al. 2012).

The ability of outside agents is quite limited in its ability to force recipient countries to improve the control of corruption. Funders can certainly help countries that are committed to reducing corruption for domestic political reasons with political support and access to technical assistance. But without domestic political motivation, outside pressures are unlikely to make lasting impressions.

Do global anti-corruption initiatives improve integrity?

Politicians in prominent high-income countries take pride in the integrity of their domestic systems of governance and in declaring "zero tolerance" for corruption in their foreign aid programs. Through collective action at the OECD, United Nations, MDBs, and other regional fora, they have, indeed, pushed the anti-corruption agenda forward. However, high-income countries are also part of the problem. Money is laundered through banks based in and regulated by high-income countries; contracts between multinational corporations and corrupt rulers are enforced by courts in high-income countries; corrupt governments are allowed to borrow from public agencies and private sector markets with the support and acquiescence of high-income countries. Therefore, an important component of global anti-corruption support is to make international transactions less vulnerable to abuse by making them more transparent. This is being done through initiatives to publicly report information on aid expenditures (IATI); extractive industries (EITI); banking (Basel); construction (CoST) and medicines (MeTA). Such transparency initiatives are probably an essential part of making corruption more difficult but they are not sufficient to the task for at least three reasons: the need for action, the unintended consequences, and fatigue.

First, information needs to be translated into political action. The more successful initiatives may be those that go beyond establishing uniform reporting standards and mandate publication, to supporting civil society groups with the expertise to analyze, repackage, convey and use information in political debates. For example, the International Budget Project has partnered with CSOs in over 100 countries, helping them to obtain, interpret and use public budget data in ways that have influenced resource allocations and indirectly constrained the misuse of funds (Savedoff and Joselow 2010).

Second, initiatives that generate and use information may have unforeseen consequences. When information becomes freely available, it makes it possible for all citizens to hold their governments accountable for integrity. However, more powerful groups are better placed to utilize such information to their advantage. Thus, Freedom of Information acts are increasingly used by corporations seeking competitive advantage in contrast to a much smaller number of uses for citizen accountability. Other initiatives aimed at tracking financial flows may be helpful for reducing tax evasion and disrupting terrorist networks, but one unintended consequence of the push toward controlling money laundering has been to increase the cost of, or entirely halt, legal remittances to people in fragile states (CGD Working Group 2015).

Finally, transparency initiatives may achieve success when revelations of previously hidden practices first become public. However, as publication becomes routine, even evidence of corrupt practices can lose its power to motivate action. The public may become inured to revelations, those engaged in corruption may feel they can act with greater impunity, and in the worst case, resignation and acceptance may become the norm (Persson et al. 2013). The U.S. historical experience with campaign finance reform since the 1970s is one large scale example of this phenomenon, while a small-scale experiment with publishing information on prices paid for hospital supplies in Buenos Aires is another one (Di Tella and Schargrodsky 2003).

Another set of initiatives have sought to measure the extent of corruption in different countries in support of research, advocacy and action. A number of institutions measure and rank countries with regard to corruption and governance: Transparency International has its Corruption Perceptions Index, The World Bank and Brookings Institution has a component on corruption control in their Worldwide Governance Indicator (WGI), and Global Integrity's Global Integrity Index. This information is regularly used by researchers, journalists and political actors to name, shame and pressure governments in poorly-ranked countries. Foreign aid agencies also choose the mix of instruments, funding, and activities they use with recipient governments in response to these integrity measures. These indices have been criticized for a number of reasons: lack of comparability, imprecision, and subjectivity among others. While they are often correlated with levels of development, they are weakly associated with changes in development and causality is still being debated.

Consequently, setting strict "hurdles" on the basis of these indicators is problematic (Dunning et al. 2014).

Other global support efforts promote research, stolen asset recovery and global norms. Research has been able to address our ignorance about the scale of corruption in particular instances (World Bank 2008), the relative effectiveness of different control mechanisms (Gray-Molina et al. 2001), and the political dimensions that limit what external actors can do (NORAD 2008). International collaboration on recovering stolen assets and requiring prominent officials (persons of interest) to be identified by banks when opening accounts and facilitating transactions are an important step to addressing the tacit complicity of rich countries in facilitating the diversion, misappropriation and use of ill-gotten gains. It may be, however, that the biggest public good of all is a higher global standard of probity for public officials. Foreign aid agencies are prominent participants in a global discourse that is contesting not only the role of government but the standards by which politicians are judged.

It is not clear how much today's global initiatives are reducing corruption but they are probably contributing to improved accountability and reduced corruption. Such investments in public goods are less visibly effective in their impact on any specific government and more likely to be part of a long-term global trend toward improved governance.

A New Strategy: Fighting corruption by incorporating development results

I have argued that corruption efforts have addressed funder integrity, recipient integrity and global support for anti-corruption efforts. All of these measures have had some impact on corruption but none have proven strongly effective against corruption. Furthermore, none of these measures convincingly demonstrate impact on development results. Measures to improve funder integrity are largely unproven with regard to their effectiveness, entail large costs, and may undermine aid effectiveness because they are designed to protect the funder's reputation more than to facilitate achieving development results. Measures to improve the recipient's integrity tend to be ineffective unless they emerge from domestic political movements. As long as these measures comprise institutions laid on top of resistant and hostile political landscapes, they will serve to obfuscate instead of prevent corruption. Investments in global support initiatives are probably helpful, but they are necessary – not sufficient – for progress against corruption in any specific context.

A new strategy for fighting corruption could be constructed by putting the current preoccupation with means (e.g., implementing new procedures, establishing new institutions, strengthening prosecution) within the context of ends (i.e., development results, service delivery, social welfare). Measuring the results that foreign aid is trying to achieve could substantially alter priorities, reduce transaction costs and ultimately improve effectiveness of interventions in addressing corruption. In particular, better measurements of aid program results could help (1) prioritize the application of investigative resources, (2) test the effectiveness of control strategies, (3) implement pay for results programs and (4) be more selective about providing aid on the basis of objective criteria.

Intelligence, investigation and results

All aid agencies now have policies to receive and screen corruption allegations, as well as procedures for investigation and action. However, the systems are limited in two ways: they are driven by self-revealing corruption and they lack information about how their action relate to development impact. Currently, aid agencies allocate investigative resources on the basis of complaints and are therefore unlikely to detect many invisible forms of corruption (e.g. Sparrow 2000; Berkman 2008).

Tax agencies have long recognized this problem and used random audits of a representative sample of returns to learn the true scope of fraud and to provide intelligence regarding scams that are rarely, if ever, reported. Another illustration of this approach comes from police departments which have instituted integrity tests by randomly selecting officers and challenging them with misconduct opportunities.[3]

The first part of a new anti-corruption strategy, then, would be to initiate a **systematic portfolio approach** to detecting corruption. A systematic portfolio approach to investigating corruption establishes a structured sampling procedure that begins by looking at which programs are failing to generate results. It then generates a purposeful sample of the troubled operations, to identify projects that are potentially failing due to corruption. This would guide priority setting by allocating investigative resources into the operations where corruption is most likely to be interfering with development impact. Once investigations reveal which share of this purposeful sample is affected by corruption, the aid agency will be able to extrapolate an estimate of the true extent of corruption in its portfolio, helping to decide how much effort is required to address the problem. Finally, by comparing abuses found in the purposeful sample with those found through existing channels, it becomes possible to identify which kinds of corruption are being missed and experiment with improvements in the detection system.

Testing control strategies against results

Current control strategies sound good but we don't really know which ones are effective. First, control mechanisms may simply not work. Tendering rules are a prominent control strategy for corruption in procurement, yet collusion, kickbacks, and bribery persist. In a survey of Scandinavian businesses who work internationally, only fifteen percent of

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[3] For a discussion of integrity testing in New York City, see Al Baker and Jo Craven McGinty, "N.Y.P.D. Confidential," New York Times, March 26, 2010; and for Australia, see Tim Prenzler and Carol Ronken, 2001, "Police Integrity Testing in Australia," *Criminology & Criminal Justice*, 1(3):319-342. doi: 10.1177/1466802501001003004

respondents said that tender rules were an obstacle to corruption (Søreide, 2006). Second, even when control strategies are known to work, implementation may be inadequate. Studies frequently demonstrate that corruption is more limited in competitive environments, lending support to the idea that foreign aid agencies should promote greater competition in public procurement. Nevertheless, the procedures aid agencies use to encourage more bids do not seem to be working. For example, the numbers of bidders on contracts financed by the World Bank are quite low, declining over time, and vary little between internationally and domestically bid projects. Furthermore, the number of "red flags" in a sample of water and sanitation programs bore no relationship to levels of corruption detected in more detailed investigation (Kenny and Musatova, 2009).

If control methods were tested more regularly for their effect on development results, it would be possible to improve strategies. One kind of testing involves assessing assess specific interventions, such as comparing the effectiveness of community oversight and managerial procedures to reduce corruption in hospitals (Gray-Molina et al. 2001)). Aid agencies also have access to substantial data that can be used more systematically to benchmark prices (Waning and Vian 2010) and construction costs (Olken 2007) not only to identify outliers for investigation but also to analyze relative to variation in the implementation of controls.

A second part of a new anti-corruption strategy, then, would be to build a program for **testing the effectiveness of control methods.** This would include a program of research into the effectiveness of different control mechanisms by assessing their intermediate impacts and final impacts in specific cases and with explicit counterfactuals. It would also include broader analysis exploiting variations in the implementation of control mechanisms across contexts and identifying whether they are associated with differences in intermediate outputs like prices and final outputs like services delivered. The evidence generated by this kind of systematic investigation would help aid agencies adjust and improve their existing control methods. It would also identify control methods that should be scaled back or discontinued, either because they are ineffective or too costly – in terms of foregone development results.

Paying for results as a way to constrain corruption

Almost all foreign aid is disbursed on the basis of documented expenditures and not in relation to results. This largely explains why corruption control strategies focus so much on tracking the flow of funds and so little on verifying program results. Yet, verifying results is an equally good, if not better, strategy for detecting corruption. Taking this insight, it is possible to see that a small but growing set of programs that pay for results could be an entirely new approach to addressing corruption.

Pay-for-results programs disburse funds in relation to outputs or outcomes rather than inputs and activities. Funders and recipients agree on a goal and establish an amount to be disbursed in relation to each unit of progress toward that goal. Such agreements need to establish an indicator and a process for measuring and verifying it. In principal, the funder need have no further involvement in terms of technical assistance or oversight, allowing the recipient to pursue whatever strategy it deems effective. Disbursements are made after confirming the level of results achieved. Aid agencies have implemented such programs paying for a wide range of results such as reduced deforestation, secondary school completion, childhood vaccination coverage, functioning water connections, and energy access.

A benefit of paying for results is that money cannot be stolen if officials keep a program from delivering results by engaging in corruption. In a conventional program that reimburses eligible expenditures, corrupt officials need only undertake enough legitimate activity to obscure malfeasance and embezzlement; while honest officials have to work twice as hard – trying to run their programs successfully and prove they have spent on eligible inputs. However, when a program pays for results, this equation is reversed. To steal money from a pay-for-results program, corrupt officials have to achieve success so efficiently that they can skim money from the final disbursements. By contrast, paying for results frees honest officials from many administrative tasks so they can concentrate on achieving progress. This logic is strongest when the unit payments are more like subsidies (requiring recipients to put up some of their own money) than full cost reimbursements.[4]

A third part of a new anti-corruption strategy, then, would be to **pay for results** more often. This requires identifying which programs have goals for which appropriate indicators can be developed, measured and verified, and setting appropriate payment amounts. This is challenging for aid agencies because many of the procedures and mindsets they have developed to reimburse expenditures interfere with the logic of paying for results (Perakis and Savedoff 2015). Second, with regard to controlling corruption, the use of pay-for-results approaches requires attention to the quality of the results indicator and the process of verification because manipulating results indicators becomes the easiest path for corrupt officials to steal funds. On the other hand, many development programs produce *results* which are more easily observed and measured (e.g., the quality of road construction) than the *processes* (such as bidding and procurement) used to contract them. Third, pay-for-results programs have to be designed with the participation of auditors and investigators to make sure that results measurements will be recognized as legal proof that something was delivered. For example, if an aid program pays a government for providing health insurance coverage, the indicator has to be defined and verified in such a way that auditors are satisfied

[4] This presupposes that the pay-for-results program does a good enough job of independently verifying results that corrupt officials cannot game results and that results are substantially influenced by the actions of officials. See Kenny and Savedoff 2013 for a fuller discussion.

that public funds were spent appropriately – without having to inquire further on what inputs the recipient acquired in the process.[5]

Selectivity based on results rather than guesswork

Foreign aid agencies have constant internal debates over the reliability of the countries they support with development programs. Typically, aid agencies differentiate the way they administer aid in relation to their perception of the integrity of domestic public financial management among recipients. In countries with high public financial management scores, aid agencies will disburse funds directly to recipient governments. In countries where public financial management is considered weaker, they will monitor the handling of funds more closely, require the recipient to follow different procedures, or mandate the creation of special administrative units dedicated to managing a particular project. When recipient governments are considered too weak (or too corrupt) to work with directly, aid agencies assign fund management to external actors like UNDP or Crown Agents or bypass the government entirely and work with non-governmental organizations. The key to choosing the appropriate modality is making a judgment *ex ante* on the likelihood that the recipient will handle grant or loan funds with integrity. Thus, internal debates are necessarily complicated by competing interests (i.e. increasing disbursements versus avoiding corruption risks), uncertainty (e.g., current public financial integrity measures are imperfect and subjective), and bias (i.e., foreign-educated leaders may be more convincing than others about their intentions to combat corruption).

The MDBs and the MCC go one step further in differentiating among clients by tying aid allocations in part to indicators of corruption. For the MDBs, corruption indicators like the WGI are one among many measures that influence access to concessional lending. At the MCC, governance indicators determine which countries are eligible for entering compacts but corruption measures are used as a strict threshold. These efforts to reward less corrupt countries with higher allocations are only as objective as the underlying indicators that they rely upon. For a number of reasons, the way the MCC uses the World Governance Indicator is problematic because the indicator is a poor measure of corruption; weakly associated with development success; slow to change; and seemingly unresponsive to reform efforts (Dunning et al. 2014).

Aid agencies are right to differentiate their approaches in relation to the integrity of domestic public financing systems. They also recognize that performance is the best guide to a recipient government's intention. Nevertheless, their policy dialogues rely too heavily on

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[5] Note that this approach is currently accepted in policy programs which disburse funds upon completion of policy actions. It is also accepted in budget support programs which are disbursed against a large number of weakly verified indicators. Somehow the process of specifying results as triggers for disbursement leads aid agencies to apply more stringent controls and requirements than they would under policy lending or budget support.

assessing whether recipients follow the *form* of corruption control and too little on the *results* that are harmed by corruption.

The fourth part of a new anti-corruption strategy, then, would be to introduce **selectivity based on results**. This requires treating countries that are effectively providing health care, educating children, expanding access to water and energy, and lowering transportation costs as more trustworthy and reliable than those who don't – regardless of how assiduously they appear to be following international practices of procurement, competitive bidding, auditing and freedom of information access. As with paying for results, this requires aid agencies to use measurements of development results to radically alter the way they think about corruption.

Conclusion

Corruption is a problem in all countries and interferes with the ability of aid programs to promote development. Aid agencies have come a long way in recognizing corruption as a problem and in improving their own approaches to assuring integrity; experimenting with interventions to improve integrity among recipients; and investing in some important international support associated with standards, data, transparency, and research. However, the approaches to controlling corruption are primarily focused on transactional controls, with significantly less attention to the use of selectivity and results payments. In particular, corruption control efforts largely neglect the development results that programs are supposed to achieve.

A more coherent anti-corruption strategy would directly incorporate information on development program results, allowing funders to:

1. *prioritize investigative resources* by generating information about corruption in samples of programs stratified by their ability to generate results. Instead of applying anti-corruption resources unsystematically, DFID could focus on those programs where corruption is actually interfering in development progress.
2. *test control strategies* with actual data on the costs of control efforts relative to their impact on corruption *and* on performance.
3. *implement more programs that pay for results* which, by paying *ex post* for actual performance, are less likely to spend money on corrupt programs.
4. have access to more *objective proxies for good governance* when selecting how to engage with partner countries.

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