

# **Combating corruption: a transparency index for donors?**

**by**

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For decades the international donor community has turned a blind eye to corruption in developing countries. This attitude appears to have changed. There is now a remarkable consensus among aid organisations on the importance of fighting corruption in developing countries. Missing, however, in their approach is an examination of how aid contributes to corruption.

The donors' recipe is to promote good governance in recipient countries through responsibility, accountability and transparency. Sometimes aid and loans have been withheld due to corruption. Aid to Tanzania was frozen in 1994 by, among others, the Norwegian government, because of widespread irregularities in the tax administration.

More than three decades ago the Swedish Nobel Laureate in Economics, Gunnar Myrdal, wrote in *Asian Drama* (1968): "One problem of considerable importance requiring specific attention is the role of Western business in feeding corruption in South Asia." He argued that Western businessmen undermined the integrity of politicians and administrators through bribes, and that this effect was strengthened by aid. This issue has not received serious attention in the present debate.

Many bribes paid in the course of international business originate in companies headquartered in the same industrial countries whose governments are now calling for anti-corruption campaigns in developing countries. Large-scale, capital-intensive infrastructure projects like big dams have been particularly attractive, for both donors and recipients. The donor country receives return on its investments through supplies of equipment and expertise and, in the case of export credits, through the repayment of loans. On the recipient side, senior bureaucrats and ministers negotiating such contracts have at their fingertips a capital-intensive project with options for overpricing and kickbacks. Kickbacks in this context are payments by the Western companies to agents of the recipient government. The

agents pocket money (or deposit them in foreign bank accounts) in exchange for ensuring that a particular firm obtains the contract or receives a higher price. According to some observers, the standard kickback paid in infrastructure projects in Kenya in the late 1980s, for instance, was never below 10 per cent of the value of the contract. Such contracts may leave the developing country with a mountain of debts and, thereby, undermine prospects for economic recovery.

There is a double standard in declarations of support by aid officials for anticorruption initiatives in developing countries when the donor countries have no laws barring their enterprises from paying bribes. In some Western countries, bribing foreign public officials in connection with business contracts has been considered a tax deductible business cost. The United States is one of the few countries that has a law that specifically makes it a criminal offence for a company to pay bribes abroad. In December 1997, representatives of 29 member governments of the OECD signed the *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*. It calls upon each of these countries to enact legislation to criminalise foreign bribery.

Big dams are just one symptom of fundamental weaknesses in the aid system. Donors, governed by disbursement goals, have ballooning budgets also for health projects. The push to spend makes it difficult for donors to monitor or evaluate adequately the quality of their assistance. Their tendency to move into new areas and activities at the same time adds to the problem of too much aid chasing too little absorptive capacity. Thus, in situations characterised by poor control and monitoring, the strategy of “recipient responsibility” and “local ownership” may prove completely irresponsible. A secure source of foreign aid can be like a diamond mine from which corrupt officials and politicians can extract rents. Few donors are willing to admit that they have weak control over their spending as they do not want to be seen as supporting non-performing and corrupt activities.

Adequate discussion of the role of aid in fuelling corruption is missing from the current debate. Transparency and accountability of donor agencies is also limited. This may partly be explained by the theory of political economist William Niskanen on the behaviour of bureaucracies. He argues that to sustain and expand its budget, a bureaucracy needs a monopoly of knowledge. The better it can control information, the better the bureaucracy will persist. This may be why the process of appraisal, implementation and evaluation of aid is often carried out by a limited number of consultancy companies with close and long-term affiliations with the donors. As such, evaluation is not a tool for acquiring new insights to improve

future performance, but a tool for legitimising ongoing activities and policies. This argument is supported by the fact that donors like the Norwegian Agency for Development Cooperation (NORAD) have shown resistance to introducing systematic approaches and criteria to measuring the effects of aid.

Niskanen's approach may also explain how agencies have responded to the issue of corruption initially raised by independent journalists and researchers. At the same time, as they have lost their "monopoly of knowledge", donors have placed corruption on the agenda. But they focus on external corruption. They need to show the public at home that they are dealing with the "cancer of corruption" without mentioning that they are infected themselves.

The prescription of "good governance" through improved accountability and transparency should be introduced in the donor agencies as well. To address the question of corruption, donors ought to focus on their own role in creating the problem, which they now propose to cure. To establish credibility, more openness about weaknesses in the aid system is needed. The non-governmental organisation *Transparency International* regularly publishes a corruption index, ranking countries according to their levels of corruption. There seems to be a need for an index ranking donor agencies according to similar criteria, to make the public more informed and the agencies more accountable about this important issue.