U4 PRACTICE INSIGHT

Kissing or fighting?

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Practitioners reflections:
Making a difference in high corruption and weak governance country environments

Donor agency officials working on development assistance programmes in highly corrupt and weak governance environments face the challenge of making a difference in citizens' lives. At the same time, they have to manage the risks to development effectiveness – and their reputations – from pervasive corruption and weak governance. Based on his extensive experience in the governance and anti-corruption field, as well as drawing on work of other practitioners, the author offers operational advice on addressing these challenges.

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Introduction

Good governance involves capable, accountable, transparent, and responsive states. Unfortunately, in many developing countries, weaknesses in these attributes are a grim reality, which, in turn, gives rise to pervasive corruption. The Country Policy and Institutional Assessment indicator of the International Development Association (IDA) rates 'transparency, accountability and control of corruption in the public sector' in a country on a scale on which 1 represents the lowest, and 6 the highest possible score. According to this measure, 60 out of the 77 IDA-eligible countries were rated 3 or below in 2009[1] and therefore, can be regarded as having a weak governance system. Many of these countries (27 out of the 60) also appear on the Harmonised List of Fragile Situations.[2] Of course, poor governance is also present in many middle-income countries (such as Venezuela, Egypt, the Philippines) as evidenced by their low ratings in Transparency International's Corruption Perception Index and Worldwide Governance Indicators.[3]

In weak governance situations, donor operations face higher than usual risks that a proportion of

the donor funds will be wasted due to fraud and corruption, and that development results will be undermined. This paper presents the case that while the risks of leakages and/or governance failure cannot be fully eliminated, they can be minimised by following certain operational tips. This will increase the chances that donor programmes can make a positive difference in the lives of poor people and contribute to long-term governance improvements.

It is noted that donor programmes may have controlling corruption and improving governance as a primary or a secondary objective. Primarily, governance and anti-corruption programmes may involve public financial management reform, anti-corruption agencies and laws, freedom of information, judicial reform, citizen participation, social accountability, and so on. Donor programmes which are aimed at the delivery of public services, infrastructure development, and financial system reform, among other things, focus on controlling corruption as part of fiduciary duties. The advice offered in this brief address both situations.

Invest time to understand the local governance environment

Understanding the local governance context is important in any country for assessing risks and opportunities for governance-related development interventions; in weak governance environments, it is indispensable. A good starting point for doing this is to look at any governance indicators[4] that

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[1] http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/IRAI2009table1.pdf

[2] http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/FS_List_FY11_%28August_8_2010%29.pdf

[3] http://www.transparency.org and http://info.worldbank.org/governance/wgi/index.asp

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[4] A country governance system is defined by the World Bank as "the manner in which public officials and public institutions acquire and exercise the authority to provide public good and services". It has many dimensions. The Worldwide Governance Indicators (http://info.worldbank.org/governance/wgi/index.asp) capture six key dimensions of governance i.e. Voice and Accountability, Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption. More extensive treatment of the components that comprise a country's governance system can be found in the There are other ways of assessing governance. For example the National Integrity System model of Transparency International http://www.transparency.org/policy_research/nis), the

are available for key dimensions of governance. In addition, there are usually country and sector diagnostic studies and other analytical pieces (e.g. public opinion polls) that are available. In some countries, media monitoring reports provide data on the nature and extent of reported corruption.

In many situations (especially when a lot of money is involved), it is recommended to undertake customised corruption vulnerability and governance improvement studies (See Campos and Pradhan, 2007, and Spector et al, 2009). The objective of this diagnostic work should be to inform on the risks and opportunities relating to the development interventions that a given programme would support. In terms of risks, such a diagnosis, for example, helps clarify that introducing programmes that depend on a capable and functioning bureaucracy might not be wise in countries with weak bureaucratic capacity (Shah, 2007). In such situations, efforts to ensure integrity may have to focus concurrently on building up the country systems to deliver services and supplement them with the demand side of governance measures that involve civil society organisations and other non-state actors, providing independent third party monitoring to verify outputs and outcomes. On the opportunity side, there should be a focus on identifying high-performing organisations, programmes and practices. Scaling up and replicating such indigenous programmes should be given priority over designing and launching new programmes.

Pay attention to political economy considerations

Politics is an integral part of governance, since governance refers to the manner in which public officials and public institutions acquire and exercise the political power to manage a country's

resources. Patron-client relationships and informal networks of power brokers exist in many countries (Piattoni, 2001). In governance-challenged countries, they are even more dominant in determining development outcomes. A political economy analysis[5] can help select anti-corruption and governance improvement measures that have a good chance of working in the local political environments. It also helps identify losers and winners under the proposed reforms. In addition, political economy analysis should aim to understand the incentives and disincentives that drive officials (and politicians) and how they may be used to get the desired outcomes.[6]

This analysis can be formal and/or informal, depending on programme size and time availability. I have found that informal conversations with knowledgeable persons about the political economy relevant to the development and governance reform programmes to be most useful. The powerful elites are not monolithic and there are usually 'champions' or reform-minded individuals to be found by asking around. These should be supported and nurtured. In addition, some sectors are more reform friendly. In my experience, political leadership has usually been receptive to reforms and programmes that will enhance their legitimacy, particularly through effective delivery of public goods and services (OECD, 2010).

The political economy analysis should also include donors. It is well known that geo-political considerations influence OECD-DAC members (Alesina and Dollar, 2000), and emerging donors differ in attitudes and behaviours on the weight they assign in their programmes to ensuring integrity. To determine an intervention's relative leverage, it is important that political economy analysis for the proposed intervention should be broadened to include an analysis of how other

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Global Integrity Score Card
http://report.globalintegrity.org/methodology/whitepaper.cfm
and the Country Policy and Institutional Assessment of IDA
http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/CPIA09CriteriaB.pdf. All these models provide quantitative indicators on various dimensions of governance and corruption which are very useful to assess weaknesses and strengths of the dimension in question.

[5] See U4 Brief on Unpacking the concept of political will to confront corruption and U4 Expert Answer on Political Economy Analysis of Anti-corruption Reforms.

[6] For a discussion of merits and limitations of incentives please see U4 Expert Answer on mainstreaming anti-corruption within donor agencies.

donors in the country are treating the governance issues.[7]

Approach governance and corruption reforms through the development outcomes lens

As expected, in weak governance environments the key accountability institutions in the country cannot be relied upon to ensure good governance and control corruption. Where it is clear that elites practice corruption with impunity, direct attacks on corruption may have little chance to succeed. Elaborate ex-ante control systems dependent upon international contractors may serve short–term needs, but may undermine public support if they slow down service delivery. They also undermine country system development. What to do? I am not arguing to abandon efforts to prevent corruption. Instead, I recommend taking a more enlightened approach, discussed by Johnston (2010), of first creating the foundations for attacking corruption by changing citizen expectations of the regime. In this approach, focus is on delivery of a few basic public services in which all segments of society share an interest (e.g. water, transport, education). Credible improvement (measured by independent third party sources) in these services may help build trust in the government and change performance and accountability expectations, laying foundations for more direct reform efforts.

Strategies and good practices to deliver development outcomes are emerging that do not rely on ex-ante anti-corruption measures. One strategy is output-based aid.[8] Another strategy involves community-based organisations that rely on citizen empowerment to ensure good governance during planning, implementation, and monitoring of development programmes for their benefit. Another strategy is to look beyond the executive branch of the government to engage NGOs for service delivery. Such approaches are in use in situations such as Myanmar, North Korea, Haiti, and Tsunami reconstruction efforts. However, they are controversial as they can undermine country system development. In my view they are an appropriate tool for some situations to scale up service delivery and their effect on country system development can be mitigated by parallel capacity building efforts and gradual transfer of responsibility as capacity develops. Additional approaches include limiting budget support reimbursements to ex-post verifiable indicators and disqualifying expenditures that do not comply with the verification procedures. None of these strategies are corruption-risk free. However, they can create conditions favourable for more direct anti-corruption programmes.

Build a body of credible and tangible evidence of success through independent third party monitoring (ITPM) and communicate

The Accra Agenda for Action 2008 declares that "[m]ore than ever, citizens and taxpayers of all countries expect to see the tangible results of development efforts. We will demonstrate that our actions translate into positive impacts on people's lives. We will be accountable to each other and to our respective parliaments and governing bodies for these outcomes."[9]

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[7] The following quote illustrates the sometimes difficult tradeoffs between fighting corruption and looking at the bigger picture "military officials have concluded that the Taliban insurgency is the most pressing threat to stability in Afghanistan and that a sweeping effort to drive out corruption would create chaos and a governance vacuum that the Taliban could exploit", Washington Post, September 4, 2010.

[8] http://www.gpoba.org

[9] The Accra Agenda for Action was adopted by about 1.700 participants from around the world including more than 100 ministries and heads of agencies from developing and donor countries, emerging economies, UN and multilateral institutions, global funds, foundations, and 80 civil society organisations.
http://www.accrahlf.net/WBSITE/EXTERNAL/ACCRAEXT/0,,contentMDK:21690826~menuPK:64861649~pagePK:64861884~piPK:64860737~theSitePK:4700791,00.html

Most development programmes incorporate a results framework with performance indicators and monitoring and evaluation arrangements. The results claimed by authorities are often distrusted by the public because of poor performance in the past. This can be remedied through independent third party monitoring of processes and outcomes--in "real time" as much as possible—and strategically communicating these results to stakeholders. It is also in donor interest to support such efforts, since they build support among their domestic constituencies. It is essential that funding mechanisms be independent of the implementing agency and the donors. Donors need to find innovative ways to support and fund independent third party monitoring by actors outside of the executive branch of the government in ways that build local accountability institutions. Such arrangements might take the form of pooled donor resources for independent monitoring, i.e. a multi-donor trust fund with outsourced grant management. As far as possible, the independent monitors should be from the country in question, and international technical assistance may be provided with explicit 'know-how transfer provisions' and a phase-out deadline to help build host-country systems.

Look beyond the executive branch to support transparency, participation and accountability programmes and institutions

Reforms to promote good governance generally consist of two elements: actions that governments can take to create a capable, accountable and transparent government (the so-called "supply side" of good governance), and actions that civil society and other non-state actors can take to help citizens hold the government accountable and responsive to their needs (the so-called "demand side" of good governance). Measures the governments can take include financial management reforms, right to information laws, civil service reforms, judiciary reforms, anti-

corruption laws and agencies, procurement reforms, campaign financing reforms and disclosure of assets and liabilities by senior officials. Non-state actors contribute through participation in policy and programmes/projects formulation and implementation, accessing information according to the laws and using it to increase government responsiveness to their needs, third party monitoring of processes and results in delivery of public services, and exposing abuses of public power for private gains by public officials.

Donor funding is tilted in favour of the supply side of governance reforms through the executive branch, while funding for the demand side of governance reforms is inadequate and intermittent. I would argue that to achieve sustainable governance improvements, donors should strive for better balance by supporting the demand side of governance programmes and building the capacity of non-state actors. The underlying logic is that governance reforms need to be endogenous to be durable. Strong civil society and independent institutions of accountability outside of the executive branch will facilitate the state and non-state actors in reaching political compromises on how the country and its resources are to be managed. Investing to make the non-state sector stronger will help level the playing field between state and non-state players and establish a foundation for better governance. This usually takes a long time. In the short term, it is recommended to support programmes where citizens and communities can hold implementing agencies accountable to deliver the results promised and help enhance integrity and credibility of donor assistance.

It must be acknowledged that opportunities for donors to support the demand side of governance will be determined by the openness of the country's political establishment for such interventions and the coherence and leverage of donors. Moreover, the donors may be constrained by sovereignty considerations. However, the key point here is that support for demand side of governance must be a significant part of governance reforms and donors should look

harder to find opportunities and allocate funds to broaden any openings they find.

Reduce your risks through participation in multi-donor trust funds

Making a difference in weak governance situations through free-standing and fragmented donor programmes involves high risks and high costs for individual donors, particularly for those with relatively small programmes, and imposes high transaction costs on recipient countries. The multi-donor trust fund (MDTF), used commonly in post-conflict situations, is useful in overcoming these drawbacks.

According to a study of post-crisis MDTFs they are a good risk management vehicle and have positive externalities that other instruments do not have. They (as opposed to bilateral efforts) have the comparative advantage in rebuilding core public administration functions and funding capacity development in the public sector. They are expensive relative to operating in low-risk situations, but compare favourably to the management costs of non-pooled programming in high-risk situations. For donors, MDTFs reduce information, coordination, administrative, and various access costs. They reduce fiduciary and political risk exposure when interaction involves possibly corrupt processes. For national authorities, they can increase untied funding, reduce transaction costs, and they can bring credibility nationally and internationally. MDTFs can be set up at global, regional, country, and sector levels.(World Bank and NORAD, 2007),

MDTFs are not risk-free. They create political and reputational risks to parties involved when the MDTF does not deliver on expectations. For the national authorities, they can be a tool for undue donor influence and interference. In my view, however, MDTFs are well suited for weak governance situations and the benefits far exceed the risks and costs involved.

Be realistic and selective in anti-corruption reforms

When donors support anti-corruption reforms in weak governance situations, it is best to concentrate on a few reforms rather than disperse limited resources attacking multiple targets. This is advisable considering the severity of the challenge in poor governance environments and the relative paucity of resources among governments and donors. By prioritising and sequencing interventions on the most pressing and opportune targets, reformers can better optimise resources and limit any negative interaction effects which may occur if they were to pursue many different reforms at the same time.

In weaker governance settings, priority should be given to anti-corruption reforms in sectors and agencies where stakeholders inside and outside government are committed to achieving results. The prerequisites for more direct anti-corruption reforms to succeed include credibility of reformers and public trust and confidence in the capabilities of the implementers. When these are in short supply, it is best to defer direct anti-corruption programmes and take the time to help develop the enabling conditions. Trust and confidence can be built by focusing on increasing citizen's satisfaction with delivery of services that touch their lives.

There is a growing volume of work on what to do and what not to do when venturing into anti-corruption reforms (for example see Orre and Mathisen, 2008 and Johnston 2010). Generally speaking, when the capacity of civil service is low and rule of law is weak, caution is advised in launching anti-corruption agencies, enacting stricter laws, "frying big fish," or establishing whistle-blowing provisions. My favourite anti-corruption reforms include those that: are championed by committed and informed reformers in the country who have not only the authority to advance the reform agenda, but the local knowledge to find a way through the inevitable obstacles; target changes in the

administrative system that reduce individual official discretion that can be used to extract bribes; put in place transparent and norm-based decision-making; build citizen evaluation (e.g. citizen report cards, community score cards) into agency performance assessments; introduce easily measurable and publicised performance/service standards (e.g. time and steps needed for business services); encourage service performance through a bit of naming and shaming poor performers; and improve access to information and citizens' capacity to use this access to demand accountability. Successful implementation of such reforms combined with strategic communication of results can help create a virtuous cycle of trust and support for scaling up. It is a long list, and I am in favour of targeting one or two major reforms that are feasible and have considerable multiplier effects.

Do no harm: Strengthen country systems

As noted earlier, improving governance is an endogenous long-term process involving accountability institutions in the country. For sustainable results, it is important that the donors do not harm development of country systems in general, and evolution of accountability institutions in particular, by by-passing them and/or neglecting them. It is encouraging to note that this premise is well recognised in the following statements in the Accra Agenda for Action: "[d]onors agree to use country systems as the first option for aid programs in support of activities managed by the public sector" and "donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, by increasing the percentage of assistance provided through program based approaches."

Realistically speaking, specific country systems in poor governance environments may be so weak that, in the short run, there is no choice but to ring-fence donor programmes. In such situations, the 'do no harm' principle still applies, and the short-term solution should include phase-out

provisions. This immediate solution should also be part of a longer-term strategy for building the country system in parallel and channelling an increasing amount of business through it.

Conclusions

Donors are challenged by their stakeholders at home and abroad to show that the funds provided are used effectively and produce positive results. Doing this in countries with poor governance and pervasive corruption is extremely difficult, and development effectiveness and reputational risks are high. While these risks cannot be eliminated entirely, they can be mitigated by following certain operating principles. Donor programmes that follow and respect the operating principles discussed in the paper and summarised below will have a higher chance of making demonstrable and sustainable differences in lives of the citizens living in these country environments and enjoy greater support among their stakeholders.

- As far as possible, donors should scale up and replicate programmes that have local origins and involve high-performing local institutions that have proven successful in the country governance environment.

- It is recommended that donors validate the feasibility of proposed programmes through a political economy analysis and use such analysis to enhance feasibility by identifying local reformers and champions, as well as realistically evaluating the impact of possible reform opponents.

- When the governance systems are so weak that a direct attack on corruption is futile, follow a sequence in which trust and confidence in reformers and governance institutions is built first. This can be done through development interventions that produce results that people can see and feel. This will help create conditions conducive for direct anti-corruption reforms.

- Try and build a body of credible and tangible results validated by independent third party monitoring mechanisms, and communicate

strategically to build demand for improved public sector performance and accountability.

- Be selective and realistic when supporting programmes whose primary objective is improving governance and control of corruption. Remember that improving governance is a long-term endogenous process, and prerequisites for success may need to be created first. Donor leverage and effectiveness can be enhanced through collective action using multi-donor trust funds.

- Sustainable governance improvements are produced over time as a result of interactions between the state and non-state actors. This interaction produces political compromises on how a country and its resources are to be managed on the basis of national consensus. For a balanced interaction, donor programmes must go beyond supporting the supply side of governance reforms by the executive branch to support the demand side of governance activities by civil society and other non-state institutions.

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