Approaches to anti-corruption through the Australian aid program

LESSONS FROM PNG, INDONESIA AND SOLOMON ISLANDS

2007

Australian Government
AusAID
Office of Development Effectiveness
# Summary

Introduction

## Chapter 1: Corruption in context

1. Background
2. Causes and consequences of corruption
3. The challenge of designing anti-corruption strategies
4. Lessons and guiding principles for donor programs to help fight corruption
5. Designing donors’ anti-corruption strategies at a country level
6. Mitigating operational risks to donor-funded programs
7. Conclusions

## Chapter 2: Cross-cutting issues from country studies

1. Two Distant Neighbours: Indonesia and Papua New Guinea
2. Supporting national strategies
3. The case for specialised anti-corruption agencies
4. Building demand for good governance
5. Managing risks to Australian aid
6. The role of Australian aid in fighting corruption
7. Conclusions

## Chapter 3: Themes from case studies

1. Methodology
2. How do we incorporate an anti-corruption focus into initiatives?
3. What is the best way to work with civil society on anti-corruption?
4. How should we support accountability institutions?
5. How do we engage with government systems while protecting our aid funds?
6. Conclusions

## Appendix A

## Appendix B

## Acronyms and abbreviations

## Bibliography
Acknowledgments

This assessment was a collaborative effort between the Office of Development Effectiveness and the authors with extensive governance experience. The team included Cate Rogers of ODE, Sarwar Lateef, former senior governance adviser for the World Bank in Indonesia, Mark Baird, former Vice President of the World Bank and Country Director for Indonesia, Tony Hughes, former chairman of Transparency International’s Solomon Islands Chapter and Primo Afeau, former Attorney General, Solomon Islands. The report team greatly appreciates the assistance of AusAID staff and Australian advisers in PNG, Indonesia and Solomon Islands. In PNG, special thanks go to Nick Smith and Shaska Martin, who accompanied the team on the mission and provided many helpful and insightful comments. In Indonesia, the team would particularly like to acknowledge the assistance provided by Joanna Perrons and the anti-corruption team. We appreciate that the timing of the mission coincided with a very difficult period for AusAID’s Indonesia program. We would also like to thank Caitlin Wilson and the team in the Anti-Corruption Unit in AusAID for their assistance. The views contained in this report do not necessarily represent those of the Australian Government or the people interviewed.

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Summary

There is a requirement that AusAID country strategies be updated to include anti-corruption plans. This Office of Development Effectiveness assessment aims to help AusAID and other Australian Government agencies understand issues around corruption in partner countries and begin the process of formulating anti-corruption plans.

Corruption is defined as the misuse of entrusted power for private gain. It can lead to underinvestment in human capital, overinvestment in public infrastructure and unequal income distribution. Lower levels of investment and growth and the discouragement of capital inflows and foreign direct investment are also associated with corruption. Australia's anti-corruption policy recognises that the poor are often most hurt by corruption, through being easy victims for corrupt officials and the diversion of funds away from vital social services.

Corruption is difficult to measure. All major corruption indices have limitations which must be taken into account when comparing countries and periods. For donors it is often more useful to look to diagnostic surveys of households, businesses and public officials. Sectoral approaches to measurement can also provide information that is more reliable and meaningful for developing anti-corruption strategies.

Reflecting recent donor experiences, Australia’s approach recognises that reducing corruption requires improved governance across the board and is a long-term endeavour. Reforms must be tailored to country conditions and are unlikely to succeed if imposed. Other lessons from donors include the following:

- Aid agency staff should be familiar with governance and anti-corruption approaches. There may be a need for specialist advice and staff training to sensitise staff to managing and responding to corruption issues.
- A multidisciplinary approach is needed. This requires adequate funding, a high degree of coordination, and senior management engagement.
- Governance support can be risky and may even fail. Donors need to learn from failures and recognise that results are not always easy to measure.

This report includes country and case studies that cover specific implementation issues as Australia moves to put in place country anti-corruption plans. Five significant themes that emerged are discussed briefly below.

i) Anti-corruption strategies: The assessment examined the situation in Indonesia and PNG where Australia is supporting efforts by the governments to develop national anti-corruption strategies. In Indonesia, the focus for Australia should be on assisting the implementation of the government’s own strategy. In PNG, where the government has not finalised an anti-corruption strategy, Australia should support efforts to develop the strategy, following the PNG Government’s lead. In general, Australia cannot afford to wait for partners to develop their anti-corruption strategies before developing its own.

ii) Specialist anti-corruption agencies: Several places in East Asia, most notably Hong Kong and Singapore, have used specialised anti-corruption agencies to control corruption. Indonesia has established an anti-corruption commission and at the time of the assessment mission, PNG was also proposing one. International experience notes that anti-corruption agencies require strong political will, independent powers, credible staffing and adequate resources. They depend on other agencies (police, courts, prosecutors) to do their work and cannot substitute for the full range of accountability institutions (parliament, civil service commissions etc). Decisions on whether to support anti-corruption agencies in partner countries must consider all of these factors. In addition, when support is provided, it must be sustained over the long term.
iii) Role of civil society: It seems evident that donors may need to maintain an ‘arm’s length’ relationship with civil society organisations (CSOs) engaged in anti-corruption work in the partner country. This is particularly the case in situations where there is a risk of politicising the aid program and undermining the perceived independence of the civil society organisations.

iv) Technical Assistance (TA): The role of TA in addressing corruption was an important issue in PNG and Indonesia. It is recognised that TA plays a central role in anti-corruption efforts. Australia has expertise in this area and – as the case studies indicate – has achieved some good results. For example, it is widely recognised that the Technical Assistance Management Facility played a role in helping to reduce corruption in tax administration in Indonesia, even though this was not an explicit objective. In PNG, Australian TA helped to shut down over 450 trust accounts which were being used to circumvent expenditure controls. Australia’s TA efforts could increase their potential impact on corruption by better coordination via country anti-corruption plans. At an individual level, advisers need explicit guidance on roles and responsibilities when they confront corruption.

v) Engagement with partner government systems: It was noted that as Australia increases its engagement with partner government systems, more corruption is likely to be identified, creating reputation and financial risks to the aid program. However, greater knowledge of corruption also creates an opportunity to identify weaknesses in partner government systems and possibly to assist in addressing those weaknesses.

Recommendations

- Discussion on anti-corruption objectives should be grounded in broader aims of improving government service delivery and achieving the Millennium Development Goals.

- Australia should develop anti-corruption strategies for each country, based as much as possible on partner government’s own plans, and strongly coordinated with other donors and other stakeholders. If there is no partner government anti-corruption strategy in place, Australia cannot afford to wait for one to emerge before developing its own.

- Support for CSOs working on anti-corruption can be politicized. Anti-corruption strategies should consider the scope for this and recommend arms length funding arrangements where appropriate.

- Australian government agencies should develop a common understanding of the rights and responsibilities of technical advisers in relation to corruption, taking into account the need to ensure the safety of advisers working in corrupt environments.

- The Australian approach to working with partner government systems should be clear. First, it should entail a commitment to working with those systems and, together with other donors, helping to strengthen systems to protect all expenditures. Second, robust internal measures should be in place to ensure the protection of Australian aid funds.

- AusAID should track anti-corruption results in existing activities and where appropriate, include an anti-corruption objective in new activities. Country-level indicators of corruption are not likely to be helpful in the implementation of anti-corruption plans; it may be better to identify objectives and indicators at the sectoral level.

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1 AusAID, Tackling corruption for growth and development: a policy for Australian development assistance on anti-corruption, March 2007.
Introduction

There is a requirement that AusAID country strategies be updated to include anti-corruption plans. This Office of Development Effectiveness assessment aims to help AusAID and other Australian Government agencies understand issues around corruption in partner countries and begin the process of formulating anti-corruption plans.

The assessment

This assessment, which is a collaborative effort between the ODE and authors with extensive governance experience, is part of a phased activity:

- **Phase 1.** Country visits to Papua New Guinea (PNG) and Indonesia, two countries where AusAID was most advanced in developing anti-corruption strategies. The visits were conducted with the country program personnel responsible for writing the strategies. The intention was to provide real-time feedback on the development of the strategies and to gather information for case studies. Lessons from the country visits and case studies are expected to assist other program areas that are developing anti-corruption plans.

- **Phase 2.** The production of Approaches to anti-corruption through the Australian aid program (this document).

- **Phase 3.** A separate, parallel exercise examining the protection of Australian aid funds. This is being conducted by the operations area of AusAID with expert assistance and has been informed by the case studies and country visits. This phase is expected to result in a separate report.

- **Phase 4.** The development, by country program areas in AusAID, of their own anti-corruption plans.

The assessment is divided into three chapters.

**Chapter 1: Corruption in context**

Chapter 1 introduces the international literature on corruption, its causes and its possible cures. The chapter provides background on issues that donors face when they try to integrate anti-corruption approaches into their aid programs. It draws on lessons from the literature and attempts to tailor them to answer some of the questions identified through the country visits and the case studies canvassed in chapters 2 and 3.

This part of the assessment was conducted by Sarwar Lateef, former senior governance adviser for the World Bank in Indonesia.

**Chapter 2: Cross-cutting issues from country studies**

The PNG and Indonesian programs are at different stage in developing an anti-corruption plan. Chapter 2 analyses common themes that emerged from country visits to PNG and Indonesia and that may be relevant to other country programs. It follows on from the real-time assessments that were conducted and presented to country teams soon after the country visits.

This part of the assessment was conducted by Mark Baird, former Vice President of the World Bank and Country Director for Indonesia.

**Chapter 3: Case studies of approaches to anti-corruption**

Chapter 3 seeks to answer the questions 'What approaches have been employed by Australia to fight corruption in partner countries? What are the lessons learned?'

Because anti-corruption has not, until recently, been an explicit objective of the aid program, the case studies do not attempt to evaluate activities for anti-corruption impact. Instead, the case
studies provide practical examples to aid personnel who are seeking to integrate anti-corruption objectives into current or new activities. Where there have been good anti-corruption outcomes, they are identified. Where it is considered that anti-corruption outcomes could be strengthened, lessons drawn from international literature and the authors' experiences have been included.

This section of the assessment was conducted by Cate Rogers of the Office of Development Effectiveness, Tony Hughes, former chairman of Transparency International’s Solomon Islands Chapter and Primo Afeau, former Attorney General, Solomon Islands.

1 AusAID, Tackling corruption for growth and development: a policy for Australian development assistance on anti-corruption, March 2007.
Chapter 1: Corruption in context

Sarwar Lateef

This chapter sets the context for this report by analysing issues faced by donors as they attempt to integrate and mainstream anti-corruption in their country strategies. The chapter reviews what is known about the causes and consequences of corruption and analyses difficulties in designing anti-corruption strategies. The chapter then reviews some early lessons from efforts to design and implement anti-corruption programs, and the available starting points for fighting corruption.

Australia’s Anti-Corruption for Development Policy already draws on these lessons, and provides a sound framework for moving forward. The challenge will lie in its implementation.

1.1 Background

1.1.1 Corruption emerged as a major issue for development practitioners in the 1990s. The dramatic political and economic events of that decade – including the collapse of the Soviet Union, the transition to democracy in much of the developing world and the East Asian financial crisis – exposed weaknesses in public accountability and brought corruption to the top of the development agenda. Development agencies began to develop and implement anti-corruption policies aimed at helping partner governments reduce corruption and mitigate fiduciary risks to donor agency portfolios. Australia’s Anti-Corruption for Development Policy was developed in collaboration with a wide range of Australian Government agencies and stakeholders and released in 2007 (Box 1.1).

Box 1.1. Tackling corruption for growth and development

Australia’s Anti-Corruption for Development Policy provides a framework for planning, resourcing and reviewing anti-corruption activities on a country and regional basis. The overall goal is to help developing countries bring about a sustainable reduction in corrupt behaviour, in order to improve their economic and social development.

Australia’s approach will focus on three mutually reinforcing elements:

- building constituencies for anti-corruption reform through support for good leadership and the collection and dissemination of information about the costs of corruption
- reducing opportunities for corruption through support for initiatives that bolster transparency and accountability, including help to improve budget processes, public financial management and procurement, and establishing clear legislative and regulatory frameworks
- changing incentives for corrupt behaviour through timely investigation and prosecution of corrupt behaviour and helping establish a professional merit-based public service.

Australia will support the priorities and plans of partner countries and help build capacity. Where country-led strategies do not exist, Australia will support efforts to develop them. Australia will continue to place Australian Government officials in public service positions or senior advisory roles at the request of partner governments as part of this long-term institutional partnership. Members of the business sector and civil society organisations will be important allies in putting these policies into practice.

The aid program has measures in place to reduce the risk of corruption in the delivery of aid. The adequacy of those measures will be continuously reviewed and strengthened as appropriate. Australia will work with international experts to measure and monitor progress in reducing corruption more effectively. It will report on progress in implementing the anti-corruption initiatives through the annual reviews of the Office of Development Effectiveness.

1.1.2 Donor focus on anti-corruption has received fresh momentum over the past year, following increasing concern that the rhetoric about corruption and governance has not been matched by results on the ground. The World Bank, which has revisited its strategy on governance and anti-corruption, proposes to scale up its engagement with partner...
governments, reflecting new learning since its initial entry into this area. Other factors driving increased concern include:

- the large planned increase in aid after G-8 commitments in 2005 (an additional $50 billion by 2010), which raised questions about how well this aid will be used
- increasing awareness among donors of the risks from corruption to development effectiveness and donor agency reputation
- the 2005 Paris Declaration on Aid Effectiveness (issued by over one hundred representatives of governments and international organizations at the Paris Forum hosted by the Government of France) which puts partner governments in the driver’s seat and forces donor attention on strengthening country systems, rather than ring-fencing donor projects as donors shift to program-based approaches and budget support.

1.2 Causes and consequences of corruption

1.2.1 The most common definition of corruption is ‘the misuse of public office for private gain’. AusAID adopts a broader definition used by Transparency International: ‘the misuse of entrusted power for private gain’, embracing both public and private corruption, and petty and grand corruption. Corruption includes bribery, the theft of public or private assets by employees, kickbacks in government contracts, and embezzlement of government funds. Nepotism and cronyism are also forms of corruption, although money might not change hands. Corruption is an outcome or a symptom of larger failures in accountability.

1.2.2 Svensson infers some common characteristics of the most corrupt countries from lists of the 10 most corrupt countries, based on commonly used corruption indicators. All the most corrupt countries have relatively low income levels, are either developing or transition economies, are currently or have recently been governed by socialist governments, and are relatively closed economies (with Indonesia an exception). Richer countries have less reported corruption; so do countries with high Human Development Index scores. However, the available statistical evidence suggests the possibility of reverse causality. Rose-Ackerman argues that poor governance may be a principal reason why countries are poor. And demand for greater accountability rises with higher levels of income and education.

1.2.3 While corruption tends to decline as countries become richer, there are a number of exceptions. Some countries have more or less corruption than might be expected from their per capita income. The reasons for this are less well understood. Svensson suggests that it could be explained by the degree of market and political competition. Better understanding the reasons for this variation requires more detailed country-level studies, which provide greater insights than cross-country regressions based on data of varying and sometimes dubious quality.

1.2.4 There are two broad sets of institutional theories about the causes of corruption. The first holds that institutional quality (and thus corruption) is shaped by economic factors and the level of education. The alternative view is that institutions are shaped by a country’s history and culture. Rose-Ackerman notes that historical variables are not always significant, and become entirely insignificant when income and latitude are taken into account. Historical patterns influence institutional structures but are not direct determinants of corruption.

1.2.5 Neoinstitutional economics - the study of formal and informal rules of economic behaviour - presents a different perspective on the causes of corruption, focusing on the central problem of delegated discretion. The formal institutional structure in most countries consists of stages of delegated discretion. Citizens delegate decision-making
power to a national legislature and executive, retaining the right to replace their elected representatives through elections and the power to enforce the rules of the game through courts (for example, using constitutional checks and balances). Elected representatives delegate power to civil servants to manage the delivery of services to citizens, and they in turn may further delegate power to service providers (schools, hospitals etc.). This is a classic principal–agent problem. Corruption arises from opportunistic behaviour at each level. Citizens have difficulty enforcing accountability on elected representatives, and elected representatives, in turn, on civil servants and service providers. Delegation creates information asymmetry, as principals lack adequate information about agent behaviour and the agent has an incentive to hide information. Robert Klitgaard and others have pioneered work on designing anti-corruption strategies based on applications of the principal–agent model. These provide useful tools for leaders wishing to fight corruption at a national or city level. However, the model assumes that the principal is not corrupt. But elected representatives may be captured by special interests or collude with civil servants to ‘steal from the people’. Courts may be corrupt and parliaments may be ineffective in controlling the executive. The question of who guards the guardians of accountability remains a difficult issue for many countries. Moreover, citizens might also not behave rationally, voting on class and community lines, or participating in patron–client networks.

1.2.6 Australia’s anti-corruption policy rightly argues that corruption hurts the poor the most by diverting funds from activities vital to poverty reduction and sustainable growth. It also fuels the black economy, depriving governments of revenues; prevents the poor, especially women, from accessing government services; lowers private investment by increasing transaction costs; diverts expenditures from essential services; and can lead to unsustainable exploitation of natural resources. By weakening institutions, it makes states more vulnerable to crises, undermines security and law and order, and enables money laundering and drug trafficking. Money politics also corrodes democratic processes.

1.2.7 The consequences of corruption have been much studied. Cross-country regressions show that high levels of corruption are associated with lower levels of investment and growth, and that corruption discourages both capital inflows and foreign direct investment. Wei calculates that an increase in corruption from Singapore’s level to that of Mexico amounts to a 20 percentage point increase in the tax rate. High levels of corruption are also associated with underinvestment in human capital, overinvestment in public infrastructure, and increasing income inequality.

1.2.8 The World Bank’s investment climate and cost of doing business surveys are yielding data on the share of annual sales that firms typically use for unofficial payments to public officials and on the time that managers spend ‘negotiating’ or managing relations with public officials. A survey of firms in Uganda showed that over 80 per cent of firms paid bribes, and those that did not had little contact with the public sector. Bribes amounted to a significant 8 per cent of total costs of firms that bribed.

1.2.9 Expenditure-tracking studies are also helping to measure the costs of corruption. In one study, 250 primary schools in Uganda received on average only 13 per cent of the money allocated by the central government to cover the costs of non-wage expenditures. Such studies are showing positive results in reducing leakages. Price comparisons for drugs procured by public hospitals have also been a source of good information on the extent of corruption, with the conduct of the exercise itself resulting in a decline in prices paid. While such work is in its infancy, it illustrates ways to quantify the costs of corruption.

1.3 The challenge of designing anti-corruption strategies

1.3.1 Designing anti-corruption strategies is a challenge. Outcomes depend on changing incentives in a way that produces successful institutions, but our understanding of how
to do this is still limited. More detailed empirical research is needed before a theory of
dynamic institutional change is likely to emerge. Institutions (defined by Douglass North
as the ‘rules of the game’ rather than as organisations, which are groups of individuals
bound together by common objectives) are central to the process of development.20
They reduce uncertainty and lower transaction costs, principally through the
enforcement of property rights and contracts, and more broadly the rule of law. But the
same coercive powers that are needed by the state to enforce property rights can be used
to exploit its citizens.21 Moreover, from time immemorial, polities have been captured by
special interests.22 Taming special interests is at the heart of institutional reform.

1.3.2 History shows that institutions change slowly. North argues that ‘change in the
institutional framework is usually an incremental process reflecting the constraints the
past imposes on the present and the future’, also known as ‘path dependence’. While
formal rules can be changed by executive decision, ‘the informal institutions evolve in
ways that are still far from completely understood, and therefore are not typically
amenable to deliberate human manipulation’.23 Simply adopting the formal rules of the
developed world is not a sufficient condition for good economic performance.24
Informal rules change only slowly through education, leadership and interaction with
other societies.25 The direction of change cannot be easily influenced, but change may
happen more quickly when there is enough demand for it, such as in times of crisis (war,
revolution or hyperinflation). The empowerment of citizens through devolution, citizens’
charters, bills of rights and so on creates demand, but cannot be externally imposed.26,27

1.3.3 The recognition that reforming institutions is an art rather than a science is no excuse to
stop trying, but three implications flow from that recognition. The first is to lower one’s
expectations about what one might achieve from efforts at institutional reforms. The
second is to invest in better understanding the informal rules that shape institutional
behaviour through well-designed research on the historical, cultural and social context in
which donors work. This may call for drawing heavily on local knowledge of that context
and ensuring that the knowledge is used to help shape reforms. The third is to contribute
to strengthening demand for institutional reforms through enhancing voice of citizens
and beneficiaries by involving them systematically in the design, implementation, and
monitoring of all activities that donors help finance.

1.3.4 Recognising the importance of reforming the institutions of accountability, Transparency
International (TI) has pioneered the concept of the National Integrity System (NIS), and
its local chapters carry out periodic NIS country assessments. Using the metaphor of the
ancient Greek temple, the pillars of the temple in TI’s model are the key institutions of
accountability (such as parliament, the judiciary, the electoral commission, the supreme
audit institution, civil society, the media), while the foundations are the values of society
and the degree of public awareness and public apathy.28 Integrity in this approach is the
end result of ‘mutually supportive institutions’ which hold each other accountable and
the strength of the foundations. Sampford et al. argue that the theory behind the NIS
does not throw much light on the complex web of interactions between these
institutions to achieve integrity or on how they should interact to be more effective.29
Moreover, simply imitating the formal institutions of the West has been shown not to
produce the intended results in different country contexts. TI’s NIS country assessments
play a useful role in improving understanding of the institutional constraints to fighting
corruption in different country contexts. However, they vary greatly in quality, and tend
to be stronger in describing the formal institutions than in throwing light on the informal
rules that shape the incentives for integrity.

1.3.5 A second constraint in developing effective anti-corruption strategies is the intrinsic
difficulty of measuring corruption. Measurement is important: one cannot manage what
one cannot measure. The increase in interest in governance and corruption has generated
an industry to measure the risk to investors and development aid agencies from
corruption, and - as in the case of TI - to shame policy makers into taking action to
reduce corruption. Corruption indicators fall into two categories: perception-based and fact-based. Perception-based indicators are usually surveys of experts, investors and households. Fact-based indicators rely on such data as the existence of anti-corruption laws, legal prosecutions of corrupt acts and the existence of anti-corruption agencies. Fact-based indicators are not necessarily less subjective. Subjective judgments are involved in both the choice of facts and their interpretation. Developing countries lack reliable data for fact-based indicators. The data that exist often reflect the formal situation rather than the reality on the ground.

1.3.6 The two most widely used indicators are TI’s Corruption Perceptions Index and the Control of Corruption Indicator, one of the six World Governance Indicators (WGIs) produced by World Bank researchers. These indicators provide summaries of surveys on corruption, ranking countries by their level of corruption. Both surveys provide very broad measures that are not useful for the most part in comparing countries which are relatively close to each other in their scores of corruption or in comparing a country’s performance over time because of significant margins of error (see Appendix A for a brief overview of the WGI). This greatly reduces the value of the indicators, but their existence has raised countries’ awareness of where they stand in the corruption stakes. Cautious use of these indicators also enables donors to get a broad sense of the level of corruption. In the end, perceptions influence behaviour and measurement, however inadequate, helps to influence policy response.

1.3.7 More useful in understanding the causes and nature of corruption are the diagnostic surveys of households, businesses and public officials pioneered by the World Bank. These yield experiential data that give a sense of the level of domestic concern over corruption, the nature of corruption and its possible causes. Local institutions are ranked by perceptions of their level of corruption, and there is often considerable agreement among the three independently surveyed sets of respondents (experts, investors, households) about which institutions are the most corrupt. Surveys can also reveal the management style of managers and permit judgments about whether corruption is endemic or open to management reform. Conducting such surveys regularly may give some sense of progress over time, although caution is warranted even here, as respondents may use surveys to send messages to governments, overstating the level of corruption.

1.3.8 These broad country-level indicators can be supplemented with indicators that look at particular corruption-related issues. The World Bank’s annual Country Policy and Institutional Assessments provide an assessment by the bank’s country teams of the policy and institutional framework. This includes five indicators on public sector management, including one on transparency, accountability and corruption in the public sector. The bank’s Public Expenditure and Financial Accountability (PEFA) initiative has yielded a powerful analytical tool. This can be supplemented by the OECD’s assessment of national procurement systems. The Global Integrity Index (www.globalintegrity.org) assesses the existence and effectiveness of anti-corruption mechanisms that promote public integrity. The World Bank’s Investment Climate Assessment Surveys and Doing Business surveys also throw light on factors that drive corruption and raise the cost of doing business.

1.4 Lessons and guiding principles for donor programs to help fight corruption

1.4.1 Increased donor focus on corruption has been accompanied by a number of efforts to draw lessons and guiding principles from this still rather limited and early experience. There are few success stories to report. Hong Kong and Singapore are not seen as replicable examples. Prospective European Union membership has also pushed many Eastern European states into ‘getting their act together’ on corruption. Botswana, Chile and Costa Rica are cited by the OECD Development Assistance Committee (DAC) as
examples worth studying, but no attempt has been made to do so. The lessons cited in OECD and World Bank documents are based on donor experience and on country efforts in fighting corruption. Some key messages emerging from the currently modest body of knowledge on the subject can be summarised as follows.

> Fighting corruption is about improving governance, not simply catching crooks. Designing successful anti-corruption strategies requires careful analysis of the overall governance environment and the factors that drive corruption. This includes understanding better how political systems work and how elections are funded.33

> Improving governance is a long-term project. Institutional reform requires sustained efforts over time and does not lend itself to quick fixes. Short donor time horizons and project cycles can be impediments to providing sustained support over time.

> Broad anti-corruption campaigns raise public expectations faster than they deliver results. Donor efforts to create demand for reform run the risk of generating cynicism and mistrust, because the very long term nature of institutional change creates public frustration at the lack of progress in fighting corruption. Public expectations need to be carefully managed in any broad anti-corruption program, and a strong results focus needs to be emphasised.34

> One size does not fit all. Country conditions vary greatly, and the factors that influence corruption also vary. Understanding better the cultural, social and historical factors that shape the country’s institutions is crucial to well-designed anti-corruption policies. In turn, this requires drawing on local experts’ knowledge about their societies. Governance failures often arise from a perverse association between low accountability and weak capacity. Remedies need to take into account where states lie in the accountability and capacity continuum and tailor responses to those positions. An alternative approach is to view countries along a continuum of development policy outcomes and anti-corruption effectiveness measured by respective Country Policy and Institutional Assessments indicators, with states ranging from failed or failing to effective states with high or low corruption. These approaches are useful in thinking through the response to varying country situations. However, countries do not fall easily into such boxes, and there is no substitute for the more detailed analysis that integrates an understanding of the country’s historical and sociocultural context with the disciplined thinking that these approaches suggest.

> Country commitment and ownership are crucial to success. Governance reforms imposed through donor conditionality are unlikely to be sustained. Ownership of the reform effort by the country leadership, or at least by a coalition of reformers, is crucial, preferably through a shared government–donor strategy to address governance and anti-corruption. Ownership may need to be built through dialogue with donors and shared analytical work. It can also result from increased domestic awareness of the cost of corruption, demand for reforms from civil society and greater citizen empowerment.

> Partner countries need to see that donors are primarily concerned with improving development effectiveness and not fighting corruption for its own sake. The principal objective must always be poverty reduction, and the intermediate objectives must be improved service delivery and greater accountability to the public. A sharper focus on accountability for results can help create the right incentives and promote reforms.35 This is likely to meet less resistance from partner governments than a focus that is driven by anti-corruption, and would make it easier for reformers in the system to sell reforms.

> Strengthening accountability is not just about the executive branch of government. It implies reaching out to parliament, the judiciary, civil society, academia, the media.
and community groups to strengthen the checks and balances on the executive branch by the formal institutions of accountability, as well as a vigilant public and civil society. Above all, it is about paying as much attention to increasing demand for reforms as to equipping public institutions to better fight corruption.

> Prevention is better than cure. Governments often focus on punitive measures, but in environments where the chance of getting caught is low and the potential reward is high, punishment on its own is unlikely to provide a real disincentive to corrupt behaviour. Given this, the real pay-off is in reducing the likely benefits from corruption (for example, through deregulation, lowering barriers to entry, ensuring competition and transparency in procurement); reducing the number of transactions that create opportunities for graft (import liberalisation as in Indonesia in the 1980s, removing industrial trade licensing, streamlining bureaucracy); and increasing transparency and oversight through better access to information and beneficiary involvement in project implementation.36

Box 1.2. Eight reasons why anti-corruption programs fail

- Lack of political will among decision makers.
- Limited power and resources to accomplish reforms.
- Overambitious and unrealistic promises.
- Uncoordinated reforms.
- Reforms that rely too much on law enforcement.
- Reform strategies that target only low-level officials and not the senior levels.
- Reform strategies that do not deliver quick wins.
- Reforms that are not fully institutionalised.37

1.5 Designing donors’ anti-corruption strategies at a country level

1.5.1 Designing anti-corruption strategies at country level implies a ‘systematic and disciplined’ approach to preparing donor country planning exercises.38 This may require conducting thorough country diagnostics (as now required under Australia’s Anti-Corruption for Development Policy). The OECD DAC is supporting donor efforts to conduct joint diagnostics in partner countries, in consultation with governments and in partnership with local think tanks and civil organisations. In April 2007, OECD Ministers of Development Cooperation and heads of agencies agreed to ‘prioritise governance assessment work jointly with other donors’. Donors also need to mainstream anti-corruption into their relations and activities. Mainstreaming implies a consistent view on anti-corruption across all donor government agencies that may have independent relations with partner countries (foreign affairs, defence, trade, justice and so on).39 Donors face some difficult choices when governance and anti-corruption assessments suggest both high levels of corruption and a government unwilling to address them. Walking away from tough situations is not an option for aid institutions charged with helping reduce poverty - cutting assistance to a country with high corruption is a double tax on that country’s poor. While bilateral donors enjoy a lot more latitude than multilateral agencies, it is important to stay the course to support long-term institutional development and find ways to reach the poor in difficult governance environments.

1.5.2 There also appears to be a growing consensus on ‘comprehensive’ approaches to fighting corruption. A narrow focus on strengthening the executive branch of government is not sufficient – it is also important to mainstream governance and anti-corruption across all donor interventions. The OECD DAC, drawing on World Bank work, presents a hierarchy of entry points, starting from the political process and including state
capability, oversight institutions, sector governance, local governance and enhancing voice by improving access to information and helping citizens better articulate their concerns directly or through intermediaries such as advocacy NGOs and other civil society organisations. The remainder of Section 1.5 gives a brief overview of these elements.

**Political reform**

1.5.3 The roots of corruption mostly lie in failures of political accountability. These may be due to various factors (including a lack of effective political competition arising from a domination of patrimonial politics, a lack of internal party democracy, and the high cost of elections) which can result in state capture. Bilateral donors need to engage governments in dialogue on these issues. Better understanding the country’s politics and the formal and informal rules that shape its institutions is critical. Intervention points may include voter education programs, strengthening political parties, parliamentary strengthening, helping election commissions to do a better job, and election finance reforms.

**State capability**

1.5.4 Strengthening public financial management is rightly at the heart of most anti-corruption efforts. The emergence of new diagnostic tools, such as the Public Expenditure and Financial Accountability (PEFA) assessment, has given fresh momentum to this work. Self-assessments by partner governments, when combined with independent donor-funded assessments, provide a basis for developing strong action programs based on country-set goals. With increased emphasis on country-led programs, steady progress towards these goals, as measured by repeat PEFA exercises against an agreed baseline, could be a useful precondition for direct budget support. Combining PEFA exercises with peer review mechanisms can also be a powerful tool. Peer review mechanisms are helping countries in Eastern Europe and the former Soviet Union to share information on each other’s experiences and collectively advance the reform agenda.

1.5.5 Public procurement is highly susceptible to corruption. Large infrastructure projects invite grand corruption. Improvements in diagnostic tools have enriched understanding of areas of vulnerability (see Box 1.3). Reforming procurement involves addressing each link in the procurement chain, from procurement planning to the awarding of contracts. Reforms involve enhancing transparency and competition and reducing discretion. E-procurement is catching on, and experience in Chile and elsewhere suggests that it achieves those objectives. Demand-side measures include beneficiary involvement in the process, including at bid opening and through monitoring the contract implementation; greater availability of information on the rationale for choosing the selected bidder; and integrity pacts which attempt to constrain bidders’ behaviour. Of course, any improvements of the procurement process should go hand in hand with strengthened financial reporting and monitoring of expenditure and outcomes.

**Box 1.3. Yellow flags in procurement that merit further investigation**

- The project approval process lacks clear, objective criteria for selecting projects.
- Selected locations for physical works are not based on demonstrated public need.
- Government lacks capacity to monitor decentralised units responsible for procurement.
- Procurement plan relies too heavily on local competitive bidding.
- No anti-corruption plan is built into the project design.
- Cost estimates are inconsistent with market rates.
- Least cost solutions have not been considered.
1.5.6 Public financial management reforms must embrace tax and customs reforms. A low revenue effort is often a symptom of high corruption and poor governance. Many states, including the three reviewed in this report, have traditionally depended on revenues from exports of commodities and minerals. Recent research shows that such states tend to have low accountability to citizens because the revenue generated from commodities and minerals is often used to build ‘overwhelming coercive force in relation to their own populations’. High dependence on commodity revenues also contributes to the militarisation of politics and disrupts the natural evolution of institutions. If governments do not need to rely on citizens for a significant share of public revenues, they do not need to be accountable to citizens for how those revenues are spent. Raising the tax revenue effort strengthens public accountability to citizens and helps address the incentives that drive corruption, such as wages that do not meet basic human needs and inadequate budgetary provisions for operations and maintenance. Thus, support to revenue agencies is part of a broader process of state building and establishing citizens’ rights. Understanding of how to reform tax systems is improving. Autonomous revenue agencies have a mixed record, but they enable a well-paid revenue force that is free of corruption.

1.5.7 Low civil service wages have been assumed to be a key factor driving corruption. However, evidence from country studies does not bear this out. This suggests that increases in civil service wages that are not accompanied by other reforms designed to ensure efficiency and professionalism in the civil service and by penalties for corrupt behaviour are unlikely to reduce corruption.

1.5.8 Comprehensive civil service reform is often impractical. An alternative approach is to create a senior civil service whose wages and conditions more closely match those of the private sector. Recruitment to this senior cadre needs to be highly competitive, and promotions to senior positions need to be open to external recruitment. This also addresses a problem in many developing countries, whereby the wages of junior and clerical staff are often competitive with those of their private sector counterparts while salaries for senior civil servants are not.

1.5.9 Right-to-information laws and greater government transparency are becoming increasingly powerful tools in the fight against corruption. Without open government, the effectiveness of demand-side efforts to reduce corruption can be weak. Governments will normally resist such reforms. Building civil society coalitions to fight for right-to-information laws and insisting that donor projects provide total transparency to enable beneficiaries to monitor their progress are two important ways to go forward.

1.5.10 Institutions of accountability are central to the fight against corruption. These range from those formally charged with oversight of the executive, such as parliament and the judiciary, to parliamentary budget and public accounts committees, electoral commissions, the auditor-general and anti-corruption commissions. Support to these institutions needs to focus on professionalising them and ensuring their autonomy from the executive. Autonomy requires transparent processes for the selection of top executives of the accountability agencies, protecting those executives from arbitrary dismissal, and ensuring financial independence by making parliament rather than the executive responsible for agency budgets. Sequencing reforms to improve such institutions’ performance before granting them autonomy is crucial – post-Suharto Indonesia rushed into granting autonomy to the judiciary before ensuring that it was clean.

1.5.11 International experience with anti-corruption commissions has been disappointing except for the special cases of Hong Kong and Singapore. The many new anti-corruption agencies established across the developing world have often become victims of high and unrealistic initial expectations by governments and donors. Governments have tended to use the agencies to expose corruption in previous regimes
and tended to lose interest in their work as anti-corruption slips from the top of the agenda over time. Donors are also prone to providing strong support for anti-corruption agencies in the early years of a regime that they perceive to be inclined to reform but then become cynical and withdraw support. Building effective anti-corruption agencies calls for sustained support from governments and donors over a long period. What it takes to make them work is discussed in Box 1.4.

**Box 1.4. Creating a successful anti-corruption agency**

A successful agency needs the following resources.

*Well-defined supports from its inception.* The agency needs strong political backing; a sound and strategic anti-corruption strategy; careful planning and performance measurements; and realistic public expectations.

*Strategic focus.* It must target key areas, such as prevention and the monitoring of government implementation (Korea); it must be prospective, and not look only at the past (Hong Kong); it must choose cases based on clear standards (Argentina, New South Wales). Clarity of focus is highly correlated with success.

*Independence.* The agency must be free from political interference in its work. De facto autonomy allows the agency to operate on a professional, consistent basis with little interference. This is often achieved through the process by which top officials are appointed or removed, the fiscal autonomy it enjoys, and its accountability relationship.

*Accountability.* The agency must be subject to legal standards, judicial review, public complaints and oversight, and be accountable to all branches of government and the public, including for its finances. Accountability is not uniformly associated with success, but many successful agencies are strongly accountable.

*Adequate powers.* The agency should be able to access documents, call witnesses, freeze assets, seize passports, protect informants, monitor income and assets, and exercise jurisdiction over the head of state. Many agencies have these powers on paper but rarely exercise them, because of political factors and poor cooperation from other institutions. They often require government authorisation before prosecuting an individual.

*Sufficient resources.* The agency needs well-trained, well-compensated personnel, many with highly specialised skills, and high ethics of professionalism and integrity. It must be adequately budgeted and have appropriate facilities.

*Complementary institutions.* Necessary or desirable complementary institutions include adequate laws and procedures; functioning courts and the basic features of the rule of law; free and active media; an active community of NGOs and public interest groups; and a capable supreme audit institution and central bank. Anti-corruption agencies are not successful when the basic features of rule of law do not exist, but free media and watchdog NGOs are not as clearly associated with their success.

**Addressing sectoral governance**

1.5.12 Addressing corruption at the sectoral level is a recent area of interest. While corruption in sectors reflects general country-wide failures in accountability, it is increasingly being recognised that corruption takes different forms in different sectors. Moreover, the interaction between country- and sector-specific factors results in differing corruption risks between countries in the same sector, and between sectors in the same country. A recent World Bank study lays out a road map for a ‘sequential chain of activities’ in selected sectors. For example, in electricity, the key links are generation, transmission and distribution. While generation, with its multi-million-dollar procurement contracts, is the weak link in most countries, in South Asia tolerance of theft makes distribution the weak link. There are several advantages to this ‘value chain’ analysis. A structured approach to analysing corruption risks leads to a better understanding of the interlinkages between corruption vulnerabilities at different points in the value chain and focuses attention on the most vulnerable links in the chain. This enables donors to better help governments develop strategies to address those risks; more importantly, it focuses attention on outcomes rather than corruption per se.

**Strengthening local governance**

1.5.13 Decentralisation can be a force for greater public accountability when there is clarity about functions and resource allocation and when citizens can hold service providers accountable. But when local governments lack the authority to tax or do not use the
authority they have, greater autonomy could ‘increase opportunistic behaviour and create moral hazard’, resulting in weak accountability and poor service delivery.\textsuperscript{52} Decentralisation is no magic bullet for public accountability. Most cross-country studies suggest that it is often accompanied by an increase in corruption.\textsuperscript{53} Central governments must play a key role in increasing the accountability of local governments.\textsuperscript{54} They need to ensure that key overlapping functions (particularly in the management of the civil service, land, forestry and investment approvals) are clarified. They need to empower local governments to transparently raise and administer a significant share of their resources from taxation (through property, real estate and local sales taxes) rather than depending on central transfers, thereby increasing accountability to citizens. Central governments can also help citizens better monitor the performance of their local governments. Central sector ministries can set minimum service standards and issue data comparing local government performance in meeting those standards. This can have a powerful effect on local government performance.

1.5.14 Reform-minded local governments can also improve accountability by improving access to information and decision-making processes. Partnerships between local governments and communities or NGOs to monitor service delivery and participate in decisions affecting the community can also enhance accountability.

Enhancing voice

1.5.15 The importance of ‘enhancing voice’ in fighting corruption is well understood. That civil society, the media and think tanks can have a powerful impact on corruption has been documented by a number of studies.\textsuperscript{55} Three key areas stand out:

> Strengthening advocacy. TI’s local chapters and other anti-corruption NGOs are creating public awareness and mobilising public opinion on specific issues. Donors can also help to facilitate a dialogue between governments and civil society institutions on these difficult issues.

> Enhancing access to information. Think tanks and the media can generate information about the costs and consequences of corruption, including through regular public opinion surveys and analyses of corruption. Right-to-information movements are also a powerful force in the fight against corruption; donors can help to educate partner governments on their own experience and that of developing countries that are leaders in this area.

> Monitoring public service delivery. NGOs and the media can help to monitor public service delivery and strengthen demand for service provider accountability to citizens. Systematic involvement of civil society institutions in monitoring outcomes of donor-financed projects can facilitate an extension of such monitoring to non-donor-financed development activities. The successful deployment of NGOs in public expenditure tracking in Uganda and elsewhere has also proved a powerful tool (see paragraph 1.2.9).

1.5.16 Donor involvement in enhancing voice is not without its difficulties. Apart from perceptions of interference in a country’s internal affairs, two issues stand out:

> Regulation versus control. In most countries, civil society has yet to mature. Governments, particularly democratically elected ones, often see civil society organisations as self-appointed spokespersons for the poor and not accountable to anyone. Indeed, a legitimate case can be made for the regulation of civil society activities, given that many NGOs are as vulnerable to corruption as other institutions in their countries and lack the resources and interest to maintain proper records and accounts. However, there is a fine balance between legitimate regulation and control aimed at constraining activism. Donors need to choose their civil society partners carefully. They also need to work with governments to create a supportive and non-intrusive regulatory environment.
Finding effective advocates. Typically, the most effective NGOs in developing countries tend to be those engaged in service delivery. Many of these are coopted by governments into providing services to supplement weak official service providers. While they are advocates for the poor they serve, they are usually reluctant to bite the hand that feeds them; when donors and international NGOs also fund them, their accountability shifts from the poor to those who fund them. Therefore, they are not effective anti-corruption advocates. However, NGOs that focus exclusively on advocacy often lack the development experience to be credible. Donor funding may also compromise their credibility with governments and the public. This suggests the need for instruments that create an arm’s length relationship between donors and advocacy NGOs, leaving decisions on funding and similar matters to leaders of local coalitions fighting corruption and improving governance. An imperfect but important example is the Partnership for Governance Reform in Indonesia. Donor encouragement of local coalitions for improved governance will help civil society organisations draw strength from each other and together present a united front against corruption. For these coalitions to succeed, however, they must represent the public’s interests rather than those of donors. They must reach beyond NGO advocacy groups and service providers to the private sector, trade unions and lawyers’ groups. These groups must have a strong interest in fighting corruption (for example, small businesses that must deal with a corrupt customs service).

1.6 Mitigating operational risks to donor-funded programs

1.6.1 As donors move to implement the Paris principles, donor funds will increasingly pass through government systems. The discussion above focuses on the efforts needed to strengthen local institutions to reduce the fiduciary risks faced by partner governments and therefore by donors. Where government accountability systems are weak, donors may have no choice but to continue to use direct supervision of their funds. In some countries or sectors, donors may consider the risks of putting money directly through the partner government systems too high. Faced with this challenge, they are increasingly looking at ways to reduce the fiduciary risks to donor-funded projects. Moreover, whether money goes through the government budget or not, donors face development effectiveness and reputational risks when they operate in corrupt environments.

1.6.2 A key principle for minimising these risks is that prevention is better than cure. The development relationship is one of trust. Trust can be easily destroyed when corruption is found or when donor officials breathe heavily down the necks of their counterparts. Preventive approaches imply mainstreaming corruption concerns into all operations and strong analytical work on corruption risks likely to be faced in counterpart agencies and sectors. This work is best done by drawing on the resources of local institutions and building local ownership for the resulting policy agenda.

1.6.3 Such analytical work should lead to smarter project design that systematically addresses corruption risks and takes risk-mitigating actions. This will include supply-side measures that strengthen procurement to ensure competitiveness and transparency, reduce regulatory burdens, and enhance transparency and oversight mechanisms. In particular, donors can require total information disclosure and subject the projects they finance to civil society scrutiny. Also crucial is enhancing voice through beneficiary involvement in the design, preparation and implementation of projects (for example, involving parents in overseeing the appropriation and use of funds allocated to schools, or mobilising water users’ associations). In highly corrupt environments, donors may want to stay away from sectors in which corruption is intractable and instead use community-driven approaches in which the responsibility for ensuring oversight shifts from donors to local communities. There is now a strong track record with such programs (for example, the World Bank’s Kecamatan Development Program in Indonesia).
1.6.4 Smarter project design is not a substitute for stronger supervision of donor-funded operations. Donors need to send clear, unmistakable signals to partner governments that corruption is taken seriously. Laxity in enforcing rules aimed at reducing corruption risk is likely to encourage corrupt practices. Here again, prevention is better than cure.

1.7 Conclusions

1.7.1 A broad consensus has emerged on donor anti-corruption strategies. The key lessons from the limited donor experience in this area are consistent with those listed in Australia's policy on anti-corruption. Australia's approach recognises that reducing corruption requires improving governance more broadly and acknowledges the long-term nature of such an endeavour. The three pillars of its program - building constituencies for reform, reducing opportunities for corruption and changing incentives for corrupt behaviour - cover most of the entry points outlined in Section 1.5 of this chapter.

1.7.2 Donor efforts to implement anti-corruption strategies have faced three sorts of implementation risks. First, the cross-cutting nature of corruption and governance issues requires the involvement of staff across the donor agency and other whole-of-government agencies to pursue a common and perhaps unfamiliar agenda in development delivery. This implies effective collaboration across sectors and specialisations, a willingness to focus on corruption in sectors, and a willingness to raise difficult issues with partner government officials who may not want to listen, raising the transaction costs of doing business. Second, it is all too easy to underestimate the resource implications of governance work, which is time consuming and requires multidisciplinary approaches. Third, the results are not always easy to measure and require time horizons that stretch the patience of managers in donor governments.

1.7.3 Mitigating implementation risks will require a number of actions. As is well recognised in the Australian policy, assistance strategies must be shaped by strong diagnostics, particularly in relation to a country's history, traditions and politics. The policy implications of such diagnostic work need to be reflected in country program strategies. Sectoral governance initiatives need to focus on improving service delivery, creating incentives to improve governance, rather than on imposing governance-related conditions. Implementation of governance and anti-corruption programs should be entrusted to cross-sectoral teams that ensure shared learning, reinforced by a systematic effort to evaluate ongoing programs and learn from successes and failures.

1.7.4 Strong partnerships are central to effective governance and anti-corruption strategies. An intensive governance and anti-corruption focus will stretch most donor agencies' resources, and it is only through leveraging each other's resources that donors can expect to provide the broad coverage needed. This also implies that each agency needs to focus on a few areas where it has a comparative advantage and where it thinks it can make the most impact. Equally important will be partnerships with civil society institutions, academia, think tanks and the private sector. This will help to extend the reach of donor programs and expose donor staff to ideas and ways of working which are more closely rooted in the cultures and traditions of the partner country.

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7 S Rose-Ackermann, Poor governance and corruption, Copenhagen Consensus Challenge Paper, 2004, p. 3.


10 Rose-Ackermann, Poor governance and corruption, p. 10.


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22 J Madison, ‘The Union as a safeguard against domestic faction and insurrection (con’t)’, Federalist Paper No. 10, 1787.

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24 North, Institutions, institutional change and economic performance.

27 F Fukuyama, State building - governance and world order in the 21st century, pp. 35-42.
34 M Tisné and D Smilov, From the ground up: assessing the record of anti-corruption assistance in Southeastern Europe, Centre for Policy Studies, Central European University, Soros Foundations Network, 2004, pp. 64–65.
40 OECD DAC, Principles for donor action in anti-corruption, p. 10.
41 World Bank, ‘Spending for development: making the most of Indonesia’s development opportunities’, pp. 295–334.
47 See, for example, C Van Rijckeghem and B Weder, ‘Bureaucratic corruption and the rate of temptation: Do wages in the civil service affect corruption, and by how much?’, Journal of Development Economics, 63(2), 2001, pp. 307–331.
48 For an interesting discussion on the cycles of activity of governments, donors and anti-corruption agencies in five African countries, but which are also typical of problems faced in other regions, see A


50 Campos and Pradhan (2007).


53 OECD DAC, Synthesis of lessons learned of donor practices fighting corruption, p. 27; Shah, Performance, accountability and combating corruption, p. 246.


56 For more on the role of NGOs, see D Hulme and M Edwards (eds), NGOs, states and donors: too close for comfort, Macmillan, London, 1997.


58 Tisé and Smilov, From the ground up: assessing the record of anti-corruption assistance in Southeastern Europe, pp. 70–71.

Chapter 2: Cross-cutting issues from country studies

Mark Baird

As background for this anti-corruption assessment, country studies were undertaken for Papua New Guinea (PNG) and Indonesia. The primary purpose of the studies was to look at ongoing efforts to prepare Australia’s anti-corruption plans in those countries, and to suggest ways in which they might be strengthened. However, in the process, a number of cross-cutting issues emerged; these are summarised in this chapter. While it is hard to generalise, it is likely that similar issues will emerge in other countries where Australia is currently working on anti-corruption plans.

2.1 Two Distant Neighbours: Indonesia and Papua New Guinea

2.1.1 Table 2.1 shows selected development indicators for Indonesia and PNG, along with reference data for the Philippines and Solomon Islands. A number of contrasts are obvious:

> Indonesia is a much larger country, with substantially higher per capita income and a lower poverty rate than PNG (although, in absolute terms, there are many more poor people in Indonesia). Indonesia is closer to the Philippines on many development indicators, while PNG looks more like Solomon Islands.

> Annual GDP (gross domestic product) growth in Indonesia has averaged close to 5 per cent over the past five years. Although GDP growth in PNG has recovered in recent years, it is still lower than in Indonesia and offset by higher population growth (2.0 per cent, compared to 1.4 per cent in Indonesia).

> Both Indonesia and PNG received over $300 million in Australian aid in 2006–07.1 However, Australia provides a much larger share of total aid in PNG than in Indonesia, and aid in PNG plays a much larger role in the overall economy.

Table 2.1. Development indicators for four countries

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Units</th>
<th>Period</th>
<th>Indonesia</th>
<th>Philippines</th>
<th>PNG</th>
<th>Solomon Islands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>million</td>
<td>2005</td>
<td>220.6</td>
<td>83.1</td>
<td>5.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Income per capita</td>
<td>US$</td>
<td>2005</td>
<td>1 280</td>
<td>1 300</td>
<td>660</td>
<td>590</td>
</tr>
<tr>
<td>GDP growth rate</td>
<td>% p.a.</td>
<td>2000-05</td>
<td>4.7</td>
<td>4.5</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Poverty rates:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– US$1 per day</td>
<td>%</td>
<td>2005</td>
<td>6.0</td>
<td>10.8</td>
<td>39.0</td>
<td>n/a</td>
</tr>
<tr>
<td>– US$2 per day</td>
<td>%</td>
<td>2005</td>
<td>45.2</td>
<td>42.1</td>
<td>70.6</td>
<td>n/a</td>
</tr>
<tr>
<td>Net ODA</td>
<td>US$ million</td>
<td>2005</td>
<td>2 524</td>
<td>564</td>
<td>266</td>
<td>198</td>
</tr>
<tr>
<td>– per capita</td>
<td>US$</td>
<td>2005</td>
<td>11</td>
<td>7</td>
<td>45</td>
<td>413</td>
</tr>
<tr>
<td>Australian aid</td>
<td>A$ million</td>
<td>2006–07</td>
<td>328</td>
<td>70</td>
<td>335</td>
<td>220</td>
</tr>
</tbody>
</table>

GDP = gross domestic product; ODA = official development assistance; n/a = not available.

2.1.2 Unfortunately, both Indonesia and PNG have high levels of corruption. Indonesia ranks 143 and PNG 162 out of 179 countries in Transparency International’s (TI’s) 2007 Corruption Perceptions Index (the Philippines ranks 131 and Solomon Islands 111). The Control of Corruption Indicators prepared by the World Bank produce similar results, as shown in Figure 2.1. Indonesia’s rankings have improved over the past few years, while PNG’s have fallen. As noted in Section 1.3, these perception-based indicators are subject to wide margins of error, so it is not possible to say at a 90 per cent level of confidence (shown by the lines in Figure 2.1) that Indonesia’s scores exceed those of PNG. However, the results appear to be plausible; they are also consistent with other information suggesting that there has been some improvement in efforts to control corruption in Indonesia, while the situation has deteriorated in PNG.

2.1.3 Indonesia has long been regarded as one of the most corrupt countries in the world. Corruption was widely tolerated by Indonesians and foreigners alike, as long as the country sustained a good development record. However, it became apparent during the 1990s that Indonesia’s weak and corrupt public institutions were increasingly incapable of sustaining rapid growth and reducing poverty. The Asian financial crisis exposed these institutional weaknesses and triggered the downfall of the Suharto regime in 1998. Since then, there has been a remarkable opening up of the political system, and a lively debate on the causes and impact of corruption in the country. With the election of President Yudhoyono in 2004, the government made fighting corruption a top priority. Progress since then is reflected in the improved Control of Corruption Indicators. However, as central executive control broke down and power was shifted to parliament and the regions, new opportunities for corruption also emerged. And progress in fighting corruption has not kept pace with growing public awareness and expectations. This gap reinforces the popular perception that corruption has worsened, or at least become less predictable.

2.1.4 Similarly, there is little doubt that corruption is high, and probably rising, in PNG. In looking at the nature and causes of corruption in PNG, most commentators point to the impact of the wantok system of mutual obligations and privileges on perceptions of what is right or wrong. As practised in traditional PNG society, wantokism helps to hold communities together and provides a valuable social safety net (although not necessarily...
2.1.5 More generally, corruption is a symptom of deeper governance concerns in the country. PNG has weak institutions, poor rule of law and high crime rates. This is reflected in the International Development Association Resource Allocation Index for 2006, which shows low ratings for PNG on property rights, rules-based governance and quality of public administration. More concretely, poor governance is also reflected in reports of the growing influence of Asian crime syndicates in PNG. While we cannot assess the overall importance of this trend, it clearly leads some to conclude that corruption is taking a decided turn for the worse, with potentially serious implications for political governance and stability. Recent budget windfalls from higher resource prices have added to the risks. In this environment, it will be difficult to make headway on corruption without tackling PNG’s more fundamental governance problems.

2.1.6 It is clear that corruption is a major development problem in Indonesia and PNG. As such it can undermine aid effectiveness and act as a major brake on reform efforts, broad-based growth and poverty reduction.

But how to fight corruption in such different countries as Indonesia and PNG? How can Australia help?

The rest of this chapter looks at five related themes that emerged from the country studies:

> Supporting national strategies
> The case for specialised anti-corruption agencies
> Building demand for good governance
> Managing risks to Australian aid
> The role of Australian aid role in fighting corruption.

2.2 Supporting national strategies

2.2.1 One of the main principles of the Paris Declaration on Aid Effectiveness is that donor programs should be based on ‘partners’ national development strategies and periodic reviews of progress in implementing these strategies’. This is especially the case in fighting corruption, where local ownership and commitment are critical to success. Local ownership is relatively easy in Indonesia, where the Yudhoyono government was elected on a strong anti-corruption platform in 2004 and the main problems are to do with implementation and donor coordination. However, in PNG, the government’s commitment to fighting corruption is less clear, and donors have to walk a fine line between accepting national strategies (or the lack thereof) and supporting stronger anti-corruption reform.

2.2.2 In Indonesia, the government’s commitment to fighting corruption was reflected in the Medium-Term Development Strategy for 2004–09, and elaborated on in the 2004 Presidential Instruction on Accelerating the Eradication of Corruption and the National Action Plan on the Elimination of Corruption 2004–2009. The National Action Plan covers four areas:
> prevention of corruption
> repression of corruption
> prevention and repression of corruption in the reconstruction and rehabilitation of Aceh and northern Sumatra
> monitoring and evaluating progress on the National Action Plan.

Some have criticised the strategy for focusing too narrowly on the executive and lacking a clear sense of reform priorities and deadlines for achieving them. However, it at least provides a strong signal of the Indonesian Government’s commitment to fighting corruption and a framework for developing more detailed implementation plans.6

2.2.3 Work in the lead-up to the next meeting of the Conference of the Parties to the United Nations Convention Against Corruption (to be held in Indonesia in early 2008) has generated some interest within Indonesia in revising the anti-corruption strategy. This might not be the best motivation for revision, as there will be pressure to show progress by adopting a ‘checklist’ approach to reform. On the other hand, it may create some opportunities for Australian support, especially to improve the monitoring and evaluation system. Responsibility for monitoring the National Action Plan lies with the Indonesian Ministry for Administrative Reform. BAPPENAS (the National Development Planning Agency) is also trying to improve the monitoring and evaluation framework, and several civil society groups (including Indonesia Corruption Watch and TI) provide regular reports on anti-corruption efforts. AusAID could help to support and coordinate these efforts. The focus should not be only on government actions, but also on their impact on corruption, using independent survey instruments.

2.2.4 While the anti-corruption drive in Indonesia has widespread public support, there are also real political and bureaucratic constraints on the pace and scope of reform. Reformers are concerned that a backlash against the anti-corruption drive has already started, with various legal and constitutional challenges to the Judicial Commission and the Special Court for Corruption.7 Some reformers are also concerned that the focus on corruption is making the bureaucracy risk averse and slowing down decision making. Such pressures are likely to increase in the lead-up to the general and presidential elections in 2009.

2.2.5 Corruption is not a major focus of PNG’s Medium-Term Development Strategy 2005–2010. However, at the time of the AusAID assessment mission, the Department of the Prime Minister and National Executive Council was working on a National Anti-Corruption Strategy for 2007-2012.8 The draft strategy recognises that corruption is a major problem that the PNG Government will have to deal with ‘head on’. The overall goal is to make PNG a ‘corruption-free’ country, with a reduction in actual and alleged corruption cases within five years. In the short to medium term, the government will focus on improving detection, investigation and prosecution of corruption, including through an ‘independent and dedicated anti-corruption institution.’ Over the longer term, the PNG Government will embark on legislative and administrative reforms to strengthen laws and the system of government, and restore the integrity of state institutions.

2.2.6 Those working on the draft strategy were confident that it would be adopted by the National Executive Council. However, at the time of the mission, there appeared to have been little consultation with other government departments. While civil society groups were pleased to see corruption issues being discussed, they had reservations about the proposed approach. For example, TI (PNG) suggested that the strategy should focus first on general goals, allowing more time to consult on the proposed action plan. To date, no information is available on whether the new PNG Government has considered an anti-corruption strategy.
2.2.7 This creates a dilemma for Australia, which wants to encourage and support efforts in PNG to develop an anti-corruption strategy but does not want to push so hard that the PNG Government passes a poor strategy (or one that has limited ownership by government and civil society organisations). Nor can Australia afford to wait for a national strategy to emerge before putting in place its own anti-corruption plan, including measures to protect Australian aid from misuse. Therefore, Australia will have to continue working in parallel, developing its own ideas and trying to contribute to the PNG Government’s thinking along the way.

2.3 The case for specialised anti-corruption agencies

2.3.1 There can be a temptation to see specialised anti-corruption agencies as a ‘magic bullet’ to fight corruption. Several regions in East Asia, most notably Hong Kong and Singapore, have used such agencies to control corruption. However, as argued in Chapter 1, this approach does not guarantee success but depends heavily on strong political will to provide independent powers, credible staffing and adequate resources. Anti-corruption agencies also depend on other agencies (police, courts, prosecutors) to do their work, and cannot substitute for the full range of accountability institutions (parliaments, election commissions, civil service commissions and so on). Therefore, a broad-based approach to anti-corruption is needed. In the light of this experience, what can we learn from recent developments in Indonesia and PNG?

2.3.2 In Indonesia, the agencies responsible for enforcing anti-corruption laws – the police, courts and public prosecutors – were seen to be among the most corrupt institutions in the country. To resolve this problem, the Indonesian Government established the Komisi Pemberantasan Korupsi (Corruption Eradication Commission, or KPK) in December 2003. It has widespread powers to coordinate and supervise other state institutions involved in anti-corruption, investigate and prosecute corruption cases, and prevent corruption through examining wealth reports, conducting education programs and supporting reforms in state institutions. The initial work of the KPK focused on building up its own credibility through a series of successful investigations and prosecutions. The commission completed 18 prosecutions in 2005, including a prosecution of the former governor of Aceh and even some KPK staff. Most investigations are opportunistic, and rarely target political ‘big fish’. However, according to KPK officials, investigations are also used to stimulate the targeted institutions to implement anti-corruption reforms, although this has been a much smaller part of the KPK’s own program to date.

2.3.3 Most commentators agree that the KPK has done a good job so far. It has built up a strong reputation as an honest and professional institution that is trusted by the public. It receives sufficient resources from the Indonesian Government and donors. According to KPK officials, the main constraint is the commission’s reliance on police investigators, who often lack the skills and authority for complex financial investigations. They are also concerned about the current challenge to the Special Court for Corruption, which needs to be re-established under a separate law within three years. This process could give opponents new opportunities to challenge both the court and the KPK. There is also a risk that the KPK could extend its role too rapidly, reducing its own capacity to do a good job and undermining other institutions that are an essential part of the overall anti-corruption effort.

2.3.4 AusAID is already providing some investigative support to the KPK through the Legal Development Facility. This is highly valued, and should be continued and expanded as appropriate. In addition, AusAID could consider helping the KPK to strengthen its role in coordinating aid for anti-corruption efforts, as well as monitoring and punishing corruption in aid projects. However, the KPK should not be seen as the primary or core recipient of Australia’s anti-corruption assistance. Indeed, it is already well funded from
other aid sources, and will receive substantial additional assistance from the United States under the Millennium Challenge Account.

2.3.5 Compared to Indonesia, PNG has a relatively well-functioning court system. The Ombudsman Commission has a broad range of powers, including the capacity to prosecute matters itself if the public prosecutor fails to do so in a reasonable period. This power has never been used, but the Ombudsman Commission has played a leading role in dealing with breaches of the Leadership Code and with other complaints of maladministration. However, few of these cases result in prosecution or punishment. More often than not, the problem lies in weak investigations by the police or technical delays in corruption cases. The potential for corruption within the police force, due to poor pay and housing conditions, is also a cause for concern.

2.3.6 The response proposed in the draft National Anti-Corruption Strategy is to establish an Independent Commission Against Corruption (ICAC). However, putting aside concerns about resourcing and staffing a new agency, questions remain about the political will of the PNG Government to create the ICAC and give it the powers it needs to investigate and prosecute corruption cases. A similar proposal was taken to parliament in 1998, but parliament has never voted on it. According to one of the drafters of the legislation, ‘It is clear that no member of parliament is interested in passing a law that could affect his/her personal interest even if it promoted the wellbeing of the nation. There is simply no political will.’ In this environment, Australia should not put too many eggs in the ICAC basket until more is known about the commission’s proposed powers and the credibility of its members. Efforts to strengthen the police, as proposed under the Enhanced Cooperation Program (ECP), remain a high priority in the overall anti-corruption effort.

2.4 Building demand for good governance

2.4.1 AusAID’s anti-corruption policy (p. 9) recognises that ‘demand for change from local leaders and communities is critical to addressing corruption’. Both Indonesia and PNG have relatively open and participatory political systems, which allow the public to express their displeasure at corruption and its impact on government performance. Support for popular participation has always been a focus of Australian aid, and will also be central to any anti-corruption effort. However, politics also drives corruption. In both countries, the costs of elections are very high and political parties faced with those costs are bound to indulge in corrupt practices. Australia needs to fully understand these political dynamics and support institutions that regulate political parties (such as election commissions) and reduce the costs of fighting elections (through free access to the media etc.). Partnerships between Australian political parties and their counterparts in these countries can also expose politicians to better ways of doing things and assist in developing internal party democracy and transparency in party financing.

2.4.2 In PNG, the main challenge will be to find ways to build the active media, community and church groups into an effective coalition for anti-corruption reform, working with like-minded politicians and government officials. This has already happened to some extent. At the time of the 2002 election, the Media Council and TI initiated an effective campaign against corruption. Civil society groups have joined together to form the Community Coalition Against Corruption, which successfully lobbied against two private members’ bills in 2005. The bills would have exempted MPs from dismissal for breach of the Leadership Code, while raising discretionary election funds. Both civil society and private sector representatives have an opportunity to question government priorities and programs through the Consultative Implementation and Monitoring Council. One of its proposals led to the establishment of the National Anti-Corruption Alliance in 2004. The alliance coordinates anti-corruption activities across government agencies, including the recent investigation and prosecution of fraud cases in the Southern Highlands.
It is tempting to conclude that, in the absence of strong PNG leadership on the anti-corruption agenda, Australia will have to do more to strengthen governance and reduce corruption. At least in part, that is the rationale behind the ECP. However, there are obvious limits to how far Australia can go without interfering in PNG’s sovereignty. It is also clear from our discussions in Port Moresby that Australian support for reformers can undermine their credibility. Therefore, a balanced approach is needed: providing short-term technical assistance where there is an urgent need, while also supporting longer term processes to build demand for good governance.

Australia should continue its support for building good governance in PNG through the Media for Development Initiative, the Church Partnership Program, and funding for TI, the Consultative Implementation and Monitoring Council and similar groups. Corruption is increasingly emerging as an issue in civil society forums, and Australia should continue to facilitate this process without unduly influencing the agenda.

Political change in Indonesia has gone hand in hand with a blossoming of civil society groups, including a vocal media. Many of these groups have put the spotlight on corruption. The initial focus of many groups was on publicising specific cases of corruption (Indonesia Corruption Watch) or monitoring public perceptions of corruption (TI Indonesia). However, more recently, anti-corruption NGOs have taken a growing interest in working with governments, in Jakarta and at the local level, to improve transparency and to monitor progress on anti-corruption efforts. In some cases, this has been done with the mass-based Muslim social groups Muhammadiyah and Nahdlatul Ulama. However, while those groups have enormous reach, there is still considerable debate about how far they can and should go in addressing corruption.

The Partnership for Governance Reform was set up in 2001 to help coordinate governance activities by the Indonesian Government, civil society groups and the donor community. It conducted a comprehensive ‘Diagnostic Study of Indonesian Corruption’ in 2002, and was also an early supporter of reforms in the Supreme Court and the work of the KPK. However, the initial momentum has been lost in recent years, in part because of internal management issues. Several donors, including the United Kingdom’s Department for International Development and AusAID, withdrew their support. There is an ongoing effort to revive the partnership under a new executive director and with a new strategic plan. Australia should follow these developments closely and consider renewing support to the partnership in areas where it shows an ability to bring parties together and deliver results, especially in building demand for good governance.

Australia has assisted popular participation in elections and decision making through a number of programs in Indonesia. For example, support for empowering local communities, especially women and the poor, is being provided through the Australian Development and Civil Society Strengthening Scheme (ACCESS) and the Local Governance and Infrastructure for Communities in Aceh (LOGICA). AusAID is also supporting the People’s Voter Education Network to monitor national, provincial and local elections, through the Asia Foundation. Looking forward, Australia is considering working with both houses of parliament to improve their administration and outreach, and with the National Election Commission. All of these are small initiatives that cannot be expected to have a significant impact on corruption nation-wide. However, by empowering local communities and strengthening the electoral process, they provide opportunities for Indonesians to express their demand for good governance.

The private sector contributes to corruption when it offers bribes to government officials or colludes to defraud the state. International investors, who are covered by anti-bribery covenants in their home countries, are often disadvantaged in countries, such as PNG and Indonesia, where the rules of the game are opaque. Therefore, working with governments to improve transparency can level the playing field and reduce opportunities for corruption. One promising approach is the Extractive
Industries Transparency Initiative, which encourages countries to work with private investors in the energy and mining sectors to declare the amount of revenues and royalties paid. So far, 26 countries have signed up. AusAID could help to promote the initiative in Indonesia and PNG, where a number of Australian mining companies already support it. Similar arguments can be made in the forestry sector, where high levels of corruption are contributing to unsustainable rates of illegal logging in both Indonesia and PNG. It would be helpful if Australia’s new Global Initiative on Forests and Climate Change could focus on these issues. A regional forestry review being undertaken by the World Bank with AusAID funding may also shed more light on the deep-rooted problems of corruption in this sector.

2.4.9 Public accountability depends on the availability of good information about the use of public resources and careful monitoring of government performance. While Indonesia has a very active media (both print and broadcast), it has a ‘very mixed track record with regard to exposing corruption’. Investigative reporting skills are limited, and effective journalists can be victimised under the current criminal code. Australia could assist by providing training to media and civil society groups to help them analyse budgets and monitor implementation. This type of work is already well developed in PNG through the Media Development Initiative. In both countries, there is a strong case for supporting research on governance and corruption, working with local institutions, to feed the debate with good information. Good examples of Australian support are the funding of TI’s Corruption Perceptions Survey in Indonesia in 2006, and of the National Research Institute in PNG, which recently completed a discussion paper (Corruption in Papua New Guinea: towards an understanding of the issues).

2.5 Managing risks to Australian aid

2.5.1 The Paris Declaration on Aid Effectiveness (p. 4) commits donors to ‘use country systems and procedures to the maximum extent possible’. However, it also recognises that corruption, as found in countries like Indonesia and PNG, is an obstacle to donors relying on partner country systems. In this situation, donors should support efforts to strengthen country systems and be willing to channel more funds through them as they improve, while also ensuring that adequate safeguards are in place to protect their own funds from corruption. The key is to make sure this is done in ways which strengthen rather than undermine country systems and procedures. Some of the relevant lessons from international experience are discussed in Chapter 1.

2.5.2 In the case of Indonesia, AusAID has not traditionally had to worry too much about the risks of corruption in the aid program, as most of the money was managed by Australian managing contractors. However, this situation changed dramatically in 2005 with the introduction of the Australia–Indonesia Partnership for Reconstruction and Development (AIPRD), including two large loans for education and roads. The loans will be disbursed through Indonesian Government systems. Therefore, to make sure the funds are used as intended, quite elaborate anti-corruption plans have been developed for both loans:

> The anti-corruption action plan for the Australia–Indonesia Basic Education Program aims to put in place measures to ensure that the program ‘build[s] schools of an acceptable standard for a reasonable price’. This will be done by using the community-based construction model, which is considered the best way to ensure that funds reach intended beneficiaries and reduce the risks of corruption. While the funds for most of the program will be disbursed through existing Indonesian Government systems, added protection will be provided by increased transparency through publication of project information, independent community-level monitoring and increased frequency and quality of audits.
The Eastern Indonesia National Road Improvement Project will support a program of national roads and bridge improvement throughout eastern Indonesia. The proposed anti-corruption action plan is intended to help ensure transparency of project information, to allow for monitoring by a broad range of stakeholders; strengthen supervision and audit, with clear sanctions for corrupt practices; and strengthen procurement, including through the use of a procurement agent for selecting consultancy services and a procurement specialist for the selection of civil works contractors, and improvement of the existing e-procurement system of the Ministry of Public Works.

Both anti-corruption action plans build on the recent experience and practice of the World Bank in these sectors, and represent state-of-the-art approaches within the donor community. However, their implementation will require substantial upgrades in systems and staff capacity. And, as World Bank experience also shows, no amount of project-level protection can completely eliminate the risks of corruption. Indeed, with increased transparency, reported cases of corruption will almost certainly rise. Furthermore, AusAID has limited authority to impose sanctions against corrupt practices, except by cancelling funds (which punishes the intended beneficiaries more than the offender). This needs to be fully understood in Australia. It also reinforces the importance of working with other donors on systemic improvements in procurement and other aspects of public financial management to reduce the risks of corruption and strengthen sanctions across all public spending in Indonesia.

In the case of PNG, the bulk of Australia's aid was provided in the form of budget support from independence in 1975 through the 1980s. Successive aid reviews, including the Simons Review in 1997, suggested that Australia should shift to programmed aid to improve aid effectiveness and reduce the risks of corruption. The last budget support payment to PNG was made in 1998–99. Most aid since then has been tied to specific projects and programs, and delivered through Australian managing contractors. However, the PNG–Australia Development Cooperation Strategy 2006–2010 signals an increased use of country systems, in line with the Paris Declaration on Aid Effectiveness. The strategy’s performance review and dialogue mechanism provides PNG ‘with access to a large tranche of aid in a rapid and flexible form’ to support public sector reforms and top up priority programs. For 2006–07, up to $30 million is available, depending on performance against an agreed set of indicators.

The performance review and dialogue approach has a number of advantages. Most notably, it provides incentives for the PNG Government to adopt much-needed reforms to improve governance and reduce corruption. However, even with those reforms, there are still major risks in channelling funds through government systems in PNG. To manage the risks, the funds will initially be channelled through the Transport Sector Support Program and focused on the road and bridge maintenance program of the Department of Works, where improvements in procurement practices have already been made (with assistance from AusAID-funded advisers) after a damning report by the Auditor-General. Even so, as discussed in Chapter 3, the managing contractor will continue to provide monitoring and oversight, with ‘letters of no objection’ issued by AusAID, to ensure that due process is followed. This is prudent under current conditions. A solid track record should be established before these extra controls are relaxed or the approach is expanded to other agencies in the transport sector.

While the additional safeguards built into the PNG and Indonesia programs are fully justified, they should not detract from the value of efforts to strengthen country systems and procedures for managing Australian aid and for public spending more generally. In the case of PNG, technical assistance provided by Australia through the Advisory Support Facility (ASF) and the ECP is helping to hold essential functions of public financial management together. As a result, there have been important improvements in budget systems, debt management, the transparency of budget preparation, and the
quarterly budget review process. Overall fiscal performance has also improved in recent years, due in part to good management of windfall gains from the resource sectors. Yet, because of critical gaps in the application of controls, the overall system still falls short of what is needed to ensure that public resources are used as intended. According to the Public Expenditure and Financial Accountability assessment carried out in 2005:

PNG’s public financial management system is based on a solid legislative framework setting out appropriate budget and accountability structures. The system is underpinned by a basic set of expenditure control procedures covering wagebill, non-salary, and procurement. However, these control procedures are often breached, and infractions do not appear to be effectively penalised. This serves to decrease the integrity and credibility of the budget and undermines external scrutiny of the use of public funds.21

2.5.7 To reinforce the importance of improving country systems to manage public resources, including aid flows, progress in this area should feature strongly in the performance management framework proposed under the PNG–Australia Development Cooperation Strategy 2006–2010. Progress on the framework has already been identified as one of the 2007 triggers for the performance grant, along with improved ‘budget implementation, transparency and integrity’. It should also be one of the critical indicators for the grant. Ideally, these public resource management indicators would be developed by the PNG Government to ensure local ownership and commitment, and be supported by the wider donor community to provide a consistent base for technical assistance and future decisions on budget support and other matters.

2.5.8 There are also significant concerns about the system of decentralisation in PNG, as shaped by the Organic Law on Provincial and Local Level Government (1995). Confusion over the roles of local governments in service delivery, and the capacity and resources they would need to carry them out, has led to poor governance and deteriorating service delivery at the local level.22 According to the World Bank, the subsidy leakage – defined as the difference between budget disbursements and actual reported receipts at schools – ranged between 16 per cent and 29 per cent in 2001.23 Working within this difficult environment, AusAID has attempted to improve planning and coordination in three provinces through the pilot phase of the PNG Government’s Provincial Performance Improvement Initiative. Evidence to date suggests that this approach has worked best in East New Britain (recognised as among the best administered provinces in PNG prior to participation in the initiative).

2.5.9 Australia is reviewing its sub-national strategy in PNG. The new Provincial Performance Improvement Initiative is likely to broaden engagement at the provincial level to include elected leaders and civil society groups, while also extending support down to districts and local-level governments. Stronger incentives will be provided to reward good performance. AusAID will also support analytical work to address structural problems in the intergovernmental financing system and management structures. However, in the current political environment, major reforms in the legal framework for sub-national government are unlikely.

2.5.10 AusAID has traditionally been less involved with improving government procurement and financial management systems in Indonesia.24 However, based on the experience gained through the anti-corruption plans for the basic education and roads projects, AusAID is now considering an expanded program of support to strengthen procurement, possibly working with the National Public Procurement Office and local governments in Aceh. Support is also being considered for building constituencies for reform in the private sector and civil society. Given the magnitude of the problem, Australian assistance is likely to be most effective within selected departments or working with a few interested local governments.25 This could be part of a broader program to build ‘islands of integrity’ in one province or several districts, as developed by TI Indonesia and already being supported by the Canadian International Development Agency in Sulawesi and the KPK in Kalimantan. For AusAID, it would
make sense to work in regions where it is already active, such as eastern Indonesia and Aceh. In eastern Indonesia, the ‘islands of integrity’ approach could be adopted in a revitalised ANTARA program for East Nusa Tenggara and West Nusa Tenggara, or possibly in Papua, building on the recent public expenditure work done by the Support Office for Eastern Indonesia. In Aceh, AusAID could help to improve procurement systems or support the multi-donor governance initiative, intended to manage the risks of the transition from reconstruction to regular development activities.26

2.6 The role of Australian aid in fighting corruption

2.6.1 As noted in Section 2.1, Australian aid plays very different roles in Indonesia and PNG. In Indonesia, the program has expanded rapidly over the past two years with the introduction of AIPRD, and is expected to reach $459 million in 2007–08. However, this still represents only $2 per capita and accounts for less than 20 per cent of net official development assistance flows to the country. This amount of aid is large enough to attract the interest of the Indonesian Government, without being so large as to raise concerns about national sovereignty. Together with a recognised pool of technical expertise, this has made Australia a partner of choice in many areas, including governance and anti-corruption work. At the same time, there is little doubt that the anti-corruption effort in Indonesia is being driven by the President in response to domestic political priorities, rather than by donors according to an external agenda. Indeed, the Indonesian Government has recently asserted its independence from donors by abolishing the Consultative Group for Indonesia.

2.6.2 The Indonesian Minister of Finance recently outlined some clear principles for donor support on governance and anti-corruption:

> Back up your words with real financial support when we need it.
> Support our plans, not ideal plans.
> Give us the technical expertise – in country and on our schedule.
> Act as partners, not preachers.27

2.6.3 These principles are very much in line with the approach outlined in AusAID’s anti-corruption policy. Australia is seen as a pragmatic and responsive donor in Indonesia, and there is strong demand for more assistance in the anti-corruption area. At the same time, Australia would be well advised to ‘lead from behind’ in an area where Indonesian ownership is essential, and multilateral institutions are better placed to coordinate tough policy discussions. In the absence of the Consultative Group for Indonesia, new mechanisms for aid coordination will have to be put in place. In the area of anti-corruption, it seems that the KPK is starting to play this role, and AusAID should support those efforts. AusAID could also play more of a leadership role within the donor community in areas where it has a strong presence and strategic interest (such as eastern Indonesia).

2.6.4 Australia faces a much more difficult position in PNG, where it provides $55 per capita in aid and accounts for almost 90 per cent of net official development assistance flows to the country. Some argue that such a large program reduces pressure on the PNG Government to tackle corruption, but it is unlikely that substantial cuts in aid – and the implications for political stability and poverty – would be acceptable to either partner.28 Therefore, the focus of the debate is largely on how best to allocate and manage a large aid program in a corrupt environment.

2.6.5 As noted above, much technical assistance (TA) has gone into strengthening economic management, public sector reform, and the law and justice sector in PNG – through both the ECP and AusAID’s ASF.29 With all TA, there is always a tension between getting things done today and building capacity for tomorrow. A lot depends on how
advisers are managed by the host department and their own personalities and preferences. In future, there would be value in better aligning the objectives of the ASF and ECP within a joint strategy. It would also be worthwhile looking at the possibility of hiring more non-Australians to provide technical advice - to lower the profile of Australians and to access experts with experience in PNG-like situations - while keeping the advantages of twinning arrangements with Australian institutions (such as Treasury). All advisers should receive basic training in PNG’s budget system and fiduciary controls.

2.6.6 Similar coordination issues arise in Indonesia, where technical assistance through the Technical Assistance Management Facility (TAMF) is now supplemented by the Government Partnership Fund (GPF). The GPF was set up under AIPRD in March 2005 to build capacity in economic, financial and public sector governance. There has been close coordination between the TAMF and the GPF in identifying appropriate areas for support. However, as TAMF III is due to end in March 2009, careful consideration will have to be given to the size and allocation of any future facility, as well as to its relationship with the GPF. Alternatively, it may make sense to consolidate all TA activities for economic governance and anti-corruption within one larger facility. Either way, flexibility will have to be built in to respond to unexpected opportunities and to pull out of unproductive activities. The TAMF and the GPF must also closely coordinate their complementary work within one organisation (such as the Ministry of Finance) with each other and with other donor programs active in the same area.

2.7 Conclusions

2.7.1 It is hard to generalise from the anti-corruption efforts in two very different countries such as Indonesia and PNG. However, the following tentative conclusions may well apply to at least some of the other countries where Australia is currently preparing anti-corruption plans.

> Australia is supporting efforts to develop and implement national anti-corruption strategies in PNG and Indonesia, respectively. In Indonesia, the primary focus is on implementation of key elements of the Indonesian Government’s own strategy. In PNG, upstream work is still required to build a credible, government-owned, anti-corruption strategy. While Australia is encouraging and supporting these efforts, it should not push so hard that the PNG Government passes a poor strategy, or one that has limited ownership within government and civil society. Nor can Australia afford to wait for a national strategy to emerge before putting its own anti-corruption plan in place, including measures to protect Australian aid. Anti-corruption plans will have to be tailored to these very different country situations.

> Several places in East Asia, most notably Hong Kong and Singapore, have used specialised anti-corruption agencies to control corruption. However, this approach depends on strong political will, independent powers, credible staffing and adequate resources to succeed. The KPK, established by Indonesia in 2003, has made a promising start. At the time of the assessment mission, PNG was proposing to establish the ICAC. However, questions arose about the political will of the PNG Government to give ICAC the powers it needs to investigate and prosecute corruption cases. In both countries, Australia should not put all its eggs in one basket, but should continue to support a range of agencies involved in fighting corruption and providing accountability.

> Both Indonesia and PNG have relatively open and participatory political systems, which allow the public to express displeasure at corruption and its impact on government performance. However, their political systems are also seen to be part of the problem because of corruption in the financing of political parties. Australia needs to fully understand these political dynamics and support institutions that
regulate political parties (such as election commissions) and reduce the costs of
election campaigns for political parties (such as through free access to the media).
Corruption often comes to the fore as an issue in the media and civil society forums,
and Australia should continue to support those institutions without unduly
influencing the agenda. Initiatives to bring transparency to private investment (such
as the Extractive Industries Transparency Initiative) and to provide more
information on the causes and impact of corruption are also worthy of support.

> In countries with high levels of corruption, Australia should work with other donors
to support efforts to strengthen country systems, while also ensuring that adequate
safeguards are in place to protect Australian funds. The key is to make sure this is
done in ways which strengthen rather than undermine country systems and
procedures. Lessons from AusAID’s experience in Indonesia with the use of
project-specific anti-corruption plans and in PNG with performance-based funds
should be widely disseminated across the agency. Australian-supported efforts to
improve public financial management and procurement also warrant high priority,
both for managing Australian aid and for public spending more generally. In the case
of PNG, progress in this area should be featured in the performance management
framework for the country strategy and the indicators for the performance grant.

> There is no substitute for strong partner government leadership on aid coordination,
including for anti-corruption. This is increasingly the case in Indonesia, where
Australia is well placed to play a more active role within the donor community. In
PNG, government leadership on the anti-corruption agenda is not as strong, and
Australia has to be careful not to overplay its already dominant role. As a general
rule, Australia would be well advised to ‘lead from behind’ in an area where local
ownership is essential, and multilateral institutions are better placed to coordinate
tough policy discussions.

> Technical assistance will always play a central role in anti-corruption efforts.
Australia is seen to have credible expertise and experience in this area, and this can
be used to good effect in a range of countries. However, as with all TA, there is a
tension between getting things done today and building capacity for tomorrow. As
Australia develops multiple channels for TA (such as the ASF and ECP in PNG, and
the TAMF and GPF in Indonesia), it will become more important than ever to
develop a common strategic framework for those activities, including the approach
to anti-corruption work. Close coordination with other donors providing similar TA
will also be needed.

2.7.2 These conclusions confirm the value of having a clear policy to guide Australia’s
anti-corruption efforts, as well as the importance of tailoring anti-corruption plans to
individual country circumstances. Indonesia and PNG present very different challenges
and warrant very different responses. The real test for the Australian aid program will be
in how well it shapes those different responses over the coming year and, ultimately, how
well it supports a more effective anti-corruption effort in the countries that receive
Australian aid.

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1 In 2007–08, Australian aid to Indonesia is budgeted to rise to $459 million, compared to $356 million for
PNG. However, the basic differences in the role of Australian aid and aid in general in the two countries
will remain.

2 For an assessment of the impact of corruption under the Suharto regime and its impact on economic and
institutional development in Indonesia, see World Bank, Combating corruption in Indonesia - enhancing
accountability for development, report no. 27246-IND, Poverty Reduction and Economic Management Unit,
3 See, for example, A Ayius and R May (eds), ‘Corruption in Papua New Guinea: towards an understanding of issues’, NRI draft discussion paper, 2006.

4 PNG’s overall IDA Resource Allocation Index for 2006 is 2.4, well below the IDA average (2.8) and the rating for Indonesia (3.2). Countries scoring below 3.2 are usually defined as fragile states.


6 In the President’s ‘State of the Nation’ address in August 2007, ‘corruption eradication and acceleration of bureaucratic reforms’ was identified as one of eight national development priorities for 2008.

7 The Judicial Commission was established in 2004 to nominate Supreme Court judges, review their conduct and recommend sanctions. The Special Court for Corruption was established at the same time as the Corruption Eradication Commission (KPK) to try all of its anti-corruption cases.

8 In June 2007, the PNG Government ratified the United Nations Convention Against Corruption. It is now required to produce an anti-corruption strategy.

9 One constraint is that the KPK commissioners are appointed by parliament, and therefore cannot pursue political corruption aggressively without jeopardising their positions.

10 Chapter 3 includes a case study on the Legal Development Facility.

11 The country study identifies a number of other potential ‘champions’ for civil service, governance and anti-corruption reform, including the Ministry of Finance and the Audit Board.


13 ECP support for the police was withdrawn in 2005, when the Supreme Court of PNG ruled that legal immunities provided to ECP personnel were inconsistent with PNG’s Constitution. Since then, Australia and PNG have been working to solve the problem. However, only a handful of ECP advisers are working in the law and justice sector (although more are being recruited), and none of these is in the police force. This leaves a big hole in the overall system of accountability, which makes it very difficult to improve law and order and change incentives for corruption.

14 It would be interesting to know more about why such coalitions succeed in some situations but not in others. For example, why didn’t a similar coalition form to follow up on the findings of the Royal Commission on the National Provident Fund?

15 Additional support may be available through the proposed Pacific Leadership Program and other White Paper initiatives to build demand for better governance.

16 According to S Davidsen, V Juwono and D Timberman, Curbing corruption in Indonesia, 2004–2006: a survey of national policies and approaches, US–Indonesia Society and the Center for Strategic and International Studies, 2006, p. 68: ‘[Nahdlatul Ulama] kyai and their pesanran have been beneficiaries of government funds and the largesse of government officials. These payments by officials, which often take the form of gifts or donations, are not easily differentiated from corruption.’

17 The strategic plan, released in December 2006, groups the partnership’s activities into three clusters related to public sector governance, democratic governance, and security and justice governance. Anti-corruption is now a cross-cutting theme. Regional programs will focus on four special areas: Aceh, Papua, Yogyakarta and Jakarta.

18 The Asia Foundation is considering expanding the work of the network to include more and better information exchange between candidates and their constituents.


20 The World Bank uncovered corruption in the ongoing Eastern Indonesian Regional Transport Project and the preparation of the Strategic Roads Infrastructure Project in 2006. In 2004, the World Bank penalized Indonesian publishers who colluded under the Book and Reading Development Project.

the scores. However, there are questions about the comparability of the two assessments, and differences are still being reconciled. Until this process is complete, the benchmarks set by the 2005 assessment are the best available. It is possible that the improvements noted are a result of assistance provided through the ECP, which focused on improving expenditure controls from late 2004.

22 See K Whimp, Comments on problems with the Organic Law on Provincial Governments and Local-Level Governments, May 2005 (draft).


24 However, the Technical Assistance Management Facility (TAMF) has supported related work on tax administration, anti-money-laundering and the risk management framework for infrastructure investment. See Chapter 3 for a case study on some of the TAMF’s activities.

25 A planned OECD – DAC – World Bank assessment of Indonesia’s procurement system may provide some guidance on where future assistance would be most useful. For a broader review of public financial management issues, see World Bank, ‘Spending for development: making the most of Indonesia’s development opportunities’, Indonesia Public Expenditure Review 2007, World Bank, Washington DC, 2007. On procurement, the report notes (p. vii): ‘The legal and regulatory framework for public procurement has been improved, but the capacity to implement procurement in a timely and transparent manner has not kept pace.’

26 The Aceh–Nias Reconstruction and Rehabilitation Board is scheduled to be wound up by March 2009, with ongoing programs transferred to local governments. There is an active debate about how best to manage this transition and build the capacity of the local governments to manage large amounts of money.

27 SM Indrawati, Statement by the Minister of Finance for Indonesia at the Joint Annual Meetings, Singapore, September 2006. The minister was commenting on the World Bank’s new Governance and Anti-Corruption Strategy at the Joint Annual Meetings in Singapore. However, her comments are equally relevant to other donors, including AusAID.

28 The World Bank's website on fragile states (Overview, updated April 2007) notes: ‘Traditional aid programs have not worked well in these environments, and in some countries, many donors, including the Bank, have disengaged. Total disengagement has proven risky, however, perpetuating poverty and failing to prevent cross-border spillovers with adverse regional and global consequences – such as conflict, organized crime and epidemic diseases.’

29 There are currently 73 ASF advisers and 43 ECP officials in PNG.

30 This is already happening at the program level. For example, the law and justice sector programs of AusAID and ECP work within the same PNG Government policy framework. Similarly, the Public Sector Reform Management Unit is undertaking a review of PNG’s Public Sector Reform Strategy, which will inform a new whole-of-government strategy for Australian assistance for economic and public sector governance.
Chapter 3: Themes from case studies

Cate Rogers, Tony Hughes and Primo Afeau

AusAID supports a range of initiatives with anti-corruption elements. This part of the assessment examines a selection of initiatives that address corruption directly and indirectly in Papua New Guinea (PNG), Indonesia and Solomon Islands. The aim is to gather lessons that will provide practical assistance to program areas seeking to integrate an anti-corruption focus into existing activities or to expand their anti-corruption work.

3.1 Methodology

3.1.1 Anti-corruption has only recently become an explicit objective of the aid program, and few current activities have an anti-corruption objective against which they can be evaluated. For this reason, the following criteria were developed for selecting case studies:

> Plausibility. Was it plausible that the initiative could lead to a decrease in corruption?
> Wide applicability. Would examination of lessons learned be valuable to other program areas in AusAID?

3.1.2 To allow comparisons of the case studies, survey forms were developed based on the criteria of relevance, efficiency, effectiveness, impact and sustainability (see Appendix B). The forms were distributed to initiative staff and activity managers. However, low survey response rates before the country visits prompted a decision to amend the survey questions to suit an interview format.

3.1.3 In addition to interviews, activity documents were reviewed for anti-corruption achievements and potential lessons. In some instances, activity staff and advisers were contacted after the mission to follow up specific information. Therefore, lessons and recommendations are mostly from AusAID staff and technical advisers, documents, the international literature and the experience of the authors involved in the assessment.

3.1.4 Four main themes came through strongly in the case study work. These were also touched on in discussions with stakeholders, in the literature review and in the country visits. The themes are loosely based on the following questions:

> How do we incorporate an anti-corruption focus into initiatives?
> What is the best way to work with civil society on anti-corruption?
> How should we support accountability institutions?
> How do we engage with partner government systems while protecting our funds?

3.1.5 The following sections use specific case studies as examples to draw out these themes. The case studies touch on many of the issues identified in chapters 1 and 2, the aim being to provide practical recommendations for program managers implementing anti-corruption activities.

3.2 How do we incorporate an anti-corruption focus into initiatives?

3.2.1 It would be relatively straightforward to incorporate anti-corruption approaches into new and some existing initiatives. Among the case studies, there are two examples of how this can be done. The first involves situations where a sector wide program is in place, in this scenario it is possible that administrative reforms already underway may meet anti-corruption objectives (see PNG Department of Works Case Study Section
3.5). The second example involves technical assistance (TA) initiatives, where there are several alternatives for incorporating anti-corruption goals. Facilities could be designed with a particular anti-corruption pillar; the Legal Development Facility (LDF) in Indonesia is an example of this approach. Alternatively, anti-corruption objectives could be incorporated in the selection criteria for prioritising new activities under broad governance facilities. Box 3.1 shows the TA initiatives examined in this assessment, their objectives and their anti-corruption approach.

**Box 3.1. Technical assistance initiatives**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Objective</th>
<th>Description of anti-corruption approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced Cooperation Program</td>
<td>An Australian and PNG government initiative that involves the placement of Australian Government officials in advisory roles in PNG agencies. Focuses on financial and economic management; governance and public sector reform; border and transport security; and law and order.</td>
<td>Has an explicit anti-corruption objective.</td>
</tr>
<tr>
<td>Advisory Support Facility (ASF)</td>
<td>Provides advisers for up to three years to central agencies, national line departments and provincial governments in support of priority public administration and reform.</td>
<td>Anti-corruption is not an explicit objective, although many of the activities undertaken through the ASF have potential impacts on corruption.</td>
</tr>
<tr>
<td>Technical Assistance Management Facility for Economic Governance (TAMF)</td>
<td>Provides advisers for economic governance in Indonesia. Programs include infrastructure policy development, international trade services policy, debt management, tax administration reform, financial sector strengthening and anti-money-laundering.</td>
<td>Anti-corruption is not an explicit objective, although many of the activities undertaken through the TAMF have potential impacts on corruption.</td>
</tr>
<tr>
<td>Indonesia–Australia Legal Development Facility (LDF)</td>
<td>Aims to strengthen capacity of Indonesian government and civil society institutions to promote legal reform and the protection of human rights.</td>
<td>Anti-corruption is a theme. Objectives include building the capacity of the Corruption Eradication Commission (KPK) and Attorney-General’s Office to investigate and prosecute corruption and to undertake other anti-corruption initiatives; and responding to needs identified by other institutions and civil society organisations to promote the anti-corruption agenda.</td>
</tr>
</tbody>
</table>

3.2.2 All these initiatives have potential impacts on corruption, despite anti-corruption being an explicit objective in only the Enhanced Cooperation Program (ECP) and the LDF. The following examples of TA activities show a range of approaches to achieving anti-corruption results.

**Example 1: Role of the ECP in reviewing and rationalising trust accounts**

3.2.3 ECP advisers helped reduce opportunities for corruption through working with the Department of Finance in PNG to rationalise trust accounts. Trust accounts in PNG exist to help manage third-party funds held in trust by the PNG Government, or where such accounts are a requirement of donor-funded projects. They have been a major source of corruption. Box 3.2 contains an excerpt from the Public Expenditure Review and Rationalization, which was agreed between donors and the PNG Government in 2003, detailing the misuse of trust accounts.
Box 3.2. Trust accounts in PNG

Trust accounts provide a major avenue for utilising public resources with loose accountability. The stated [PNG Government] policy is that Trust Accounts should be used only for genuine third party funds held in trust by the Government or where it is a requirement under donor funded projects. In practice, however, trust accounts are used as a device for circumventing budget and expenditure control provisions of the Public Financial Management Act and the Financial Instructions. Funds going into trust accounts are often revenues, especially provincial revenues that have been diverted from the consolidated fund. Once funds are in a trust account, they are not subject to the normal appropriation and warrant limitations. Many trust accounts have their own bank accounts, use manual cheque books and can be overdrawn … trust accounts are not subject to audit. It is therefore quite difficult to identify what the trust accounts are being used for, let alone evaluate the appropriateness of that spending.1

3.2.4 The review recommended, among other things, that trust accounts be reviewed and a timetable for closing problem accounts be developed.

3.2.5 ECP deployees from the Australian Department of Finance and Administration working within PNG systems played a large role in assisting PNG to reduce the number of trust accounts in operation. As well as reducing the potential for funds to be diverted and moved outside of the budget and expenditure controls, and increasing accountability to the government and the parliament, the process improved capacity within the PNG Department of Finance.

3.2.6 The assistance was conducted in phases. These included instituting strong controls on the creation of new trust accounts and identifying and documenting all trust accounts, and whether there was a need for them. As most trust accounts are managed outside the Department of Finance, considerable consultation and assistance was provided across agencies at the national level and across provinces. A very large number of accounts were identified as unnecessary and were closed. In addition, steps were taken to enforce compliance with statutory accountability requirements for reporting. This resulted in more accurate and timely reporting to the government and parliament as part of the PNG Budget process over the past two years. The current focus is on further improving compliance, particularly from a small number of large agencies that are responsible for significant funds held in trust accounts but that have been unable to meet their public reporting responsibilities.

Achievements

3.2.7 More than 450 trust accounts were revoked by the PNG Minister for Finance (representing 70 per cent of all government trust accounts). Trust accounts that drew funding directly from consolidated revenue have also been revoked. It is estimated that this prevented the diversion of hundreds of millions of kina annually. Trust account arrangements have now been strengthened to require a corresponding bank account and therefore a clear audit trail on the source of funds.

Example 2: Support through ASF and ECP to National Anti-Corruption Alliance

3.2.8 The Law and Justice Sector Program in PNG includes TA that has a direct anti-corruption objective. This has several elements: to detect, investigate and prosecute fraud and corruption through the establishment of the National Anti-Corruption Alliance (NACA); to create more awareness of fraud and corruption within the sector; and to support the public prosecutor to prosecute fraud and corruption cases.2

3.2.9 The support provided to NACA through the sector-wide approach and technical support illustrates how local reform efforts can be supported through a mix of flexible funding and responsive TA. Australian funding has been directed at secretariat support, the salary of the director and operational funds for investigations.
Achievements

3.2.10 NACA is in its early days, so there is very little information available on achievements, but some progress has been made. The alliance’s major achievement so far is that it has led to cooperation on anti-corruption activities between nine different agencies of the PNG Government. This cooperation was vital in its major investigation in 2006 into corruption within the Southern Highlands Provincial Government. More than 18 offenders were arrested for misappropriation of over K2 million (approximately $850,000) of government money. Four people were committed to stand trial. The investigation led to widespread and ongoing media interest.

Example 3: TAMF assistance to Indonesia’s Directorate General of Taxation

3.2.11 Chapter 1 (paragraph 1.5.6) highlights the link between taxation and corruption. Reforms aimed at strengthening the governance of taxation administration have the potential to reduce corruption. In Indonesia, various activities were funded through the Technical Assistance Management Facility (TAMF) to support government-led reforms in the Directorate General of Taxation (DGT). These reforms included moving staff from the Large Taxpayer Office (LTO) across to a new ‘modernised’ unit, using targeted recruitment, having staff sign codes of conduct and providing better than average remuneration packages. Technology was also introduced to support new procedures, allow modernisation and improve transparency.

3.2.12 The TAMF supported these reforms through providing TA as needed across a range of areas, including research on tax auditing procedures and the use of third-party data to improve compliance; improving taxpayer understanding and support for the reforms; assisting tax agents to help their clients comply with tax obligations; and helping to develop and disseminate information on a code of conduct.

Achievements

3.2.13 Staff members and representatives of the World Bank, the International Monetary Fund and the Asian Development Bank credit TAMF II and III activities and the lead adviser’s knowledge and enthusiasm in pushing forward with the modernisation program in the DGT. Over the period of TAMF engagement, beginning in 2004, tax revenue generated by the DGT has risen, and the TAMF’s support was considered to have contributed to that result. The TAMF’s third performance assessment and evaluation reported that the 2005 annual growth rates of the LTO (top 300 companies), the Special Region (listed companies, foreign companies, state-owned enterprises) and Jakarta Region I (including the Medium Taxpayers Office) were around 30, 46 and 35 per cent respectively. In 2004, these offices collected almost 60 per cent of non-oil tax collections.

3.2.14 A survey of clients of the LTO conducted by AC Nielson in 2005 found that the vast majority saw its establishment as a major improvement and its professional integrity, particularly its honesty, as a breakthrough. The professional and respectful attitude of the LTO staff was considered a strength. Although corruption was still considered a problem, it was not significant. Given that a self-assessment by Indonesian public officials in 2001 estimated that 48 per cent had received unofficial payments, the finding that corruption was not significant in the LTO can be seen as a positive achievement.

Example 4: LDF support to the Corruption Eradication Commission

3.2.15 The LDF has anti-corruption as one of its core themes and is working with other donors to strengthen the Komisi Pemberantasan Korupsi (Corruption Eradication Commission, or KPK). The engagement with the KPK is led by an adviser who provides advice to senior management on investigations, legal reform and legislation, and develops and coordinates a number of other activities. To date, most other activities have focused on training in investigation skills and procedures.
Achievements

3.2.16 There is not yet any independent assessment of achievements of the LDF in relation to the KPK. A mid-term review identified several highlights, including support for anti-corruption investigators to develop basic systems for search and seizure of evidence and processes for identification, collection and storage. This support was in response to a complete absence of routine procedure, which had the potential to compromise corruption cases. Overall, the review noted that it was not possible to assess the contribution of this activity to its objective of building the capacity of the KPK and the Attorney-General’s Office.

Lessons from technical assistance examples

3.2.17 These examples of anti-corruption achievements through TA highlight the link between reducing corruption and achieving broader governance goals. To that end, developing a strategic framework for all governance activities in a partner country may help to increase anti-corruption impact by ensuring that potentially disparate TA activities are working towards common goals in governance and anti-corruption.

3.2.18 The case study of the LDF work in Indonesia’s KPK illustrates a gap in measuring achievements in TA activities generally, not just on anti-corruption. This needs to be addressed by strengthening the monitoring and evaluation frameworks of TA activities. The strong relationship between governance assistance and anti-corruption assistance means that anti-corruption need not be a stated goal of the facility or the activity to achieve anti-corruption outcomes. Monitoring and evaluation frameworks need to be capable of identifying such outcomes.

3.2.19 Several Australian Government deployees noted that Australian advisers should be familiar with local and Australian Government financial, statutory and administrative procedures. This would better position them to ensure that advice provided to counterparts on these issues is correct and they hoped would go some way towards reducing maladministration.

3.2.20 Technical advisers working in environments where there is corruption will be confronted with examples of corruption, maladministration, or both. This can place them in a difficult and sometimes dangerous position. A lesson that emerged from discussions with advisers is that there should be clear guidance on this issue.

3.2.21 The assistance to NACA in PNG and the DGT in Indonesia shows the benefits in Australia supporting partner-government led initiatives by providing timely and flexible TA. Australian assistance to the Consultative Implementation and Monitoring Council, which recommended the creation of NACA, provides similar lessons (see paragraph 2.4.2). In these kinds of initiatives, where there is strong country ownership, attribution of achievements to Australian support might be counterproductive.

Recommendations

3.2.22 Where possible, AusAID should collect information on anti-corruption outcomes in monitoring and evaluation frameworks. Ideally, baseline data on anti-corruption indicators should also be collected. Specialist advice from anti-corruption experts may be required to establish appropriate monitoring and evaluation frameworks. AusAID should factor in resources for such advice to program areas.

3.2.23 All the TA initiatives would benefit from strategies to link activities that may have impacts on governance. For this approach to work well, it should be integrated with other activities in the aid program, including through sectoral programs and at a sub-national level. This kind of approach would form an integral part of country program anti-corruption plans, as required under Australia’s Anti-Corruption for Development Policy.
3.2.24 All Australian government deployees, including those working as technical advisers, need to understand Australian and partner government financial and administrative procedures. They also need explicit guidelines on what they are expected to do when they confront corruption. These should be shared with the partner government. The guidelines need to be clear about the consequences for advisers should they be seen to be condoning or participating in corruption.

3.2.25 Improvements such as those resulting from the trust accounts activity in PNG can be sustained; however, education and training are necessary but not sufficient to protect those gains. Sustainability could be increased by investing resources to understand the incentives that drive the proliferation of trust accounts and to address those incentives in program interventions. This may involve a range of approaches, including strengthening the enforcement of rules, increasing transparency, ensuring better oversight from the Auditor-General and others, and educating the media and civil society about lessons from the trust account exercise.

3.3 What is the best way to work with civil society on anti-corruption?

Example 1: PNG Media for Development Initiative

3.3.1 The role of the media in addressing corruption is well recognised (see Section 1.5). PNG’s media is considered to be free, vibrant and independent. Freedom is guaranteed under section 46 of the National Constitution, which specifically mentions freedom of expression, the press and mass communication.7 There are many media players in PNG, including the National Broadcasting Commission, commercial broadcasters and two major newspapers, both of which are foreign owned. Radio is the most accessible medium.

3.3.2 PNG media – particularly the public sector media – is under-resourced. The 2004 AusAID design document for the PNG Media for Development Initiative (MDI) noted that the media in PNG performs under its potential to contribute to improved governance and development. Much of this is due to a lack of resources on the part of both the media and the population, some of whom cannot afford radio or television. A recent audience survey revealed the extent to which most Papua New Guineans lack access to information through the media.8 When asked how many media sources they access at least weekly, only 7 per cent said all three (press, TV, radio), 15 per cent said two, 30 per cent said one, and 48 per cent said none.

3.3.3 The MDI, which began in 2005, aims to work on strengthening and increasing the provision of media. It targets a lack of development-related program content by funding production costs for programs on areas such as health, education, HIV/AIDS, agriculture, law and justice, and governance. Grants are small (K50 000) and mainly go to civil society organisations. The MDI also aims to strengthen the National Broadcasting Commission through a twinning relationship with the Australian Broadcasting Corporation. This relationship focuses on strengthening the network to allow for increased access to media services, particularly radio, and on improving program quality.

3.3.4 The MDI is based on a partnerships model involving AusAID, the PNG Government and the PNG Media Council, and includes a heavy engagement with civil society. In essence, AusAID has entered into a direct relationship with the Media Council. Civil society representatives and the PNG Government are also involved in management of the initiative through their membership of the management board and the implementation group which screens grant applications. The roles of the government and AusAID are unusual, in that both are directly involved in decision making at operational levels of the project.9
Achievements

3.3.5 To date, the implementation of the PNG MDI has been slower than expected, so there is a lack of information on achievements. However, during an interview with the mission team a PNG Media Council representative noted that governance is the second most popular sector for short-listed grant applications. This suggests that the potential exists to raise awareness of corruption and broader governance issues through the small grants component of the MDI.

Example 2: Church Partnership Program

3.3.6 PNG’s Medium Term Development Strategy 2005–2010 acknowledges the role of churches in service delivery: ‘Churches in particular have a distinguished history of service delivery in Papua New Guinea, especially in relation to education, health and agriculture extension.’ Collectively, churches provide about half of PNG’s health services and co-manage around 40 per cent of primary and secondary education facilities. They also run two of the six universities and train many teachers and health workers.

3.3.7 A discussion paper on the role of churches in governance and public policy in PNG notes that:

... the church sector comprises a number of key actors in civil society who undertake flexible, targeted and response driven advocacy and policy work. But there are no broad, endogenous, church-based strategies in place aimed specifically at enhancing or improving governance or public policy performance in PNG.10

On service delivery, the same paper notes that church organisations involved in the social service delivery sector enjoy greater legitimacy and recognition than state and other non-state actors. Therefore, churches could be a powerful force for improved governance in PNG.

3.3.8 The Church Partnership Program, which began in 2004, aims to increase the capacity of PNG churches to contribute to development and social stability. One objective is to enhance church involvement in improving public sector governance. The program supports PNG churches in three areas of governance: policy engagement; peace and conflict resolution; and electoral reform and the development of civil society.

Achievements

3.3.9 Information suitable for reporting on achievements is not yet available through the monitoring and evaluation system of the Churches Partnership Program.

Lessons

3.3.10 Although the Church Partnership Program has a monitoring and evaluation framework, it does not yet provide information that is useful for assessing achievement against objectives relevant to anti-corruption. A recent mid-term review of the activity made recommendations aimed at improving the usefulness of the data generated through the monitoring and evaluation of the activity.

3.3.11 In the media and churches initiatives, a common theme that emerged was that implementation demands place pressure on partners and need to be well managed, particularly in organisations not used to meeting donor administrative demands. Related to this, pacing of the initiative is crucial, and agencies need to be responsive to PNG partners and local communities in meeting targets.11

3.3.12 The role of the PNG MDI in supporting links between the media and community service organisations is worth monitoring. These links can strengthen the impact of the media in exposing corruption. The assessment team heard anecdotal evidence that links developed through the Community Coalition Against Corruption (also supported by AusAID) have had a positive impact on corruption reporting. The PNG Media Council representative noted that the council received many complaints about corruption in the
lead-up to the 2002 election. An anti-corruption campaign was launched, funded by AusAID, and was credited by the council for a larger than usual turnover in elected representatives. While in this example the link between the media, civil society and AusAID was positive, it is easy to see how this kind of arrangement could be politicised (for example, by accusations that aid funds were used to finance a campaign against specific candidates).

3.3.13 The PNG MDI offers several important lessons about support for the media in fighting corruption. First and foremost is that such support should not attempt to influence the agenda specifically towards reporting on corruption or governance issues. A strong and free media can have impacts on corruption in many direct and indirect ways. In an environment with a free media and dispersed ownership, donors can afford to focus on strengthening capacity in the media, as the MDI is attempting to do. Other areas of focus may include support for investigative journalism and for access to information.

3.3.14 The MDI management model (in which AusAID funds and is directly involved in the management of the initiative, along with civil society representatives, the media and the government) is risky. Where implementation is falling behind schedule, AusAID shares the burden of operational difficulties. In addition, the government’s involvement in the initiative could lead to a perception of conflict of interest, particularly when grants that deal with corruption and governance issues come up. There is also a possibility of self-censorship when the government and media work closely together.

Recommendations

3.3.15 As for all aid activities, AusAID must be able to collect data on achievements in activities involving civil society. This need not require the inclusion of new anti-corruption objectives in project design, as many current objectives contribute to anti-corruption outcomes (for example, those objectives that centre on strengthening the voice of civil society to hold government accountable). As a general rule, program managers should draw on the Anti-Corruption for Development Policy when considering how their civil society activities may contribute to anti-corruption objectives.

3.3.16 As discussed in Chapter 1, donor involvement in strengthening the voice of civil society is difficult. AusAID is directly involved in the management of the MDI but, for the reasons outlined above, this should not be a long-term position. In the future, it may be better for AusAID to provide limited assistance to support the implementation of the initiative and withdraw to an arm’s length arrangement. The PNG Government could be encouraged to do the same.

3.3.17 AusAID should consider establishing a fund, administered at arm’s length, to meet requests to support civil society advocacy campaigns for improved accountability and transparency. In some cases, multi-donor funds may be appropriate. This would reduce the potential risks of politicisation of the aid program, particularly for anti-corruption activities.

3.3.18 AusAID should consider supporting access to information and strengthening investigative journalism to complement activities such as the MDI.

3.4 How should we support accountability institutions?

3.4.1 Chapter 1 (paragraph 1.5.10) notes that institutions of accountability are central to the fight against corruption. In Solomon Islands, weaknesses in the accountability institutions were widely recognised within and outside the country during the 1990s. The spread of corruption led to loss of development momentum, direction and funds, overexploitation of natural resources, and growing distributional inequity. The public grew concerned about the failure of accountability and transparency mechanisms in the constitution and legislation to control or roll back the rising tide of corrupt behaviour.
3.4.2 The parliamentary electoral process and the subsequent election of a prime minister became increasingly driven by money politics, with successful candidates at both levels taking office burdened by substantial obligations to their financial backers. During that period, AusAID and other aid programs attempted to provide support to the Auditor-General, Leadership Code Commission and Ombudsman Office functions, but the impact was minimal, due mainly to lack of Solomon Islands Government interest or commitment.

3.4.3 Serious ethnic violence and the collapse of normal governance processes over the period from 1999 to 2003 led to the Regional Assistance Mission Solomon Islands (RAMSI) intervention in July 2003. The Accountability Program was conceived as part of the RAMSI–AusAID funded aid package put in place in 2003–04. Box 3.3 describes the accountability institutions in Solomon Islands; these are all part of the Accountability Program.

Box 3.3. Accountability institutions in Solomon Islands

The **Ombudsman Office** was established in 1981, and its independence is guaranteed by the Solomon Islands Constitution. The role of the Ombudsman is to deal with complaints about maladministration on the part of the state and its agents; review decision making by public sector institutions; and seek to improve practices and procedures by making recommendations to the appropriate institutions and offices. The Ombudsman is appointed by the Governor-General for a five-year term on the recommendation of a panel that includes the Chief Justice and the Speaker of the parliament, and can only be removed for gross misconduct on the recommendation of a judicial tribunal. He is required to submit annual reports to parliament. The Ombudsman Office comes under the Office of Prime Minister and Cabinet and is dependent on that office for funding.

The **Leadership Code Commission** was established under the Constitution. The commission’s role is to implement the Leadership Code, requiring leaders to provide full personal financial disclosure upon becoming leaders and each two years after that, and to pursue and punish misconduct in office. There is no constitutional protection or exhortation to independence of judgment for the Leadership Code Commission. It is a three-man commission appointed by the Governor-General on the recommendation of a selection committee consisting of the Prime Minister, the Leader of the Opposition, the Chairman of the Public Service Commission and the Attorney-General. The commission makes determinations based on evidence gathered during its investigations, and forwards its decisions to the Director of Public Prosecutions where required. The commission is located within the Office of Prime Minister and Cabinet and is dependent on that office for funding.

The **Office of the Auditor-General** was established under the Solomon Islands Constitution as a public office with a mandate to audit the public accounts of ministries, offices, courts and authorities of the Solomon Islands Government and report annually to the parliament and relevant ministers. The Public Finance and Audit Act outlines the powers and functions of the Auditor-General, who is appointed by the Governor-General acting on the advice of the Public Service Commission and can only be removed from office for inability or misbehaviour on the recommendation of a judicial tribunal. In performing his functions, the Auditor-General is not subject to direction. His office is funded directly through the annual Appropriation Act.

Taken together, the three institutions – if functioning as originally intended under the Constitution – could provide coverage of the areas where most corrupt activity occurs, and could launch special investigations into areas of particular concern. This has been done recently by Office of the Auditor-General, with a series of special audit reports on sectors of particular concern (forestry, fisheries, land etc.) and less recently by the Ombudsman Office (forestry dealings). However, the capacity of the three accountability institutions to launch such investigations on a significant scale would depend on their having the support of the government and people at large.

3.4.4 The purpose of the current (second) phase of the Accountability Program is to increase the efficiency and effectiveness of the Leadership Code Commission, the Ombudsman Office and the Office of the Auditor-General and increase the support they receive from the wider national integrity system to strengthen accountability across government.

3.4.5 In recognition of the need to build broad anti-corruption constituencies, the September 2006 program framework document includes an emphasis on the ‘external environment’. Relevant outputs are a communications strategy; coordination with parliament; coordination with public service management and agencies to strengthen the
accountability content of business processes; and the building of active linkages and
partnerships with civil society and media organisations.

3.4.6 Currently, there are limitations to how independent and autonomous the three
institutions can be. A technical assessment of the institutional framework for the three
institutions, including their enabling legislation, was carried out by John T D Wood from
March to September 2005 (the Wood Review). The review recommended a wide range
of operational, structural and legislative changes to ensure an effective accountability
system.

3.4.7 In addition, the Office of the Auditor-General and the Leadership Code Commission, in
particular, depend on the police prosecution service for the preparation and carry-
through of prosecutions of offenders identified from their investigations. Reports with
the potential to lead to criminal proceedings are sent to the police for assessment and a
decision on whether to prosecute, but the police force’s capacity to investigate white-
collar crime is relatively undeveloped. Along with a heavily congested schedule for court
hearings, this is a serious potential bottleneck to effective anti-corruption operations by
the accountability institutions.

Achievements

3.4.8 A review of the interim phase of the Solomon Islands Accountability Program found
that little progress was being made in the Ombudsman Office, and that the assistance
provided had only produced cosmetic changes. It had notably improved office facilities
and case reviews, but had yet to make significant progress on case processing and
resolution. This position has not improved. Notoriously, the Ombudsman has not
tabled a report in parliament since 2001, as required by the Constitution.

3.4.9 When interviewed, however, Ombudsman Office staff (who were without an appointed
Ombudsman at that time) reported organising and hosting workshops aimed at
increasing awareness of accountability and good governance principles among key
stakeholders. For example, in conjunction with the Centre for Democratic Institutions,
the office coordinated and hosted a three-day workshop on political governance for
parliamentarians and provincial premiers in June 2005. It was well received and attended
by over 70 per cent of the parliamentarians and five premiers. Workshops have also been
held at the central and provincial levels, including on anti-corruption (Malaita Province)
and, in conjunction with the Leadership Code Commission, on the role of the office and
commission (with provincial members and civil society representatives in Western
Province). Education and outreach training has been provided to the members of the
Choiseul Provincial Assembly.

3.4.10 Despite the lack of annual reports, there is a level of public awareness of the existence
and services of the Ombudsman Office. Office staff receive around 200 complaints a
year about official incompetence, unfair treatment (for example, in scholarship
allocations) and maladministration of public services. However, the department’s six-year
lack of systematic reporting means that there is no composite record of numbers or
trends in case outcomes.

3.4.11 The interim review found that the Leadership Code Commission had made little
progress overall and had yet to make significant progress with case processing and
resolution. A senior official reported extreme difficulty in getting the attention of the
government at senior political or official level. The commission has made a few
high-profile decisions, including censuring a former minister and serving member of
parliament for accepting a post with the European Union without the commission’s
permission, but its five investigators (who are only partly trained) are handicapped by
lack of or loose definitions of potential offences and by loopholes through which leaders
can escape sanctions.
3.4.12 In contrast to both the Ombudsman Office and the Leadership Code Commission, the Office of the Auditor-General was found by the interim review to have made significant progress in both investigative activity and organisational strengthening. Major audits had been completed and referred to parliament, recruitment of national staff was advanced, a strategic audit plan for 2005–2008 had been adopted, and a capacity-building framework had been prepared.

3.4.13 Between 2002 and 2006, the office completed audits of the 1996 and 1997 national accounts; the audits were tabled in Parliament in 2005 and 2006, respectively. In the same period, the office also completed nine audits of statutory authorities and submitted the reports to the responsible ministries as required, and completed 10 special audit reports, four of which were tabled in parliament in November 2005. The other six special reports were submitted during 2006. This was a substantial advance in accountability, as no such reports had been tabled since 1987. These reports go to parliament and to the Public Accounts Committee, which (encouraged in various ways by Office of the Auditor-General) conducts hearings and requires departments to respond with explanations and plans for remedial and preventive action.

3.4.14 This extraordinary output was achieved by making special arrangements for audit teams to focus on known trouble spots. Conscious of having outpaced the follow-up capacity in the bureaucracy, parliament and the police, the Office of the Auditor-General is now shifting from a ‘get the job done’ phase to a longer term capacity-building phase, which includes not slipping back on the main strategic audits and bringing the long-neglected provincial audits up to date.

Lessons

3.4.15 Managing expectations of what the Accountability Program can and will do is critical to ensuring its credibility. In this context, it is important that stakeholders understand the difference between the responsibility of the program to identify maladministration and misconduct in office, and that of the law and justice sector to investigate and prosecute official corruption. The best efforts of the accountability institutions can be frustrated by ‘downstream’ institutions. They can also be frustrated by the institutions that create the overall climate for accountability: the electoral commission, the parliament and the supreme court.

3.4.16 The reliance of accountability institutions on other parts of the accountability network has implications for how the success of the Accountability Program is measured. It also means that program design should have clear and agreed indicators that define ‘success’ in each agency, to be met before assistance progresses to further stages. This requires regular monitoring of the performance of each agency. Donors should recognise the high-risk nature of the assistance and set realistic performance benchmarks.

3.4.17 A broad lesson relates to the need to understand and react to the wider institutional context of the accountability institutions in Solomon Islands. Much of the analysis of the status and powers of each institution was carried out after the Accountability Program started. As a result of the Wood Review, there are now a number of recommendations that are intended to strengthen the accountability institutions. Many of these aim to address issues such budgetary independence, powers of enforcement and the public profile of these important offices.

3.4.18 A wider understanding of the interconnections between the accountability institutions and other institutions (including parliament, the public service and the law and justice system), and of the people and the culture, is essential in effecting society-wide changes in attitudes as well as the reform of government functions, systems and processes. Real progress will depend on strong and well-informed demand from the general public for an effective and comprehensive set of anti-corruption arrangements. To this end, the
inclusion of an ‘external environment’ component in the current phase of the Accountability Program has potential to have a positive effect.

3.4.19 Reviews of earlier public sector reform efforts in Solomon Islands have shown that all parties need to make significant effort to ensure Solomon Islands Government ownership of the change agenda, particularly in the early stages of program implementation. Failure to do so can result in covert resistance from some stakeholders.

3.4.20 Lessons from successful accountability programs should also be taken on board. Box 3.4 outlines some of the lessons from the PNG Ombudsman Commission project.

Box 3.4. Lessons from the PNG Ombudsman Commission

Several lessons from experience with the institutional strengthening program for the Ombudsman Commission in PNG are relevant to this assessment. It is necessary to bear in mind that in PNG the Ombudsman Commission, which also administers the Leadership Code, is among the most successful and respected of the governance institutions established around the time of independence.

Some specific lessons can be drawn from the PNG Institutional Strengthening Project:

• The initial strategic planning exercise involving Ombudsman Commission staff helped management and staff develop a clear understanding of agency’s roles, responsibilities, capabilities and constraints, and fostered ownership and support for the activity. The exercise also ensured that management and change management issues were identified at the outset and addressed progressively during implementation of the project.

• The project team’s high degree of professionalism (and direct professional experience of the Ombudsman’s role) was important and influenced the quality of motivation and collaboration in the Ombudsman Commission.

• Project staff were professionally competent, could relate to and work with their PNG counterparts, and were aware of the cultural and political sensitivities of the commission’s staff. Appropriate arrangements were made to facilitate learning and transfer knowledge and skills.

• Linkages with key external institutions and stakeholders were developed and proved valuable.

• An effective process of follow-up with law and justice agencies to ensure that cases are taken through to prosecution is essential.

Recommendations

3.4.21 The requirement for follow-up activities to ‘bed in’ and sustain improvements achieved during the program cannot be stressed too strongly. If this is not done, the passage of time (a surprisingly short time) will see improvements undone and systemic decay reasserting itself.

3.4.22 The institutions targeted by the Accountability Program are simple enforcement institutions, charged with seeing that people in official positions obey certain rules and standards in performing their duties. For their efforts to have real impact, the institutions must reflect broad and strongly held public support for the standards they are trying to enforce. Increased attention should be given to understanding the political and economic incentives that encourage corrupt behaviour and how these can be changed; to building public understanding of how corruption undermines development and general wellbeing; and to encouraging national lobbies to pressure governments to adopt and implement anti-corruption policies.

3.4.23 The current framework for the Accountability Program includes resources for building a constituency for change. The extent to which this reaches all the different stakeholders will be crucial to the program’s effectiveness. The recruitment of program management with that view is taking place. Clearly, there is also a related role in the broader Australian Solomon Islands program. Given sensitivities in Solomon Islands to the pre-eminent role of Australian aid, any support provided to civil society groups should be provided at arm’s length.
3.4.24 The weak link between accountability institutions and the law and justice sector is a stumbling block in both Solomon Islands and PNG. Efforts need to be put into strengthening the ability of the police and prosecutors to follow through on cases of wrongdoing. In essence, this means getting the balance right between measures to prevent corruption and enforcement measures, as well as strengthening the interaction between key agencies across the national integrity system.

3.5 How do we engage with government systems while protecting our aid funds?

Example: PNG Department of Works

3.5.1 A PNG Auditor-General’s report into the Department of Works over the years from 1997 to 1999 estimated that financial losses incurred by the state due to fraud, abuse, asset misappropriation, use of funds for non-budgeted and non-planned purposes and inefficient and ineffective use of funds added up to K78.5 million (approximately $33 million). Road maintenance operations, in particular, were assessed as being badly affected by large-scale misuse of allocated funds and the absence of proper systems and controls for headquarters’ monitoring of operations. The issues raised in the report and the knowledge that corruption is often a particular problem in infrastructure present a challenge to donors who recognise that, without basic physical infrastructure, there will continue to be fundamental constraints on service delivery and little capacity for sustained economic growth.

3.5.2 Australia has a decades-long engagement in road building and maintenance in PNG. For the past decade or so, the emphasis has been firmly on maintenance. There is now an additional focus on capacity building and institutional strengthening. Anti-corruption has not been an explicit objective of any initiatives, although it is implicit in much of the capacity building. Australia is moving towards a sector-wide approach in transport, which should allow stronger dialogue to take place on funding priorities. This shift builds on work in the PNG Department of Works and the Central Supply and Tendering Board that commenced in 2002, with AusAID funding advisers to assist with training, financial management and corporate planning, along with other corporate services. Box 3.6 describes the history of AusAID’s engagement in the Department of Works in particular the changing role of the Managing Contractor.
Box 3.6. Recent history of managing contractor role in road projects in PNG

Under the National Roads Re-gravelling and Sealing Project (completed in 2001), the Australian team leader was responsible for monitoring compliance with relevant PNG and Australian government procurement guidelines at each step of the process. The managing contractor was personally involved in approving cheques, and accounts were reconciled monthly. Each quarter, after acquittal of expenditures and with the approval of a further work plan, AusAID deposited additional funds into the project trust account.

From 2002, under the National Road and Bridge Maintenance Project, there was a more specific focus on improving management capacity in the Department of Works, with the managing contractor maintaining a role similar to that in the earlier project. A significant change was that PNG Government tender processes were used, with the managing contractor sitting on the tender committee. Training was provided in planning and implementation of road maintenance, including administration, claim processing and financial management. Technical experts were located in each province to work with a counterpart Department of Works project engineer to verify that contracted work was carried out to the standard required.

In concert with the National Road and Bridge Maintenance Project, AusAID provided specific assistance to strengthen the Central Supplies and Tendering Board, which runs tenders for the PNG Government in the Department of Works. This included the development of a Good procurement manual for use by public sector agencies.

The Transport Sector Support Program is currently being tested. It will extend AusAID's use of government procurement systems for the delivery of road maintenance. The role of the implementing contractor will be to assist, oversight and monitor Department of Works implementation of maintenance of the national road network in rural areas. This will include regular analysis and review of the efficiency and integrity of PNG Government technical and financial processes. In contrast to previous projects, funds are placed in trust accounts on receipt of an approved work plan. Department of Works systems are then used to procure goods and services, to administer contracts and to supervise quality control. The implementing contractor is responsible for certifying that trust accounts are acquitted properly against work plan activities. The program manager has observer status on the tender evaluation committee. AusAID has contracted a probity adviser to assist in monitoring the Transport Sector Support Program, including through analysis of corruption risk and likely consequences and through reviews of a sample of tender activities.

Achievements

3.5.3 While there was anecdotal evidence from advisers and Department of Works staff that capacity has increased, it was not possible to determine whether the long-term engagement with the department has reduced corruption.

Lessons

3.5.4 The sectoral approach demonstrated through the Department of Works example is consistent with recent research indicating that such an approach to anti-corruption may be effective, given that corruption often takes different forms in different sectors (see paragraph 1.5.12).

3.5.5 Australia's long-term engagement in infrastructure projects in PNG highlights the importance of understanding partner government systems, processes and capacity. By providing assistance to help implement the findings of audits of the Department of Works, and by having a long-term engagement with the PNG roads sector, Australia was well positioned to understand the strengths and weaknesses of PNG Government procurement systems for infrastructure. The graduated approach to using the PNG procurement system seems a good model for moving from a project to a program approach in a particular sector.

3.5.6 However, the graduated approach taken to working with Department of Works procurement systems highlights a practical problem. While AusAID can be confident about procurement using Australian aid funds, what about the processes for PNG Government funding? A sectoral approach should enable AusAID to ask this question of its PNG Government partners. Ultimately, the goal needs to be that all procurement is undertaken in accordance with the PNG Government's procurement guidelines and is subject to the same level of scrutiny currently applied to donor funds.
Recommendations

3.5.7 Specific anti-corruption objectives could be incorporated into support for the transport sector. For example, one objective could be to aim for rigorous adherence to the PNG Government’s Good procurement manual for all expenditures. This would not require a major refocusing of the assistance.

3.5.8 It should also be possible to develop indicators that will allow benchmarking and tracking of anti-corruption results. Apart from adherence to procurement guidelines other indicators might include: comparing variances of bid award prices with agency cost estimates and looking at average or unit price of standardised items of works or goods.18

3.5.9 The sector-wide approach in transport should allow Australia to work with the PNG Government to strengthen other aspects of the transparency and accountability regime in the Department of Works and related departments. For example, assistance could be provided to help the department meet requirements under PNG’s Public Financial Management Act governing financial management and public reporting of expenditures. Efforts could also be made to increase transparency in procurement, for example through public ex-post reviews of tenders.

3.5.10 Other accountability measures outside the department could also be strengthened, for example through improving external audit functions (auditor-generals’ offices can be weak in auditing procurement). Looking at international best practice in tendering for infrastructure and taking on some lessons may also assist.19 Given the diverse program of assistance and the network of technical advisers that Australia has in place in PNG, possibilities exist for understanding systemic issues and then taking these up in dialogue with the PNG Government.

3.5.11 To date, it does not appear that demand-side measures have been utilised to strengthen accountability in the Department of Works. It would be worthwhile for AusAID to consider dialogue with the department about the possibility of civil society organisations or beneficiaries being represented, or being observers, at crucial points on technical evaluation committees. In addition, there could be civil society engagement in ensuring that work is delivered as planned. These kinds of initiatives may pave the way for the withdrawal of the Australian program manager in the future – something that may be expected by the PNG Government in the context of a sector-wide approach. Such initiatives would also restore accountability to the local taxpayers.

3.5.12 Australia should continue to move towards working with partner government systems and, together with other donors, help to strengthen those systems to protect all expenditures. While this process is under way, processes should be in place to ensure that appropriate internal measures protect Australian funds.

3.6 Conclusions

3.6.1 This study examined only a small sample of AusAID’s current activities that may have potential impacts on corruption. Nevertheless, the case studies lead us to several major conclusions that may be applicable in the wider AusAID approach to anti-corruption:

> AusAID needs to be able to track outcomes in anti-corruption. This could be achieved through selective inclusion of anti-corruption indicators in activity-level monitoring and evaluation frameworks.

> Australia needs to be cautious in how it supports civil society advocacy groups in partner countries, particularly those focused on anti-corruption advocacy - where there may be risks that aid funding is politicised. More generally, tying funding to a specific anti-corruption agenda may lead to criticism for interfering in partner
governments’ affairs and may undermine the accountability of civil society organisations to their own people.

> Reform and strengthening of accountability institutions are not enough. Australia needs to invest resources in understanding constraints on the power and autonomy of those institutions. Resources should also be factored in from the outset to build links to other actors in the government system and with civil society.

> AusAID should strive to make institutions accountable to the taxpayers of partner countries. This may mean involving local civil society to the extent that it is possible, increasing transparency in procurement, and helping partner institutions meet their own governments’ financial reporting requirements.

> The Australian approach to working with partner government systems should be clear. This should entail a commitment to working with those systems and, together with other donors, helping to strengthen the systems to protect all expenditures. Robust internal measures should be in place to ensure the protection of Australian aid funds.

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2 NACA, which was founded in 2004, consists of the police, the Ombudsman Commission, the Internal Revenue Commission, the Treasury, the Department of Provincial Affairs, the Attorney-General’s Office and the Department of Personnel Management.


6 S Pompe, P Crawford and D Rowland, Indonesia-Australia Legal Development Facility (IALDF) mid-term review, March 2007, p. 46.


8 By the Media Council of PNG in 2007

9 M Brash, Review of Component 1, Media for Development Initiative (Phase I), August 2006, p. 5.


12 For more on this, see R Stapenhurst, The media’s role in curbing corruption, World Bank Institute, 2000.

13 AusAID, Review of Component 1: Media for Development Initiative (Phase I) draft, August 2006, p. 10.


15 Section 47(7) of the Public Finance and Audit Act.


17 PNG Auditor-General, Department of Works and implementation investigation report, 2000, p. iv.


Appendix A

Measuring corruption: the Control of Corruption Indicator

The two most widely used indicators of corruption are Transparency International’s Corruption Perceptions Index and the Control of Corruption Indicator, one of the six World Governance Indicators (WGIs) produced by World Bank researchers. The two indicators aggregate a number of perception-based indicators, and are highly correlated with each other. The 2006 Corruption Perceptions Index covered some 163 countries, while the 2006 WGI indicators covered 212 countries.

The Corruption Perceptions Index is a ranking. Changes in the sample base, the methodology and the countries covered each year mean ‘that it does not discriminate reliably either i) among countries with scores close to each other, or ii) between conditions of corruption, even in the same country, over time’.1

The Control of Corruption Indicator measures perceptions of corruption, which is defined as the extent to which public power is exercised for private gain. This includes grand and petty corruption and state capture. The indicator is constructed from existing perception indicators from 27 different data sources produced for diverse purposes (with the number of data sources varying with each country). For each source, the authors (Kaufmann, Kraay and Mastruzzi2) calculate a simple unweighted average of all indicators relevant to corruption from that source, thus producing one number for each source.

The process by which these single estimates from each source are aggregated to produce one indicator for the control of corruption is complex and problematic. Arndt and Oman’s careful analysis demonstrates that the aggregation process used assigns different weights to different sources, from one country to another and from one year to another, and gives more weight to expert opinions than to large population surveys. The underlying rationale for this process is the assumption that different sources’ errors are uncorrelated and that a high degree of correlation is not a reflection of the correlation of those sources’ measurement errors. Instead it is assumed that high correlation implies greater factual accuracy and better information. However, Arndt and Oman argue persuasively that the likelihood that sources’ errors are correlated is high. Experts from different agencies are aware of each other’s work, share the same values and culture, and may be in touch with each other. They often rely on the same third source. Experts, like financial markets, also follow herd instincts and are influenced by events and crises. Thus, for example, the Corruption Perceptions Index and other sources showed corruption rising in Indonesia after its financial crisis, although there was no clear evidence that corruption was worse before or after the crisis.

To its credit, the World Bank provides a probability range for its WGIs. The confidence interval is defined as the country’s score plus and minus 1.64 times its standard error. The standard error depends on the number of sources used and the estimated accuracy of each source. The fewer the sources, the higher the standard error: the confidence interval for a country with only one source will be twice as large as for a country with seven sources. As noted above, accuracy is assumed to depend on the degree of correlation between sources. Thus, the lower the correlation among sources, the higher the standard error. With confidence levels at 90 per cent probability, users are advised not to distinguish between levels of governance in countries whose confidence levels overlap, even if their scores are quite different. Users are warned that these indicators are not useful for distinctions between countries whose rankings are close together.

This is best illustrated by looking at some specific data. In the data shown in Figure A.1, although Indonesia’s and Solomon Islands’ scores on control of corruption appear to have improved substantially between 1998 and 2006, at a 90 per cent confidence level shown by the overlapping black lines that measure the large margin of error associated with these estimates, it is not possible to say with certainty that they have.3 Similarly, the scores for PNG have worsened
between 1998 and 2006 but, at a 90 per cent confidence level, one cannot assume that corruption has risen. Nor is it possible to conclude that Indonesia is more corrupt than the Philippines or less corrupt than PNG at a 90 per cent confidence level, although their percentile rankings suggest they are.

Figure A.1. World Governance Indicators (Control of Corruption Indicator), 1998 and 2006

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Solomon Islands</td>
<td>[Diagram showing rank comparison]</td>
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<tr>
<td>Vietnam</td>
<td>[Diagram showing rank comparison]</td>
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<tr>
<td>Philippines</td>
<td>[Diagram showing rank comparison]</td>
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<tr>
<td>Indonesia</td>
<td>[Diagram showing rank comparison]</td>
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<tr>
<td>Papua New Guinea</td>
<td>[Diagram showing rank comparison]</td>
</tr>
<tr>
<td>Cambodia</td>
<td>[Diagram showing rank comparison]</td>
</tr>
</tbody>
</table>


The WGIs are thus not useful for distinctions between countries whose rankings are close together, but are best used to illustrate in very broad terms whether countries fall in certain broad levels: the bottom 10 per cent, the bottom quartile, or the second, third or fourth quartile. Given the margins of error, even these distinctions are not easy. If one takes the top 10 recipients of Australian aid in 2006, only three countries fall clearly in one quartile; but within that quartile, while all three have percentile rankings below 10 per cent, all three could have scores above the 10 per cent level within the same quartile. All other countries could be in one level below or above; Solomon Islands could fall into the second or bottom quartile, given the large margins of error (standard error of 0.30 for 2006, and 0.50 for 1998).
### Table A.1. Corruption in top 10 AusAID beneficiary countries in 2006

<table>
<thead>
<tr>
<th></th>
<th>With 90% certainty in relevant row</th>
<th>With less than 90% certainty in relevant row</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top quartile</strong></td>
<td></td>
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<tr>
<td><strong>Second quartile</strong></td>
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<td></td>
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<tr>
<td><strong>Third quartile</strong></td>
<td>Could be in second quartile:</td>
<td>Could be in bottom quartile:</td>
</tr>
<tr>
<td></td>
<td>Solomon Islands (49.0)</td>
<td>Solomon Islands (49.0)</td>
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<tr>
<td></td>
<td>Sri Lanka (48.5)</td>
<td>China (37.9)</td>
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<td></td>
<td></td>
<td>Vietnam (29.1)</td>
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<td></td>
<td></td>
<td>Philippines (27.2)</td>
</tr>
<tr>
<td><strong>Bottom quartile</strong></td>
<td>Could be in second quartile:</td>
<td>Could be in bottom quartile:</td>
</tr>
<tr>
<td></td>
<td>Indonesia (23.3)</td>
<td>—</td>
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<tr>
<td></td>
<td>Timor Leste (19.9)</td>
<td></td>
</tr>
<tr>
<td><strong>Bottom 10%</strong></td>
<td>Could be in bottom quartile but</td>
<td></td>
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<tr>
<td></td>
<td>above the 10th percentile:</td>
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<tr>
<td></td>
<td>Papua New Guinea (9.2)</td>
<td></td>
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<tr>
<td></td>
<td>Cambodia (7.3)</td>
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<tr>
<td></td>
<td>Iraq (3.4)</td>
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</tbody>
</table>


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3 Indonesia’s percentile ranking rose from 10.7 in 1998 to 23.3 in 2006; Solomon Islands’ percentile ranking rose from 30.1 in 1998 to 49.0 in 2006.

4 From a percentile ranking of 28.6 to 9.2.
Appendix B

The following table, which is based on standard DAC evaluation criteria, was used to elicit responses on the case studies.

<table>
<thead>
<tr>
<th>Relevance</th>
<th>Guide to answering</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the initiative have an explicit anti-corruption objective?</td>
<td></td>
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<tr>
<td>If not, does the initiative have an objective that align with examples on Attachment 1?</td>
<td>Please list the relevant elements and examples from Attachment 1.</td>
<td></td>
</tr>
<tr>
<td>Is the anti-corruption objective relevant to the stated priorities of the partner government?</td>
<td>Does the government mention a commitment to address corruption in its MTDS, or other public statements of intent?</td>
<td></td>
</tr>
<tr>
<td>Is the objective relevant to AusAID's current CPS?</td>
<td>Recognising that anti-corruption may not have been an explicit objective – what CPS objective did the initiative align with?</td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
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<tr>
<td>Was the approach taken to achieving the anti-corruption objectives technically appropriate and cost effective?</td>
<td>For example, if new approaches/procedures were introduced, were they appropriate for the environment?</td>
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<tr>
<td>If the initiative had anti-corruption as an explicit objective, would the design have been appropriate?</td>
<td>For example, could there be an explicit anti-corruption agenda? Does it need to remain 'under the radar'? If there was an explicit objective of anti-corruption, how would you do things differently?</td>
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<tr>
<td>If anti-corruption had been an objective of the initiative, would the design have been appropriate?</td>
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<tr>
<td>Effectiveness</td>
<td></td>
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<tr>
<td>Has the initiative had success in meeting its anti-corruption objectives (implicit or explicit)?</td>
<td>Recognising that initiatives are ongoing, information may need to be provided on relevant milestones.</td>
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</tr>
<tr>
<td>Were opportunities grasped as they arose, to improve the potential impact of efforts on anti-corruption?</td>
<td>Examples of opportunities to link with other initiatives (Australian or otherwise).</td>
<td></td>
</tr>
<tr>
<td>Are there ways that AusAID could support an increased anti-corruption approach through the initiative?</td>
<td>This recognises that effective anti-corruption approaches are flexible and multi-faceted and may not fit a standard project design. How can AusAID maximise its impact?</td>
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<tr>
<td>Were there opportunities that could have been grasped to address corruption, but that were outside the design?</td>
<td></td>
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<tr>
<td>What could have been done differently?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relevance</td>
<td>Guide to answering</td>
<td>Answer</td>
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<tr>
<td><strong>Impact</strong></td>
<td>For example, has this led to identification of corrupt officials and/or their prosecution? Is there any evidence of improved accountability?</td>
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<tr>
<td>Are there any examples of positive or negative impacts on the anti-corruption agenda arising from the initiative?</td>
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<tr>
<td><strong>Sustainability</strong></td>
<td>Do they depend on particular individuals? Are they likely to be stymied by other parts of the accountability system, e.g. legal sector weaknesses etc.?</td>
<td></td>
</tr>
<tr>
<td>Are the anti-corruption impacts of the initiative likely to continue?</td>
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<tr>
<td>Does there appear to be a change in attitude and, if so, has this been adopted organisationally or it is dependent on individuals?</td>
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<tr>
<td>Are changes introduced through the initiative aimed at increasing accountability, transparency etc. likely to be sustained?</td>
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<td></td>
</tr>
<tr>
<td><strong>Lessons learned</strong></td>
<td></td>
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<tr>
<td>Is there any advice you are able to offer that may be relevant to other AusAID initiatives?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIPRD</td>
<td>Australia–Indonesia Partnership for Reconstruction and Development</td>
</tr>
<tr>
<td>ASF</td>
<td>Advisory Support Facility (PNG)</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee (OECD)</td>
</tr>
<tr>
<td>DGT</td>
<td>Directorate General of Taxation (Indonesia)</td>
</tr>
<tr>
<td>ECP</td>
<td>Enhanced Cooperation Program</td>
</tr>
<tr>
<td>GPF</td>
<td>Government Partnership Fund</td>
</tr>
<tr>
<td>ICAC</td>
<td>Independent Commission Against Corruption (PNG)</td>
</tr>
<tr>
<td>KPK</td>
<td>Komisi Pemberantasan Korupsi (Corruption Eradication Commission) (Indonesia)</td>
</tr>
<tr>
<td>LDF</td>
<td>Legal Development Facility</td>
</tr>
<tr>
<td>LTO</td>
<td>Large Taxpayer Office (Indonesia)</td>
</tr>
<tr>
<td>MDI</td>
<td>Media for Development Initiative (PNG)</td>
</tr>
<tr>
<td>NGO</td>
<td>non-government organisation</td>
</tr>
<tr>
<td>NIS</td>
<td>National Integrity System (of Transparency International)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability (initiative of World Bank)</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>RAMSI</td>
<td>Regional Assistance Mission Solomon Islands</td>
</tr>
<tr>
<td>TA</td>
<td>technical assistance</td>
</tr>
<tr>
<td>TAMF</td>
<td>Technical Assistance Management Facility</td>
</tr>
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<td>TI</td>
<td>Transparency International</td>
</tr>
<tr>
<td>WGI</td>
<td>World Governance Indicators (of World Bank)</td>
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