

# The Department for International Development's Approach to Anti-Corruption







Independent  
Commission  
for Aid Impact

# Contents

<b>Executive Summary</b>	<b>page 1</b>
<b>1 Introduction</b>	<b>page 2</b>
<b>2 Context</b>	<b>page 3</b>
<b>3 Findings</b>	<b>page 4</b>
<b>How effective are DFID's approaches to protecting UK aid funds from fraud and corruption?</b>	<b>page 5</b>
<b>How does DFID help its partner countries fight corruption?</b>	<b>page 12</b>
<b>4 Conclusions and Recommendations</b>	<b>page 15</b>
<b>Annex</b>	<b>page 17</b>

The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

	<b>Green:</b> The programme meets all or almost all of the criteria for effectiveness and value for money and is performing strongly. Very few or no improvements are needed.
	<b>Green-Amber:</b> The programme meets most of the criteria for effectiveness and value for money and is performing well. Some improvements should be made.
	<b>Amber-Red:</b> The programme meets some of the criteria for effectiveness and value for money but is not performing well. Significant improvements should be made.
	<b>Red:</b> The programme meets few of the criteria for effectiveness and value for money. It is performing poorly. Immediate and major changes need to be made.

# Executive Summary

In this review, we examine how DFID responds to the challenge of providing aid in countries with high risk of corruption. Our report makes recommendations as to how DFID can minimise the risks to UK aid funds from corruption and how it can better assist its partner countries to address the scourge of corruption at its root.

**Overall** *Assessment: Amber-Red* 

This rating is strongly influenced by the UK Government's decision to increase rapidly both the aid budget to an amount equivalent to 0.7% of Gross National Income and the proportion going to fragile and conflict-affected states.<sup>1</sup> This inevitably will expose the UK aid budget to higher levels of corruption risk. Our assessment is that DFID's current organisation of responsibilities for fraud and corruption is fragmented and that this inhibits a coherent and strategic response to this critical issue. DFID needs to give significantly greater attention to the fight against corruption to manage this increasing risk.

**Objectives** *Assessment: Green-Amber* 

DFID displays generally good awareness of fraud and corruption risks and seeks to safeguard UK funds through appropriate choices of funding channels and programme design. It often plays a leading role within the donor community on anti-corruption. Nonetheless, tackling corruption effectively should be a basic condition of UK aid and the issue requires even greater emphasis in DFID's programmes as spending in fragile and conflict-affected states increases.

**Delivery** *Assessment: Amber-Red* 

DFID's internal systems for financial management are generally sound. Most UK aid, however, is delivered by external partners. DFID's monitoring of these partners requires improvement. There is a need for more articulated processes for managing the corruption risks associated with particular aid types and greater attention to due diligence and on-the-ground monitoring.

**Impact** *Assessment: Amber-Red* 

Although DFID's investment in national anti-corruption institutions is likely to show results only over the longer term, we encourage DFID to scale up its support for greater transparency and accountability in national governments. We strongly support the involvement of beneficiary communities in overseeing aid programmes and local service delivery. We encourage DFID to explore fully the opportunities for mobilising communities and

organising collective action against corruption through electronic communications and social media.

**Learning** *Assessment: Green-Amber* 

While there are examples of DFID learning lessons from particular corruption incidents and using them to inform guidance for staff, there is a need for more sector- and country-specific analysis of different types of corruption, of their relative importance and of ways of combating them. This should be used to inform a shift from reactive to more proactive approaches to fighting corruption.

## Key Recommendations<sup>2</sup>

**Recommendation 1:** In any country assessed as having a high risk of corruption, DFID should develop an explicit anti-corruption strategy, setting out an integrated programme of activities and dialogue processes.

**Recommendation 2:** DFID should review the structure and nature of its UK counter-fraud and anti-corruption resources, to develop a more co-ordinated approach to risk assessment, risk management, anti-corruption programming and fraud response.

**Recommendation 3:** DFID should develop more articulated processes for managing the corruption risks associated with particular aid types and invest more resource in due diligence and on-the-ground monitoring of delivery partners.

**Recommendation 4:** While continuing to invest in the legal and institutional framework for fighting corruption, DFID should focus on supporting more robust law enforcement activity to build transparency and accountability. This should include innovative forms of beneficiary monitoring and community mobilisation.

**Recommendation 5:** DFID should invest more in intelligence collation and analysis of corruption risks in particular sectors and countries, to inform a more strategic approach to fighting corruption.

<sup>1</sup> *Building Stability Overseas Strategy*, DFID, Foreign and Commonwealth Office and Ministry of Defence, July 2011, [www.dfid.gov.uk/Documents/publications/1/Building-stability-overseas-strategy.pdf](http://www.dfid.gov.uk/Documents/publications/1/Building-stability-overseas-strategy.pdf).

<sup>2</sup> Other recommendations are highlighted in bold throughout the report.

# 1 Introduction

- 1.1 The Department for International Development (DFID) operates in many countries around the world with high levels of corruption, which are where the poorest populations are often to be found. Corruption has the potential to reduce or even nullify the impact of external assistance. DFID's approach to managing the risk of corruption is, therefore, one of the most important components of achieving value for money in the UK aid programme. Our public consultation also revealed substantial concern about how fraud and corruption affect UK aid.
- 1.2 The UK is committed to providing an increasing proportion of its assistance to states affected by conflict or political instability. As a group, these states have weaker institutions and entail a higher risk of corruption. Of the 47 countries where DFID provides aid, 17 fall into the bottom quarter of Transparency International's Corruption Perceptions Index and another 18 fall into the third quarter.<sup>3</sup>
- 1.3 We have, therefore, given immediate priority in our work programme to carrying out an assessment of DFID's approach to tackling fraud and corruption in the delivery of UK aid.
- 1.4 In this review, we adopt a broad definition of corruption as the abuse of public power for private gain. This includes both grand corruption where politicians or senior public officials use their position to siphon off funds intended for the benefit of the public and petty corruption where public sector workers demand bribes from citizens to perform no more than the duties of their posts. In countries with high levels of corruption, the two forms feed one another. Both also undermine the benefit of development programmes.
- 1.5 This review assesses how effectively DFID manages the risk of fraud and corruption. There are two parts to this question:
- i. The first is: how effective are DFID's approaches to protecting UK aid funds from fraud and corruption? When providing aid in corrupt environments, DFID undertakes various actions to ensure that the funds reach the intended beneficiaries. These include its risk assessment processes, its choices as to how funds should be provided and the quality of its supervision of UK aid programmes.
  - ii. The second is: how does DFID help its partner countries fight corruption? Examples of this would be supporting national institutions such as anti-corruption commissions, improving financial management processes and helping civil society to campaign for more accountable government.
- 1.6 In this review, we look at development assistance rather than humanitarian aid. Humanitarian aid raises distinct challenges with regard to corruption risk and will be assessed in subsequent ICAI reviews. We have also focussed on how UK aid funds are allocated in recipient countries, whether through governments, multilateral organisations, NGOs or other delivery partners, rather than on aid given directly to multilateral organisations at the headquarters level.
- 1.7 In carrying out this review, we examined how DFID treats corruption risk within its policies and business processes through reviews of DFID documentation and interviews with staff in London and East Kilbride, Scotland. We visited three DFID country offices, in Bangladesh, Nepal and Zambia and conducted a desk review of the Nigeria country programme. We spoke to DFID staff, other donor agencies, government officials, civil society organisations and intended beneficiaries of UK aid. Our methodology is explained further in the Annex.
- 1.8 Our report makes recommendations as to how DFID can reduce the risks to UK aid from corruption and how it can better assist its partner countries to address the scourge of corruption at its root.

<sup>3</sup> 2010 *Corruption Perceptions Index*, Transparency International, [www.transparency.org/policy\\_research/surveys\\_indices/cpi/2010](http://www.transparency.org/policy_research/surveys_indices/cpi/2010). Transparency International's Corruption Perceptions Index is the most widely used measure of corruption levels around the world, based on surveys of business people and other informed observers.

## 2 Context

- 2.1 There are a number of contextual issues that bear directly on our assessment of DFID's approach to fraud and corruption.<sup>4</sup>
- 2.2 First, the UK Government has decided to increase rapidly the overall aid budget, up to an amount equivalent to 0.7% of Gross National Income from 2013. It is also committed to increasing the proportion of its total aid budget going to fragile and conflict-affected countries to 30% by 2014-15.<sup>5</sup> At present, 22 of the 47 countries to which the UK provides aid directly are classed as at risk of conflict and political instability or as being internationally isolated. These countries not only present higher corruption risks; they are also more difficult environments in which to provide aid. Controls that may be adequate in other developing countries may be insufficient in fragile states. Our concern must, therefore, be whether DFID's processes are adequate for the higher levels of corruption risk anticipated in the future.
- 2.3 Second, there is heightened concern within the UK about corruption issues. In July 2011, the Public Accounts Committee of the UK Parliament examined the quality of DFID's financial management, expressing its concern that DFID was unable to quantify the extent of losses from the aid programme through corruption. The Committee expressed the view that DFID was being too 'reactive' in its approach.<sup>6</sup>
- 2.4 Third, there have been important developments at the legislative level. The Bribery Act 2010 came into force in the UK on 1 July 2011.<sup>7</sup> The legislation makes clear that 'zero tolerance' of corrupt behaviour is required from UK commercial organisations operating abroad and requires investment in corporate systems and staff training to prevent corrupt behaviour. The legislation is a clear statement, both nationally and internationally, of the UK's commitment to fighting corruption.
- 2.5 Fourth, we recognise that protecting UK funds from the risk of corruption needs to be weighed against other aspects of overall aid effectiveness. One of the objectives of UK development assistance is to help

strengthen national institutions to the point where they themselves can lead the development process. Bypassing national institutions altogether might minimise corruption risk while failing to deliver the long-term goals of UK assistance.

<sup>4</sup> ICAI's mandate is to review all UK Official Development Assistance, around 85% of which is spent by DFID. This report focusses on DFID's expenditure.

<sup>5</sup> *Building Stability Overseas Strategy*, DFID, Foreign and Commonwealth Office and Ministry of Defence, July 2011, [www.dfid.gov.uk/Documents/publications/1/Building-stability-overseas-strategy.pdf](http://www.dfid.gov.uk/Documents/publications/1/Building-stability-overseas-strategy.pdf).

<sup>6</sup> *DfID Financial Management*, House of Commons Committee of Public Accounts, October 2011, [www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf).

<sup>7</sup> *UK Bribery Act 2010*, [www.legislation.gov.uk/ukpga/2010/23/contents](http://www.legislation.gov.uk/ukpga/2010/23/contents).

# 3 Findings

3.1 In this section, we present our findings on the following questions:

- How effective are DFID's approaches to protecting UK aid funds from fraud and corruption?
- How does DFID help its partner countries to fight corruption?

3.2 Basic comparative information for the countries we examined for this review and for the UK is set out in Table 1. Further explanation of these figures is provided in paragraphs 3.9-3.13.

**Table 1: Country information**

		Bangladesh	Nepal	Nigeria	Zambia	UK
<b>Country context<sup>8</sup></b>						
Area	(sq. km)	143,998	147,181	923,768	752,618	243,610
Population	(2010, millions)	162.2	30.0	158.4	12.9	62.2
Income	(2010 Gross National Income per capita, US\$)	700	480	1,180	1,070	38,560
Poverty rate	(% of population below the US\$1.25 a day poverty line)	49%	55%	64%	64%	0%
<b>Corruption – based on Transparency International's Corruption Perceptions Index (CPI)</b>						
CPI score	(2010, 0.0 to 10.0, most to least corrupt)	2.4	2.2	2.4	3.0	7.6
CPI ranking	(2010, out of 178 countries)	134	146	134	101	20
<b>UK assistance 2010-11<sup>9</sup></b>						
Total bilateral aid	(in £ million)	174	62	142	52	
- via government	(proportion)	15.7%	20.4%	0.04%	72.4%	
- technical co-operation	(proportion)	16.5%	32.8%	73.4%	3.8%	
- via multilaterals	(proportion)	25.5%	24.2%	11.9%	7.3%	
- via NGOs	(proportion)	37.3%	15.6%	2.9%	6.5%	
- other <sup>10</sup>	(proportion)	5.1%	6.9%	11.8%	10.2%	

<sup>8</sup> World Development Indicators, World Bank, 2011, <http://data.worldbank.org/indicator>.

<sup>9</sup> Statistics on International Development 2006/07 – 2010/11, DFID, October 2011, [www.dfid.gov.uk/Documents/publications1/sid2011/SID-2011.pdf](http://www.dfid.gov.uk/Documents/publications1/sid2011/SID-2011.pdf).

<sup>10</sup> This includes humanitarian aid and debt relief.

# 3 Findings

## How effective are DFID's approaches to protecting UK aid funds from fraud and corruption?

3.3 We have examined a number of different aspects of DFID's approach to managing the risk of fraud and corruption, as follows:

- risk assessment;
- choice of funding channel;
- due diligence over partner organisations;
- anti-corruption training and awareness;
- monitoring and audit;
- investigation and follow-up; and
- co-ordination in the UK.

### **Risk assessment**

3.4 Effective prevention, detection and response procedures are informed by good risk assessment. Once fraud and corruption risks are identified and understood, appropriate actions can be taken to mitigate them.

3.5 DFID conducts risk assessment at two levels:

- first, it conducts an overall assessment of the level of fiduciary risk in the country in question – that is, the likelihood that aid funds will not be used for the intended purpose because of weaknesses in governance and financial management systems; and
- second, as part of the design of individual programmes, it assesses corruption risks in the particular sector or area, to inform its decisions on funding channels, partnerships and other design elements.

3.6 For each country where financial aid is being provided or considered, DFID carries out a Fiduciary Risk Assessment (FRA). The FRA weighs up the risk of financial losses by assessing the strengths and weaknesses of a recipient government's systems of financial management and oversight. It takes into account existing information on corruption risk, such as the Transparency International Corruption Perceptions Index. FRAs must be carried

out at least every three years and are supplemented by annual updates.<sup>11</sup>

3.7 In all of the country programmes we examined, FRAs and annual updates had been carried out regularly, appeared to be of good quality and had been used to inform risk mitigation.

3.8 We would have expected, however, to see more detailed assessment of specific corruption risks in particular sectors or areas where DFID has major programmes. This would include not just general assessments of public financial management standards but also detailed analysis of the types and patterns of corruption and their relative importance, in order to inform the design of detailed, sector-specific anti-corruption measures. We understand that DFID plans additional sector-specific assessments in the future. In our case study countries, however, we only saw examples of this kind of analysis being undertaken reactively in response to major corruption incidents (e.g. in the health sector in Zambia).

### **Choice of funding channel**

3.9 The most basic choice made by DFID in mitigating corruption risk is one of funding channel. UK aid funds are provided through a number of mechanisms as outlined below.

3.10 *Budget support to governments*: in countries where the level of fiduciary risk is considered acceptable, DFID may provide funds directly to the national Treasury to support national development efforts. General budget support is an overall contribution to national development efforts, while sector budget support is directed towards a specific sector of government such as health or education. Budget support is accompanied by support for national reform programmes to strengthen country systems, particularly budgeting and public financial management and to improve national accountability. Since UK budget support is mixed with other budgetary resources and managed by national institutions, it is exposed to any weaknesses in financial management and the risk of elite capture<sup>12</sup> throughout the partner government. Budget support and other financial aid to governments accounted for 28% of the UK's bilateral aid programme in 2010-11.

<sup>11</sup> *How to Note: Managing Fiduciary Risk when Providing Financial Aid*, DFID, June 2011, [www.dfid.gov.uk/Documents/publications1/how-to-fiduciary-fin-aid.pdf](http://www.dfid.gov.uk/Documents/publications1/how-to-fiduciary-fin-aid.pdf).

<sup>12</sup> A term used to describe the appropriation of resources destined for the general public by political, business or civil service leaders and the diversion of those resources to specific groups.

# 3 Findings

3.11 *Aid through multilateral partners:* DFID may choose to provide assistance from its country programmes via multilateral partners such as the World Bank and the United Nations, where this is an efficient way of combining donor efforts.<sup>13</sup> In such cases, DFID relies on the partner organisation to manage the funds effectively. This accounts for 34% of the UK's bilateral aid.

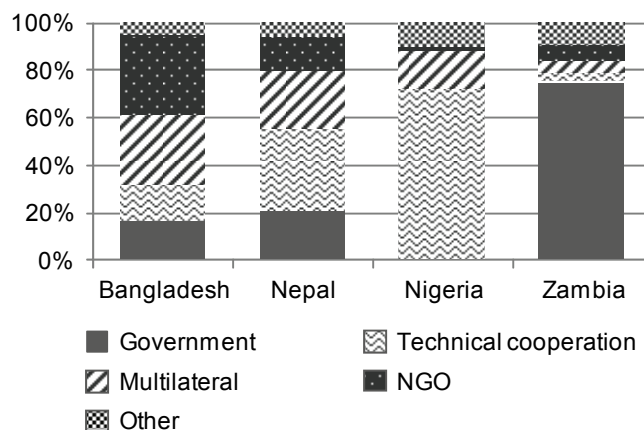
3.12 *Aid through Non-Governmental Organisations (NGOs):* NGOs, both international and local, are funded for a range of development activities, either directly or through a grant-making mechanism managed by a contractor. This accounts for around 15% of bilateral aid.

3.13 *Technical co-operation:* DFID can engage commercial contractors, such as engineering firms or consultants, to carry out activities directly, particularly the provision of technical expertise. This accounts for 11% of bilateral aid.<sup>14</sup>

3.14 When using the delivery channels described above, DFID's protection against corruption depends largely on the organisation's own system of controls once it has handed over its financial contributions.

3.15 As can be seen in Chart 1, our case study countries illustrate that the composition of funding channels varies substantially according to the assessed level of risk. For example, in Nigeria, where corruption risk is assessed as very high, no support is provided through government systems. Technical co-operation through contractors is the dominant form of assistance, at 73%. In Bangladesh and Nepal, also relatively high-risk environments, only 16% and 20% respectively of the country programmes are delivered through government, with the balance through contractors, NGOs or multilateral partners.

**Chart 1: Aid channels in the case study countries**



3.16 By contrast, in Zambia, where the Government is assessed as having a stronger commitment to tackling corruption, 72% of the aid programme is provided through government, including £33 million in general budget support in 2010-11 (£25 million in 2011-12). DFID is not able to track the expenditure of UK aid funds directly but relies on the Zambian Government's budget process, financial reporting and oversight by national institutions such as the Auditor-General and the Anti-Corruption Commission.

3.17 DFID does not set a minimum threshold for the quality of country systems before providing budget support. It simply requires that the government in question show a credible commitment to improving its public financial management, strengthening accountability and fighting corruption.<sup>15</sup> DFID believes that its provision of budget support makes it better placed to support these reforms. Furthermore, if the reforms are successful, they provide protection not just for UK aid funds but for the entire national budget, with wider development benefits. International experience, however, indicates that it can take many years for reforms to public financial management to take effect.

3.18 UK aid funds delivered via budget support are exposed to any corruption occurring within the public sector. Since the UK contribution is not identified separately within the national budget, the actual extent of corruption losses is impossible to quantify. We note the concern expressed by the UK House of

<sup>13</sup> This is different from the UK's multilateral aid budget, which is allocated to multilateral organisations and funds at the central level.

<sup>14</sup> The balance of UK bilateral aid is mainly humanitarian assistance and debt relief. Source: *Statistics on International Development 2006/07 – 2010/11*, DFID, October 2011, [www.dfid.gov.uk/Documents/publications1/sid2011/SID-2011.pdf](http://www.dfid.gov.uk/Documents/publications1/sid2011/SID-2011.pdf).

<sup>15</sup> *How to Note: Managing Fiduciary Risk when Providing Financial Aid*, DFID, June 2011, page 43, [www.dfid.gov.uk/Documents/publications1/how-to-fiduciary-fin-aid.pdf](http://www.dfid.gov.uk/Documents/publications1/how-to-fiduciary-fin-aid.pdf).



# 3 Findings

Commons Committee of Public Accounts regarding DFID's inability to estimate levels of leakage through fraud and corruption.<sup>16</sup> This lack of hard data is a problem inherent to the anti-corruption field. We are informed that DFID has made attempts in the past to model the extent of losses from different aid types in different country contexts but the models were based on so many assumptions that their value as a decision-making tool was limited. **This is too important an issue to neglect and DFID should revisit this problem and examine the potential to assess loss, based around the different levels of risk inherent in different ways of delivering aid.**

- 3.19 In the absence of hard data, DFID is often called upon to make difficult judgements as to the best balance between risk and effectiveness. Both are important components in achieving value for money in the UK aid programme. Where there are good grounds for believing that directing UK funds through the national budget is the most effective form of aid, we would not like to see the option taken off the table merely because the extent of corruption losses cannot be precisely measured. We would, however, expect to see DFID taking all necessary measures to minimise the risk of corruption. This point will be examined in detail in our forthcoming evaluation of UK budget support.
- 3.20 Since January 2011, DFID prepares business cases for all new programmes. Country teams are required to go through a rigorous process of reviewing the business case to test the quality of technical design, choice of funding channel and monitoring and evaluation procedures, as well as the balance of risk and reward. In September 2011, DFID released a guidance note to staff on how to assess corruption risk when preparing business cases. It requires staff to identify corruption risks in the sector or area in question, assess whether existing controls are adequate and propose additional mitigating measures to address any shortcomings that are identified. We had an opportunity to observe a business case review meeting in August 2011 for a new HIV-AIDS programme in Zambia. The review meeting was attended by a cross-section of programme and administrative staff and involved a good level of challenge on design issues, including risk management.

- 3.21 In general, the programmes we examined showed evidence that consideration of fraud and corruption risks had been carried out and adequate mitigation measures had been introduced in the design.
- 3.22 We encountered some good examples of programmes that involved intended beneficiaries and local communities in monitoring delivery, to ensure greater transparency and accountability (see Box 1) but the practice does not appear to be standard across DFID programmes. Local communities have detailed knowledge of the local environment and a clear incentive to ensure that aid reaches the intended beneficiaries. **DFID should explore greater use of participatory monitoring.**
- 3.23 Our assessment is that the new business case procedures represent a significant increase in the level of rigour with which DFID approaches the prevention of corruption in programme design.

## Box 1: Social Cash Transfer Scheme – Zambia

One DFID project in Zambia provides small cash payments to poor families as a social safety net, particularly targeting families with young children. Each family receives around £7 per month – enough for a 50kg bag of the local staple, maize. The scheme helps provide food security in an area where extreme poverty and malnutrition among children are very high.

The programme has been carefully designed to minimise corruption risk and ensure that the funds reach the intended beneficiaries. There are open and transparent criteria and processes for selecting beneficiaries. Payments are made via local government officials or business people, with recipients signing or leaving a thumbprint to acknowledge receipt. The scheme is highly transparent and subject to monitoring both by the responsible government agencies and by local communities. A forthcoming DFID-commissioned evaluation of the programme has found that 99% of intended beneficiaries reported receiving the correct funds at the right time.

## Due diligence over partner organisations

- 3.24 DFID delivers most of its aid programmes through partner organisations, including government agencies, multilateral organisations, other bilateral aid agencies, contractors and NGOs. This usually means relying on the partner organisation's own systems for managing and accounting for the funds.

<sup>16</sup> DFID Financial Management, House of Commons Committee of Public Accounts, HC1398, October 2011, page 5, [www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf).

# 3 Findings

- 3.25 Before agreeing to provide funds through others, DFID should satisfy itself that those systems are adequate for protecting UK funds (known as due diligence). This is done in different ways depending on the funding channel, as set out below.
- 3.26 *Budget support:* In the case of budget support, the FRA itself constitutes due diligence on the recipient government systems.
- 3.27 *Multilateral organisations:* For aid provided through multilateral partners (up to 25% of the country programmes in Bangladesh and Nepal), DFID does not carry out due diligence of the local country office of the multilateral organisation. Recently, however, DFID carried out an assessment at the global level of all of the UK's multilateral partners (the Multilateral Aid Review).<sup>17</sup> These findings are to be taken into account when preparing business cases.<sup>18</sup> Of 43 organisations reviewed, 20 were assessed as weak on financial resource management and 25 as lacking sufficient transparency and accountability. Given these shortcomings, it would be prudent for DFID to look in more detail at the specific local capacities of the multilateral partner - which may vary from country to country - and at the anti-corruption measures it proposes to implement for the specific programme.
- 3.28 *NGOs:* DFID's Civil Society Department, based in the UK, provides funding of approximately £200 million each year to UK-based and international NGOs. It conducts detailed due diligence on each organisation prior to funding, which includes assessment of counter-fraud procedures. For the time being, funding for local NGOs in partner countries is not subject to the same level of scrutiny. DFID is in the process of developing due diligence procedures for grants made in-country.
- 3.29 Many DFID country offices support NGO grant-making mechanisms administered by agents (a private contractor or NGO). DFID's level of scrutiny of grant recipients is generally proportional to the value of grants. Small grants to community-based organisations may be provided with minimal checks, while larger grants to more established NGOs require a form of due diligence.
- 3.30 We noted one example where the managing agents of NGO grant mechanisms appeared not to have sufficient knowledge of fraud-related risks or enough staff capacity to monitor other parties effectively. This appeared to be the result of pressure from DFID and other donors to minimise management costs. **DFID should engage other agencies to carry out due diligence and oversight on its behalf, ensuring that adequate resources are available.**
- 3.31 *Technical assistance:* Where DFID provides technical co-operation through large international contractors, the procurement is managed directly by the Procurement Department in the UK. Due diligence is carried out but with little emphasis on how these organisations tackle fraud and corruption risks. There is little due diligence on the counter-fraud capabilities of locally appointed contractors. We encountered a case of one contractor, responsible for managing a £6.5 million bridge-building programme, which had not dedicated sufficient resources to assessing the integrity of procurement by its sub-contractors.
- 3.32 Overall, due diligence and supervision of partner organisations managing UK aid funds is a relative weakness in DFID's approach to preventing corruption.

## **Anti-corruption training and awareness**

- 3.33 In the country offices we visited, DFID staff showed a good understanding of DFID's internal control systems and a good awareness of corruption risk.
- 3.34 DFID has a range of rules and guidance for staff on corruption-related issues. Financial management processes are set out in the *Blue Book*.<sup>19</sup> A *Counter-Fraud and Anti-Corruption Policy* informs staff on how to respond to corruption incidents.<sup>20</sup> Together with other donors, DFID established an anti-corruption resource website, [www.u4.no](http://www.u4.no), which collects research and guidance material on anti-corruption from around the world. There are detailed guidelines on preventing corruption in some sectors,

<sup>17</sup> *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations*, DFID, March 2011, [www.dfid.gov.uk/Documents/publications1/mar/multilateral\\_aid\\_review.pdf](http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf).

<sup>18</sup> *How to note: Writing a Business Case*, DFID, August 2011.

<sup>19</sup> *The Essential Guide to Rules and Tools*, DFID, 2011, [www.dfid.gov.uk/about-us/our-organisation/blue-book/](http://www.dfid.gov.uk/about-us/our-organisation/blue-book/).

<sup>20</sup> *Counter-Fraud and Anti-Corruption Policy*, DFID, [www.dfid.gov.uk/aboutDFID/anti-fraud-corruption-policy.pdf](http://www.dfid.gov.uk/aboutDFID/anti-fraud-corruption-policy.pdf).

# 3 Findings

although specific guidance on high-risk sectors such as construction and infrastructure is needed.<sup>21</sup>

3.35 Each country we visited had a Fraud Liaison Officer (FLO) – a staff member responsible for providing advice, training and awareness-raising on fraud issues to the country team. The FLO is a position which has existed in Asia for two years but was only introduced in Africa in March 2011. The FLOs are not counter-fraud specialists but receive some training in counter-fraud procedures. They liaise with the Counter-Fraud Unit in Scotland when incidents of fraud occur. In Nepal, the FLO is providing some training to delivery partners (particularly local NGOs) on corruption issues. We would like to see more of this kind of support.

3.36 Beyond the FLOs, staff training on fraud and corruption appears to be inconsistent, despite improvements for new staff. Although staff are aware of resources on DFID's intranet, face-to-face workshops and training had yet to be conducted with programme teams in Zambia and Bangladesh, although there were plans for these.

## Monitoring and audit

3.37 DFID requires all its delivery partners to conduct annual audits of UK-funded programmes. Where funds are channelled through government, DFID usually relies on audits conducted by the national Office of the Auditor-General (OAG) – the equivalent of the UK's National Audit Office. DFID or its donor partners provide financial support to these institutions to build their capacity and independence. In our case study countries, our assessment was that the Auditors-General were performing their external audit functions professionally. Their audits had identified specific weaknesses in the financial management of particular public institutions and made appropriate recommendations for improvement. In Nepal, a finding by the OAG of ineligible expenditure in the health ministry enabled DFID to recover £1 million in funding that had not been accounted for according to the Government's own accounting rules. In Zambia, the OAG identified a pattern of misuse of road-building funds for political purposes, leading to an agreement on reform.

3.38 In our discussions in-country, including with public finance and audit officials, people were frank about the extent of corruption in the public sector and their limited capacity to prevent it. Standard audit procedures are usually not enough to detect fraud and the OAGs have very limited capacity for forensic audit. In addition, their recommendations to government are not always acted upon. Nonetheless, investing in these institutions is a good, if long-term, strategy for addressing corruption.

3.39 For projects outside government, DFID relies mainly on financial reporting by the delivery partner. It has a shortage of finance officers able to review these reports and detect irregularities. There is a lack of accounting expertise in country teams, leaving them with limited capacity to exercise effective financial monitoring of partner organisations. The country offices we visited recognised the need for increased accounting capability within the team. **We recommend that this be put in place.**

3.40 DFID's agreements with civil society grantees give it the right to conduct its own audits of their books and records. In our case study countries, this right had not been exercised. **In larger, high-risk programmes, DFID should explore commissioning periodic external audits to carry out specific anti-corruption and counter-fraud tests.**

3.41 Effective monitoring should generally include periodic field visits. DFID country teams, however, generally lack the staffing resources to undertake their own visits. **DFID should explore the use of more unannounced visits to implementation sites, together with regular consultations with beneficiary communities.**

3.42 In Nigeria, some of the stakeholders we interviewed were concerned that checks and balances in programme design documents were not being fully implemented. For security reasons, we were unable to visit Nigeria for this review and we were not able to verify these statements.

3.43 DFID has been instrumental in promoting a particularly effective form of monitoring and auditing in Nepal. Over a number of years, it has worked with partners to develop the practice of public audits by rural communities (see Box 2 on page 10). As well as being effective in helping to safeguard aid funds, public audits empower communities to take action against corruption.

<sup>21</sup> See for example, *Addressing corruption in the health sector*, DFID, November 2010, page 12, [www.dfid.gov.uk/Documents/publications1/How-to-Note-corruption-health.pdf](http://www.dfid.gov.uk/Documents/publications1/How-to-Note-corruption-health.pdf).

# 3 Findings

## Box 2: Public auditing in Nepal

In Nepal, DFID has helped to develop the practice of public audits - a form of community monitoring of aid projects. In UK-funded rural development projects, beneficiary communities are invited to review the design, delivery and financial management at each stage. This is supported through public information boards to ensure transparency. This provides the communities with an opportunity to detect and respond to any improper practices in the delivery of the assistance. One community user group we visited confirmed that, through their monitoring, they had successfully avoided any instance of fraud or corruption over a period of many years. In recognition of the value of these procedures, the Government of Nepal is introducing public audit requirements for a range of public services in rural communities.

### Investigation and follow-up

- 3.44 DFID's agreements with its delivery partners require those partners to report immediately any incidents of misconduct, fraud or corruption. Cases are passed to the Counter-Fraud Unit (CFU) in Scotland for investigation. The CFU is part of the Internal Audit Department. Investigations are carried out by either CFU staff or external forensic accountants. Progress on the investigation is discussed as required with the country head of office.
- 3.45 In 2010-11, the CFU received a total of 102 allegations, leading to 20 proven cases of fraud for total losses of £1,156,000. Just over £1 million of this was 'recovered', although recovery took the form of requiring the partner country in question to repay the lost aid funds, rather than recovering the proceeds of the fraud from the perpetrator.
- 3.46 These losses represented only 0.016% of total DFID expenditure for 2010-11 - a figure the Public Accounts Committee has described as 'unbelievably low'.<sup>22</sup> It appears that the CFU is mostly involved in investigating very minor cases of fraud perpetrated by DFID staff members or in small projects directly administered by DFID. Most of these cases involve only a few thousand pounds each. The much more substantial risks associated with UK aid funds being administered by other agencies, including governments, are not being picked up by CFU.

While it is important that the minor cases are followed through robustly, in purely financial terms they are peripheral to the main corruption risks facing the UK aid programme.

- 3.47 The CFU does on occasion become involved in investigating more substantial fraud cases within partner governments. For example, in Kenya the CFU (together with other donors) carried out an investigation of major fraud within an education programme, found to have resulted in losses of £33 million from a £450 million multi-donor fund over two years, of which £1.1 million was UK funds. In this case, the investigation led to the immediate suspension and eventual redesign of the programme.
- 3.48 The CFU does not play an active role in assessing fraud risk or collecting intelligence on patterns of fraud to inform DFID's approach to managing corruption risk. **DFID should share the concern expressed by the Public Accounts Committee that the approach is too reactive in nature.**
- 3.49 Where corruption is discovered, one of the options available to DFID is to suspend UK support or divert it through alternative channels. In Nepal and Zambia, corruption incidents in the education, health and forestry sectors have led to DFID and other donors withholding funding. In Nepal, the Ministry of Health's failure to respond to OAG audit recommendations led to a portion of the funding being withdrawn from the Ministry and re-directed through non-government partners. Funding is not usually cancelled altogether. DFID takes the view that the intended beneficiaries of UK assistance are poor communities who should not be punished for misconduct by government officials. Furthermore, when a corruption incident comes to light, it may be evidence that national accountability institutions are starting to work more effectively, in which case a punitive response would be inappropriate.
- 3.50 Where DFID provides budget support, future payments may be made conditional on satisfactory follow-up to the corruption incident. For example, in Zambia DFID led the donor community in negotiating a plan of action following a major corruption scandal in the health sector, agreeing a plan of action to fix the problem and making satisfactory implementation a condition of future budget support.

<sup>22</sup> DFID Financial Management, House of Commons Committee of Public Accounts, HC1398, October 2011, page 9, [www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf).

# 3 Findings

## Co-ordination in the UK

- 3.51 In the UK, DFID divides responsibility for anti-corruption between several departments. Responsibility for policy guidance on tackling corruption at the country level or internationally rests with the London-based Anti-Corruption Team (ACT), while the CFU is in charge of responding to specific instances of corruption. The Finance and Corporate Performance Division is responsible for internal DFID financial management standards and systems, including corruption risk management.
- 3.52 The ACT has been actively promoting international co-operation on anti-corruption through the G20 group of countries. All G20 members have agreed an action plan to build on the requirements of the 2005 UN Convention Against Corruption, covering anti-money laundering, co-operation, asset recovery, whistleblower best practice and promoting the independence of national anti-corruption commissions and commitments on public sector transparency.
- 3.53 DFID is unique among international donors in providing funds from the aid budget to UK law enforcement agencies to undertake investigations and intelligence gathering into corruption. This includes countering activity in the UK (such as money laundering) that facilitates corruption abroad. The ACT is responsible for this relationship. In the period 2010-14, DFID plans to invest around £7 million via the Metropolitan Police, City of London Police and the Crown Prosecution Service into fighting corruption. This has already proved to be a good investment, leading to the freezing of around £160 million in corruptly acquired assets around the world. So far, the main focus of this effort has been in respect of money laundering cases involving funds stolen from the Nigerian Government. It has enabled the UK to return approximately £2 million in recovered funds to Nigeria.<sup>23</sup>
- 3.54 The ACT appears to have little direct involvement with the CFU in Scotland, although it has collaborated in delivery of Fraud Liaison Officer training. The ACT has so far also played a limited role in supporting country offices in designing anti-corruption programmes and approaches, although it has plans to station four staff members in country offices in the near future. We understand that the ACT is developing a framework for consultants to provide operational support in the future.
- 3.55 We are concerned that the division of responsibility in the UK for anti-corruption is fragmented and does not lend itself to a coherent overall approach. Management of corruption risk, response to fraud and anti-corruption programming are all treated as discrete areas of responsibility. No single senior individual or department has oversight of the whole anti-corruption effort. Given that so much of UK aid is provided through country systems, there are obvious linkages between these areas that DFID should be developing.
- 3.56 DFID has recently reduced the resources in the CFU. Whilst it is increasing the use of external investigators, we are concerned that DFID itself now lacks staff with the relevant skills and experience to analyse types and patterns of corruption arising and to use that information to prioritise anti-corruption programming and risk management. DFID's lack of an anti-corruption intelligence capacity forces it to be reactive to incidents of fraud brought to its attention by others. It is, therefore, difficult to conclude that DFID's anti-corruption efforts are strategic in nature. Anti-corruption intelligence should include information collected from actual fraud cases (including from law enforcement agencies) and detailed analysis of the types and levels of corruption found in different countries and sectors.
- 3.57 We note that DFID has recently produced detailed guidance for staff on corruption in the health and education sectors.<sup>24</sup> Both were in response to major corruption scandals. **DFID should produce guidance more systematically and proactively across the aid programme.**

<sup>23</sup> Fontana, Alessandra, *Making development assistance work at home: DFID's approach to clamping down on international bribery and money laundering in the UK*, May 2011, [www.cmi.no/publications/file/4072-making-development-assistance-work-at-home.pdf](http://www.cmi.no/publications/file/4072-making-development-assistance-work-at-home.pdf).

<sup>24</sup> *How To Note: Addressing Corruption in the Health Sector*, DFID, November 2010, [www.dfid.gov.uk/Documents/publications/1/How-to-Note-corruption-health.pdf](http://www.dfid.gov.uk/Documents/publications/1/How-to-Note-corruption-health.pdf); *Addressing Corruption in the Education Sector: Guidance Note*, DFID, June 2011.

# 3 Findings

## How does DFID help its partner countries fight corruption?

3.58 DFID provides a range of support which directly or indirectly helps partner countries in their fight against corruption. It achieves this in three ways: using influence to create change, supporting country institutions and using local community support to provide oversight of programmes.

### *Using influence to create change*

3.59 DFID appears to give relatively high priority to anti-corruption within its governance programmes. In countries where it provides budget support, DFID policy requires an amount equivalent to 5% of the budget support to be devoted to strengthening national accountability processes.<sup>25</sup> In both Zambia and Nigeria, DFID has a range of anti-corruption programmes and plays a leading role on the issue within the donor community. In Bangladesh and Nepal, the political environment is more difficult and DFID's anti-corruption activities are mainly in partnership with civil society. **There is scope to give anti-corruption a higher profile within the aid programme. Given DFID's position as a respected partner in this field and its significant relevant capacity and track record in achieving international policy changes, it is in a strong position to stimulate action among other donors in this area.**

### *Supporting country institutions*

3.60 This includes support for anti-corruption commissions and other law enforcement agencies; reform programmes for public financial management and public administration; programmes to professionalise audit and accountancy practice; and support to national accountability processes, including parliaments, auditors-general and civil society.<sup>26</sup>

3.61 In Zambia, DFID has been providing support to the Anti-Corruption Commission (ACC) for nearly 20 years. Its support covers legislative development, law enforcement, anti-corruption initiatives within government agencies and parliamentary oversight. The ACC's achievements, however, were described

in a recent independent evaluation as 'below expectation'.<sup>27</sup> Like many such bodies, the ACC suffers from lack of independence from the political sphere. Recognising that political support in Zambia for the fight against corruption goes through peaks and troughs, DFID's strategy is to invest in the legal and institutional framework for anti-corruption, so that the necessary capacities are in place for when a favourable political climate emerges. The Zambian budget support programme has also helped secure some key anti-corruption reforms. Like other such programmes, the results are likely to be quite long-term in nature.

3.62 Our assessment is that DFID's support for anti-corruption agencies should be improved through a sharper focus on advanced investigative capacities, including covert monitoring and surveillance. Where the political climate permits, grand corruption should be treated as a form of organised crime, for which such tactical responses are both necessary and proportionate. There may be scope for DFID to involve UK law enforcement agencies in providing support in these areas.

3.63 In Nepal and Bangladesh, providing support to the national anti-corruption bodies has proven difficult in the past due to the lack of independence and capacity of these bodies. In Bangladesh, DFID has previously provided limited logistical support to the Anti-Corruption Commission and plans to provide support through a partner organisation in future.

3.64 Other than anti-corruption commissions, there is a range of other corruption-related programming in our four case study countries. Most DFID country programmes support public financial management reforms, which reduce opportunities for corruption. They usually include support for both internal and external audit capabilities. UK support can help auditors-general both to develop their capacity and to maintain their independence. Recently, more emphasis has been given to improving the transparency of public finances, to enable national accountability institutions, parliaments and national NGOs to exercise effective oversight. **DFID should explore this approach and give it strong emphasis.**

3.65 DFID's larger sector programmes incorporate support for improved public financial management

<sup>25</sup> *Implementing DFID's strengthened approach to budget support: Technical Note*, DFID, July 2011, [www.dfid.gov.uk/Documents/Strengthened-approach-budget-support-Technical-Note.pdf](http://www.dfid.gov.uk/Documents/Strengthened-approach-budget-support-Technical-Note.pdf).

<sup>26</sup> One example of this is DFID's support to a World Bank-led programme on Public Financial Management Systems.

<sup>27</sup> *Joint Evaluation of Support to Anti-Corruption Efforts: Zambia Country Report*, NORAD and others, June 2011, page 25, [www.oecd.org/dataoecd/18/7/48912843.pdf](http://www.oecd.org/dataoecd/18/7/48912843.pdf).

## 3 Findings

and procurement. Beyond that, there is little sign of anti-corruption goals being built into the design of sectoral support. Based on the kinds of major corruption scandal seen in recent years, strengthening financial management systems alone may not be sufficient unless reinforced by detailed external audits, whistleblower procedures and active surveillance by anti-corruption agencies. **DFID should explore options for integrating anti-corruption goals into its sectoral programmes.**

3.66 DFID also provides support to parliamentary committees to hold the executive to account for its use of public funds. It supports the capacity of courts, prosecutors and police and it supports electoral commissions (to reduce electoral fraud) and the media (on investigative reporting). There is a wide range of UK support given to national NGOs to conduct anti-corruption monitoring and campaigns. For example, DFID supports Transparency International Nepal's confidential, toll-free hotline for reporting corruption. Last year, the hotline received over 1,000 calls, of which around 100 led to successful prosecution or recovery of funds.

### ***Using local community support to provide oversight of programmes***

3.67 Some of the most promising approaches to fighting corruption involve empowering local communities to challenge improper behaviour by officials. We saw some positive examples in Nepal, Zambia and Bangladesh, an example of which is given in Box 3.

#### **Box 3: DFID's support to Bangladesh fisherfolk**

DFID Bangladesh supports a Rights and Governance challenge fund which helps 12,000 fisherfolk households in Chittagong and surrounding districts. These communities regularly encounter corruption in their day-to-day lives, particularly local officials demanding facilitation payments to provide services. One community member told the team that a public official expected him to pay an additional 30,000 Taka (£250) to register his boats. Support from the DFID programme gave him more confidence in challenging public officials and asserting his rights. This did not entirely resolve the problem but at least improved his bargaining position, so that a subsequent facilitation payment was negotiated down to 10,000 Taka (£85). This demonstrates the potential of citizen empowerment but also the long-term nature of the challenge.

3.68 The spread of electronic and social media is helping to empower poor communities in developing countries to hold their governments to account and resist petty corruption. In India, the website [www.ipaidabribe.com](http://www.ipaidabribe.com) (see Box 4 on page 14) has proved to be an effective method for mobilising collective action against corruption. We encourage DFID to explore options for more use of social media in the fight against corruption.

3.69 Overall, there is a lack of evidence as to the most effective strategies for fighting corruption over the long term. Although DFID has engaged in systematic reviews and evaluations of donor programmes, we would encourage DFID to invest more in building knowledge on what works in this field, in particular through research on countries that have successfully reduced their level of corruption. It appears to us that there is an imbalance within DFID's current anti-corruption programming. DFID's approach typically involves some combination of strengthening public financial management systems, building law-enforcement capacity within anti-corruption commissions and promoting accountability through formal institutions and civil society-based processes. While these are the right objectives, public financial management reform is pursued more intensively and systematically than the other goals. Experience in countries like Zambia has shown that the kinds of grand corruption that pose the greatest threat to the delivery of development programmes cannot be addressed solely through improvements in public accounting. They need to be addressed through robust law-enforcement action to break up networks of corrupt officials and through dramatic increases in transparency, accountability and citizen engagement. These goals need to be pursued both through specific programming and by integrating them into major sector programmes.

3.70 DFID's anti-corruption programming should be strengthened through the adoption of explicit anti-corruption strategies which address the appropriate balance of measures and risk areas in each country context.

# 3 Findings

Box 4: The *I Paid A Bribe* website in India aiming to mobilise collective action against corruption<sup>28</sup>

**I PAID A BRIBE**  
uncover the market price of *corruption*

An initiative by  
**JANAAGRAHA**  
**768906 HITS**

Home   Tell Us Your Bribe Story   Read Bribe Stories   Blog   Ask Raghu   **Burn The Bribe** New   Forum   Awards

**Bribed? Didn't Bribe?  
Victimised? Angry?**

**REPORT YOUR BRIBE  
ANONYMOUSLY**

Tell us your story. Using your stories we'll advocate with the government for an improved system.

[What is I Paid A Bribe?](#)

**Bribe Analytics**

Bribe Reports 14443 Value Rs. 496,908,705

Top 5 Cities (Bribe amount in Rs lakhs)

1100	Bangalore
910	New Delhi
574	Lucknow
431	Mumbai
174	Hyderabad

[Detailed analysis of the bribes reported so far.](#)

**What did the cop say to the biker?**

**Bribe Reports**

Latest
Most Popular

From Bangalore | About Others  
5 hours | 5 Views

I had to forfit 20% of my Agriculture produce to HOPCOMS. They bill only for 80% of my supplied agri produce and took a...

---

From Bangalore | About Registration department  
6 hours | 6 Views

**Bribe Fighters**

From Bangalore | About Water Supply and Sewerage  
3 hours ago | 4 Views

I never pay bribe as I hate the same. But I have to closely follow up with higher and higher authorities. It is rather v...

---

From Mumbai | About Customs

**Expert Speak**

Wordpress.com | September 30  
John Elliott, a Delhi-based journalist looks at the incapability on part of the government to tackle corruption.

---

Times of India | September 30  
CII's western region deputy chairman, Pradeep Bhargava explores the importance of value-driven business practices.

<sup>28</sup> *I Paid A Bribe*, Janaagraha Centre for Citizenship and Democracy, 2011, [www.ipaidabribe.com](http://www.ipaidabribe.com).



# 4 Conclusions and Recommendations

In this section we set out our overall conclusions and the key recommendations associated with those conclusions.

**Overall** *Assessment: Amber-Red* 

4.1 This rating is strongly influenced by the UK Government's decision to increase rapidly the aid budget to an amount equivalent to 0.7% of Gross National Income, as well as the share going to fragile and conflict-affected states. This inevitably will expose the UK aid budget to higher levels of corruption risk. Our assessment is that DFID's current organisation of responsibilities for fraud and corruption is fragmented and that this inhibits a coherent and strategic response to this critical issue. DFID needs to give significantly greater attention to the fight against corruption to manage this increasing risk.

**Objectives** *Assessment: Green-Amber* 

4.2 We found that DFID had good awareness of the threats from fraud and corruption in the four countries that we examined. This was evident in its choice of funding channels and design of aid programmes.

4.3 DFID often plays a leading role within the donor community on anti-corruption and its efforts are well regarded by partners. In the two case study countries where DFID provides budget support, it had used the platform this provided to raise anti-corruption concerns with government.

4.4 DFID country offices promote anti-corruption by funding programmes to support law enforcement, the judiciary, public financial management and accountability, civil society organisations and the empowerment of poor communities.

4.5 Nonetheless, we take the view that there is scope for greater emphasis on anti-corruption within the UK aid programme. Although this is politically sensitive terrain, DFID must tackle the issue more assertively - particularly given the planned scaling up of assistance to fragile states. The fight against corruption is one of the underlying conditions of UK aid and should be treated as such in dialogue with governments and in programming choices.

**Recommendation 1: In any country assessed as having a high risk of corruption, DFID should develop an explicit anti-corruption strategy,**

**setting out an integrated programme of activities and dialogue processes.**

4.6 DFID's UK resources on counter-fraud and anti-corruption efforts are fragmented. We believe that a more rational allocation of responsibilities between the Anti-Corruption Team, the Counter-Fraud Unit and Internal Audit would help DFID to become more proactive. It is important that DFID adopt a co-ordinated approach that encompasses both the protection of UK aid funds from fraud and programming to support the fight against corruption in partner countries.

**Recommendation 2: DFID should review the structure and nature of its UK counter-fraud and anti-corruption resources, to develop a more co-ordinated approach to risk assessment, risk management, anti-corruption programming and fraud response.**

**Delivery** *Assessment: Amber-Red* 

4.7 In our case study countries, we observed effective and proportionate use of risk assessment processes in aid programming. Most UK aid, however, is delivered by external partners, some of whom do not have satisfactory procedures for protecting taxpayers' funds from the risk of corruption. DFID assesses the overall financial management systems of its multilateral partners through the Multilateral Aid Review. This should be complemented, however, with more rigorous assessments of in-country capacities and programme designs, together with more robust monitoring. DFID needs more clearly articulated procedures for managing the risk of corruption in specific aid types and sectors. It needs to improve its due diligence over proposed delivery partners. It needs to increase its in-house capacity to scrutinise financial reports and conduct more site visits for monitoring purposes. For larger, high-risk programmes, DFID should make more use of its rights of audit. Where DFID engages contractors to carry out the oversight role on its behalf, it needs to ensure that they are resourced appropriately.

**Recommendation 3: DFID should develop more articulated processes for managing the corruption risks associated with particular aid types and invest more resource in due diligence and on-the-ground monitoring of delivery partners.**

## 4 Conclusions and Recommendations

### Impact

Assessment: Amber-Red 

- 4.8 The impact of anti-corruption programmes is very difficult to measure. DFID does not attempt to quantify corruption-related losses within the aid programme, making it difficult to assess how effective DFID's corruption risk management has been in safeguarding UK funds. DFID has shown, however, the ability and capacity to select funding options, so as to minimise corruption risk without compromising aid effectiveness.
- 4.9 Support for national anti-corruption commissions has produced only limited results in terms of successful convictions. This may indicate a lack of investigative capacity as well as a lack of political independence. We nonetheless assess that support for law enforcement is a necessary part of a credible approach to fighting corruption, even if results are likely to be apparent only over the longer term. We encourage DFID to incorporate anti-corruption programming goals into the design of its sector support, as it has with public financial management reform.
- 4.10 Law enforcement approaches need to be complemented with a strong focus on transparency, accountability and community empowerment. We encourage DFID to scale up its support for national accountability institutions, such as auditors-general and parliamentary committees, as well as its efforts to promote transparency in government, particularly around the budget. We strongly support the involvement of beneficiary communities in overseeing aid programmes and local service delivery. This should become standard practice for local development initiatives. We believe that the spread of electronic and social media offers exciting opportunities for mobilising communities and organising collective action against corruption. We encourage DFID to explore these opportunities in full.

**Recommendation 4: While continuing to invest in the legal and institutional framework for fighting corruption, DFID should focus on supporting more robust law enforcement activity to build transparency and accountability. This should include innovative forms of beneficiary monitoring and community mobilisation.**

### Learning

Assessment: Green-Amber 

- 4.11 There are some good examples of DFID analysing in detail the nature of corruption challenges in particular sectors and using them to inform guidance for staff on managing corruption risks. We would like to see more proactive sector- and country-specific analysis of this type, identifying different kinds of corruption-related risk and their relative importance.
- 4.12 In the UK, DFID needs to increase its capacity to collect and manage intelligence on corruption. It should work towards the production of an annual strategic threat assessment to analyse knowledge about corruption gained from investigations, whistleblower reports and other sources. This should enable better assessment of the types and extent of risk to the aid budget, to inform a more focussed approach to corruption risk management.

**Recommendation 5: DFID should invest more in intelligence collation and analysis of corruption risks in particular sectors and countries, to inform a more strategic approach to fighting corruption.**

# 5 Annex

## Methodology

1. We first examined DFID's UK-based departments responsible for developing counter-fraud and anti-corruption initiatives, policy, financial oversight and response to allegations of fraud and corruption.
2. We later assessed how counter-fraud and anti-corruption strategies were delivered in practice in four countries: Bangladesh, Nepal, Nigeria and Zambia. These countries were chosen as they are all ranked in the bottom third of the Transparency International Corruption Perceptions Index. Zambia was the first country to be assessed, as DFID was able to facilitate our fieldwork at an early stage of the review exercise. In all cases, although DFID assisted in facilitating meetings with other parties at our request, we met them without the presence of DFID staff.
3. In Nigeria, due to the heightened level of security risk following the bombing of the UN country headquarters, we were mainly limited to desk-based research in the UK with only few interviews in-country by locally-based staff.
4. We met with beneficiaries of DFID-funded programmes to understand, from their perspective, how procedures worked to ensure that their benefits were not lost to corruption.
5. The risks from fraud and corruption vary depending on the sector and funding channel. We therefore reviewed a small, mixed sample of individual DFID programmes in each country according to sector and aid type.
6. We consulted with a range of donor partners (for example the European Commission, World Bank, UN Development Programme and bilateral donors). We held meetings with DFID's delivery partners, including NGOs, technical consultants and fund managers. We also met with civil society representatives (for example Transparency International, a governance foundation and an economics association), private lawyers, political analysts and journalists. DFID also facilitated opportunities to talk to government officials (for example, secretaries to the cabinet, anti-corruption commissioners, state audit institutions and provincial government officials).
7. This review focussed on development programmes rather than humanitarian aid. Humanitarian aid programmes raise substantially different issues in terms of corruption risk and will be assessed as part of a later ICAI review.

© Crown copyright 2011

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or e-mail: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This report was prepared by ICAI with the assistance of KPMG LLP, Agulhas Applied Knowledge, Center of Evaluation for Global Action (CEGA) and the Swedish Institute for Public Administration (SIPU International).

Any enquiries regarding this publication should be sent to us at [enquiries@icai.independent.gov.uk](mailto:enquiries@icai.independent.gov.uk).