

Transparency International Anti-Corruption Helpdesk Answer

Literature review on anti-corruption safeguards for economic stimulus packages

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Economic stimulus packages are being introduced across the globe at an unprecedented scale and speed to respond to the COVID-19 pandemic. These packages are also being introduced at a time when parliamentary oversight is limited due to health-related restrictions. Lessons from past emergency stimulus programmes show that under these conditions, there is a high risk that funds intended for economic support or healthcare may be stolen through corruption. Learning from these, several measures are recommended to reduce these risks both in the design and implementation phase of COVID-19 programmes.

While several recommendations have been made for COVID-19 economic stimulus programmes, it should be noted that the novelty and scale of these programmes may mean other factors are relevant that have not yet been considered in the literature and are not included here.

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Query

What are the best practices and recommendations for preventing corruption when developing and implementing economic stimulus measures? These measures are understood to include direct income transfer, special lines of credit, tax benefits and the general increase in public spending as part of expansionist fiscal policies.

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Introduction

The economic response to the COVID-19 pandemic has seen the introduction of large economic stimulus programmes. The scale of these programmes should not be underestimated. Several programmes account for 10 to 20 per cent of GDP in some countries, dwarfing previous interventions, with G7 countries spending, so far, an average of 4.4 times that of the 2008 financial crisis economic stimulus programmes (Chaudhry 2020).

These programmes have tended to cover several areas, from direct income transfer to credit, grants and tax benefits for firms, and increased public spending, particularly on healthcare. The combination of large and rapid spending, coupled with lessened oversight due to measures to prevent the spread of the pandemic and the broad

Main points

- COVID-19 is a severe and unique challenge, necessitating massive state intervention to address economic shutdowns, in a time of reduced oversight and concentration of authority in central governments.
- Implementing economic stimulus programmes in these conditions comes with multiple, serious corruption risks.
- These risks should be addressed at both the design and implementation stage of programmes through applying transparency and accountability rules and paying special attention to the measures used to disburse funds.

range of actions taken, presents a variety of corruption risks.

This paper begins by outlining the different forms COVID-19 economic stimulus programmes have taken, with a close look at the programmes implemented in Germany, Japan, South Africa and

the US – four countries that have already implemented large stimulus plans covering multiple areas of intervention.¹ It then considers the risks raised by economic stimulus programmes in general and under the specific conditions of the COVID-19 pandemic. Following this is a series of recommendations for reducing those risks, covering fundamental principles for implementing an economic stimulus programme under current conditions, short-term measures to prevent capture of the programme, and longer-term measures to identify and address corruption during its implementation.

COVID-19 economic stimulus packages

Economic stimulus programmes as a response to the COVID-19 pandemic have been large and swift in many countries. They have also varied widely and include several measures that typically have included support for business and employees, households, and specific industries and sectors (OECD 2020a, p.3). They have also included changes to monetary policy (IMF 2020) and the relaxation of fiscal debt rules to finance the measures (Gbohoui and Medas 2020).

Financial support to firms

Financial support schemes for firms – or bailouts – are designed to ensure liquidity and solvency of businesses during the pandemic. Liquidity support may be designed to help pay wages or other obligations, and solvency support may be needed to avoid the effects of bankruptcy, particularly for firms important to the economy due to their size or number of employees or in sectors related to addressing the pandemic (Balibek et al. 2020, pp.1–2; OECD 2020a, p.3).

Financial support to firms has taken the form of: revenue measures, such as tax payment deferrals or adjusting tax pre-payment requirements to take into account adjusted income; expenditure measures, such as wage subsidies to retain workers, and transfers of funds to companies for liquidity support; government guarantees for loans taken out by firms on the private market, which in some cases has been translated into grants when linked to worker retention; and subsided state loans, direct grants and equity injections, where governments take partial or total ownership of firms. To effectuate these measures, in several cases, special purpose vehicles – for example, public national or regional development banks – have been used to channel support to firms (Balibek et al. 2020, pp.2–3).

Direct income transfer

Direct income – or cash – transfers are payments made directly to households. This can include universal or near universal payments to all citizens or residents, or targeted schemes directed at certain portions of the populace (Prady 2020; Una et al. 2020). These targeted schemes, which can include cash for persons in the informal sector and in poorer areas of the country, have been shown to be particularly effective in reducing vulnerability during emergency situations (Una et al. 2020, p.1).

COVID-19 direct income transfer payments are expected to be on an unprecedented scale (Una et al. 2020, p.1). Several examples of this have already been rolled out, including a universal payment scheme for all citizens in the United States and targeted schemes in several European countries (OECD 2020a).

In countries with well-developed universal social assistance schemes, such as Australia and Belgium, changes due to COVID-19 have tended

¹ Germany's stimulus is the largest in Europe, Japan's the largest as a percentage of GDP, the US programme is the largest in the world, South Africa's is the largest in Africa.

to focus on a relaxation of rules around access to or extending eligibility periods of existing systems of socialised income or in making one-off payments through these systems. Other countries have focused on increased funding for existing programmes targeting vulnerable citizens. Indonesia, for example, increased assistance by 25 per cent for the 10 million recipients of the Family Hope Program. Other countries have focused on new schemes, such as Bolivia's Bono Familia programme that provides 500 Bolivianos (US\$72.6) for each child that would otherwise attend elementary school, or Egypt's plan to pay EGP 500 (US\$31) over three months for informal workers (Shang et al. 2020, pp.5–7).

Fiscal debt

To finance these measures, several countries have relaxed their rules around fiscal debt through activating escape clauses, which allow them to borrow more money on the financial markets than would normally be allowed under domestic laws. Many of these clauses were drafted in the wake of the financial crisis and typically require a trigger by the executive and legislature. The Congress of Brazil, for example, was asked to declare a “state of calamity” to avoid budget balance rules, while the European Union activated its general escape clause to allow member states to breach fiscal targets (Gbohoui and Medas 2020, pp.2–3).

Monetary policy

Changes to monetary policy also play a supportive role to economic stimulus packages and can help create the conditions for recovery. This includes measures such as easing monetary conditions to benefit from more favourable exchange rates and lowering policy interest rates (IMF 2020, pp.2–3). The US Federal Reserve, for example, started a quantitative easing programme that is unprecedented in scope, involving both the unlimited purchase of government bonds and, for the first time, buying corporate bonds, in line with

the European and Japanese central banks' policies following the 2008 financial crisis (Calhoun 2020).

Economic stimulus programmes introduced as a response to COVID-19

Many countries have implemented some, or all, of these policy options in economic stimulus programmes to deal with the response to the pandemic. The scope of these programmes has depended on the scale of the pandemic within the country and has often been implemented in phases (OECD 2020a, p.3). This section looks at four such programmes, from Germany, Japan, South Africa and the US.

Germany

In the wake of the pandemic, Germany approved a supplementary budget stimulus programme and suspended its rules on government debt via a supermajority vote in parliament to inject more money into the economy (Gbohoui and Medas 2020, p.3). This stimulus programme, the largest in Europe and one of the largest in the world (Amaro 2020), includes several measures:

- a fiscal impulse of €456 billion, which includes financial support to firms
- €100 billion to recapitalise and acquire stakes in private companies
- €50 billion in grants to freelancers and small businesses
- €25 billion in restart funds for businesses with revenue declines of 60 per cent compared to 2019
- €2 billion in venture capital for start-ups
- €10 billion to subside wages through shortened hours in order for companies to retain workers

This latter scheme (Kurzarbeit) is paid directly to any firm in any sector fulfilling certain conditions around loss of revenue and does not have to be

directed to all employees, and the loss of revenue can be for a specific department of the firm. Unlike other countries that are part-covering all workers, including Denmark, Ireland and Bangladesh, Germany has not set a ceiling on the wage subsidy. This approach also marks a difference from the approach of Austria and Singapore, which only provide a subsidy for workers with salaries below a certain level (Asen 2020; Bruegel 2020; Federal Ministry of Labour and Social Affairs 2020; Shang et al. 2020, p.4).

The German stimulus further includes €7.7 billion in direct payments through expanded unemployment benefits and one-off payments to families, a €20 billion cut to the VAT rate and a number of other measures to stimulate the economy through new investments (Bruegel 2020).

The programme also includes a further €251 billion for deferral of tax payments by companies and to support job-share schemes. Finally, but financially significantly, €932.5 billion is earmarked for both small and large firms for assistance in maintaining their liquidity. It additionally includes €55 billion for measures to address the pandemic and €5 billion for additional healthcare needs relating to the pandemic (Bruegel 2020).

As part of this package, the government has provided two large transportation bailouts: providing €9 billion for the airline Lufthansa in exchange with a 20 per cent stake in the company (Deutsche Welle 2020) and injecting €4.5 billion for state-owned Deutsche Bahn (Euractiv 2020).

Japan

Three rounds of economic stimulus programme have been introduced in Japan, to a total of US\$2.18 trillion (Riyaz ul Khaliq 2020), the largest stimulus programme as a percentage of GDP globally (McCarthy 2020).

Similar to the German stimulus, the Japanese programme covers several areas relating to

liquidity, support to private firms and measures to avoid layoffs during the pandemic.

Employment retention measures include a subsidy provided to firms to put employees on paid leave, rather than fire them. The size of the subsidy depends on the size of firm – 80 per cent of leave allowance is covered by the state for small and medium-sized enterprises (SMEs) and 66 per cent for larger companies – and is capped at an upper limit of JPY 15,000 (US\$140) per day per employee as of May 2020 (KPMG 2020; Omagari et al. 2020).

For firms, it includes a deferral of tax and social security obligations and JPY 45 trillion (US\$419 billion) in interest-free loans to SMEs suffering from declining incomes due to the pandemic. It also includes JPY 223 billion (US\$2.1 billion) to support freelancers who have to take care of children due to school closures (OECD 2020a, p.102). Large firms are able to take low interest loans from the Development Bank of Japan with no limit on the size of the loan. Loans were estimated to be in the region of JYP 66 billion by the end of April 2020, with transportation companies and car manufacturers taking part (KPMG 2020).

The Japanese programme further includes: a direct cash transfer element, with more than JPY 6 trillion (US\$58 billion) earmarked for financial support; JPY 300,000 for households in need (later amended to US\$930 for every household); and a payment of an extra JPY 10,000 for each child the family has (OECD 2020a, p.102; Pesek 2020).

To support the stimulus programme, Japan has taken several monetary policy measures. This includes coordinating foreign swap lines to decrease the cost of purchases in US dollars, setting up a facility that offers loans secured against private sector debt, and increasing its upper limit for purchasing commercial and corporate bonds by JYP 2 trillion (KPMG 2020).

South Africa

South Africa's economic stimulus programme amounts to US\$25 billion, or roughly 10 per cent of GDP (Smith 2020). It again covers several areas that support firms, employees, and individuals and families.

Public sector loans and cash injections for firms are provided through a R3 billion (US\$175 million) scheme for vulnerable companies. This is complemented by R200 billion (US\$11.7 billion) loan guarantee programme through private and public banks. Support for SMEs is covered through a R2 billion (US\$117 million) loan, grant and debt restructuring scheme, which includes informal businesses (OECD 2020b).

Tax breaks are also included in the scheme with: skill development levy contributions suspended for four months; the fast tracking of VAT refunds for small businesses; postponing measures to broaden the corporate income tax base; an increase in tax deferrals; and a tax subsidy of R500 per month for private sector employees earning below a certain income (OECD 2020b).

Employee retention is supported through a R40 billion (US\$2.35 billion) fund for income support for employers unable to pay their employees' wages (OECD 2020b).

R20 billion (US\$1.1 billion) is being directed at healthcare efforts, with an additional R20 billion given to municipalities for food and water, sanitation, and food and accommodation for homeless people (OECD 2020b).

Several measures are aimed at individuals, including direct cash transfers. A six-month coronavirus grant scheme includes a grant of R300, rising to R500 a month for child benefit recipients, with further grant beneficiaries receiving an additional R250 a month. It also includes a payment of R350 a month for unemployed people not covered by other schemes. This is

complemented by a food voucher scheme, which was initiated by the disbursement of 250,000 food parcels by government agencies and civil society (OECD 2020b).

In terms of monetary policy, the South African Reserve Bank has cut its main repo rate twice, to 4.25 per cent and has taken several measures to increase liquidity. The government has also approached the World Bank, IMF, BRICS New Development Bank and African Development Bank for support for their stimulus plan (OECD 2020b; Smith 2020).

USA

The US has introduced a US\$2.2 trillion economic stimulus programme, through supplementary budget laws passed by the congress and approved by the president, currently the largest in the world (OECD 2020a, p.198).

This programme was passed in three packages. The first, amounting to US\$8.3 billion, focused on healthcare and included funding for vaccine development, grants for healthcare agencies and for medical supplies. The second, amounting to US\$3.5 billion, included measures on free testing for COVID-19, on tax credits for paid sick leave, and on expanding unemployment and medical insurance and food security programmes (OECD 2020a, p.199).

The third – and largest – package covers areas markedly similar to those of other countries and covers the majority of the US\$2.2 trillion.

Support for firms is provided in the form of US\$959 billion of grants, loans, loan guarantees and tax cuts: US\$377 for small businesses, US\$582 for large businesses. Tax cuts to businesses amount to US\$280 billion, which focus on credits for retention of employees and deferring payments for payroll taxes (OECD 2020a, p.199).

Households are receiving direct cash transfers of US\$1,200 per person, with an additional US\$500 for each qualifying child, with payments phased out for high earners, up to a total of US\$290 billion. US\$260 billion is allocated for the extension of unemployment benefits, extending the period by an additional 13 weeks, and US\$42 billion is allocated for food and housing support (OECD 2020a, p.199).

Additional funding is provided to the education and health sectors, amounting to US\$32 billion and US\$180 billion, respectively. A further US\$150 billion is provided in support state and local efforts to respond to the COVID-19 pandemic (OECD 2020a, p.199).

As outlined above, to support the economic stimulus programme, the US Federal Reserve has introduced a large quantitative easing programme covering the purchase of government and corporate bonds (Calhoun 2020).

Corruption risks related to emergency economic stimulus programmes

With such large economic stimulus programmes implemented at speed, corruption risks are likely to be high and to occur across several areas. Several of these potential risks have been identified in the literature based on assessments of the 2008 financial crisis and 2014-2016 West Africa Ebola crisis stimulus programmes. Additional risks have been identified based on the particular circumstances of COVID-19. This section first looks at the corruption risks possible in emergency economic stimulus programmes in general, before looking specifically at the risks that the COVID-19 pandemic additionally brings.

Removal of safeguards and risk of embezzlement

The International Monetary Fund highlights the corruption risks of removing safeguards to respond more quickly to emergencies through stimulus programmes.

In the response to the Ebola outbreak in West Africa between 2014 and 2016, they identified several practices that increased corruption risk:

- the concentration of emergency resources in extra-budgetary mechanisms, which had poor oversight
- the disbursal of resources across several, “makeshift crisis response agencies” making accountability challenging
- devolution of procurement from central procurement offices to local offices and officials and reduced suppliers, leading to increased non-competitive bids due to lack of bargaining power
- weak monitoring (Khasiani et al. 2020).

Additionally, these funds, the result of both donor countries and in- and out-of-country donations were for the most part not subject to external audits (Transparency International 2015).

Reports looking into the distribution of the West Africa Ebola programmes bore out these concerns over the lack of safeguards. In one case – Sierra Leone – where an audit was carried out, one-third of the funds allocated in six months of 2014 could not be accounted for, and the anti-corruption commission required 40 officials to report to its offices with proof of disbursement of funds. The audit report also highlighted “inadequate controls” (O’Carroll 2015), with no proof that hazard payment transfers to hospitals were going to frontline health workers and, in some cases, procurement laws being completely disregarded (O’Carroll 2015).

Similarly, a Red Cross investigation into the disbursement of its 2014-2016 West Africa Ebola funds found that US\$2.7 million had been lost through fraud and ghost workers in Liberia, US\$2 million in Sierra Leone through collusion between Red Cross staff and bank workers, and US\$1 million through customs fraud in Guinea (BBC News 2017).

Similar reduced safeguards resulting in the risk of and proven embezzlement have taken place elsewhere during emergency stimulus programmes.

In Indonesia, the 1998 financial crisis liquidity support funds provided by Bank Indonesia were found to have been largely embezzled, with the former Indonesian Bank Restructuring Agency chairperson being sentenced to 12 years in prison for his role. Estimated losses were in the region of Rp 4.58 trillion (US\$325 million) (Gorbiano and Akhlas 2020).

In the Democratic Republic of the Congo, the former health minister and his advisor were convicted in 2020 for embezzling US\$400,000 of Ebola response funds through direct diversion and through fraudulent production of receipts for equipment already purchased (Bujakera 2020).

In the US, corruption and misuse of funds earmarked for the response to hurricanes Katrina and Maria have resulted in over 1,000 prosecutions and the removal of public officials (Wendling et al. 2020, p.3). Concerns have also been raised during the current programme, with the US Treasury Secretary, refusing to release the list of recipients of the US\$500 billion the Paycheck Protection Program aimed at supporting workers (Public Citizen 2020).

A final risk is when officials in oversight positions are not in place at the time of the stimulus package. In the US, for example, concern has been raised that four of the eight inspectors-general sitting on the Pandemic Response

Accountability Committee are not in place, due to pending confirmation hearings (Citizens for Responsibility and Ethics in Washington 2020).

Political connections & bailouts

The literature suggests that firms with political connections are more likely to profit from funding and bailouts during emergency stimulus programmes.

Research into 450 politically connected firms over the period of 1997 to 2002 across 35 countries has found that businesses with stronger political connections are more likely to secure financial bailouts than those without. In this study 11.3 per cent of politically connected firms received financial support from their governments, compared to 4.4 per cent of non-connected firms.

This research also found that this link between political connection and bailout was more likely to be the case when the government received assistance from the IMF or World Bank and supports in part then other research suggesting connections between lending from international financial institutions and the funding of companies close to high-ranking public officials (Faccio et al. 2005, pp.27–28).

Insider trading & information

Insider trading and sharing of information by political insiders subject to advance briefings on crisis development and forthcoming economic measures are a further risk identified in the literature.

A 2020 article forthcoming by researchers from the University of Pennsylvania's Wharton School, Stanford University, the University of Cambridge and IESE Business School highlights the potential insider trading that took place before the US Congress approved the US\$700 billion Troubled Asset Relief Program in October 2008. They identified abnormal trading by politically connected

persons in the 30 days before stimulus measures under the programme that either boosted or hit share prices (Prentice and Delevigne 2020).

Concerns over insider trading and blurrier issues where non-public information may have been used for financial gain have also already been raised as part of the COVID-19 stimulus plans. In the US, two federal senators faced criticism for selling stock before the US stock market slumped, but after a private briefing on the coronavirus situation early in 2020. There has been some suspicion over dollar trading shortly before the US Federal Reserve announced a new funding facility (Prentice and Delevigne 2020).

Risks relating to income transfer programmes

In direct income transfer programmes, where there are potentially millions of beneficiaries, the literature identifies a range of additional corruption risks. This includes:

- a lack of comprehensive data on potential beneficiaries, especially in the informal sector
- weak financial management and procurement systems for direct income transfer

This may result in programmes being designed with overly tight criteria that exclude some eligible beneficiaries or loose criteria that risks ineligibility and fraud. Further, as the pandemic continues, there is a likelihood that eligibility will change quickly as people lose their livelihoods, with it being unclear how implementing institutions will be able to respond (Una et al. 2020, p.2).

Brazil's Bolsa Familia programme, for example, though widely praised as a successful model of direct income transfer, initially faced concerns that controls were not strong enough, leading to suggestions of wrongful inclusion in the programme and fraud (Ćirković 2019).

The Nigerian Cash Transfer Programme, distributing returned money stolen by former President Abacha from Switzerland through direct cash transfers has also faced concerns over controls. In particular, there have been allegations of ineligible recipients receiving funds, as well as connivance between local officials on the selection process for persons eligible for direct cash transfers (Fatooyinbo 2019).

Risks relating to development bank liquidity programmes

Specific risks also arise from liquidity programmes for firms run by state-owned national or regional development banks, which have been used in some instances to distribute funds under economic stimulus programmes. These development banks often use more complex financial structures to manage and distribute funds than finance ministries and other authorities.

During the 2008 financial crisis, several countries changed the mandate of their development banks to enable them to provide additional liquidity to firms as access to private credit became limited. This included: increasing their capital to rollover or their credit ceilings; setting up new credit facilities; and establishing special guarantee programmes.

This increase in mandate put high degrees of pressure on their ability to assess risk, monitor and institute internal governance over credit lines and should be paid attention to in the current crisis (Medas and Ture 2020, pp.2–3).

COVID-19 specific corruption risks for economic stimulus programmes

In addition to the general risks outlined above, the nature of COVID-19, its health risks and the speed with which stimulus programmes were introduced

raises several further risks specific to the pandemic.

Limitations to democratic oversight

Particular concerns have been raised about the movement away from parliamentary oversight in several countries due to social distancing rules and in response to the urgency of the response.

While many countries have instituted social distancing rules to allow parliaments to continue functioning, in several situations this has meant that oversight of economic stimulus programmes has been reduced from the usual safeguards (Ridard and Fourmont 2020).

The German parliament (Bundestag), for example, has continued to operate during the pandemic, with rule changes to allow more physical distancing, including a reduced quorum from 50 per cent to 25 per cent and the introduction of electronic voting (Gesley 2020). Concerns have been raised though that it, like Italy, has not set up a committee to specifically oversee the government response to the crisis, potentially overwhelming existing committees. Other countries, such as Italy and Spain, have allowed the central government to rule by decree under specific conditions for periods of time, restricting to an extent parliamentary oversight (Ridard and Fourmont 2020).

In further cases, there have been concerns that pandemic-related rules impede oversight. In the UK, for example, parliament was suspended and there was minimal meeting of committees during the first weeks of the crisis, despite a request from the speaker to proceed with more activities (Ridard and Fourmont 2020). While the British parliament switched to distance debating and votes upon resumption, this was ended in June, leading to concern that parliamentarians would face health risks due to physical presence requirements (Tidey 2020).

Social distancing and physical absence from governmental offices has also been identified as a further specific risk in the current crisis, leaving staff at key financial and oversight institutions less able to monitor public spending due to the limitations placed on their ability to technically do the same work or the same volume of work from home (Khasiani et al. 2020, p.2).

Power creep

A second concern has been raised regarding central governments asserting powers to deal with the pandemic that have typically been reserved for regional or local governments and thereby reducing oversight safeguards.

In Italy, for example, the central government has expanded its mandate into health rules that were previously the responsibility of the regions. Similarly, in Spain, the central government has relieved the autonomous regions of some of their competencies, centralising the response away from regional parliaments' scrutiny. In these cases, there is a risk that efficiency undermines the role of regional parliaments.

In others, such as Germany, where there has been no emergency decree, there is still concern that there has been a power creep on behalf of the Ministry of Health over competencies usually the prerogative of the federal states, which may have longer-term consequences on oversight (Ridard and Fourmont 2020).

Risks of exploitation of the crisis to remove safeguards

The urgency of the COVID-19 pandemic has also led to concerns of parliamentary power being transferred consciously in favour of the executive (Ridard and Fourmont 2020) and to situations where other safeguards are rolled back.

In Hungary, for example, a state of emergency was declared at the start of the outbreak that did

not have a time limitation. This state of emergency, which limited parliamentary oversight, was strongly criticised by European institutions for its potential to erode democracy. The government has since announced it will end the state of emergency on the 20 June (Dunai 2020; European Parliament 2020; Steingrüber 2020).

In Brazil, concerns have been raised over the partial suspension of the freedom of information (FOI) act announced by the presidency in March 2020. This suspension removed time limits for responses and barred appeals to FOI decisions. The government also removed all data on COVID-19 cases in early June from the Ministry of Health's database. Both efforts to limit transparency were reversed by the supreme court (BBC News 2020; Committee to Protect Journalists 2020; McCaffrey 2020; Transparéncia Internacional Brasil 2020).

In the case of direct income transfer, there are concerns that stimulus funds could be used to secure votes before elections. Evidence already suggests that politicians tend to increase public spending in the years leading up to an election if they are seeking re-election (Aidt et al. 2015; Arifin and Purnomowati, n.d., p.461). Regarding EU Structural Funds, for example, there have also been concerns that, in some cases, they may be directed to regions where government officials want to shore up votes (Dellmuth and Schraff 2017). With the increase in spending under the pandemic response, there is a risk that these programmes are directed in ways that shore up support for decision-making elected officials ahead of elections. This concern has already been partly raised with the US direct income transfer programme, with risks being noted that the inclusion of President Trump's name on stimulus cheques could be a way to secure support in advance of the upcoming election (Oliveros et al. 2020).

Exploitation of loopholes

Due to the speed with which COVID-19 economic stimulus programmes have been established, two final concerns specific to the pandemic response have been identified: the capture of funds by unintended beneficiaries and the removal of funds offshore.

Concerns have been raised over COVID-19 bailout programmes not being sufficiently well defined to target companies needing financial help. In the US, in particular, there have been allegations that companies not in need of immediate financial aid or who have recently provided large bonuses to directors have been able to access funding from the stimulus packages (Holden and Strauss 2020; K. Burton and J. Fineman 2020). Similar concerns over bonuses in the UK led the government to ban recipients borrowing over GBP50 million (US\$62 million) under its scheme from paying bonuses, issuing dividends or increasing salaries of senior managers without approval (Pickard and Thomas 2020).

There are worries that, as treatments and vaccines are sought at speed, pharmaceutical companies may exploit the provision of public funds and other offers, such as exclusivity provisions, to unduly enrich themselves (Steingrüber 2020).

Further concerns have been raised that in some countries significant funds are being provided to companies with complex structures based in offshore tax heavens, limiting the ability of funding governments and the public to provide oversight of those companies' financial situation and how funds are being spent (Express & Star 2020; Turner 2020).

Ensuring economic stimulus programmes contribute to anti-corruption efforts

The literature identifies several methods for addressing the challenges outlined above and ensuring that economic stimulus programmes contribute to anti-corruption efforts. These are outlined in three parts:

The first of these are underlying principles that should be considered when drafting and implementing stimulus programmes and are designed to address democratic oversight risks and risks of exploitation of the crisis to remove safeguards. The second are the procedural safeguards that should be introduced when designing economic stimulus programmes to build integrity into decision making around disbursal of funds and beneficiary selection. The third set are the longer-term accountability measures that should also be implemented as ex post anti-corruption checks on disbursed funds. The latter two sections include recommendations to prevent the risks of removal of safeguards, embezzlement, the use of political connections to secure bailouts, and insider trading and information, as well as the specific risks for direct income transfer programmes and those related to development banks, and to remedy corruption not prevented by those measures.

Underlying principles for economic stimulus programmes

Three principles can be identified in the literature as important underlying considerations for COVID-19 programmes:

- ensuring macro-level transparency and accountability at a time when parliamentary oversight is limited

- making sure responses are inclusive and effective, also with a view to long-term anti-corruption reforms
- paying special attention to elections during this period.

Transparency and accountability

With public oversight particularly challenging due to the measures implemented to prevent the spread of COVID-19 and the desire for efficiency in responding to developing information, it is important that emergency stimulus programmes are still properly scrutinised by legislatures, meaning that they are presented, debated and legally authorised. It may also be worth considering establishing a special parliamentary committee for oversight of emergency stimulus funds to avoid over-burdening standing finance or budget committees (Khasiani et al. 2020, p.8; Ventura 2020; Wendling et al. 2020, pp.2, 7).

Further, the literature highlights that it is important that:

- crisis-related funding is clearly identified and specified
- key stakeholders are engaged in spending programmes
- spending, including donor funding, is channelled through the regular budget
- citizens are informed of measures, how to access them and the rationale for their implementation
- there are regular reports on the programme
- parliamentary and civil society oversight is maintained (Khasiani et al. 2020, p.8; Wendling et al. 2020, pp.3–7).

In Finland, for example, an itemised budget was presented to parliament alongside the impact of the additional spending on borrowing and debt (Khasiani et al. 2020, p.8; Wendling et al. 2020, pp.3–7).

If donor funding is implemented as part of an economic stimulus programme, donors should refer to [Anti-corruption strategies for development agencies during the COVID-19 pandemic](#).

While broader societal consultations with trade unions, employers' associations and civil society on economic stimulus programmes are more challenging at the moment, these should continue in online formats. This will require management to avoid delays and maintain transparency, [equal access and lobbying rules](#) to avoid co-option by groups with vested interests (Wendling et al. 2020).

Where funding through the regular budget is not possible and an extra-budgetary stimulus programme is needed, it should be set up as a single fund with oversight by the finance ministry, under the financial controls applied by the finance ministry and subject to all internal and external regular controls over public finance. If this form is used, there should additionally be a granular reporting requirement for extra-budgetary funds in government financial statements (Khasiani et al. 2020, pp.5–6)

In addition, measures that are not directly budgetary in nature, such as state-backed loan guarantees for firms, should be publicly disclosed, including information on the nature, purpose, duration, total government exposure to the debt and possibilities of reimbursement and recovery (Balibek et al. 2020, p.4).

Inclusivity and effective use of funds

Funds provided under economic stimulus funds should also be designed to be both inclusive and effective. This means that private firms receiving funds should meet high standards of integrity, that the public is kept informed and fully supports the programme, that the funds are used to support improvement to the environment, tax and competition, and that bailout money is used to support employment and labour rights protections (Tax Justice Network 2020; UNODC 2020).

Ensuring responses do not affect elections

The COVID-19 pandemic has affected elections globally, with more than 50 postponed since March 2020. When elections have gone ahead, there have been claims of favouring incumbents, low turnouts and health risks. When they have been postponed, there have been worries around the erosion of democracy. Governments should ensure that funds are provided to strengthen election infrastructure and possibly move to electronic or postal forms of voting when required by the situation (Alihodzic and Bicu 2020; Transparency International 2020).

Governments should also ensure that direct income transfers do not and are not designed to influence elections. This should include: the shoring up of election management bodies; ensuring that election laws prevent state resources from being used for election campaigns and prohibit vote buying; ensuring that there is a robust complaints mechanism for addressing any alleged violations; and that appropriate sanctions are in place for anyone breaching electoral laws. Due to the particular risks around stimulus programmes, budget transparency should be particularly stringent during election years, and checks should be made for direct income transfer schemes targeting potential voting blocs (Arifin and Purnomowati, n.d., p.467; Bosso et al. 2020).

Immediate procedural safeguards for economic stimulus programmes

Several procedural measures have been identified in the literature that should be included in the design of any COVID-19 economic stimulus programme to reduce the risk of funds being diverted from their intended process and lost through corruption. Additionally, several specific measures relating to the form of programme have also been identified.

Strengthening safeguards and preventing embezzlement

If governments activate emergency procurement rules as part of economic stimulus programmes that allow regular rules to be suspended, guidelines should be drawn up for their coherent implementation across implementing bodies. They could also consider centralising procurement under the procurement regulator or publishing suggested retail prices for key equipment to reduce the possibility of price speculation by suppliers. Further, the IMF recommends that all emergency procurement should be published with granular information on issues such as deviation from usual procurement rules, reasons for non-competitive bids, dates, prices and information on contractors, including beneficial ownership information (Khasiani et al. 2020, p.4).

All processes for approval and reporting should be transparent (Wendling et al. 2020, p.4), as should all contracts and disbursements of funds (Shah and Amico 2020).

Further, controls should be strengthened over payment approval and invoice transparency in this situation, including, for example, employing experts within payment approval agencies to assess complex invoices and publishing invoices for large COVID-19 procurements on government websites (Khasiani et al. 2020, p.6).

Prevention of conflict of interest, special interest capture and insider trading

Clear, objective and transparent criteria should be established for the selection of beneficiaries under programmes (UNODC 2020; Wendling et al. 2020, p.4).

A prohibition should be in place to prevent members of the legislature and executive and their families from receiving funding under economic stimulus programmes, unless necessary for their security. Members of the legislature should be

required to disclose substantial business relationships they or their families have to foreign companies and should consider putting stocks into a blind trust for the duration of the programme. Those appointed by the executive branch should disclose their interest in any pending rule or contract as a result of a previous position and recuse themselves for work or actions related to it. Further, particular attention should be given to possible capture by special interests with ties to policymakers to ensure that they do not exploit the pandemic for their own purposes (Transparency International 2020),

Beneficial ownership

To better determine who is ultimately gaining from the programme, to address conflicts of interest and to prevent corruption and misuse of funds, all companies, contractors and sub-contractors benefiting from the economic stimulus should be required to publicly disclose their beneficial ownership information, meaning real and legal persons with a substantive interest in the company (Bou Mansour 2020; Gaita 2020; Shah and Amico 2020; Transparency International 2020; Turner 2020).

Transparency and accountability of those receiving funds

Increased transparency and accountability of those firms receiving funds is also strongly recommended. This includes ensuring that companies receiving bailouts are required to declare profits in country and not use secrecy jurisdictions and shell companies to artificially decrease their profits (Gaita 2020; Transparency International 2020). The Tax Justice Network suggests that, if one or more subsidiaries are based in one of the top 10 jurisdictions of the Financial Secrecy or Corporate Tax Haven Indexes, full [country-by-country reporting](#) should be published before receiving funds (Bou Mansour 2020).

Denmark, Poland and Austria have all committed to this as part of their stimulus programmes and may be interesting examples to consider. It should be noted that some criticism has been levied at these exclusions though, with claims that their measures are not comprehensive enough, particularly with regards to companies registered in EU tax havens (Bostock 2020; Tax Justice Network 2020).

Secondly, companies involved in previous tax avoidance scandals and cases, such as Lux Leaks and Cum-ex, or companies who have in the past received state aid illegally should be excluded from participation in economic stimulus programmes (Bou Mansour 2020; Gaita 2020).

Thirdly, requiring full tax transparency and [country-by-country reporting](#) from beneficiaries, as well as disclosing their full organisational structures, including all subsidiaries, joint ventures and other holdings with the extent of ownership in each (Bou Mansour 2020; Gaita 2020; Transparency International 2020).

Finally, requiring employee protection and no shareholder extraction until any bailout loan has been fully repaid (Bou Mansour 2020).

Considerations for direct income transfer

If direct income transfers are included as part of stimulus programmes, additional measures are also recommended.

At the set-up stage, records of beneficiaries should be established; these should be securely shared with other government departments to cross-check records and should be checked for duplicates. When possible, governments should establish full enrolment processes that include know-your-client requirements. Clear mechanisms to authenticate bank accounts or other payments to beneficiaries should be put in place (Una et al. 2020, pp.3–4)

For payments, ideally bank transfers should be used to track payments to beneficiaries. When this is not possible, alternative measures, such as post office accounts and money transfer services should be explored. When cash payments are the only option, consideration should be given to distribution via regional treasury offices, other government offices, mobile financial institutions and NGOs (Una et al. 2020, pp.5–6).

Considerations for development bank liquidity programmes

If governments choose to disburse funds through development banks, they should publicly set out a clear rationale for doing so alongside potential risks and costs and central approval needed.

If governance at these banks are weaker, mechanisms for scrutiny and accountability should be established to check against policy objectives, conflicts of interest and transparency. Corporate governance principles on risk and internal control should also be adopted, where needed, to ensure banks remain on track and minimise losses (Medas and Ture 2020, p.3)

Health sector specific considerations

Healthcare, a large component of COVID-19 stimulus funds, is a particularly vulnerable sector for potential corruption and misuse of funds, with specific procurement risks relating to defective equipment and theft of supplies. For the disbursement of funds relating to healthcare, procurement measures should therefore be particularly strengthened and monitored to reduce corruption risks (Wendling et al. 2020, p.3).

Further, if bonus schemes are provided to health professionals, oversight should be in place to ensure it is not diverted to professionals who do not work in eligible positions (Wendling et al. 2020, p.4).

Longer-term measures

Several measures have been identified in the literature that are important longer-term anti-corruption controls over the implementation and disbursement of COVID-19 economic stimulus programmes.

Reporting on disbursement and auditing funds

Thorough and stringent recordkeeping and reporting should be introduced over disbursed funds and other measures taken as part of the economic stimulus programme (Shah and Amico 2020; UNODC 2020).

Reporting could also include a dedicated space on government websites detailing policy measures, spending and, potentially, where in the country money is being spent. Both France and the US instituted such portals during the 2008 financial crisis (Wendling et al. 2020, p.7).

External audits should be undertaken more frequently on emergency programmes and at the height of spending, with full information provided to auditors. Audits should also be strategically used to ensure that critical areas of the response are not subject to corruption, such as healthcare, public procurement and social security expenditures. During the Ebola crisis in Liberia, for example, auditing of emergency funds was increased from annual to quarterly, and the International Committee of the Red Cross has already employed a full-time auditor for its COVID-19 response funds (Khasiani et al. 2020, p.7; Wendling et al. 2020, p.4).

Further, in situations where parliaments are unable to regularly scrutinise audits, or unable to do so due to the COVID-19 pandemic, internal and external audits of programmes should be subject to scrutiny by a joint committee of government and non-governmental experts and reports should be published on government websites. Additionally,

civil society should be involved and provide reports of how money has actually been spent (Khasiani et al. 2020, p.7; Wendling et al. 2020, p.8).

Reporting and whistleblower protection

Stimulus packages should also include strong reporting and whistleblower protection clauses, enabling people to report corruption and fraud in the disbursement of the programmes without fear of prosecution. Rewards for whistleblowing on corruption could also be considered (Shah and Amico 2020; Transparency International 2020).

Clawback clauses

Disbursements and contracts made under the economic stimulus packages should include clawback clauses, enabling the government to recover funds in cases of corruption or fraud (Shah and Amico 2020).

Using technology to enhance efficiency, transparency and accountability

Where possible, technology should be used to enhance transparency, efficiency and accountability in the implementation of economic stimulus programmes. These programmes should also be opportunities for governments to enhance their digital infrastructure and put in place stronger measures to protect critical data (UNODC 2020; Ventura 2020).

Considerations for direct income transfer

Due to the specific nature of direct income transfers and the likelihood of challenges in ensuring *ex ante* corruption controls completely addressing corruption across potentially tens to hundreds of millions of beneficiaries, more robust *ex post* controls should be introduced to compensate for this.

This may mean ensuring a stronger role for the supreme audit institution, legislature and civil society, and could include:

- the involvement of control and audit institutions in the design of programmes
- the creation of a new inspector-general for the scheme
- targeted audits after the first payment cycle
- regular and timely reports on disbursement and utilisation, where possible in real time, otherwise weekly, bi-weekly or monthly
- strengthening digital control procedures when these already exist (Una et al. 2020, pp.7–8).

Short-term measures include rules to ensure that, at the outset, support is not given inappropriately and includes measures such as strengthening rules on conflict of interest, beneficial ownership and ensuring that those receiving funds are accountable for them. Longer-term measures are designed to detect corruption that occurs after disbursement and to recover stolen funds, and includes measures on audits, protection of whistleblowers and clawback clauses.

Preparing for future crises

Governments should take the opportunity to learn from this crisis and, as conditions allow, establish legislative frameworks for future crises that prioritise anti-corruption controls, transparency and accountability in future stimulus programmes (UNODC 2020).

Conclusions

COVID-19 represents a unique challenge to integrity systems. Not only have economic systems been shut down in many countries for months, necessitating massive state intervention in the form of stimulus programmes to avoid the collapse of companies and large-scale unemployment but the measures needed to prevent the spread of the pandemic have also curtailed the ability of legislatures to provide oversight and have seen the consolidation of power in national governments.

These factors present multiple corruption risks for the stimulus programmes, from the embezzlement of funds to the exploitation of loopholes, interest capture and insider trading. There is also the possibility that state agencies disbursing these funds will be overwhelmed or only able to provide limited oversight.

Introducing anti-corruption measures on the short and long term is therefore extremely important.

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