CORRUPTION MITIGATION MEASURES IN HIGH RISK ENVIRONMENTS

QUERY

What mitigation measures should delegations (and the EU at large) consider when implementing projects in an environment with systemic corruption?

CONTENT

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CAVEATS

This query was handled as an urgent request and provides initial information on mitigation measures that can be considered in highly corrupt environments.

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SUMMARY

In general, bilateral aid risks being lost to corruption particularly when it flows to countries with endemic corruption. Donors are therefore concerned about identifying and mitigating corruption risks at the country, sector and project levels. This includes putting in place effective mechanisms to ensure transparency, accountability and integrity of their operations and staff.

In addition to creating internal integrity management systems and ensuring that staff and operations adhere to the highest integrity standards, donors have also integrated safeguarding measures in all aspects of country assistance to protect projects and loans from corruption and ensure that aid is used for its intended purpose. This includes strengthening mechanisms to effectively prevent, detect and sanction corruption.

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1 STRENGHTENING INTERNAL INTEGRITY MANAGEMENT SYSTEMS

Aid can be lost to corruption when it flows to countries with endemic corruption, weak governance systems, ill-functioning state institutions or low absorption capacity. In some cases, some donor practices and patterns of incentives have been criticised for exacerbating corruption risks, including pressure to disburse and lack of adequate controls and follow-up (Fritz and Kolstad 2008).

There is a growing awareness in the donor community of the need to safeguard aid from corruption, to make sure that it is not lost to corruption, does not inadvertently support corrupt leaders or contribute to sustaining local patronage, rent seeking and corruption patterns.

Furthermore, there is a growing consensus in the development community that, particularly in highly corrupt environments, development assistance can contribute support the fight against corruption by creating positive incentives for change, ensuring the transparency of aid flows, and promoting a policy dialogue on governance. As part of this agenda, aid can also be used as a tool to strengthen recipient countries' accountability mechanisms and to support partner countries' efforts against corruption.

As a result, donors' efforts to mainstream anti-corruption in their operations have focused on three major areas: 1) putting in place effective mechanisms to ensure transparency, accountability and integrity of their operations and staff; 2) safeguarding projects and loans from corruption, and ensuring that aid programmes themselves do not foster corruption; and 3) supporting partner country-led anti-corruption strategies and efforts to effectively address corruption and its underlying causes. This answer will primarily focus on the two first dimensions of such comprehensive anti-corruption strategies.

Strengthening institutional policies and guidelines

Organisations can only require partners to integrate anti-corruption into their practices and policies if they are equally committed to abide by the same standards and principles. This includes establishing internal mechanisms to ensure transparency, accountability and integrity of staff and operations. As part of their efforts to mitigate corruption risks, most donors have recently re-affirmed their commitment to fight corruption in anti-corruption strategies and policies, reviewed their internal procedures, established specialised fraud and investigative bodies as well as complaint mechanisms and strengthened whistleblowing protection.

Integrity standards, values and leadership

The first requirement of an effective internal integrity management system is that explicit anti-corruption policies and guidelines are in place, backed up by credible leadership and adequate resources to demonstrate the institution's firm institutional commitment to effectively address corruption.

Anti-corruption policies and strategies

The first steps consist in having clear policies and guidelines in place that prohibit all forms of corruption, communicating these policies internally and to external partners and making guidance available for employees when confronted with unethical situations. Some organisations develop such policies and plans at the embassy level, in line with the institutions' overall strategies.

The emphasis of donors' anti-corruption strategies is typically placed on safeguarding donor funds from corruption and guiding support for anti-corruption interventions. They typically provide a clear definition of all prohibited practices, including corrupt, fraudulent, coercive and collusive practices. Many donors have adopted "zero tolerance" policies, signalling a strong commitment to investigate, prosecute and punish all instances of corruption.

However, in practice, experience shows that such an approach against corruption is not feasible, and is difficult to implement due to resources and capacity challenges. As such, the value of such policies is mostly preventative, signalling a strong stance against corruption. In practice, balancing risk management approaches and zero tolerance policies appear to be a central issue (Taxell and Simone 2014).

Similarly, the value of anti-corruption strategies is limited to being mere political statements if not properly resourced with adequate levels of funding and staffing. Standalone comprehensive strategies also run the risks of being isolated rather than integrated into the agency's overall work, and mainstreaming anti-corruption may help create more integration. Developing strategies at the country level can help achieve buy-in from staff, which is critical for successful implementation (Taxell and Hart 2014).

Organisations such as the African Development Bank (AfDB) make all anti-corruption rules and policies publicly available on their websites, including the whistleblowing policy and investigative process, codes of conduct for staff and executive directors.

A previous Helpdesk answers has been compiled on good practice in donors' anti-corruption strategies and developing an embassy-wide anti-corruption strategy.

Codes of conducts

Codes of conduct prohibiting corruption explicitly outline the organisation's values and contribute to create an ethical environment, providing staff and partners with a clear framework of accountability and integrity. In addition to sending a strong signal, codes can be used by staff as protection from external pressure to accede corruption.

Codes of conduct cover a wide range of issues, including gifts, hospitality and entertainment policies, conflicts of interest management, post-employment rules, and so on. There are a number of measures that can be taken to promote effective implementation of such codes (Transparency International 2010):

- The code should be presented and discussed as part of staff induction training.
- Explicit commitment to the code should be obtained and included in employment and partnership contracts.
- Repercussions for breaking the code and appropriate sanctions should be made clear.
- Managers and professional staff can be asked to declare interests and assets and declare conflicts of interest.
- External stakeholders implementing activities on behalf of the organisation should be made aware of the code and abide by the same standards.

Transparency and oversight policies

There is also a broad consensus that transparency, information disclosure and access to information is a powerful tool against corruption and a pre-requisite for promoting accountability. To ensure integrity of internal operations, the institution should also promote a culture of transparency. The World Bank Governance and Anti-Corruption strategy, for example, emphasises the importance of disclosure, participation and oversight, including third party monitoring. This involves strengthening information management systems, ensuring timely disclosure of project information and giving voice to beneficiaries by using tools such as beneficiary surveys and citizen score cards (Chêne 2010)

Internal integrity management systems

Ethical training and support mechanisms

An important aspect of promoting high integrity standards consists of developing staff's capacity and expertise to prevent and detect corrupt practices.

This includes briefing all staff on corruption issues and providing anti-corruption training to enable staff to identify corrupt situations and practices and equip them with the skills to respond adequately to such situations. It is also important to build the technical skills of staff to identify corrupt practices and red flags.

Capacity building activities may include the provision of training courses and materials on risk management and/or procurement monitoring (Transparency International 2015).

A previous Helpdesk answer specifically focuses on anti-corruption training in sectors: approaches, experiences, evidence of effectiveness.

Integrity bodies and mechanisms

Many organisations have established integrity units that employees can call upon when faced with unethical situations when dealing with their partner organisations. The units are ideally staffed with individuals who have the authority to enforce the anti-corruption policy. Such units typically have the mandate to raise staff awareness on corruption issues, provide ethical training, make guidance available to staff when facing unethical situations, monitor and assess whether anti-corruption policies and codes of conduct are followed and implemented by staff. The European Commission's network of department-specific "ethics correspondents" is considered good practice in this regard (Transparency International EU Office 2014).

In addition, most donor agencies have established investigative bodies in charge of uncovering fraud and corruption and investigating allegations of staff misconduct, such as OLAF at the EU level. All investigations have to be thorough, professional and respectful of the parties involved. The International Financial Institution's (IFI) Anti-Corruption Task Force has developed a uniform framework for preventing and combating corruption (IFI's Anti-Corruption Task Force 2006)

Complaints mechanisms

The institution should implement systems that encourage staff to report incidences of corruption transparently, even when they themselves are exposed to unethical situations, without fear of retaliation, headquarters' interference in project management or career damages, especially in highly corrupt countries where staff can face bribery and extortion situations or be forced to pay bribes under physical threats. Some agencies even make reporting incidences of corruption or violating the code of conduct a duty for staff.

In principle, anybody who has knowledge of alleged corruption involving activities supported by the agency should be entitled and empowered to report that information safely through user-friendly reporting channels, such as secured hotlines, for example. The main reporting channels are typically the agency's investigative bodies, but some agencies, such as the World Bank, have also set up independent third party hotlines that forward the information to the investigative bodies. Ensuring a comprehensive rollout including staff training and awareness raising to ensure that all staff understand the reporting process can ease implementation (Transparency International 2010).

It is also important that the organisation provides opportunities for reporting through external channels as, even though some have their own internal reporting system, fear of retaliation and lack of trust in the mechanisms may discourage victims or witnesses of corruption from reporting and assisting in investigations.

A previous answer focuses more specifically on examples of donors' online reporting mechanisms.

Whistleblowing protection

Adequate whistleblowing protection ensuring safe and user-friendly reporting channels can encourage staff to blow the whistle and report incidences of corruption.

At the EU level, staff rules oblige all civil servants to report any illegal activity or misconduct they observe in the course of their work since 2004, with a number of reporting channels, and lay down basic provisions for the protection of whistle-blowers. In addition, as of 2014, all institutions are also required to put their own internal procedures in place to protect whistle-blowers. The Commission currently complies with this obligation, having put its own guidelines in place in 2012 (Transparency International EU Office 2014).

A previous Helpdesk answer specifically focus on trends in good practice whistle blowing legislation.

Transparency and accountability of operations and programme support functions

Procurement

Most donors have reviewed their procurement policies, rules and procedures, including for the recruitment of consultants, requiring competitive bidding and increased transparency for projects and strengthening anti-corruption provisions in all procurement processes. The EU has also introduced legislative provisions to modernise and facilitate procurement processes and to promote fair and transparent contract award processes.

More operationally, a number of strategies can be used for mitigating corruption risks in procurement when operating in countries with weak governance systems. Among these are (Transparency International 2010):

- use standard specifications where applicable and technical expertise to draft specifications, requesting those preparing these specifications to sign a conflict of interest declaration
- hire and train competent procurement staff for integrity, expertise and local knowledge, and running background checks on staff before hiring
- make suppliers commit to integrity by inserting an anti-corruption clause in bidding documents
- supplement financial audit with independent monitoring systems such as social audits or other (third-party) monitoring processes
- implement checks and balances and the separation of duties, with different staff responsible for the technical specifications, prequalification, bid evaluation and contract awards
- thoroughly vet potential bidders, with background checks on performance history, ownership, financial capacity and reputation for integrity
- building integrity requirements into the prequalification process
- create and disseminate a list of corrupt suppliers and debar them for future bidding

Staff should also be made aware that procedural violations are an offence and that they will face sanctions and disciplinary measures if involved in non-transparent deals.

The use of integrity pacts can also be considered, consisting of an agreement between the procurement authority and bidders involved in public procurement that neither side will pay, offer, demand or accept a bribe and that neither will collude with competitors in obtaining or implementing the contract. The integrity pact can be monitored by civil society (Transparency International 2010).

Human resources (HR) management

In any organisation, HR management processes can be affected by unethical practices, including favouritism, nepotism, abuse of authority and conflict of interest. In particular, the management of recruitment and promotions, compensation, conditions of service and personal records can be especially vulnerable to such practices. Preventing corruption in HR management involves competitive, transparent and merit-based HR and recruitment policies, transparent pay packages and internal controls as well as integrity management systems, including the implementation of codes of ethics, ethics training, and whistleblowing mechanisms. Some institutions have also introduced regular staff rotation as a precautionary measure against corruption in public administration, with some indications of positive outcomes in reducing the level of bribes as well as the frequency of inefficient decisions caused by bribery (Abink 1999).

In general, the basic rules governing staff conduct across the EU administration are a good basis to prevent unethical practices, and such regulations can be applied to delegation staff. Permanent EU staff are subjected to a number of restrictions, including in the area of post-employment, obligation to report conflicts of interest and disclosure other professional activities while working for the EU civil service. They are also subject to conflict of interest checks before being hired. However, there have been recent disciplinary cases where staff failed to request permission for such activities or cases of former officials moving to private business, including lobby firms, raising questions as to whether the institutions are making sure that staff comply with the rules (Transparency International EU Office 2014).

A previous Helpdesk answer has focused on anti-corruption measures in HR management processes.

Internal controls and audits

Complaints mechanisms are complemented by internal and external audits which are important tools for demonstrating integrity and accountability. They can also be conducted randomly. Many donors publish them on their website, such as USAID which systematically publishes individual project audits, while other organisations prefer to publish them in aggregate forms (Lindner 2014).

2 MITIGATING STRATEGIES AT PROGRAMME AND PROJECT LEVEL

In addition to creating internal integrity management systems and ensuring that staff and operations adhere to the highest integrity standards, donors integrate safeguarding measures in all aspects of country assistance to protect projects and loans from corruption and ensure that aid is used for its intended purposes. This includes strengthening mechanisms to effectively prevent, detect and sanction corruption.

Prevention

Adjusting aid modalities to corruption prone environments

The issue of conditionality

In highly corrupt countries, donors can make financial assistance conditional to the country's performance in governance, using aid as an incentive to adopt anti-corruption reforms. Failure to meet conditions then precludes the disbursement of aid. Such approaches are considered by some authors counterproductive as they lead to aid being withheld from those countries which need it most.

Instead of using such a punitive approach, some donors have also implemented forms of "positive" conditionality, rewarding countries for good policies, linking aid allocations to countries' performance in key areas of governance. However, there is a growing body of evidence suggesting that such approaches are likely to undermine the ownership and sustainability of reforms, fail to bring about long lasting changes and run the risk of unduly interfering with the sovereignty of recipient countries. In addition, the emergence of new donors that provide untied aid also challenges the effectiveness of other donors' traditional practices and aid paradigms (Lindner 2014; Bradley, Parks and Zachary Rice 2013).

Aid modalities

For maximum impact, aid modalities need to be selected according to the specific circumstances in a country. The provision of budget support, for example, is considered by some as an opportunity to promote the ownership of reforms and foster improvements of countries' public finance management systems. In highly corrupt environments, these considerations need to be balanced with the substantial risk that budget support resources could be abused, misused and captured by the political elite. DFID, for example, requires partner countries to improve public financial management, have a credible programme to improve supreme audit institutions and parliamentary scrutiny as well as a commitment to undertake regular public expenditure and financial accountability framework (PEFA) assessment as a condition for providing budget support (DFID 2011).

A 2008 U4 issue paper looking at the relationship between corruption and aid modalities concludes that there has been little systematic empirical evaluation of the impact of new aid modalities on corruption and the governance environment and whether new aid modalities are more affected by corruption than other types of aid. Similarly, budget support has not demonstrated conclusively its ability to effectively address corruption risks either (Fritz and Kolstad 2008).

Another approach that can mitigate corruption risks is referred to as risk-spreading. This can consist of substituting a large programme with a number of smaller ones to reduce overall risk, "provided that the risk factors for the smaller programmes are not closely related (e.g. are not all determined by the same trigger)". This can also consist of choosing to spread risk by using a variety of aid instruments and working across different sectors (DFID 2011).

While development agencies usually manage risks within the framework of individual programmes, some organisations suggest that there would be significant benefits to adopting a portfolio-wide approach to risk management. This approach could enable donors to take a broad view of different categories of risk across the portfolio, high-risk investments with potentially transformative impacts, with low-risk investments delivering immediate service delivery gains (OECD 2014).

Channelling aid through NGOs

In highly corrupt environments, fiduciary risks can be considerably reduced by channelling funds outside government systems. One option is to channel aid through NGOs which are expected to demonstrate their capacity in using resources in an efficient, transparent and accountable manner. However, there are wider considerations to take into account when considering this approach, including development effectiveness risks and financial risks inherent in relying on financial management systems of other partners. NGOs are typically not subject to the same scrutiny and formal integrity mechanisms and oversight as state institutions, and accountability is primarily enforced through self-regulatory mechanisms. In highly corrupt environments, there are significant risks in funding through any channel (DFID 2011).

A previous Helpdesk answer has been compiled on key features of NGO accountability.

Aid for results

Some authors criticise the weak empirical basis for current donor approaches to anti-corruption and argue for an alternative to a zero corruption approach in their aid delivery, as donors cannot accurately measure corruption risk while protecting their projects from it at a reasonable cost. Instead, they call for new emerging alternatives to integrity measures, namely the focus on payment for results, focusing on competition, results measurement and transparency as key tools to improve development outcomes (Kenny 2016). Such approaches suggest directly incorporating data on development results and what programmes actually achieve for donors to be able to: 1) prioritise the application of investigative resources: 2) test the effectiveness of control strategies; 3) implement pay for results programmes; and 4) be selective about providing aid on the basis of objective criteria (Savedoff 2016).

Risks assessments at country, sector or project level

A widespread practice across donors to mitigate corruption risks is to conduct rigorous and comprehensive risk assessments for sectors or projects to reduce the likelihood of fraud and corruption. Some programmes face higher corruption risks and require special attention because they: 1) operate in sectors that are more prone to corruption (this varies from country to country); 2) have one or more projects with particularly large grant allocations (more than one-third of programme funding); 3) have pre-defined projects (which are exempt from competitive selection processes); and 4) involve extensive public procurement (for example, the purchase of construction material and other equipment) (Transparency International 2015).

Such assessments are necessary to evaluate whether the controls and procedures in place are adequate to prevent corruption and identify whether additional anti-corruption measures need to be implemented. These assessments typically include an assessment of the public finance system with tools such as the public expenditure and financial accountability framework (PEFA) as well as a corruption risk assessment (World Bank 2010).

The Asian Development Bank, for example, introduced a risk-based approach for assessing three areas, public finance management, procurement and anti-corruption applied at country, sector and project levels and recommending mitigation measures for major risks in risk countries. Governance risks are addressed through standard project implementation measures while some also include capacity development in the project design and technical assistance. However, the implementation of mitigation measures at the project level remains a challenge (ADB 2013).

The World Bank has also developed a number of tools to conduct such assessments, including public expenditure reviews, country financial accountability assessments, country procurement assessment reports and the country policy and institutional assessments. In the area of budget support, DIFD conducts fiduciary risk assessments that assess government commitment to improving public financial management (PFM), strengthening domestic financial accountability and fighting corruption.

The U4 recommends a four step risk management process, including: 1) identify corruption risks and determine the tolerable level of risk (threshold); 2) assess the level of risk (probability); 3) compare actual level of risks with tolerable threshold; and 4) if mitigation is required, select the best tool based on cost-effectiveness (Johnson 2015).

Strengthen the selection procedure

Project selection should be made through an open and transparent process, to avoid distortion of fair competition between applicants and biased decisions due to conflicts of interest. As part of the measures that can be envisaged, a conflict of interest management policy needs to be enforced and all parties in the selection process can be required to sign a code of conduct and provide a formal declaration of interest, including professional associations and political affiliations and a commitment to disclose possible conflicts of interest (EEA & Norway Grants, no date).

Integrity due diligence

Prior to making any lending and investment decision, some donors require that thorough background checks be conducted. In highly corrupt environments, enhanced due diligence on local partners, contractors and companies is an essential element of a comprehensive risk mitigation strategy. Multilateral development banks have agreed on a set of integrity due diligence principles to be adhered to in private sector lending and investment decisions. This includes (IFIs Anti-Corruption Task Force 2006):

- adequate "know-your-customer" procedures to ensure identification of beneficial ownership
- close scrutiny of parties that have been convicted of or are under investigation for serious crimes, investigated or sanctioned by a regulatory body or appearing on a sanctions list recognised by the member institution
- close scrutiny of parties involved in civil litigation involving allegations of financial misconduct
- close scrutiny of politically exposed persons consistent with the recommendations of the financial action task force
- identification of mitigants and enforcement of covenants that address integrity risks
- ongoing monitoring of integrity risks through portfolio management

Anti-corruption clauses in cooperation agreements

Many development agencies incorporate standard anti-corruption clauses in their development cooperation and partnership agreements to prevent corruption both in technical assistance and grant agreements. The OECD recommended as early as 1996 that all development assistance committee members explicitly insert such clauses in financial cooperation loans and technical assistance agreements, as a strong signal of the agency's commitment to curb corruption. In highly corrupt environments, as already mentioned, such clauses need to be complemented by additional mechanisms, such as corruption risks assessment and integrity due diligence processes. However, for such measures to be effective, and go beyond a mere political statement, they need to be accompanied by other integrity mechanisms including measures to monitor the use of funds, clear and pre-defined sanctions and complaints mechanisms and whistleblower protection (Martini 2013).

Beyond anti-corruption clauses, partner organisations and institutions can also more broadly be required to adhere to integrity guidelines and subscribe to a common set of transparency and accountability standards and rules. This can include codes of conduct, the provision of written statements on compliance with ethical rules, declarations of conflicts of interest, the submission of declarations of assets by key officials, disclosure of information and communication with affected communities and the public regarding their activities.

Two previous Helpdesk answers have been compiled on examples of anti-corruption clauses in cooperation agreements.

Fiduciary safeguards

Strengthening partner countries' PFM systems is an important dimension for safeguarding aid from corruption, especially when using country systems. In the area of public financial management, safeguards should be designed to both reduce the risks of leakages and inefficiencies in the short term, while at the same time strengthening PFM systems in the long term. They should also contribute to building sustainable capacity.

With this in mind, DFID recommends that safeguards are implemented by government staff, civil society or by external agents within the partner country systems to avoid creating parallel systems. For example, such an approach can include joint audit arrangements between the supreme audit institutions and external audit experts or external procurement agents checking compliance with procurement procedures in partnership with national procurement inspectors.

In the vulnerable area of procurement, a wide range of safeguards have been developed, such as the OECD checklist for enhancing integrity in public procurement.

More generally, PFM related safeguards typically focus on enhancing transparency, internal and external accountability and participation (DFID 2011).

Transparency

Transparency measures can include, among others:

- publication of appropriate financial and management information such as sector plans, budgets, performance measures, results, financial reports, audits, and so on
- publication of procurement information (online or in the media)
- community level disclosure of budgets, fund transfers, and actual expenditures

Accountability

Internal accountability can be strengthened through a wide range of measures such as:

- ensuring appropriate organisational structures and reporting lines
- ensuring effective segregation of duties
- appointing qualified staff to conduct and supervise key control functions
- ensuring effective segregation of duties
- maintenance of financial records that meet information management standards
- automation of controls to limit personal discretion and create an audit trail
- introduce bank reconciliations and reconciliations of accounting records with systems to identify unexplained discrepancies
- strengthen or set up financial inspection units.

Improving external accountability typically focuses on enhancing the role, scope and independence of an external audit through measures aimed at strengthening the independence and capacity of supreme audit institutions and parliamentary committees, including the public accounts committee.

Participation

Participatory safeguards consist of involving citizens at all steps of projects and programmes, including citizens' engagement in decisions over resource allocations, design and oversight of projects. A number of measures can be envisaged to render this possible, such as citizens report cards, NGO led social audits, citizen representation on formal boards of public bodies, public meetings and hearing, civil society monitoring of projects, citizens' involvement in tracking the use of public funds through public expenditure tracking surveys, for example.

Detection

Monitoring of programme implementation

A number of tools can help identify and document the actual incidence of corruption in projects and programmes, providing important data to inform future risk analysis and improve risk mitigation measures. These include, among others (Johnson 2015):

- internal corruption risk management/quality assurance systems with periodic reporting on corruption risks and mitigation results
- real time/formative/mid-term evaluations and spot checks
- ex-post cost-benefit or cost-effectiveness analysis
- public expenditure tracking surveys and quantitative service delivery surveys
- various types of community monitoring

Enhanced monitoring and oversight of programmes facing high risks of corruption may include: 1) close cooperation between partners through regular meetings and reporting on progress; 2) internal review of cases of suspected irregularities; 3) ex-ante and ex-post verification of procurement documents, procedures and expenditures; 4) independent auditing and/or programme evaluation; and 5) regular on-site monitoring of projects (Transparency International 2015). Participatory and third party monitoring involving the media, parliaments or civil society can also be considered.

A previous Helpdesk answer has been compiled on the impact of community monitoring on corruption.

Audits

Audits can make corruption riskier by exposing whether project funds have been used for their intended purposes in accordance with laws, regulations, contracts and accounting rules. They can be conducted at different times of the project cycle and by different agencies, including citizens (World Bank 2010). They can be conducted before or after an activity has taken place, by specialised internal government units, an independent government institution or private accounting or auditing professionals. Social audits can also be arranged whereby the public or affected community oversees and reports on organisations' activities. A risk-based approach can be applied to the selection of audits to be conducted or audits can be conducted randomly. A number of measures can be taken to strengthen the effectiveness of the auditing process such as (DFID 2011):

- develop the skills for the conduct of specialised audits
- improve supervision and quality control of audit work
- promote the publication of external audit reports and communication of key findings in accessible formats

Community complaints mechanisms

Clear mechanisms for reporting corruption are important to detect malfeasance, and beneficiaries can play a key role in the process as they are well-placed to detect irregularities, unreliable providers and local staff with conflicts of interest.

A Helpdesk answer has been compiled on good practice in designing effective community complaints mechanisms.

Voluntary disclosure programmes

In addition to complaints mechanisms, multilateral donors such as the World Bank and the AfDB encourage firms and individuals involved in their activities to disclose information on corrupt practices they may have been involved in in exchange for leniency in the application of sanctions. The World Bank have established a voluntary disclosure programme to facilitate detection and increase the chance of uncovering corrupt deals. This mechanism allows individuals, firms or NGOs who have engaged in fraud and corruption to avoid administrative sanctions and debarment if they disclose previous wrong doings and satisfy a number of requirements such as committing to renounce bribery and enforce a robust and monitored compliance programme.

Responses

Corruption should be adequately investigated and sanctioned through a credible, fair, proportional and yet dissuasive system.

Donor responses to incidences of corruption

Case studies of countries such as Afghanistan, Mozambique and Indonesia show that, when corruption arose in donor controlled projects, responses tended to be in line with corporate instructions via suspension of aid, audit, investigations and reimbursement and resulted in strengthened controls, avoiding the use of country systems and the introduction of additional safeguards. In some cases, this led to a stronger emphasis on supporting governance and anti-corruption reforms based on the understanding that delivering short-term responses to corruption to manage fiduciary and reputational risks cannot be substitutes for pursuing longer term approaches to strengthen countries' governance frameworks over longer periods of reforms (OECD 2009).

Responses to corruption and poor governance can occur at different stages of the programming cycle, resulting in a review and revision of the overall strategy for engagement with a partner country, or in specific strategies relating to governance and corruption. Flexible response mechanisms are recommended to allow donors to take action affecting aid modalities and the timing of disbursements in a gradual, pre-agreed and signalled manner, to ensure predictability and protect development spending.

The OECD concludes its study of how donors have responded to corruption in practice with some lessons learned and recommendations for a collective donor response to corruption in governance deteriorating environments:

- prepare collectively in advance for responses
- follow the government lead where this exists. Otherwise foster this lead, promote accountability and co-ordinate donors

- agree in advance on a graduated response if performance stagnates or deteriorates
- act predictably in relation to other donors; encourage other donors to respond collectively to the extent possible, but allow flexibility for individual donors
- maintain dialogue at different levels and focus on long-term development objectives

The study concludes that "to be effective, [the measures] need to involve advanced and continued analysis, connected political and technical dialogue, prior agreement on performance monitoring frameworks, and discussion of a range of disbursement arrangements. Confrontation with partner governments rarely ensures lasting improvements in governance and reduced corruption, but may send a strong signal. Measures to strengthen transparency and accountability to citizens in developing countries are an essential component of effective responses, but often take time to demonstrate impact on corruption" (OECD 2009).

Sanctions

Adequate mechanisms need to be in place to sanction the misuse of development aid as, in addition to adequate and proportionate punishment, the sanctioning regime needs to be dissuasive and have a deterrent effect.

Sanctions typically include reprimands, conditions imposed on future contracting or debarment consisting of prohibiting companies or individuals found guilty of corruption to participate in further projects or activities for a period of time or permanently.

Cases can be referred to the appropriate authorities of the country for criminal prosecution.

Some donors, such as the Inter-American Development Bank, systematically publish the list of debarred individuals and companies, which creates a major reputational damage for the entities targeted and can potentially have a deterrent effect on corruption. Some donors have signed cross-debarment agreements, requiring donors to notify the others of any debarment decision. Under such agreements, entities debarred by one donor may be sanctioned for the same misconduct by other donors (Lindner 2014).

In terms of sanctions at the EU level, the assessment of the EU integrity system recommends that the European Commission "make concerted use of its discretionary powers to exclude legal entities guilty of 'grave professional misconduct' from EU public procurement, including learning from practice at international organisations such as the World Bank. Its database of debarred companies should be made public, as a further deterrent against fraud and corruption."

A previous Helpdesk answer specifically focuses on blacklisting in public procurement.

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