

Stopping corruption with checks and balances

Corruption is an outcome of the governance system and has many forms; it can happen in any of the parts of the governance system. It can reflect the failure of any number of accountability relationships—for instance, political failure leading to state capture, bureaucratic failure, or a failure of checks and balances. Reducing it is a long-term, multifaceted, never-ending challenge.



Donors, IFIs and developing countries are broadly accountable for strengthening the checks and balances needed for development financing, through global and national systems. For developing countries, well-functioning and transparent budgetary, administrative and procurement systems, a political process responsive to the country's citizenry, and strong checks and balance systems, are essential to a functioning governance system. They also provide a straightforward basis for support.

Improving governance is not simply a matter for aid recipients. The global milieu has powerful influences on governance systems in developing countries. Global markets can be a source of corruption or a powerful disciplining device. Donors and IFIs can impose practices and reporting requirements that fragment and overwhelm already fragile country systems, or they can provide support in ways that help strengthen governance. Global mechanisms can help poor countries strengthen governance to meet the MDGs, including promoting standards and codes to provide sources of good practice for all countries. For this reason, the establishment of global checks and balances is another priority for strengthening governance.

Since the early 1990s, a framework of global checks and balances has emerged, which is centered around three types of programs:

- International law enforcement: the OECD's anti-foreign bribery convention and the anti-money laundering activities of the Financial Action Task Force complement each other; they help to tackle international corruption and they enable OECD countries to share in the prosecutorial burden. This is valuable for poor countries, which often lack the capacity and reach to pursue complex cases across international borders.
- Anti-corruption treaties: the UN Convention Against Corruption (effective December 2005), provides a global legal framework to address corruption, which complements regional anti-corruption treaties. It recognizes the recovery of looted assets as a "fundamental principle."
- International transparency initiatives: recognizing the special challenges posed by concentrated natural rents, the Extractive Industries Transparency Initiative for hydrocarbons and other minerals and the Kimberley Process Certification Scheme for raw diamonds build on broad international support for transparency.

It is not easy to monitor the progress of these international initiatives. A promising start has been made, but there is a very long way to go before global good governance becomes effective, and this will require sustained support. The Kimberley process has been relatively successful. Almost all diamond-producing countries participate, as do all major rough-diamond importing countries. But recovering looted assets is still difficult, with low rates of asset recovery. Of the estimated \$12 billion to \$20 billion looted by Presidents Mobutu, Abacha, and Marcos, only some \$1.5

billion has been recovered. Offenders frequently have to be charged with tax evasion rather than corruption. Some programs still have noticeable loopholes, such as the exclusion of transactions related to the financing of political parties. Still, it is worthwhile recalling that only a few years ago foreign bribes were considered a legitimate business expense by many OECD countries.

The legal initiatives, anticorruption conventions, and transparency initiatives described above, form—together with many supporting initiatives in the public and private sector—an embryonic network of global checks and balances. It needs to be strengthened and expanded.

For developing countries, including middle-income countries, the first order of business is to ratify and implement relevant conventions, especially the UN and African Union anticorruption conventions. Developed countries should also ratify the UN convention speedily. In addition, they should make it a priority to raise awareness of these initiatives and conventions among their business communities. The key to making any anticorruption initiative work is effective monitoring.

IFIs and donors can assist the checks-and-balances processes by providing technical assistance and funding to support countries' participation, and by encouraging the participation of middle-income countries, which loom larger in commercial dealings with poor countries. More generally, donors can strengthen their own anti-corruption controls (including through the debarment and cross-debarment of suppliers engaging in bribery and corruption), increase transparency, and provide aid in ways that encourage good governance rather than fragment and deplete already weak country systems.