

# U4 Expert Answer



## The effectiveness of donor responses to corruption in deteriorating environments

### Query:

*I am looking into the issue of "effective responses" to corruption in governance deteriorating environments. Has any work been done to measure or assess the impact/effectiveness of these measures in addressing corruption or do any conclusions on their impact/effectiveness emerge from other studies? This is a follow-up question to the foregoing query on "Donor responses to corruption in deteriorating governance environments" and its excellent answer.*

### Purpose:

The query relates to the same study carried out by the OECD.

### Content:

**Part 1: The Impact of Terminating or Reducing Aid in Corruption Prone Environments**

**Part 2: The Effectiveness of Corruption Risk Mitigating Strategies**

**Part 3: Further Reading**

### Summary:

Exiting a country abruptly for governance-related reasons without proper planning and consultation can have a disastrous impact on implementing agencies, beneficiaries and bilateral relations. Case studies

indicate that using aid conditionality to support anti-corruption reform has also failed to induce sustained change due to lack of ownership of reforms. As a result, donors are increasingly turning to corruption risk-mitigating strategies, such as reinforcing internal controls, adjusting aid modalities to corruption risks and supporting longer term, broader anti-corruption reforms. The impact of such approaches varies greatly across countries, due to country specific and contextual factors, illustrating the need to target responses to corruption deteriorating environments strategically according to the local circumstances. Donor coordination greatly enhances the impact and credibility of responses to governance deteriorating situations.

### Introduction:

Confronted with challenges of corruption, human rights abuses and undemocratic regimes, donors have responded by disengaging, suspending or reducing aid in countries such as Zimbabwe, Kenya, Chad and Eritrea. While donors usually agree on the need to

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maintain some form of engagement in corruption prone environments, the challenge remains to determine how to engage in these countries when governance deteriorates. In many cases, donors have strived to protect aid from corruption by enforcing stronger internal controls, used conditionality to promote governance and anti-corruption reforms, and adjusted aid modalities to the country's corruption risks. This approach has been complemented in many cases by supporting country led anti-corruption efforts. The U4 Expert Answer on donor responses to corruption deteriorating environments provides a general overview of these various strategies. (Please see: <http://www.u4.no/helpdesk/helpdesk/query.cfm?id=167>)

## Part 1: The Impact of Terminating or Reducing Aid in Corruption Prone Environments

### The Impact of Disengaging

As a response to governance deteriorating environments, the cessation of aid is one of the clearest and most dramatic options. Until now, there has been little attempt to systematically document and monitor exit processes and consequences. Such measures are usually imposed by donors as a form of sanction on corrupt and undemocratic regimes, exerting pressure on the recipient government to initiate the necessary reforms. However, the Helpdesk has neither found consistent evidence that the levels of corruption were reduced nor that governance improved as a result of donors pulling out of countries. Even if such interventions had triggered the required policy changes, it would be very challenging for methodological reasons to link them back directly to improved governance and levels of corruption.

In spite of these limits, suspension of aid has been used by donors to protest against the deteriorating circumstances of a country and put governments under pressure to develop and implement anti-corruption reforms. But these cases remain the exception rather than the rule and have been implemented in extreme cases, when all other channels of influence have failed. If problems of misuse of aid were found in recipient countries, they have rarely been claimed by donors as the sole reason for exiting, as there is a growing consensus among donors on the need to sustain some forms of engagement in fragile states. Critics even

argue that, in some cases, donors use corruption as a justification to disengage from a country for their own domestic constituency while, in reality, the exit decision had other political grounds.

In practice, exit processes have been monitored only in exceptional cases and little is known of the impact of such measures on the country's circumstances – including on the governance situation. It is therefore difficult to conclude whether and under what circumstances such political pressure has promoted a sustained political will to tackle corruption in developing countries.

As a first step in this direction, an evaluation of the management of donor exits from partner countries has been jointly undertaken by Denmark, the Netherlands, Norway and Sweden. Lessons learnt from five case studies including Botswana, Eritrea, India, Malawi and South Africa were published in May 2008. (Please see: [www.sida.se/shared/jsp/download.jsp?f=Managing+Aid+Exit+and+Transformation+Eritrea+Country+Case+Study.pdf&a=41360](http://www.sida.se/shared/jsp/download.jsp?f=Managing+Aid+Exit+and+Transformation+Eritrea+Country+Case+Study.pdf&a=41360)).

In all the countries studied, country exit decisions were not preceded by a prior assessment of the sustainability of supported programmes. In many cases, governance and corruption concerns just triggered the decision to exit while a combination of other factors such as a change in donors' policies and priorities and budget cuts under laid donor disengagement. In the cases of Malawi and Eritrea, exit was motivated by a "force majeure" situation, including strained diplomatic relations, mismanagement of aid and concerns over the governance situation of these countries<sup>1</sup>.

Successful examples of exit management were not found in governance deteriorating situations. Successful exit experiences were mostly found in 'graduating' countries that no longer depend on aid such as Botswana or India. Such positive exit experiences involved a mix of realistic time frames, careful and mutual planning, consultation and flexibility to set up arrangements for handing over.

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<sup>1</sup> Sweden and Denmark have phased out their assistance to Eritrea because of difference with the Eritrean Government on governance issues. The Netherlands and Denmark respectively exited Malawi in 1999 and 2002 for similar reasons.

In the 'force majeure' situations of Malawi and Eritrea, the consequences of exiting on the implementing agencies, the beneficiaries and the bilateral relations have been problematic. Both exits took place abruptly in poor aid dependent countries, without adequate planning, consultation and implementation. The Danish exit from Malawi, for example, created a 40% shortfall in the agriculture budget, a major setback in the agricultural sector programme development and affected long term agricultural research.

The consequences of the exits on the beneficiaries have not been assessed through rigorous impact evaluation methods. Interviews with key informants, however, indicated that some services formerly provided through donor supported programmes could no longer be delivered to the population. Abrupt and ill-communicated exits also negatively affected bilateral relations in both countries for some time. The evaluation concluded that in those cases, the exit decision and practices were not consistent with the agreed principles of partnership and mutuality. (Please see:

<http://www.sida.se/sida/jsp/sida.jsp?d=118&a=41360>).

The European Commissions has suspended its aid to a number of countries as a sanction to undemocratic regimes, governance deteriorating countries or to protest against military coups. Case studies looking at the effectiveness of using this approach to promote democratic and governance reforms illustrate the difficulty of conducting political dialogue in a systematic and consistent manner in such settings, which ultimately undermines the effectiveness of such means of pressure. They also indicate that the outcome of such measures is greatly determined by the specific circumstances and political context of each country.

In some instances, the suspension of aid has proven relatively effective in responding to cases of breakdown of democracy such as in Côte d'Ivoire and Fiji, as de facto rulers seek to legitimise their rule by a return to constitutional rule. In other cases, such as in Zimbabwe, it has failed to attain the desired objective. Such authoritarian or semi-authoritarian regimes view this type of intervention as undue influence in domestic affairs, resent having their legitimacy contested by outside actors and ultimately resist policy change. In many cases, such as in Haiti, the suspension of aid has profoundly disrupted the relations between donor and recipient countries, which are later marked by acrimony

and mutual distrust. (Please see: <http://www.mafhoum.com/press3/100E18.pdf>).

## Aid Conditionality Does Not Buy Reforms

In countries where governance deteriorates, recipient governments are unlikely to demonstrate a strong and genuine commitment to democratic and anti-corruption reforms. In such settings, some donors have made financial assistance conditional to the recipient country's governance performance, using aid as an incentive for the required institutional reforms. In this approach, ex-ante conditions are attached to the delivery of aid, and failure to meet them precludes the disbursement of aid, giving this strategy a punitive character.

There is a growing body of evidence that suggests that this type of conditionality has failed in the past to bring about sustained change. Aid has not succeeded in leveraging policy reforms and circumventing domestic ownership and commitment to reforms, including anti-corruption reforms. Furthermore, it is increasingly recognised that such forms of conditionality undermines the ownership and sustainability of reforms, ultimately compromising the effectiveness of aid and leading to a few cosmetic changes such as the prosecution of a handful of individuals or the establishment of an anti-corruption body.

Lessons learnt from ten case studies conducted by the World Bank on aid aimed at stimulating policy reforms in Africa indicates that this strategy had been effective in supporting policy reform only in a minority of the countries studied, while the conditionality attached to adjustment loans did not successfully induce policy change.

Generally, the enforcement of these types of sanctions tend to respond more to donors' immediate security, governance and operational concerns rather than serve longer term strategic goals. And withholding aid can indeed bring short term immediate results in dealing with specific targeted situations. For example, Swedish aid was suspended until funds were recovered in Mozambique in 2005, when major mismanagement of the funds allocated to the education programme was uncovered. But beyond providing a "quick fix" solution to an immediate crisis, the potential of conditioning aid to effectively address the underlying causes of corruption and promote in-depth and comprehensive

reform of a country's integrity system has not been conclusively demonstrated and/or documented. If external pressure in the form of aid conditionality can initially lead to a set of technical anti-corruption interventions or prosecutions, there is little evidence that such an approach has resulted in creating sustained political will to tackle corruption and a comprehensive and efficient anti-corruption framework.

### The Lack of Credibility of Threats

The threat of withholding or terminating aid must be supported by the preparedness to apply sanctions in a consistent manner. The impact of aid conditionality on persuading recipient governments to address corruption is greatly undermined when aid continues to flow, even if conditions are broken. In many countries, even if countries fail to deliver reforms, donors still find it in their interest to provide aid, turning their statements about terminating and reducing aid into empty threats.

A case study of Norway/Tanzania relationships illustrates this argument. Up to the mid 1990s, Norway had a track record of disbursing aid regardless of the recipient country's behaviour. But this pattern was broken when a World Bank report documented massive corruption in Tanzania in 1994. Norway was the first country to announce that sanctions would be applied and aid withheld, followed by the Netherlands and the EU. Conditions were set by the International Financial Institutions to resume assistance, with a time frame to meet the conditions. Donors declared that continued aid would be dependant on government performance in curbing corruption. The government initially appeared to take prompt actions, but these actions turned out to be superficial and rather short-lived. President Mkapa was subsequently elected in 1995 on an anti-corruption programme but President Mkapa's anti-corruption pledge didn't translate into effective implementation either. In spite of this poor performance on anti-corruption, the interest of the donors in anti-corruption seemed to wane over time. Aid was resumed after marginal improvements had been achieved and countries like Norway were no longer prepared to apply further sanctions when the new government failed to deliver, undermining donors' credibility as well as the effectiveness of using conditionality to promote anti-corruption reform. (<http://www.ruhr-uni-bochum.de/gustav.schmidt/Selbervik.pdf>)

The Tanzanian case study illustrates that the effectiveness of conditionality is determined by the scale of the aid reduction, the depth of the economic

crisis, the ownership of reforms and the credibility of actors. Substantial aid cuts in a highly dependant country are more likely to yield results than in countries that are not aid dependent such as Nigeria and Angola or isolationist states such as Zimbabwe and Myanmar.

Donors' clarity, coordination and consistency are key conditions to promote the effectiveness of external pressure on recipient governments. Donors are more likely to gain political leverage if they act in a concerted and organised manner when discussing sanctions or promoting reforms. In Uganda, multilateral and bilateral donors have established a collective position on anti-corruption which has been instrumental in facilitating the negotiation process with the government. Acting with one voice reduced transaction costs for the government of dealing separately with each donor and increased the leverage of donors to get some reforms going. However, there is no indication that this approach has resulted in greater emphasis on fighting corruption. (Please see: <http://www.u4.no/themes/fragile-states/introduction.cfm>)

### The Primacy of Domestic Politics

The impact of donor interventions in corruption prone environments can also greatly vary according to the country's specific circumstances. Some donors can have considerable leverage over government decisions, especially in aid dependant countries, because of the scale of the aid they provide. Positive outcomes from aid conditionality would therefore be expected in heavily donor dependant countries where donors are well organised. However, this is not always the case, as suggested by the case studies of Ethiopia and Uganda. Both countries were long praised by the international community for their commitment to good governance and poverty reduction. But such commitment proved to be fragile when the countries' leaders faced internal electoral challenges, indicating that domestic politics ultimately takes precedence when power holders feel threatened by opposition forces. In such cases, donor pressure and threats to suspend aid are largely ineffective, as some regimes prefer to sacrifice aid and hold on power. (Please see: <http://www.odi.org.uk/resources/details.asp?id=509&title=primacy-domestic-politics-dilemmas-aid-what-can-donors-ethiopia-uganda>).

An analysis of Swedish aid provided to eight different countries in 2003 supports this view. This research concludes that "*domestic political considerations are the prime factor in determining political and economic*



reform: most countries have initiated reform without donors”, supporting the emerging consensus that conditionality can't buy reform. (<http://www.routledge.com/books/Programme-Aid-and-Development-isbn9780415259880>).

### Emerging Trend: Ex-Post Conditionality

Another emerging form of conditionality, labelled as 'incentive' or 'positive' conditionality, consists in rewarding countries for good policies and establishes a positive link between aid allocations and country performance in key areas of governance. (This approach also implicitly implies not engaging or pulling out from poorly performing countries). This approach seeks to strengthen the incentive for good performance and reduce non-compliance. The Millennium Challenge Account (MCA) is an example of this emerging trend. Created in 2004 with the view to rewarding nations “that root out corruption, respect human rights and adhere to the rule of law”, the MCA ties aid to political, legal and economic reforms, selecting countries on a competitive basis using a set of 16 indicators.

In practice such approaches are still relatively recent and the Helpdesk has not found sufficient documentation of their use and impact to be able to draw conclusions on the effectiveness of such approaches. The EU is exploring this form of conditionality to promote its governance agenda in recipient countries, but a review of aid practices in the EU indicated in 2000 that country performance in terms of political and civil rights only play a minor role in the allocation of EC aid and that other factors such as transparency, openness or human development play no significant role. (<http://www.mafhoum.com/press3/100E18.pdf>).

## Part 2: The Effectiveness of Corruption Risk Mitigating Strategies

Terminating, suspending or reducing aid in governance deteriorating situations remains a last resort option for donors. The challenge remains for donors to identify how to engage in order to mitigate corruption risks and provide appropriate safeguards to protect aid from corruption. Risk mitigating strategies include reinforcing internal controls, adjusting aid modalities to the

corruption risks and supporting longer term, broader anti-corruption reforms.

### Strengthening Internal Controls

When a decision is made to engage, the first concern of donors operating in governance deteriorating environments is to protect aid from corruption by limiting opportunities of abuse and enforcing tighter internal controls. Most donors have developed an anti-corruption strategy, providing their staff with guidance on how to deal with corruption in high risk countries. Preventive measures include inserting anti-corruption clauses into financial cooperation loans and financing agreements and assessing corruption risks as well as the partners' willingness and capacity to control it in all project documentation. SIDA, GTZ and the Asian Development Bank (ADB) also request that development projects and loans include a fiduciary risk assessment with a complete financial accountability and procurement assessment. The ADB, for example, requests all projects to include not only an explicit assessment of how the project may be affected by corruption, but also how to address this risk, including an action plan for high risk projects.

However, if the best measures and policies exist on paper, their actual impact can be undermined by poor enforcement of the foreseen measures. Donors' anti-corruption policies are not always effectively implemented, as demonstrated by a 2004 assessment of the Asian Development Bank's efforts to limit corruption in its lending operations in eight countries where corruption risks are known to be high (Bangladesh, Cambodia, India, Indonesia, Laos, Nepal, Pakistan and Vietnam). A sample of recent country strategies, project appraisals, and evaluation reports were reviewed to assess how corruption risks were taken into account and dealt with. The findings indicate that ADB *almost never* complied with the policy requirement to explicitly address corruption issues in its reports, assessments, and evaluations. Country strategies did not address how corruption might impact the country's ability to attain its development objectives, how ADB projects might be affected by corruption, the government's ability to control corruption, or how the Bank could help combat it. Project appraisals did not address the sponsor's financial management and procurement capacity either.

This systematic failure to report on corruption issues compromises the effectiveness of the ADB's anti-corruption efforts, oversight and public accountability mechanisms. It is also likely to undermine the bank's credibility on corruption issues and ultimately contribute to shielding corrupt governments from domestic and international pressure for change. (Please see: [http://209.85.129.132/search?q=cache:mdutq7nz6-oJ:www.bicusa.org/Legacy/Zero\\_Tolerance\\_Report.pdf+http://www.bicusa.org/Legacy/Zero\\_Tolerance\\_Report.pdf&hl=de&ct=clnk&cd=1](http://209.85.129.132/search?q=cache:mdutq7nz6-oJ:www.bicusa.org/Legacy/Zero_Tolerance_Report.pdf+http://www.bicusa.org/Legacy/Zero_Tolerance_Report.pdf&hl=de&ct=clnk&cd=1))

### Adjusting Aid Modalities to Corruption Prone Environments

Experience shows that, for maximum impact, aid modalities must be selected according to the specific circumstances of a given country, with the view to mitigating risks of corruption and mismanagement of aid assistance. At the same time, within the framework of the Paris declaration on aid effectiveness, donors have also committed to harmonise their efforts to support country-led anti-corruption initiatives. The introduction of new aid modalities such as the provision of budget support is seen by many as an opportunity to promote the ownership of reforms and to foster the improvement of partner countries' public finance management systems (PFM)<sup>2</sup>. The challenge is to determine whether this argument can realistically be made for countries where governance deteriorates.

In countries where corruption risks are high and where there are no effective domestic accountability mechanisms in place, there is a substantial risk that budget support resources be abused by recipient governments, misused, mismanaged and captured by the political elite. As a result, the challenge for donors is to draw a line between countries that are considered 'too corrupt' to receive budget support and those that have 'acceptable levels of corruption'. In the absence of systematic documentation and study of the impact of

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<sup>2</sup> Since donors play a role in demanding accountability for the funds they provide, the provision of budget support provides an opportunity to address corruption issues at the national level and demand for more accountability for the whole country system rather than just for targeted development projects.

budget support with regard to corruption in various contexts, donors have little evidence to support their decision making on how to use aid modalities in highly corrupt environments. Very often, donors base their decision on a broader range of governance indicators and not on corruption alone, including human rights, civil and political freedoms. There is a need for greater evidence-based guidance for decisions in this regard.

A 2008 U4 Issue Paper provides a comprehensive overview of the relationship between corruption and aid modalities through a review of theoretical and empirical studies available on the prevalence and impact of corruption in relation to various aid modalities. (<http://www.u4.no/themes/pfm/main.cfm#aid-modalities>).

It concludes that in spite of the growing donor interest in these new aid modalities, there has been little effort to evaluate empirically the impact and effectiveness of this type of aid and how it may be more or less affected by corruption, especially in countries where corruption is rampant. There are also very few studies on whether respective aid modalities affect the governance environment and corruption in a country differently. Although no empirical evidence conclusively demonstrates that this form of aid is more affected by corruption than other aid modalities, the provision of budget support has not demonstrated conclusively its ability to effectively address corruption risks either. Its impact with regard to corruption greatly varies across countries.

A set of evaluations performed by USAID in 2005 in five countries suggests that corruption could be a factor affecting the effectiveness of budget support, especially in the case of Malawi. The study links poor performance in this country to political will and political corruption. In Tanzania, however, donors interviewed did not believe that increased use of budget support had led to more corruption. A joint evaluation of general budget support (1994-2004) provides no conclusive evidence on the impact and relation between corruption and this type of aid either. The country studies of Mozambique and Vietnam suggest that project support is more easily misused, while the Malawi study indicates otherwise. The Uganda study seems to indicate that budget support may be more vulnerable than other forms of aid when the relations between government and the international community deteriorate. (<http://www.oecd.org/dataoecd/42/38/36685401.pdf>).

## The Impact of Aid Modalities on PFM

In some countries, the provision of budget support has resulted in an increased interest among donors to effectively address public management issues in a concerted way and improve existing tools to assess fiduciary risks. Available evidence suggests that budget support has indeed been associated with progress on 'technical' issues such as reform of PFM, but is unlikely to succeed in imposing sustainable reforms that challenge domestic politics.

Early evidence on the effect of budget support reported in a SIDA evaluation conducted in 2004 found that financial management reform programme activities have increased since the beginning of the 2000s with some success in Uganda, Ghana and possibly Tanzania. However, in spite of large amounts of technical assistance, Burkina Faso, Malawi and Mozambique were considered countries where little progress has been made in this regard. ([http://sida.se/sida/jsp/sida.jsp?d=118&a=3375&language=en\\_US](http://sida.se/sida/jsp/sida.jsp?d=118&a=3375&language=en_US)).

Despite these mixed results, there seems to be a growing consensus among donors, at least in practice, that improvements of PFM systems should be seen as an outcome rather than a prerequisite for budget support. Budget support can contribute to strengthen country systems by tying it to the introduction of safeguards that strengthen the government disbursement and procurement systems. However, this argument still has to be made in highly corrupt environments.

## Uneven Impact of New Aid Modalities on Domestic Accountability

The effect of budget support on domestic accountability still has to be established empirically. The effect on domestic accountability appears to depend on the strength of the government compared with the groups and institutions that hold it to account. As a result, budget support is highly problematic in countries that experience endemic corruption and a repressive government. In such contexts, there is a very high risk that allocation decisions are driven by rent-seeking motives and that budget support may be misused by incumbent governments to hijack domestic accountability. (Please see: <http://www.u4.no/themes/pfm/main.cfm#aid-modalities>).

An IMF study supports this view, suggesting that the efficiency of budget support heavily relies on the institutional framework and democratic structures prevailing in a country. The IMF study therefore recommends tying the provision of budget support in highly corrupt environments to institutional reforms or actual implementation of these reforms. (Please see: <http://www1.worldbank.org/publicsector/pe/HIPC/HIPCBoardPaperApril2005.pdf>).

## Broader Preventive Measures

Corruption cannot solely be addressed by single donor actions, as it is deeply rooted in structural issues that cannot be effectively addressed through short term strategies. It is also unrealistic to suspend aid assistance until governance improves in a given country, not least because donors often experience major political pressure to disburse. As a result, before suspending or reducing development assistance, and in addition to their efforts to protect aid from corruption, donors have also supported country led anti-corruption efforts and/or projects that have an anti-corruption impact or strengthen national accountability systems. These efforts have included anti-corruption interventions as well as elements of public sector reforms.

The challenges involved in designing effective anti-corruption reforms in countries where governance deteriorates are especially daunting. In high state capture conditions, anti-corruption efforts emanating from the executive branch of government are likely to fail due to delays, resistance and sabotage. However, in many countries that have experienced continual civil strife such as Nigeria, Kenya, Sierra Leone, Uganda, etc, donors have strived to create and reinvigorate anti-corruption agencies. This approach has proved to be problematic in many countries as such agencies are often perceived to be largely ineffective or embedded in networks of corruption. Lessons learnt from countries that have made some progress in fighting corruption indicate that a more effective approach in such contexts includes emphasising the importance of horizontal accountability by supporting autonomous accountability agencies, non-governmental actors, access to information and independent media that provide adequate checks and balance to key branches of government. (Please see: <http://www.cmi.no/publications/publication/?3134=anti-corruption-reforms-challenges>).

An independent evaluation of World Bank supported anti-corruption reforms, drawing on the result of 19 country case studies published in 2008, provides some hindsight on the effect and limits of broad anti-corruption interventions. The study concludes that the effectiveness of anti-corruption reforms was hampered by the fact that the Bank did not always take into consideration the local political economy and didn't develop adequate strategies to gain the support of key leaders. Evidence from these case studies highlight three major lessons that are also relevant to governance deteriorating environments:

- Anti-corruption priorities must be tailored to the country circumstances and based on an assessment in each country of the forms of corruption that are most harmful. This is particularly true for governance deteriorating environments;
- Direct measures such as the establishment of an anti-corruption commission rarely succeed, since they often lack the necessary support and political will from the local elite and the judicial system;
- Anti-corruption efforts have better prospects when they focus on transparency and access to public information.

Elements of public sector reforms can also support the success of anti-corruption activities, including sound financial management systems, an efficient civil service and administrative policy, tax systems, transparent processes, etc. The impact of such approaches has been assessed in an independent evaluation of the World Bank support for public sector reform between 1999 and 2006.

(Please see:

<http://www.cmi.no/publications/file/?3042=public-sector-reform-what-works-and-why>)

## Emerging Lessons

**There is no quick fix to addressing corruption in governance deteriorating environments.** Punitive responses to deteriorating circumstances need to be accompanied by interventions addressing the underlying causes of corruption, aimed at changing political mindsets, practices and attitudes at all levels of society. The development of domestic accountability institutions through the reinforcement of all institutions that provide a counter balance to government power is

an important dimension of anti-corruption response to governance deteriorating situations.

**Anti-corruption reforms need to be selective and strategic.** Measures that worked in one place can prove counterproductive elsewhere. In many cases, failure of reforms has been due to a flawed understanding of the specific nature of corruption and governance in a particular setting. Anti-corruption interventions need to be tailored to the specific context in which local institutions and accountability mechanisms operate.

**The coordination of donor responses to corruption is decisive.** Experience shows that the impact and credibility of international responses to governance deteriorating situations is greatly enhanced when the international community speaks and acts in a coordinated manner, both at the political and operational levels. This is particularly true in many fragile states, where frameworks for donor coordination are either non-existent or non-functional. Fragile states often don't have the capacity to deal with an uncoordinated group of donors that impose an uncoordinated burden of demands and conditions, according to their own agenda and priorities. It is important to promote coherence and clarity of responses.

**There is a need to choose a right mix of aid modalities in high risk environments.** Although aid should avoid bypassing government systems, aid modalities should be picked according to the country circumstances in a way that supports country led policies and builds government capacity to deliver public services while mitigating the risks of aid being misused. Adequate safeguards should be provided in high risk environments. Although there is a growing consensus that budget support should remain the preferred aid modality, project support could/should be considered as a matter of last resort in specific states, where state fragility, corruption or political concerns prevent the use of other modalities. More evidence-based guidance could be provided to support decision making in this regard.



## Part 3: Further Reading

### **Managing Aid Exit and Transformation (2008)**

Lessons Learnt from Botswana, Eritrea, India, Malawi and South Africa

This report provides the findings of a joint donor evaluation of the management of country level exits in development processes conducted in 2007/2008 in five countries. Bad exit managements are more frequent in “force majeure” exits from politically unstable countries with weak and often corrupt administrations.  
<http://www.cmi.no/publications/publication/?3155=managing-aid-exit-and-transformation>

### **Corruption and Aid Modalities (2008)**

This U4 report provides an overview of the available argument and evidence with regard to the relationships between corruption and aid modalities, including the prevalence of corruption in relation to the various aid modalities and whether aid modalities affect the governance and corruption environment of a country.  
<http://www.u4.no/themes/pfm/main.cfm#aid-modalities>

### **Addressing corruption in fragile states: what role for donors? (2007)**

This U4 reports looks at the specific challenges posed for addressing corruption in fragile states, seeking to link the literature on fragile states and recent experience and research on corruption. It provides guidance to tailor strategic reform initiatives in fragile states from the design, implementation, to the evaluation phase of the project.  
<http://www.u4.no/themes/fragile-states/introduction.cfm>

### **Donor Dilemmas and Economic Conditionality in the 1990s: when Tanzania is as good as it gets (2006)**

Tanzania’s in-depth case study provides a good overview of the issues and challenges involved for the donor community in using aid conditionality to promote governance and anti-corruption reforms in countries with high corruption risks.  
<http://www.helsinki.fi/iehc2006/papers3/Selbervik.pdf>

### **Promoting Democracy by Conditioning Aid? Towards a More Effective EU Development Assistance (2003)**

This paper looks at the experience and impact of the EU use of conditionality to promote reforms through a number of country case studies, including Niger, Haiti, Fiji and Côte d’Ivoire.  
<http://www.mafhoum.com/press3/100E18.pdf>