

APPLICATION OF ANTI-CORRUPTION
MECHANISMS IN PRACTICAL DEVELOPMENT
COOPERATION

The audit is a follow-on from the one described in the report “Corruption; a risk to the effectiveness of bilateral development cooperation” (77/2004), published in summer 2004. It examined the adequacy of the anti-corruption systems employed by the Ministry for Foreign Affairs and their application in policy-level cooperation.

Cooperation in the provision of direct budget support is being increased. One of the central aims with the audit was to produce information on key questions concerning the management of direct budget support; consideration of corruption-related aspects is one of these questions. The results of the audit will probably also help add to the information available to the Parliament concerning problems associated with development cooperation instruments.

The principal question addressed in the audit was what anti-corruption systems and operating principles are in use in Mozambique and Zambia and how their application affects Finland’s development cooperation with these countries. The focus of appraisal in Mozambique was on direct budget support and in Zambia on traditional project aid.

The audit reveals that much development is needed in the anti-corruption systems and operating principles employed in Mozambique and Zambia. Practical application of the existing systems is still very deficient. This should significantly influence the forms of cooperation to which Finnish aid is devoted.

MOZAMBIQUE

The parliament in Mozambique has not ratified key international anti-corruption agreements. The country lacks an anti-corruption strategy. Thus on the policy level Mozambique is not fully committed to the struggle against corruption.

A dearth of resources available to the country's anti-corruption unit lessens the unit's opportunities to act effectively in the struggle against corruption.

Efficient use of the development aid funds granted as direct budget support depends on the effectiveness with which the partner country's budget is implemented. For example, the implementation rate for the health sector budget in Mozambique in recent years has been below 60%.

The effectiveness with which public finances are managed in Mozambique creates a key foundation on which to achieve results in cooperation involving the provision of direct budget support. Serious shortcomings have been observed in key financial management systems, for which reason the risk of misappropriation of direct budget support is great. A danger of corruption is always associated with non-functioning of systems. The country's justice system also functions badly and is considered to be very corrupt.

In the present situation, the a priori conditions for the increase in direct budget support to Mozambique being planned by the Ministry for Foreign Affairs are not particularly good. Because of the considerable risk in relation to achieving results, a prerequisite for increasing aid should be that substantial development has taken place in the management of Government finances in Mozambique.

ZAMBIA

The parliament in Zambia has not ratified key international anti-corruption agreements. The country lacks an anti-

corruption law and strategy. The law concerning the highest procurement authority does not contain anti-corruption clauses. Thus on the policy level, Zambia is not fully committed to the struggle against corruption.

A study of corruption in Zambia has indicated that it constitutes a major problem in the State administration. The study also demonstrated a link between poor governance and corruption. Development of the management of government finances is a central prerequisite for reducing the problem. The most recent study appraising the state of management of government finances found that three of the 15 criteria set for good financial management were met. There had been no improvement since the previous study.

The Zambians' faith that corruption will be reduced is weakening. The reason for this is that not a single big corruption case has been solved in recent years. The President's right to make changes to the state budget approved by the parliament is also problematic from the perspective of corruption and weakens the power of the legislature to determine budgets.

Preparations for Finland to join in direct budget support cooperation with Zambia in 2007 are being made at the Ministry for Foreign Affairs. The problems associated with management of government finance in Zambia are the same as in Mozambique. Thus the risk of misappropriation of funds is great. A danger of corruption is always associated with non-functioning of financial management systems. A substantial improvement in the management of government finances should be effected in order for Finland to join the group of countries providing Zambia with direct budget support.

Shortcomings have been observed in oversight by the Ministry for Foreign Affairs of payments towards the Zambian Ministry of Education's investment programme for the basic education sector. An aid recipient should be required to at least report the date on which the aid has been received, the bank account in which it has been lodged and the date of lodgement as well as the currency exchange rates used. This procedure should be applied to all Finnish development cooperation in which aid is paid directly to the responsible authority in the partner country.

In addition, exchange of information between the Ministry and the Finnish diplomatic mission in relation to monitoring of development cooperation payments must be improved and the division of labour between the Ministry and the mission clarified.

Aid for building schools as part of the basic education programme has gone, in accordance with real need, to the country's poorest and most remote areas. 98% of the budget funds have been spent, which is a very good result.

Anti-corruption clauses have not been applied to all procurements carried out using Finnish development cooperation funds. The Ministry must redress this shortcoming.

MODES OF IMPLEMENTATION OF DEVELOPMENT COOPERATION

There are many indisputably good reasons for providing direct budget support and sector aid. On the other hand, the advantage of project aid compared with direct budget support is that it enables aid to be targeted to exactly where it is most needed. The way in which funds are spent is not linked to implementation of the cooperation partner's state budget. It is spent more effectively and oversight is easier. Traditional project aid should be retained as one important instrument of development cooperation, at least until the partner countries satisfy even moderately the a priori conditions which the Ministry for Foreign Affairs' has set for the granting of direct budget support.