

## **Corruption, a risk to the effectiveness of bilateral development cooperation**

### **THE STATE AUDIT OFFICE'S POSITION**

The main question in the audit was whether the systems designed to prevent corruption in bilateral development cooperation are adequate and whether they are applied in practice. The audit indicated that the policies and guidelines adopted by the Ministry for Foreign Affairs are for the most part adequate and appropriate. The State Audit Office makes the following recommendations concerning the further development of procedures and instructions, however:

1. The Ministry for Foreign Affairs should introduce a monitoring system for corruption and misconduct (section 3.1.1.)
2. The Ministry for Foreign Affairs should prepare instructions regarding the procedure for reporting corruption and misconduct. (section 3.1.2.)
3. Employment contracts for experts hired by the ministry and local personnel hired by foreign missions should include an anti-corruption clause. (section 3.1.3.)
4. The ethical viewpoints in the anti-corruption handbook published by the Ministry for Foreign Affairs should be presented separately in the handbook. (section 3.1.4.)
5. Anti-corruption information and training should be increased and made more systematic. (section 3.1.5.)
6. The monitoring of local corruption by Finnish missions in developing countries and related reporting to the Ministry for Foreign Affairs should be harmonized by including this task in missions' annual operational plan and reporting profile. (section 3.2.)
7. Minutes of cooperation negotiations should be prepared so that they show whether corruption issues have been discussed in the manner required by the negotiation mandate. (section 3.2.)
8. The framework agreements for Finland's bilateral development cooperation with Ethiopia, Nepal, Zambia and Vietnam should be renewed and anti-corruption clauses should be included in them. Clauses should also be included in agreements between the Ministry for Foreign Affairs and foundations established by non-governmental organizations and in agreements between foundations and non-governmental organizations in developing countries. (section 3.2.)

9. The Ministry for Foreign Affairs should raise its anti-corruption profile so that cooperation negotiations place more emphasis on the results of anti-corruption work as a factor in development cooperation relations, for example. (section 3.2.)

10. The Ministry for Foreign Affairs should clarify the grounds for its decision-making so that the significance of different criteria for the amount of development aid is transparent. (section 3.2.)

## Conclusions

The corruption situation in Finland's long-term partner countries, Ethiopia, Mozambique, Nepal, Zambia and Vietnam, is poor. During the past five years the situation has worsened in Ethiopia, Mozambique, Zambia and Vietnam, according to Transparency International's corruption index. Corresponding information is not available for Nepal.

A key objective of Finland's development cooperation is to reduce poverty in partner countries. Other important objectives are to promote democracy, human rights and good governance, which includes reducing corruption. Determining the level of aid and related decision-making involves an overall evaluation in which the partner country's commitment to reducing poverty is always given great weight. The significance of other criteria and their relative weights are less clear and vary from one country to another. Other factors that influence decision-making are Finland's long-term commitment, the predictability of aid and decisions made by other aid organizations. Strong partner country ownership can also affect the implementation of objectives prioritized by Finland. In Ethiopia, Mozambique, Zambia and Vietnam the preconditions for cooperation have been regarded as developing in a positive direction, on the basis of which the intention is to increase development aid annually. The preconditions for increasing cooperation with Nepal do not exist at the moment, however, because of the crisis in democracy and the problem of corruption in that country. On the basis of the audit materials it was not possible to determine the weight of different criteria in deciding the amount of development aid granted to partner countries.

A partner country's determined efforts to promote democracy and equality and to reduce corruption have been considered adequate proof of the country's will to develop. In practice there is often a wide gap between efforts and results, however. Cooperation negotiations have seldom required reports on the concrete results achieved in anti-corruption activities or emphasized their significance as a precondition for the positive development of cooperation.

So far cases of corruption have not come to light in Finland's bilateral development cooperation. Since corruption is wide-spread, authorities should be prepared for this eventuality and pay all possible attention to preventing it. With the shift from traditional bilateral projects to sector programmes and direct budget aid, Finland will have fewer possibilities and means to monitor activities directly. To prevent corruption it is essential to ensure in advance that partner countries' financial administration systems are sufficiently reliable. New forms of aid also place additional demands on Finnish missions' monitoring and control work in partner countries, and taking care of these requires a better understanding of each country's macroeconomy.

Finland is financing Mozambique's education sector together with several other countries. In light of a significant case of misconduct in this sector involving aid granted by Sweden, the Ministry for Foreign Affairs should make sure that monitoring of the use of aid granted to the education sector is reliable.

In development cooperation, projects are especially susceptible to corruption. In Mozambique and Zambia public procurement regulations and processes have significant deficiencies and odd features. In Vietnam there is a significant risk of corruption in investment decisions. Special audits focusing on procurement can help ensure correct procurement procedures, for example. Attention should be focused on this in other contexts as well.