

## Advancing Good Governance Seminar

June 12, 2014 – 2:15-3:45pm

### Breakout: Fraud-Free Aid 2014 – Closing the Loop on Citizens' Expectations

The panel considered the prospects for tackling fraud in aid. Harnessing feedback of end users requires a strong flow of information to them, for them to be able to meaningfully obtain and assess that information, and for their feedback to be received and acted on. The benefits of technological advances were highlighted, both in the way they can increase the opportunities for information flow, and in the way they can reduce the space for fraud and corruption. However, their limitations were also emphasized, particularly where there is limited access to technology such as the internet. Other technological advances can cause increased problems by enabling non-transparent transfers of wealth.

#### Key Points from the Session

- 1 Aid will never be totally free of fraud, but actions can be taken to reduce it.** Fraud is virtually ubiquitous where expenditure of funds is large. Community based organizations may be reluctant to raise issues of malfeasance due to a risk of aid funding being removed. Taking an oversight role, governments can seek to control fraud by keeping a firm hand on aid being undertaken in their country. Their actions can include coordinating aid expenditure in line with a national plan. This helps to reduce opportunities for elite capture, and also to minimize overlap between projects, and hence reduce the space for inefficient and fraudulent use of funds. Action also needs to be undertaken to monitor donors to ensure that funds are committed to carrying out the plan, and are in fact done so. When donors do not provide funds through government it can be very difficult to track what they have spent, and this raises the opportunity for fraud to proliferate.
- 2 Inventive methods will always be found to fraudulently extract aid funds, so enforcement is vital.** Inventive methods have been found to extract funds from developing countries without making direct monetary transfers which can be traced through the financial systems. These include setting up equal and opposite derivative transactions, where an amount will have to be paid by the transferor in the developing country and an equal amount will be gained by the transferor in the recipient country. Cryptocurrencies such as bitcoin and darkcoin also open up opportunities for untraced outflows of funds from developing countries. Attempts are being made to identify every entity that makes or receives a payment or has an exposure, and this coupled with a clear picture of the ownership of entities will assist in tracking the flow of fraudulently received funds. That sort of transparency on a global scale is a long way off, however. It is therefore vital to have effective enforcement for fraud and the ability to trace and claw back such funds. In this context, it may be better to target zero tolerance for fraud, rather than attempting to get to a stage of zero risk of fraud.
- 3 A vital part of solutions is the effective dissemination and use of information.** In order for citizens to be able to demand effective spending by government of its finances, they must

know what those finances are and how they are intended to be spent. Citizens also need to be empowered and educated on the nature of their rights and entitlements and how to claim them. Dissemination of information can be readily achieved at scale through the internet. However, in a country like the Philippines, where internet penetration is only 30 per cent, direct face-to-face methods need to be employed to disseminate information to communities and collate their feedback and demands. These direct methods are labor and capital intensive, limiting the extent to which they can be used.

- 4 Inventive combinations of high-tech and low-tech approaches can be effective at collating and disseminating information, and reducing the space for fraud.** In procurement, it is important to determine the areas at which fraud can persist and to focus on tackling those areas. By creating demand for a particular aid intervention, you can highly motivate the recipients to clamor for it, and to ensure as far as possible that they get the benefits of it. Monitoring the delivery of procured goods can be facilitated through the employment of technology including GPS data to show where deliveries have been made. This allows a picture of distribution to be collated very quickly, and acted on where issues are found. This sort of high-tech approach can be complemented by low-tech solutions. For example, when providing bed nets to protect against malaria, taking the packaging away when they are delivered discourages their resale, and blue bed nets are less likely to be used for alternate purposes (such as wedding dresses).

#### **Emerging Questions**

- 1** With investment in developing countries likely to come from the private sector, how can their desire to deal with corruption risks be increased and harnessed?
- 2** Is there a point at which effort and money expended on tackling fraud should better be spent in an aid intervention?