

Advancing Good Governance Seminar

7 June 2013 – 9:30 – 11:00 AM

Fraud Free Aid

Studies have suggested that upwards of 25 percent of international development aid is lost to fraud or corruption. Despite the magnitude of the problem, fraud and corruption in the development sector are often “silent killers,” going undetected, unreported, and most directly harming people least empowered to call foul. The fact that development practitioners operate under some of the most challenging circumstances and in the most difficult environments makes the problem of fraud and corruption particularly challenging, and particularly detrimental, in the development sector. That said, many INGOs and civil society organizations (“CSOs”) are taking the challenge very seriously, and are having success in addressing the problem. This panel sought to identify the challenge, and its particular difficulties, and raise a number of considerations that must be taken into account when developing strategies for addressing such challenge.

Key Points from the Session

1. **INGOs/CSOs face even greater challenges with respect to fraud and corruption than many operators in the private sector.** Anti-corruption and anti-bribery laws such as the US Foreign Corrupt Practices Act and the UK Bribery Act apply equally to INGOs and CSOs as to private sector companies. Because INGOs and CSOs operate in many of the most challenging environments – post-conflict zones; countries with high incidences of fraud and corruption – and frequently work closely with governments, they are in many instances faced with even greater fraud/corruption challenges than their counterparts in the private sector.

However, despite the magnitude of the challenge, a recent assessment conducted by Transparency International UK indicates that some INGOs and CSOs are not yet addressing this challenge in a serious way. There may be a number of reasons for this, including challenges in allocating limited resources to these issues – INGOs/CSOs are expected to put as much of their resources as possible into their on-the-ground efforts – or limited scrutiny by regulators of the INGO/CSO community to date. Perceptions of ethical complexity may pose additional challenges for INGOs/CSOs, to the extent that some may feel that payment of a small bribe to a customs official to enable an organization to ensure food is provided to the those it serves is justifiable.

Corrupt acts have multiple outcomes, including their primary outcome, such as whether, for example, the food gets to the intended recipient. However, secondary outcomes are equally important, including, in this instance, the effect a corrupt act may have in undermining the rule of law, which may prove to have a particularly harmful effect in environments struggling to develop rule of law.

2. **Focus on fixes.** In the same way that business, or government, will never be “fraud free,” international development aid will never be fraud free. However, the development sector can do better, by increasing transparency, incentivizing whistleblowing/reporting of problems, and increasing sanctions that foster deterrence.

A challenge confronting the sector is in connecting efforts toward increased transparency and accountability to outcomes on the ground; in other words, measuring the effectiveness of

efforts to tackle problems of fraud and corruption. One metric discussed during the panel was the “fix-rate” of an intervention, whereby an intervention is evaluated based on the percentage of a given type of problem it is deemed to have “fixed.”

- 3. Complex environment.** Because INGOs/CSOs are often driven by mission, expectations of them vis-a-vis fraud and corruption may be disproportionately high. Nevertheless, the nature and extent of the problem must be understood in light of a number of considerations. First, proportionality; because INGOs/CSOs represent a relatively small proportion of the overall development sector – with multilateral development agencies and investment banks occupying a larger proportion – the impact of the relatively small number of incidences of fraud and corruption in the community should be kept in mind. Second is the importance of place; INGOs and CSOs often work with the most vulnerable clients, in fragile states, where police and a justice system may be non-existent. Third, incentives; INGOs and CSOs are mindful of the fact that donors and supporters will abandon them if issues of fraud or corruption arise, and this fact creates a healthy deterrent to corrupt acts.

Given the complexity of the environment where INGOs and CSOs operate, compliance with rules and regulations is critical, but education within the organization is equally critical.

Emerging Questions

- 1.** The importance of creating a culture within an organization that fosters compliance with the law, that incentivizes people to come forward and report problems when they occur, is critical. However, what are the strategies and best practices in the INGO/CSO community for creating such a culture? Relying on the integrity of individuals within an organization is much more effective and affordable than having massive compliance departments; what are the strategies for organizations to bring that integrity to bear on the challenges confronting them?
- 2.** What are the ways technology can bring novel solutions to the age-old problem of fraud and corruption? What are the most promising innovations to date? What strategies have proven ineffective?
- 3.** How can the discussion of fraud and corruption in the international development sector be shifted from the abstract to the concrete? It is necessary to understand that fraud and corruption are not simple abstract problems but in fact consist of individual incidences of theft from the people whom the INGO/CSO exists to serve. Reframing the discussion in this way has the potential to transform the way the challenge of fraud and corruption is addressed in the development sector.