GOVERNANCE
NEWSLETTER

A Publication of The Institute of Economic Affairs Vol.17 No.5 September/October 2011

DONOR ANTI-CORRUPTION REFORMS:

QUIET DIPLOMACY AND ITS DISCONTENTS

by

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Summary

This paper reviews the anti-corruption reforms pursued by three key donors in Ghana: the World Bank, the United Kingdom's Department for International Development and the United States Agency for International Development. The extent to which the anti-corruption efforts of these donors are undercut by China's emerging influence as an alternative source of development assistance with 'no-strings' attached is also outlined. The findings suggests that, while significant legislative reforms in public financial management have been successfully implemented with donor assistance, some other efforts have been unproductive because of an apparent lack of political will. Overall, donor anti-corruption support can best be described as a work in progress. All the same, the key leverage used by donors, the provision of aid, is being tested by China's approach to development assistance as a straightforward business transaction without the good governance proviso. The fact that Beijing lent more to developing countries than the World Bank between 2009 and 2010 is evidence of this test. Donors face a challenge in addressing this scenario through the 'quiet diplomacy' technique they maintain in Ghana. What is required is effective collaboration with civil society, as donors may be limited in their approach owing to their diplomatic status. The combined determination of a balanced and vibrant media, an active and well-resourced civil society, in concert with impartial donor pressure, can serve as a formidable bloc in Ghana's anti-corruption reform process.

IEA Ghana

Governance Newsletter is a bi-monthly publication of The Institute of Economic Affairs, Ghana, an independent public policy institute. Subscriptions to the **Governance Newsletter** are made available to those who make contributions to The IEA. Address all correspondence to:
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Website: www.ieagh.org *ISBN 0855-2452*

INTRODUCTION

The global financial crisis has led several donor countries to implement austerity programmes in their domestic public finances. This move has put into sharp focus the amount of foreign aid given to developing countries by austerity wielding governments. Some taxpayers in donor countries, who have witnessed funding cuts to public services, have urged their governments to reconsider what they view as a contradiction. A case in point is that of the United Kingdom whose Prime Minister, David Cameron, was confronted by a member of the public who remarked: "There are millions of pounds of debt in this country yet you are still sending billions and billions abroad in national aid. Surely charity should begin at home."[1] Certain proponents of this argument, who are gaining a strong voice, add that they are not opposed to saving lives through aid but explain their opposition through the point that aid will be lost to corruption by political elites in developing countries.

It is pertinent, however, to note that donors have for almost two decades devoted a lot of attention to anti-corruption efforts. Indeed, multi-lateral and bilateral donors have supported numerous anti-corruption programmes across the developing world. In the case of Africa, anti-corruption is said to form a significant portion of development assistance (Michael, 2004). Aid is often presented as a reward for recipient countries' good policies and honesty.[2] The primary aim of donors in anti-corruption is to prevent embezzlement of development aid. In fact the emergence of good governance, as a central theme in the development discourse of the World Bank, has given prominence to anti-corruption programmes owing to the detrimental effects corruption is perceived to have on economic development.[3] Apart from the fundamental role of the rule of law, accountability and transparency, good governance also advocates the watchdog role of the media and civil society as crucial.

In Ghana, donor support for anti-corruption constitutes both top-down and bottom-up measures which broadly fall into the following categories:

(i) Technical assistance – e.g. supporting public sector reforms in corruption prone areas.
(ii) Capacity building – e.g. providing anti-corruption agencies with logistics and training.
(iii) Legal and policy reform – e.g. advising on draft legislation.
(iv) Civil Society and media support – e.g. funding advocacy programmes and research.

This paper provides a selected review of the anti-corruption reforms pursued by three major donors in Ghana: the World Bank, the United

[1] *Daily Mail Online*, 22 October 2010 (available at: tp://www.dailymail.co.uk/news/article-1322745/Foreign-aid-budget-cost-family-500-Fat-cats-earning-90k.html#).
[2] Some literature suggests aid may lead to an increase in corruption (Svensson, 2000; Knack, 2001; Alesina and Weder, 2002).
[3] The World Bank (1989), *Sub-Saharan Africa: From crisis to sustainable growth. A long-term perspective study*, was one of the first major documents from the Bank raising the issue of good governance.

Kingdom's Department for International Development and the United States Agency for International Development. The extent to which the anti-corruption efforts of these donors are undercut by China's emerging influence as an alternative source of development assistance with 'no-strings' attached is also outlined.

THE WORLD BANK

The good governance conditionality of the World Bank is manifested in the strong anti-corruption component of its country assistance strategies. The Bank's key objective is to pursue a plan that "minimizes corruption's negative effect on development" (World Bank 1997:23). Thus its anti-corruption plans emphasize prevention with the streamlining of procedures and processes a core aspect. In Ghana, the Bank's anti-corruption work can be grouped into three main areas: public financial reforms, capacity building and support for CSOs. As public financial reforms feature strongly in the World Bank's anti-corruption work in Ghana, the review of the Bank's role here focuses mainly on this area. In fact, recent legal and institutional reforms in Ghana's public finances offer a useful insight into the Bank's role. The World Bank is known to have helped government with guidelines on the *Public Procurement Act, 2003* (Act 663). Similarly, the Bank was involved in the formulation of the *Internal Audit Agency Act, 2003* (Act 658) and the *Financial Administration Act, 2003* (Act 654). These three pieces of legislation were aimed at areas which significantly affect corruption.

Recent initiatives involving the World Bank such as the Heavily Indebted Poor Countries Initiative (HIPC), which Ghana signed-up for, also have an anti-corruption element. This is embodied in the transparency and accountability requirements of the public financial management component.[4] Well-placed sources at Ghana's Ministry of Finance maintain that, while HIPC has helped improve financial accountability, it also entailed excessive donor interference.

The capacity building role of the World Bank has included assistance to oversight bodies such as the Public Accounts Committees of Parliament (PAC); parliamentary staff have also benefited from training supported by the Bank. As part of the overall assistance to the erstwhile Serious Fraud Office (SFO), the Bank reportedly planned a US$5 million contribution for technology enhancement of this anti-corruption agency (GTZ, 2002).[5]

The Bank notes that, as part of its engagement with anti-corruption CSOs in Ghana, it encourages dialogue between government and civil society. In terms of financial support to CSOs, the World Bank provides some project specific funding and a small grants scheme of between US$45,000 and US$60,000 each year

[4] HIPC is a debt relief programme financed by both bilateral and multi-lateral creditors. Countries have to fulfil certain criteria in order to qualify for debt reduction under HIPC. This includes developing a Poverty Reduction Strategy Paper (PRSP) and undertaking specific IMF and World Bank adjustment reforms. Donors monitor progress at different stages to ascertain debt relief eligibility based on set targets.

[5] In September 2010, the SFO became the Economic and Organised Crimes Office (EOCO).

from which civic groups may apply to receive support. Also, research commissioned by the Bank and conducted by Ghana based think tanks has made an important contribution to the study of governance. This includes the first detailed survey on corruption - *The Ghana Governance and Corruption Survey (2000)*.

THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

The United Kingdom's DFID has also been actively engaged in anti-corruption related efforts. As a result, DFID provides capacity building support to anti-corruption watchdogs such as the Commission on Human Rights and Administrative Justice (CHRAJ) and PAC. In addition to direct assistance provided to anti-corruption CSOs, DFID has further financed civic groups through the erstwhile Ghana Research Advocacy Programme (G-RAP).[6] Like the World Bank, DFID support for public financial restructuring has been considerable. In this vein, payroll management reforms have received attention and thus forms the focus of this section.

DFID attempted to assist the Ghanaian government with tackling the problem of payroll fraud, as part of the broader public financial management restructuring. The replacement of the predominantly manual, and manipulation-prone, payroll process with a computerized system was identified as a solution with inherent checks and balances. As such, the Integrated Personnel Payroll Database (IPPD) project was instituted to strengthen and reform this tricky area of fraud. However, DFID simply notes that it "became increasingly dissatisfied with poor implementation and stopped support to the project" (DFID 2008). Independent reports, on the other hand, provide a more critical explanation. First, design problems in IPPD were notable. OPM (2006) notes many of the basic rules for good practice of an information technology system had been violated. Crucially, the lack of government commitment to the integrated payroll project is further cited as contributing to its weakness (OPM, 2006). This claim is supported by another study, ODI (2007:3), which points to "political commitment" as "fluctuating and incomplete" in Ghana's public financial management reforms. The mention of 'political commitment' by the ODI report lends support to the question: were the problems encountered calculated or simply an issue of design? Given that Finance Ministry officials were given a key role in the reform process, this question is further warranted due to the findings reported Azeem et al. (2006), which argues that the system was not sufficiently tested. An official at the CAGD also explains that a series of events such as inadequate staff training and IPPD officials' selection of a relatively complex operating system added to the failure of the initial payroll reform project.

It is probable that vested interests had a role in the failure to implement effective reforms. Overall,

[6] G-RAP served as a pooled fund into which several donors made a contribution. The fund provided core grants to CSOs in areas including governance. The support from this scheme allowed CSOs to pursue their own research initiatives and build their capacity. As of early 2006, DFID had made about £1.8 million available to G-RAP.

the obstacles encountered by DFID in payroll restructuring highlights the issues donors may encounter in the area of anti-corruption which are arguably symptoms of a much deeper problem – political will.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

The approach of USAID to anti-corruption in Ghana places emphasis on prevention. As a result, institutions such as CHRAJ have received assistance. The USAID also considers as vital, bottom-up anti-corruption methods which complements the work of oversight institutions. Along this line, USAID has worked with CSOs like the Ghana Integrity Initiative (GII) to promote public awareness on corruption. Think tanks in Ghana have also been funded to conduct governance related research.

In contrast to other donors, USAID openly declares its strategy of indicating policy preferences, particularly, with respect to strengthening legislation. The USAID notes that it was a leading advocate of Ghana's whistleblower legislation, which was drafted by the Institute of Economic Affairs (IEA-Ghana). After a protracted period, the draft bill was signed into law in October 2006 as the Whistleblower Act, 2006 (Act 720). Essentially, the law provides a blue-print for investigating cases when individuals, in the public interest, disclose information relating to illegal or corrupt acts. The protection of a whistleblower against civil and criminal action, as well as victimisation, is further guaranteed under this law.

The Millennium Challenge Account (MCA) of the United States government appears to be a leverage tool in anti-corruption.[7] The eligibility criteria for MCA support stresses considerably on good governance. Various areas of governance are graded using independent and World Bank indices relating to corruption control, civil liberties and trade policy among others. Ghana became eligible for MCA funds and signed a five-year agreement in August 2006 to receive $547 million. Funds are, however, not released unconditionally after the signing of an agreement. Recognising the importance of continually monitoring the effectiveness of anti-corruption efforts among others, the periodic release of funds is contingent on the attainment of satisfactory MCA scores (MCC, 2006).

In general, it can be argued that USAID does not shy away from speaking out on anti-corruption. Yet, while the Agency insists on the importance of pressing government to demonstrate real political commitment for anti-corruption efforts to be effective, this stance is finely balanced with a soft diplomatic line. For the most part this is due to Ghana's democratic credentials, especially successful consecutive elections, which the Agency cites as a rare feat in an African context.

[7] The MCA is a fund dedicated to combating global poverty. To this effect, the Account provides assistance to developing countries with the objective of increasing economic growth.

COMBINED DONOR EFFORTS

In Ghana, Multi Donor Budget Support (MDBS) provides a platform for donors to combine their efforts in the field of anti-corruption reform. MDBS was set up in 2003 as an arrangement combining bilateral and multi-lateral donor support for direct contribution to the government's budget.[8] The key benefit of MDBS is the pooling of donor support for spending on poverty-reduction initiatives of Ghana's government, and in 2010 the multi-donor disbursement to support the government budget was US$403.9 million.[9] This approach is consistent with the new language of 'partnership' used in international aid that points to more local input. Fund disbursements are directly linked to progress on an agreed set of targets that includes reforms in governance and public finance. Donor representatives in Ghana indicate that MDBS has also served as a forum for anti-corruption discussions with government. Yet, on governance and accountability, a recent review notes that the MDBS has been supportive but rates overall donor leverage using this approach as only marginal (ODI, 2007). The UK, Ghana's largest bilateral donor, admits limited progress in MDBS performance areas such as managing fiscal risks and public financial management (DFID, 2006). It is also instructive to note that external funds directed through central government have been a source of corruption. One example is a case in which the SFO uncovered widespread embezzlement in a United Nations Development Programme (UNDP) sponsored 'Poverty Alleviation' project in the Afram Plains district. A substantial portion of the project's funds were embezzled by departmental heads.[10] Such incidents, together with the steady misappropriation of budgeted funds across government departments, are a cause for concern in the use of MDBS disbursements.

CHINA'S 'NON-INTERFERENCE' CONUNDRUM

The key leverage used by donors in anti-corruption is the provision of aid. However, there is a growing body of evidence indicating that China has the potential to weaken the influence of aid-driven anti-corruption efforts. Between 2009 and 2010, China lent more to developing countries than the World Bank: $110 billion compared to $100.3 billion.[11] In the case of Africa, China is providing the continent with donor support that comes without the good governance proviso – the standard practice with Western aid. This is due to China's policy of 'non-interference' in the internal affairs of another

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[8] It is difficult to estimate how much money has been provided by individual donors specifically for anti-corruption efforts. Explanations ranging from complexity in quantifying training costs, together with anti-corruption being part of the wider good governance budgets, are among the reasons cited by donors for their inability to provide precise figures.

[9] MDBS currently comprises 11 donors. The multi-lateral donors are the African Development Bank, European Union and the World Bank. The bilateral donors are Canada, Denmark, France, Germany, Japan, Netherlands, Switzerland and United Kingdom.

[10] *The Ghanaian Chronicle*, 13 October 1999.

[11] *Financial Times (London)* 17 January 2011.

country and, also, the 'no-strings' approach in conducting business (Alden, 2007; Hilsum, 2008; McCormick, 2008).[12] Over the last few years, China has repeatedly demonstrated its desire to forge a closer relationship with Africa. At an African summit hosted by China in 2006, Beijing pledged concessional loans and credits as well as debt cancellation to several countries on the continent (Broadman, 2008). Although China's energy demands (oil) accounts for much of the increased interest, trade with the continent has extended to other areas in the quest to find a market for Chinese products.

Angola provides a classic example of China's impact on anti-corruption efforts. In the search for donor-funds for post-war rebuilding, conditionalities appear to have caused an impasse in negotiations between Angola and the International Monetary Fund (IMF). In 2004, the IMF, wary of corruption in Angola's government, demanded the inclusion of anti-corruption measures in a proposed $2 billion loan (Taylor, 2006). China entered the scene and made the Angolan government a "counter-offer" for the same amount; the deal did not include any of the IMF's conditionalities (Taylor 2006:947). Repayment terms were equally flexible, but this was tied to Angola's supply of crude oil to China and the award of construction contracts. Angola's government halted negotiations with the IMF and cheerfully accepted the Chinese offer. As aptly summed up by Alden (2007:68), for Angola, China provides "a key source of financial independence from the pressure applied by the IMF to meet standards of accountability". For governments keen to avoid what they consider to be the invasive behaviour of Western donors, this makes for good business.

Ghana's current relationship with China is not comparable to Angola's. What remains a matter of concern is twofold. One is the increasing availability of alternative funding without good governance requirements. The second is the award of contracts to, and procurement from, China with no evidence of tenders. Ghana, in recent years, has been courted by the Chinese. In September 2010, China agreed to support a range of infrastructure developments in the country through loan deals worth US$13 billion. This comes on top of other interest free Chinese loans. Beijing has also thrown in a few sweeteners. The flurry of senior Chinese officials usually bearing gifts on their 'friendly visits' to Ghana underscores this point. In 2007, for example, Jia Qinglin, the Chairman (Speaker) of the Chinese People's Political Consultative Conference (CPPCC) made a stopover in Accra and it was announced during Jia's visit that Ghana's National Theatre had become a 'gift' from the Chinese government. The theatre 'gift' was in the form of debt cancellation that was related to construction costs dating back to the early 1990s. China also provided a grant of US$2 million for the rehabilitation of the theatre (Chinese Embassy in Ghana, 2 May 2007). Similar offerings have been made across Africa and *The*

[12] Hilsum (2008) argues that China's non-interference doctrine applies regardless of how venal or corrupt a government may be. However, a condition which appears to be paramount in China's 'friendship' is the endorsement of the 'one-China policy', particularly, in relation to Taiwanese recognition; most African countries already support this (*The Economist*, 26 October 2006).

Economist argues that such largesse often serves an entry ticket for China (*The Economist*, 26 October 2006).

It may not be entirely coincidental that Chinese state corporations have been awarded major contracts for which the tender process has been bypassed. In early 2008, Ghana's government announced that it was buying fighter jets from China for Ghana's Armed Forces; there were no indications of tenders in this case. Ghana's recent discovery of oil has the potential of making the relationship cosier, given the Chinese record in other oil-producing African countries. Overall, the lack of political will to enforce anti-corruption measures, even when contained in conditionalities, portrays China's 'non-interference' approach as an uncomplicated offer. This strategy could undermine donor anti-corruption efforts.

CONCLUSION

This paper set out to review the role of three key donors in Ghana's anti-corruption reforms. The evidence suggests that donors have been a lifeline to PAC and key public anti-corruption institutions such as CHRAJ. In terms of technical assistance, donors have supported restructuring in several areas that are prone to fraud. The results of these measures are mixed. While significant legislative reforms in public financial management have been successfully implemented with donor assistance, some other efforts have been unproductive. DFID, for example, initially supported Ghana's public sector payroll reforms, but appears to have encountered a sustained lack of government commitment. This is a case in point where donor efforts have become a battle of diplomacy against political will. In fact, some donors admit this problem but are hesitant to openly criticize government or consider punitive action in line with the good governance rhetoric. The main factor that discounts government's shortfalls is Ghana's deepening democratic dispensation. What has ensued is that successive governments have repeatedly pointed to the endorsement by donors as proof of their adequate governance record. As dialogue alone may not prompt government to act, particularly when political will is lacking, donors face a challenge in how they translate their frustration through the 'quiet diplomacy' technique they claim to employ in Ghana. On the other hand, to judge donor efforts only from a top-down approach will be an abdication of balanced analysis. In the non-public sphere, anti-corruption civic groups have been assisted by donors. These bottom-up measures have enabled CSOs to remain at the forefront of anti-corruption public education and advocacy.

Overall, donor anti-corruption efforts can best be described as work in progress. However, the key leverage used by donors, the provision of aid, is being tested by China's approach to development assistance as a straightforward business without the good governance proviso. The fact that Beijing lent more to developing countries than the World Bank over the last two years provides evidence of this test.

The increased presence of China, together with the issue of political will, which appears to affect the anti-corruption role of donors, calls for effective collaboration with CSOs as donors may be limited in their approach owing to their diplomatic status. The combined determination of a balanced and vibrant media, an active and well-resourced civil society, in concert with impartial donor pressure, can serve as a formidable bloc in Ghana's anti-corruption reform process. Positive results from such collaboration could assuage some of the concerns of disgruntled taxpayers in donor countries about the misuse of aid.

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