

# Transparency International (UK)



Policy Brief PB-001

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## Conditionality in aid and debt relief

The potential for engendering economic growth by means of well-targeted official development aid (ODA) is now well recognised. Taxpayers in donor countries, however, often question the value of ODA, believing that significant proportions are diverted through corrupt practices. The correlation between ODA's positive impact and the quality of governance is also now well recognised. Development resources are scarce and there is pressure to channel assistance to countries where ODA leads to sustainable development. Many official donor agencies have therefore made quality of governance an important determinant in the allocation of assistance.

This note deals with the linkage between ODA, debt relief and governance. Fighting corruption, which holds back social and economic development, is an integral part of good governance. Along with the effective relief of poverty, it is TI(UK)'s principal concern in this debate.

TI(UK) strongly endorses moves toward reductions in official foreign debts of the heavily indebted poor countries (HIPC). The heavy debt burden impoverishes further many of the world's poorest people. However, debt relief needs to go hand in hand with governance and policy reforms to ensure that debt crises do not recur. Beneficiary governments need to commit themselves to the strengthening of democratic institutions and to ensuring that relief leads to the reduction of poverty.

Donor organisations must recognise, however, that it will take time to drive back pervasive corruption. What is required initially is a genuine commitment by political leaders in beneficiary countries to take up the fight.

In TI(UK) we do not wish to see aid or debt relief either curtailed or withheld. If, however, after prolonged representations, a beneficiary government is still unable or unwilling to mount an effective anti-corruption campaign, it should not expect to continue to benefit as before. The continuation of support to persistently corrupt administrations brings development assistance into disrepute, and may even hinder social and economic progress.

### Actions for Improvement in Extreme Situations

Assistance should be curtailed or suspended only as a last resort, and in such extreme situations alternative arrangements should be made to minimise the impact on the very poor.

Assistance which might otherwise have been channelled through government might be switched for disbursement through reliable NGOs. Funds already made available to suitable NGOs for poverty-relief activities, education and social care might well be increased. We recognise, however, that this would place a greater pressure on donors to ensure that their NGO partners were effectively screened for financial probity and effectiveness.

**Transparency International (UK)**

St. Nicholas House, St. Nicholas Road, Sutton, Surrey, SM1 1EL, United Kingdom  
Tel: 020-8643-9288 - Fax: 020-8710-6049 - Email: [ti.uk@crowagents.co.uk](mailto:ti.uk@crowagents.co.uk)

Also, to ensure that poverty-reducing projects are appropriate to a country's needs and that civil society is associated more with policy decision-making and governance, TI-UK supports the suggestion that the whole or part of annual debt relief payments might be paid into Trust Funds in the respective countries. The trustees would comprise representatives of government, donor organisations, civil society and NGOs. They would be charged with administering the fund for disbursement on mutually agreed projects. The release of annual debt relief would depend on a satisfactory audit. This would ensure that moneys freed are used as intended by donors.

### **Official Development Aid**

To combat corruption in ODA associated projects, action is required by both developing and donor countries.

**Donor countries** need to:

- Follow up ratification of the OECD anti-bribery convention by tightening laws and implementing them vigorously.
- Outlaw tax deductibility of bribes where this is still allowable.
- Publish lists of debarred firms engaged in corrupt practices, all donors agreeing not to award contracts to such firms.
- Change the rules for export credit institutions to absolve them from paying indemnity on contracts that have been obtained or managed corruptly.
- Abolish tied aid.
- Adopt strict procurement rules and insist on no bribery pledges.
- Liaise more closely with civil society in beneficiary countries to ensure that development projects are appropriate to a country's most urgent needs.
- Give priority in ODA to raising the capacities of the judiciary, police, auditor-general offices, and other state institutions which provide the necessary "checks and balances" of an efficiently run country.
- Open the evaluation of development projects to public scrutiny.

The need for much of the above is now widely recognised, but action has been slow and some donor countries have been reluctant to move

**Developing countries**, in parallel, should make real efforts to check corruption at all levels of society by:

- Creating democratic institutions with the necessary checks and balances;
- Observing the rule of law, ensuring the independence of the judiciary and freedom of the press.
- Building better institutions, particularly in relation to criminal justice and the rule of law;
- Fighting corruption with determination, through anti-corruption campaigns covering all society, including the political leadership.
- Liaising on legislation and policy implementation with civil society whenever possible, so as to provide transparency in the allocation and execution of projects.

### **In Closing**

It has been recognised within the TI(UK) discussions that externally imposed policy reforms are often resented and may not always be put forward with due sensitivity. Nevertheless, official donors, who are ultimately responsible to their countries' taxpayers, do need to ensure that both aid payments and the funds freed by debt relief are deployed effectively in the reduction of poverty, and with total probity.