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## REPORT

on aid effectiveness and corruption in developing countries  
(2005/2141(INI))

Committee on Development

Rapporteur: Margrietus van den Berg

PR\_INI

## CONTENTS

	Page
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION .....	3
EXPLANATORY STATEMENT.....	8
PROCEDURE .....	13

## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on aid effectiveness and corruption in developing countries (2005/2141(INI))

*The European Parliament,*

- having regard to the Joint Statement by the Council and the Representatives of the Governments of the Member States within the Council, the European Parliament and the Commission entitled "The European Consensus on Development",
- having regard to the UN Convention against Corruption of 31 October 2003,
- having regard to the UN Declaration against Corruption and Bribery in International Commercial Transactions of 16 December 1996,
- having regard to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of 21 November 1997,
- having regard to the UN Millennium Declaration of 8 September 2000, which sets out the Millennium Development Goals (MDGs) as objectives established jointly by the international community for the elimination of poverty,
- having regard to the Paris Declaration on Aid Effectiveness of 2 March 2005,
- having regard to the Fourth Millennium Ecosystem Assessment Report of 12 July 2005 entitled "Ecosystems and Human Well-being: Opportunities and Challenges for Business and Industry",
- having regard to Articles 8, 9 and 97 of the Cotonou Partnership Agreement,
- having regard to the Declaration by the G8 Summit in Evian on Fighting Corruption and Improving Transparency of 2 June 2003,
- having regard to the Report of the Commission for Africa of 11 March 2005 entitled "Our Common Interest",
- having regard to the EU strategy to combat the illicit accumulation and trafficking of small arms and light weapons (SALW) and their ammunition adopted by the European Council on 15-16 December 2006;
- having regard to its resolution of 15 May 2003 on Capacity-building in the developing countries<sup>1</sup>,
- having regard to its resolution of 31 March 2004 on Governance in the European Union's

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<sup>1</sup> OJ C 67 E, 17.3.2004, p. 206-255.

development policy<sup>1</sup>,

- having regard to Rule 45 of its Rules of Procedure,
- having regard to the report of the Committee on Development (A6-0048/2006),
- A. whereas corruption hurts the poor disproportionately, restricting their access to public goods and lowering the quality of basic services, making it more difficult to escape the poverty spiral,
- B. whereas corruption has a negative impact on the business climate, the effectiveness of public service provision and the public's trust in their government,
- C. whereas corruption obstructs aid effectiveness and therefore undermines the development goals of the EU and slows down the pace of development in the EU's partner countries,
- D. whereas the World Bank estimates that more than USD 1 trillion is paid in bribes every year throughout the world and the African Union estimates that corruption costs African economies more than 25% of Africa's GDP annually,
- E. whereas corruption is a problem affecting society as a whole and takes many forms and a "one size fits all" strategy does not apply as corruption can only be permanently eliminated through a broad approach,
- F. whereas numerous players, including politicians, government officials, civil society, the media, multinationals and international donors, can play a role in the fight against corruption,
- G. whereas corruption is both one of the causes and one of the consequences of conflict situations,
- H. whereas corruption is a threat to basic human needs, such as access to health and education,
- I. whereas corruption is a by-product of weak governance, inextricably linked to the role of the State, and should therefore be fought by strategies promoting good governance,
- J. whereas transparency and accountability are key principles in the fight against corruption,
- K. whereas due attention should be given to the link between the illicit manufacture, transfer and circulation of SALW and corruption practices in both developing and developed countries,
- L. whereas curbing corruption is impossible without the awareness and participation of civil society and whereas access to all the information is crucial in this process,
- M. whereas the 2003 UN Convention Against Corruption is the first international legal instrument to recognise the need for all States to commit to asset repatriation, and

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<sup>1</sup> OJ C 103 E, 29.4.2004, p. 449-550.



whereas the only EU Member States that have ratified this Convention are Hungary and France,

- N. whereas, from among the EU Member States, the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions has not been ratified by Malta, Lithuania or Latvia, and these Member States should be urged to do so in the near future,
1. Calls on the Commission to focus more specifically, in designing its development programmes, on issues of accountability and transparency, as weak accountability mechanisms tend to facilitate corruption;
  2. Stresses that increased attention should be paid to the role of the civil society in fostering good governance and voluntary control of corruption;
  3. Recalls that under the amended Cotonou Partnership Agreement serious cases of corruption can lead to consultations in accordance with Articles 96 and 97 of the Agreement;
  4. Stresses the need to support national parliaments in developing countries in their work as budget authorities by means of dialogue, information sharing and capacity building;
  5. Stresses the important role that a free and independent media can play in the fight against corruption and calls for greater EU support for projects assisting or strengthening such media in partner countries;
  6. Stresses the need to contribute to building and strengthening the legal system in those countries;
  7. Underlines the important role played by women also in the fight against corruption and emphasises therefore the need for more and better education of women and girls and for promoting of the involvement of women in politics;
  8. Supports the "Publish What You Pay" campaign that calls for multinationals to disclose information about payments to governments;
  9. Stresses the importance of investment in the developing countries and encourages the Commission and the Member States to assist the flow of such investment;
  10. Stresses the importance of the establishment of watchdogs by civil society in developing countries, requiring a system of checks and balances of their government; calls on the Commission to support this process by reserving an appropriate percentage of budget aid for civil society watchdogs;
  11. Considers that the internal organisation often has to change in order to tackle corruption; emphasises the need for capacity-building in central and local institutions to combat corruption, especially in the light of the increase in aid given in the form of budget aid;
  12. Stresses that the granting of budget aid must always be carefully preceded by fiduciary risk assessments on a case-by-case basis;

13. Stresses that budget aid should always be earmarked for a specific sector ;;
14. Emphasises that any budget aid that is supplied should be accompanied by a policy dialogue aimed at improving Public Financial Management (PFM), reducing the risk of corruption or mismanagement of funds
15. Calls for more transparency in programmes for budget aid granted by the EU, including publication of the relevant information about the aid spent in the recipient country, and by involving parliaments and informing civil players in this process;
16. Calls for support for efficient budget tracking through Public Expenditure Tracking Surveys (PETS) by civil society and national parliaments which clearly measures "inputs" against "outputs" under the OECD's Development Assistance Committee (DAC) criteria;
17. Considers that specific social indicators should be devised for the purpose of obtaining more precise data on the quality of governance achieved by the countries in question and calls for civil society to be more extensively involved in this area;
18. Calls on the EU, as co-chair of the Public Expenditure and Financial Accountability Programme (PEFA), which provides a harmonized framework for assessing fiduciary risk in recipient countries, to include specific indicators to measure the level of corruption;
19. Calls on the Commission to use these levels of corruption as tracked to support good governance and take adequate measures against corrupt regimes;
20. Urges the Commission to consider decisions to reduce the external debt of developing countries;
21. Stresses the need for international donors closely to coordinate their activities in the field of budget aid with a view to enhancing transparency and accountability in the recipient country;
22. Urges all EU Member States as well as all countries signatories to the 2003 UN Convention against Corruption to ratify the Convention and the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions;
23. Recalls the important role of regional initiatives in curbing corruption and promoting good governance such as the African Peer Review Mechanism (APRM); underlines the need for African countries to implement these initiatives and for the Commission and the Member States to provide technical and financial assistance for this purpose;
24. Calls on Member States to promote a legally binding international instrument on the tracing and the marking of SALW and ammunition as soon as possible, as well as to support regional initiatives to combat the illicit trade in SALW and their ammunition in the developing countries;
25. Calls for further enforcement and commitment to the "Extractive Industries Transparency Initiative" in order to ensure the disclosure of information about payments between

governments of developing countries and multinationals;

26. Calls on Member States with financial centres to take all necessary legal and administrative action to ensure that illicitly acquired funds can be repatriated to the state of origin; stresses furthermore the need for capacity-building, concentrating on preventing the theft of assets and the misuse and misappropriation of public funds;
27. Urges the Commission and the Member States to establish an international system of blacklisting to prevent banks from lending large sums of money to corrupt regimes or individuals representing a government;
28. Calls on the Commission and the Member States to ban public purchasing or procurement contracts with companies whose employees have been involved in corrupt activities with government ministers or officials or in any other way within a developing country, if those employees are not subject to disciplinary proceedings; further calls on the Member States to refer such cases to the appropriate prosecution authorities, so that such people will be investigated and brought to trial, if they have a case to answer;
29. Stresses that there are major corruption risks involved in public procurement procedures and that, consequently, transparent procurement rules and procedures should be promoted as a key priority;
30. Instructs its President to forward this resolution to the Council and the Commission.



## **EXPLANATORY STATEMENT**

Corruption is a common phenomenon that can manifest itself in various ways and in all levels of society, varying from bribing civil servants and theft of public resources to fraud and nepotism. Corruption imposes massive costs on countries, institutions and ordinary citizens. It obstructs growth and creates a serious risk of marginalization in the global economy for countries with high levels of corruption. The World Bank estimates that more than USD 1 trillion is paid in bribes every year worldwide. The African Union estimates that corruption costs African economies more than USD 148 billion a year, representing 25 % of Africa's GDP.

The effects of corruption impose a disproportionately heavy burden on the poor since they are the most vulnerable and suffer most from restricted access to public goods and lower quality basic services. As a result, corruption creates obstacles to development in third world countries. It is understood that corruption can directly and indirectly affect the achievement of the Millennium Development Goals as budget resources in key MDG sectors leak away. Moreover, aid is also less effective in corrupt countries since substantial parts of the granted funds leak away.

Since corruption hinders aid effectiveness, there is a clear interest among international donors to help curb corruption in the countries where they spend their money. The EU should make the fight against corruption a central element of its development policy, focussing on issues such as good governance, state capacity and public sector management. This must also involve good risk management on the supply side, making sure aid is not spent in a weak governance environment where funds leak due to corruption.

Meanwhile, donors should put more confidence in countries that they find low on the corruption scale, and give them time to produce results. Without a predictable flow of funds and the ability to use development assistance for recurring expenditure, such as salaries, governments will be cautious about hiring teachers or nurses and this will hamper their development.

### **Promotion of good governance**

Corruption is a by-product of weak governance. As corruption often involves an important role for the state, it is sometimes defined as the abuse of public power for private benefit. Weak institutions and administrations with limited accountability often allow for the misuse of public goods by politicians or public officials. Research has proven that countries improving control on corruption and rule of law can expect in the long run a four-fold increase in income per capita. Therefore curbing corruption is and should remain an important goal of policies aiming for "good governance" in developing countries. The EU has identified good governance as an integral part of its long-term development strategy.

Good governance evolves around the principles of accountability and transparency. Accountability means that there are rules, procedures and control mechanisms that make it possible to control what the government is doing with money that belongs to the people. Both state and non-state actors should be involved in this process.



Transparency is a vital component of accountability. If financial allocations are visible, it is more difficult to divert money into corrupt pockets. Access to information is crucial for the robust democratic engagement of citizens in public affairs. This is based on the basic right to receive public information and helps in building effective monitoring structures by civil society organisations.

#### *Budget tracking*

Budget transparency is one of the most critical areas where good governance can be promoted by better access to information. Citizens have the right to information about how budgets are spent. This is particularly important when it comes to large revenue items, such as the amounts received from international donors delivered as budget support.

Public and legislative scrutiny is often not very efficient because of a lack of information. It is important that the established objectives and policy priorities are reflected in annual budgets. Budget transparency is needed to check the sectors that were supposed to receive the money. In some countries only parts of the budget are public and other parts, such as military expenditure, are not public. This should never be the case: donors, national parliaments and civil society should always have sight of the full budget.

Budget tracking can and should be executed by both national parliaments and civil society. A specific tool that is often used to examine the flow of funds and materials from governments to destinations like schools and health centres are Public Expenditure Tracking Surveys (PETS). PETS can help identify potential corruption zones, monitor the fight against corruption and empower stakeholders. The EU should support the development of PETS and the training of its users.

#### *The role of parliaments*

Parliaments, in discharging the functions provided for in national constitutions, overseeing the government and representing the people, are important stakeholders in the fight against corruption. Parliaments play a significant role in advancing reforms in public finance management but low levels of training of legislators in many countries limit their ability to perform efficiently. Since national parliaments are often sidelined in good governance programmes they merit more attention from international donors.

In particular, capacity development in national parliaments should consist of:

- a) Supporting national parliaments in instituting or reinforcing mechanisms within parliament for bringing government to account;
- c) Help building up budget literacy - developing the skills to adequately assess and evaluate the budget during the budgetary cycle;
- d) Help national parliaments to create public awareness by introducing civic education in school curricula and by setting up public awareness campaigns.

There is evidence that corruption falls as the proportion of parliamentary seats held by women rises. Closing the gender gap is thus another instrument that could reduce corruption. Countries that adopt specific measures to develop women's skills and protect their rights are better off. According to the World Bank, when women have access to resources and schooling, less corruption and faster economic growth is achieved. The EU should therefore support the involvement of more women in politics.

#### *Civil society watchdogs*

Public pressure and a general intolerance of corruption in a society are essential in the fight against corruption. Public feedback, organised through civil society, can be a powerful tool to make social services more responsive and accountable. For civil society to fulfil this role it is essential to raise public awareness, educate people and make sure that structures are in place so that these civil society watchdogs can actually do their work. Across the world there are many examples of organisations that are effectively monitoring their governments and attempting to hold them to account. The Publish What You Pay-campaign of hundreds of NGOs focuses on the disclosing of payments of multinationals to governments in the natural resources sector. Good governance policies and especially policies aimed at reforming public finance management should support the development and strengthening of these organisations.

#### **Budget support**

There is a growing tendency for the EU to give developing countries budgetary aid - money that goes directly into the national coffers of recipient countries - instead of investing in a large number of smaller development projects. EU budget support, which grew from 14% in 2001 to around 30% in 2004, is considered a useful aid modality in a strategy focusing on improving public financial management for the whole budget.

However, budget support also involves serious risks because of its lack of transparency and the possible opening for corrupt activities. Budget support works very well when institutions are good but corruption moderates the impact of budget support on growth and poverty. Therefore, before budget support is given, an analysis of the macro-economic and financial situation of the country is made. Improvement in the quality and effectiveness of public expenditure is one of the most important criteria for the decision to grant budget support. Budget support should only be granted to a government if it is diagnosed as improving its PFM.

Even if institutions work well, care should be taken when providing aid directly to national budgets. The Court of Auditors has recently concluded that the European Commission's current budget aid programmes do not adequately take into account the problems related to corruption.<sup>1</sup> Corruption should be analysed in all fiduciary risk assessments and the European Commission should maintain involvement in the implementation of budget support either through ex-ante or ex-post control and audit. In order to further reduce risks, budget support should always take the form of sector specific budget aid that earmarks money for a specific

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<sup>1</sup> Special Report No 2/2005, concerning EDF budget aid to ACP countries: the Commission's management of the public finance ref.

sector in which the funding should be spent.

The effectiveness of budget aid is measured by performance indicators. These indicators often focus mainly on the correct management of public funds, and do not pay enough attention to the pro-poor outcome. From a development point of view it is better to use poverty-related targets that directly measure the outcome of, for example, policies in the education and health sector forcing governments to focus on a policy outcome instead of budgetary input and output. Details on the grounds, definition, calculation method and sources of information for each indicator should systematically be included when applying these indicators.

As was discussed above, monitoring by civil society is vital in the process of budget support. These groups need to have access to the resources of information and better knowledge of macro-economic mechanisms. It is therefore necessary that a percentage of 0.5 % of the granted budget support should be reserved exclusively for civil society watchdogs.

#### **What the international community can do**

The two most important conventions on the fight against corruption are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999) and The UN Convention against Corruption (2003). The OECD Convention has been ratified by most EU Member States, except for Malta, Lithuania and Latvia. These Member States should be pressed to sign the convention. The UN Convention has, at the time of writing, only been ratified by Hungary and France. The Convention should be ratified by all other EU Member States as soon as possible. The international community as a whole, and the EU in particular, should work towards better enforcement of these conventions.

Another important issue is transparent cooperation with other donors such as the World Bank and the IMF. An example of this is the Public Expenditure and Financial Accountability Programme (PEFA) in which the EU and the World Bank jointly chair the steering committee. This programme provides a harmonized framework for assessing fiduciary risk with a common set of indicators. The current system, however, is inadequate for measuring corruption since it does not include a direct indicator on corruption. This should be tackled in the future.

The Extractive Industries Transparency Initiative (EITI) is a multi-stakeholder agreement under which oil, gas and mining companies agree publicly to disclose all payments they make to developing country governments and governments agree to publish what they receive. The international community should give strong political and financial support to initiatives such as this to increase transparency. In addition the EU should support local measures for combating corruption, such as the African Peer Review Mechanism (APRM), which is perhaps the most innovative aspect of the NEPAD.

#### **Stealing of assets**

A significant problem affecting many developing countries is the illicit acquisition of public funds and assets by former dictators or presidents who lodge them in foreign bank accounts. Countries that have large financial centres holding such funds should take all legal and



administrative action to ensure that these illicitly acquired state funds can be frozen and confiscated and that eventually the money is repatriated to the governments of the countries they were stolen from. Currently this is not done effectively, as assets often remain unfrozen until criminal investigation is in an advanced stage which gives the former dictators time to move the money away.

As judicial systems in affected countries are often unable to meet the requirements to enter a claim for recovery and repatriation of illicit funds, specific donor efforts should be targeted at developing this capacity. Furthermore it is important to focus technical assistance on the *prevention* of the stealing of assets. In most developing countries there is a lack of appropriate legislation and good financial institutions capable of identifying of illicit funds before they leave the country. EU development aid in this field should focus on this capacity, for example by providing expert advice, training courses and coaching.

A final measure that can prevent states from incurring financial problems is to impede banks and other financial centres from lending large sums of money to dictators or corrupt regimes. Many former dictators, now long gone, have left their countries indebted, creating serious obstacles for development. Criteria for lending could include the question of whether a government is democratically elected. A black-list of these regimes could be established by the international community, for instance by the Club of Paris. As soon as a country has experienced a regime change by democratic elections, or has otherwise improved its democratic governance, it can be removed from this list.



## PROCEDURE

<b>Title</b>	Aid effectiveness and corruption in developing countries		
<b>Procedure number</b>	2005/2141(INI)		
<b>Basis in Rules of Procedure</b>	Rule 45		
<b>Committee responsible</b> Date authorisation announced in plenary	DEVE 8.9.2005		
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary	INTA 8.9.2005		
<b>Not delivering opinion(s)</b> Date of decision	INTA 29.8.2005		
<b>Enhanced cooperation</b> Date announced in plenary	No		
<b>Motion(s) for resolution(s) included in report</b>	-		
<b>Rapporteur(s)</b> Date appointed	Margrietus van den Berg 24.5.2005		
<b>Previous rapporteur(s)</b>			
<b>Discussed in committee</b>	29.8.2005	4.10.2005	1.12.2005
<b>Date adopted</b>	20.2.2006		
<b>Result of final vote</b>	for: 22 against: 0 abstentions: 0		
<b>Members present for the final vote</b>	Margrete Auken, Thierry Cornillet, Alexandra Dobolyi, Michael Gahler, Filip Andrzej Kaczmarek, Glenys Kinnock, Ģirts Valdis Kristovskis, Maria Martens, Miguel Angel Martínez Martínez, Jürgen Schröder, Feleknaš Uca, María Elena Valenciano Martínez-Orozco, Anna Záborská		
<b>Substitutes present for the final vote</b>	John Bowis, Milan Gaľa, Ana Maria Gomes, Fiona Hall, Manolis Mavrommatis, Zbigniew Zaleski, Gabriele Zimmer		
<b>Substitutes under Rule 178(2) present for the final vote</b>	Emine Bozkurt, Robert Evans		
<b>Date tabled – A6</b>	27.2.2006	A6-0048/2006	