



International Drivers of Corruption

A TOOL FOR ANALYSIS



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Foreword

Corruption impacts on development outcomes. It undermines accountable and effective institutions, prevents access to basic public services and holds back economic growth. It is now widely recognised that international aspects of corruption can have a critical impact on domestic governance and development efforts.

There are numerous examples of international policies having significant effects – negative as well as positive – on corruption and governance. In Sierra Leone, global demand for rough diamonds was sustained, even when the world knew the proceeds were lining the pockets of President Steven Siaka. This practice generated a shadow economy, weakening state capacity and legitimacy, and fuelled the conflict. By contrast, increasing international demand for verified and legal wood helped improve domestic forest governance in Ghana and reduced corruption in the timber industry.

In 2007 the OECD-DAC Policy Paper and Principles on Anti-Corruption, “Setting an Agenda for Collective Action” established a framework to improve anti-corruption efforts through two pillars: *i*) promoting a more coherent approach to anti-corruption at country level, and *ii*) addressing the global incentive environment. Much work is now underway to address corruption within traditional forms of development co-operation, but effective action on the second pillar will require development partners to work closely with their colleagues in other government departments and agencies, and this implies policy responses that lay outside the development policy domain.

This publication is a step towards a more innovative approach to addressing the effects of international drivers of corruption on the domestic political economy. It provides a hands-on tool for international agencies in development, tax co-operation, trade or security to clearly identify which international drivers are affecting the specific domestic governance environment, how they are affecting it, and where international action can best be leveraged. By providing operational recommendations, it will help development actors to better design their actions to counter corrupt practices and improve development outcomes.

This tool, if translated into effective policies and actions, will make a difference in international efforts to address corruption and hence contribute to the achievement of the Millennium Development Goals.

I therefore encourage all actors engaged in the fight against corruption, but also those dealing with international trade, tax co-operation or international security, to carefully read this document and to make use of its powerful insights in your day to day work.



J. Brian Atwood
DAC Chair

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Executive summary

This report introduces an analytical tool intended to help users understand how factors in the global economy and international relations affect governance and corruption at the country level. It provides a means for identifying those factors that matter most for domestic governance, as well as opportunities for international actors to work more effectively to improve governance in specific country contexts.

While corruption and other governance problems result primarily from processes generated within the domestic political economy, there are also major international factors that interact with domestic processes, referred to in this report as “international drivers of corruption”. Examples include the effects of natural resource rents arising from international trade of high-value commodities, the ability to conceal and move financial assets abroad, and pressures created by foreign investment. Less tangible but no less significant effects arise from international networks of expertise and ideas, and international reputational pressures.

Recent years have seen growing recognition of the importance of international drivers. Many international instruments and initiatives have been established to regulate their effects, with the aim of improving governance and corruption outcomes. These include the Extractive Industries Transparency Initiative (EITI); the EU Action Plan Forest Law Enforcement Governance and Trade (FLEGT); the recommendations of the Financial Action Task Force on Money Laundering and Terrorist Financing; the OECD Convention on Combating Bribery; the Global Forum dealing with transparency and exchange of information for tax purposes; the United Nations Convention against Corruption, and many others. Along with this increased international engagement, there is a need for a better understanding of the processes by which international drivers affect governance and corruption in different country contexts, and more strategic thinking on how international instruments can counter those processes.

This report – developed by GOVNET, the OECD DAC Network on Governance – aims to meet this need. It introduces an analytical tool intended to help users understand how factors in the global economy and international relations affect governance and corruption at the country level. It provides a means for identifying those factors that matter most for domestic governance, as well as opportunities for international actors to work more effectively to improve governance in specific country contexts.

Why is an analytical tool needed?

Development agencies working on governance and anti-corruption initiatives have tended to work mainly at the country level in the framework of aid programmes. The international drivers agenda points to the need for a broader focus that covers both domestic and international influences on corruption and requires the combined use of aid and non-aid instruments. There is an increasing number of international legal instruments and

conventions available – for example, OECD’s work in establishing the Convention on Combating Bribery and the Global Forum on Transparency and Exchange of Information for Tax Purposes. Using these instruments more effectively will require more informed analysis of the effects of international drivers at the country level.

This analytical tool is proposed to apply structured thinking to a complex set of problems and to be used by a wide range of actors engaged in governance, transparency, and corruption control. It will be of interest to agencies working in international development, but is intended for a wider audience working across a broad range of subject areas – including international relations, trade, investment, tax co-operation and security. The breadth of the subject matter explored in the report calls for a multidisciplinary approach.

It uses a political economy model to understand the processes that cause corruption and governance weaknesses at the country level. It then seeks to examine how international drivers interact with these processes and attempts to explain likely outcomes. The aim of the analysis is to generate relevant and practical recommendations for action.

The tool can be used in a variety of ways, from a brief review of secondary literature to a more in-depth study that might include original research. It can be used to assess the current situation, to assess change over time or to construct future scenarios. The tool directs users through a structured set of diagnostic questions that help to identify which drivers are most important in particular contexts, and to explain how they operate. The inherently incomplete and contested sources of evidence will limit users’ ability to arrive at definitive or causal explanations. However, the tool should help users make sense of a complex picture and to identify the key issues and priorities in a time-efficient way. More in-depth and focused studies will then be needed to guide the design of specific international instruments and country-level programmes.

Concept and approach: What are international drivers and why do they matter?

Major changes in the global economy and communications over the past few decades have highlighted international drivers and their effects on governance and corruption. There has been a particular focus in the literature on the “resource curse” referring to the governance effects of extractive industries. Growing global demand for scarce commodities has provided political elites in resource rich countries with historically unprecedented opportunities to extract high rents. In contrast to tax revenues, these rents are essentially an “unearned” source of income. They do not expose political elites to pressures to build effective and accountable public institutions and to nurture economic growth.

Greater global interconnectedness also facilitates illegal transactions with negative consequences for corruption and governance. Powerful groups emerging from criminal backgrounds are often well connected across international borders. Illegal narcotics trading and smuggling into rich country markets generate high profits and rents, with particularly corrupting effects on police and politicians in trans-shipment areas. The incentive to take advantage of all these opportunities for personal enrichment is intensified by financial liberalisation that facilitates large transnational capital movements, and the scope to hide financial assets overseas.

The impact of the global environment on developing countries is not all negative. There is increasing international pressure for electoral democracy, and accountable, rules-based governance. Entrepreneurs facing competition in regional and global markets have an interest in pressing governments for the provision of investment-friendly public goods, such as better infrastructure, phytosanitary regulation or certification of sources of timber

and diamonds. Transnational companies can play a role in introducing more effective and transparent systems of accounting, commercial law and corporate governance. Consumer and media pressure in rich countries can drive improvements in governance by stimulating demand for legally produced and certified goods, and damaging the reputation of firms that have been exposed as having engaged in illegal and corrupt activities. International NGOs have the power to mobilise action and public opinion, and to build networks spreading ideas across countries.

The effects of international drivers vary greatly from one country to another. Different countries are exposed to different types of drivers depending on their geography and position in the world economy. Moreover, the same driver will have different effects in different countries depending on the political and economic context as well as the country-specific nature of institutions and social relations. Such factors explain why, for example, some countries have performed much better than others in managing natural resource rents. In order to explain such varied outcomes, it is essential to examine the effects of international drivers at the country level and to view corruption and governance outcomes in terms of the interaction between international drivers and processes occurring within the domestic political economy. Using this approach, it is possible to understand which drivers matter most in different contexts, what their effects are likely to be, how or why specific international regulatory instruments can make a difference, and how international actors can best coordinate and prioritise their actions.

Analysing the effects of international drivers of corruption: a four-step framework

The analytical tool follows a four-step analysis that aims at a better understanding of the effects of international drivers of corruption at the country level.

Step 1: Understanding the domestic political economy.

This first step consists of an assessment of the country situation and domestic political economy. This seeks to explain corruption and other governance failures in terms of the political processes of contestation and bargaining between interest groups with competing claims over rights and resources. The analysis focuses particularly on the behaviour of the ruling elite and other factions who are in a position to challenge the power of the ruling elite. In certain contexts, elites may be narrowly concerned with predation, rule by coercion, rent creation and capture, and other forms of corruption. In other situations, elite behaviours may be consistent with nurturing productive investment and growth, creating public goods and governing by consent. Elite incentives are shaped by numerous factors, which are examined under three headings: structures, institutions and political processes.

Step 2: Identifying the international drivers.

A list of potential drivers and a set of diagnostic questions help to identify which drivers are likely to be relevant in a particular country context. The seven categories of international drivers are as follows:

1. Sources of rents and unearned income
2. Opportunities and constraints to conceal and move illicit assets
3. Foreign investment
4. Global and regional security threats and responses

5. International legal measures and sanctions against domestic elites
6. Reputational pressures on political elites from regional and international actors
7. External ideas and skills

Step 3: Tracking the effects of the international drivers.

The core part of the analysis examines the mechanisms and pathways by which each driver affects the domestic political economy and the outcomes for governance and corruption. This analysis distinguishes between the immediate effects of the international driver on domestic political processes (primary effects), knock-on effects on institutions and structural factors (secondary effects) and feedback effects.

Step 4: Drawing conclusions and assessing the scope for action.

The final step draws together the preceding analysis with the aim of identifying opportunities for specific programmes and applications of international instruments. This tool has been tested around four country examples (Cameroon, Sierra Leone, Uganda and Zambia) for illustrative purposes. Conclusions and recommendations from these examples are developed in Chapters 3-6.

Introduction

The global economy and other international influences have powerful effects on governance and corruption at the country level. Many of these “international drivers” can act to undermine accountable governance – for example, through the effects of substantial rents from commodity exports; the ease of depositing illegal earnings securely in financial centres; and the ability to acquire military force through commercial hiring arrangements. However, other drivers can have positive effects. Examples include competition between states to become more investment-friendly, and the exchange of ideas across international professional networks.

Donors and other international actors increasingly acknowledge the influence of international drivers. This recognition has contributed to the large and growing number of programmes that seek to increase the incentives for good governance through international action. It has not, however, led to the development of tools to *analyse the effects* of these drivers. Such analysis is essential to understand which drivers matter most in given contexts, how or why specific international regulatory instruments can make a difference, and how international actors can best co-ordinate and prioritise their actions.

This report attempts to fill the gap by introducing a tool for understanding the effects of international drivers on particular corruption and governance problems at the country level. The tool follows a four-step process through which users can: *i)* examine a country’s political and economic context; *ii)* identify which international drivers figure most importantly in that country; *iii)* assess their effect on governance and corruption; and *iv)* reflect on how international engagement could be made more effective. It uses existing elements of political economy analysis, including an emphasis on elite incentives and behaviour, and the strategies different elites use to win, use and retain power. The tool’s novelty lies in its ability to link this understanding of a country’s domestic political economy to international drivers of corruption, and to explain the interactions that arise.

The report is divided into two chapters. The first chapter explains why international drivers matter for domestic governance and corruption, and then introduces the concepts and analytical approach to be used in the framework. The four steps of the framework are presented in the second chapter to guide the analysis with the aid of structured questions. Concluding remarks close this report.

The framework is designed to be flexible, and can be applied to help structure a rapid assessment or more in-depth research. At a minimum it could be used to structure a one- or two-day workshop for key informants. Well-informed analysts with existing country knowledge could use the format to synthesise existing literature and prepare a brief country report over one or two weeks’ work. A more comprehensive and authoritative study would require several weeks or months of time and input including key informant interviews, focus groups and original data collection.

The framework may be applied to any country, but is particularly relevant to the problems of countries with more severe governance problems and weaker institutions. To illustrate how the framework can be applied, the report presents four country case studies in Chapters 3-6: Cameroon, Sierra Leone, Uganda and Zambia. These case studies are intentionally brief; they are not meant to provide exhaustive analysis of international drivers in those countries. Annex B provides a summary of the main existing international tools, instruments and conventions that can be used to engage with these international drivers.

Chapter 1

The concept of international drivers of corruption

Why do international drivers matter?

Major changes in the global economy, in particular since 1970, have fundamentally affected the incentives facing political and economic elites. Recent research has focused on the impact of increasing global demand for natural resources, which has provided political elites in poor countries with historically unprecedented opportunities to extract high rents from the export of scarce commodities. Moore, Schmidt and Unsworth (2009) suggest that this has provided political elites with “unearned incomes” that have acted to undermine their interest in building effective, accountable public institutions and nurturing economic growth. Foreign aid also provides a source of “unearned income”, and can be associated with substantial corruption, for example in the manipulation of public procurement.

Elites governing poor countries are not the only ones influenced by the international environment. Powerful groups emerging from criminal backgrounds are often well connected across international borders, as are those empowered by socio-cultural or military links. Illegal narcotics trading and smuggling into rich country markets also generate high profits and rents, with particularly corrupting effects on police and politicians in transshipment areas (Mexico, West Africa, the Caribbean). The incentive to take advantage of all these opportunities for personal enrichment is intensified by financial liberalisation which both facilitates large transnational capital movements and provides scope for hiding financial assets overseas.

The broad and mainly negative effects of the “resource curse” are well-documented examples of the impacts of international drivers. The high level of international demand for raw materials generates massive rents that can greatly influence the economy and governance of producer countries. Impacts in relation to governance concern the struggle among and within elites to control the resulting rents and the negative effect of unearned incomes on accountability (Ross, 1999). The precise effect of natural resource rents on economic performance, civil war and types of political regime is contested in the literature. Some countries have performed much better than others in managing natural resource rents, which points to the fundamental role of individual political and economic contexts, and of the country-specific nature of institutions and social relations (Rosser, 2006). It is therefore vital to understand the interaction between the political economy and international drivers.

The impact of the global environment on developing countries is not all negative. There is increasing international pressure for electoral democracy and accountable, rules-based governance. Entrepreneurs facing competition in regional and global markets have an interest in pressing governments to provide investment-friendly public goods (for example improved infrastructure, phytosanitary regulation, or certification of sources of timber and diamonds). Transnational

companies can play a role in introducing more effective and transparent systems of accounting, commercial law and corporate governance. Consumer and media pressure in developed countries can drive improvements in governance by stimulating demand for legally produced and certified goods, and by damaging the reputation of firms that have been exposed as engaging in illegal and corrupt activities. International NGOs have the power to mobilise action and public opinion, and to build networks of organisations across countries. South-South networks and communities of experts (scientists, tax officials) can facilitate cross-country learning and co-ordinate action. International initiatives and regulatory instruments have sought to build on these positive effects of international drivers while countering negative influences (see Annex B).

Concepts and approach

Corruption and governance failures

This analytical tool addresses the essential issue of how the international drivers affect country-level governance. The tool focuses on those forms of corruption and governance failure most damaging to economic growth and development; corruption is broadly defined as the “abuse of entrusted authority for illicit gain” (see Box 1.1). Corruption and governance failures here also extend to other behaviours that may not always be considered illicit, but that are driven by the narrow and self-serving interests of powerful groups. This includes attempts by such groups to create and capture economic rents, and to direct public spending at private goods benefitting themselves or narrow groups of supporters rather than at broader public goods provision. Thus, in broad terms the tool is concerned with bringing about a shift away from *exclusive* forms of political behaviour – such as corruption, predation, rent seeking and patterns of public expenditure based on patronage – and towards productive use of resources and the creation of more *inclusive* public goods.

The political economy approach and elite strategies

The tool uses a political economy approach that explains corruption and other governance failures as the outcome of political processes involving contestation and bargaining between interest groups with competing claims over rights and resources. The approach focuses particularly on the behaviour of the ruling elite, defined as those individuals and groups controlling the state and military apparatus, as well as other factions that are in a position to challenge the ruling elite’s power. In certain contexts elites may be narrowly concerned with predation, rule by coercion, rent creation and capture, and other forms of corruption. In other situations elite behaviour may nurture productive investment and growth, creating public goods and governing by consent.

The tool deals with the most important factors affecting *elite strategies*, including their sources of support, their power and legitimacy, and threats to their security and wealth. Elite strategies are played out under different political systems, where contestation may, for example, arise from democratic competition, violent or potentially violent domestic opposition, or an external threat. Sources of revenue are central in shaping ruling elite incentives and strategies. In particular, it makes a difference whether or not rulers need to “earn” revenue by taxing citizens, which creates pressures for public accountability and a strong incentive for rulers to nurture productive investment and build the capability to raise and manage public revenues. The contrary situation arises where revenues are “unearned”, particularly in the case of rents arising from high-value natural resource exports. Elites will also adopt different strategies depending on whether revenues are channelled through the state (*e.g.* taxation of mineral companies) or whether they can be directly appropriated (*e.g.* illegal logging or drug trafficking).

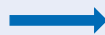
Elites do not form a monolithic or unified group that operates in isolation from the rest of society. It is essential to understand how power is exercised through relations among different sections of the elite, and between elite and non-elite groups. The latter often operate through patron-client relations, in which elite groups maintain their power and support by distributing favours and public resources to selected groups in exchange for their political loyalty.

Box 1.1. A definition of corruption and other governance failures

The definition of corruption used by this tool – the “abuse of entrusted authority for illicit gain”^{*} – is rather broader than the conventional one, “the abuse of public office for private gain”. The latter is difficult to apply in developing country settings, where the distinction between the private and public sphere is often unclear, formal rules are weakly embedded, and more personalised forms of rule lead to different perceptions about what is licit and illicit. Corruption is not just an individual choice, but also an endemic problem in most poor countries. The definition used here responds to the need to look broadly at the behaviour of power holders, take account of local notions of what constitutes an abuse, and recognise the overlapping nature of the public and private sectors.

The tool does not restrict itself to corruption. It is also meant to be applied to a broader set of governance practices that may not be considered as being illicit or corrupt, but are driven by the narrow and self-serving interests of powerful groups, mainly for the purposes of self-enrichment and power preservation. In broad terms the tool is concerned with bringing about a shift away from exclusive forms of political behaviour to more inclusive provision of public goods, as illustrated and defined below.

Exclusive political behaviour



Inclusive political behaviour

Predations defined as the theft or confiscation of privately owned or publicly held goods for private gain.

Corruptions defined as the abuse of entrusted authority for illicit gain.

Rent-seeking behaviour. Rents are the excess earnings above normal profits – *i.e.* the proportion of the sales value of a product that can be captured by a tax authority, a criminal or a protection racket, while leaving the producer with enough profit to be motivated to continue to produce. Rents can be created by policy distortions, trade and sales restrictions and market power, and can also arise in the extraction of natural resources whose world market price greatly exceeds production costs.

Political patronage. The allocation of resources (arising either from rents or targeted public expenditure) to narrow interest groups in a way that is intended to buy political loyalty and keep political patrons in power.

Public goods provision. Public goods are goods providing collective benefits (formally defined as non-rivalrous and non-excludable). Market mechanisms do not provide incentives for the adequate provision of public goods; some form of government intervention or collective action is usually required. Examples of public goods include large-scale infrastructure, mass vaccination and environmental regulation.

^{*}NORAD Norwegian Agency for Development Co-operation (2009), *Anti-Corruption Approaches: A Literature Review*. www.norad.no/en/Tools+and+publications/Publications/Publication+Page?key=119213.

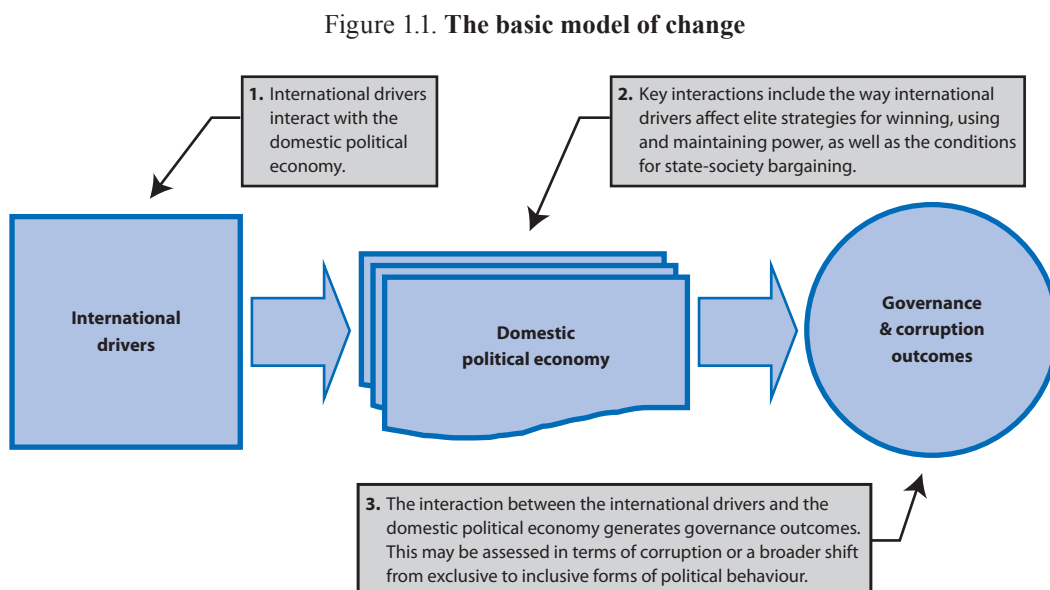
Interactions among elite groups as well as between elite and non-elite groups can also drive progressive change. The underlying assumption in this framework (and widely accepted among political scientists) is that effective and accountable public authority, and public institutions that support productive use of resources are created through bargaining among social groups, and between social groups and the state (referred to in this report as “state-society bargaining”). Political and economic development results from a strategy shift that occurs when rulers recognise that they benefit from promoting the prosperity of their economic base, and using coercion not to seize or to destroy wealth but rather to safeguard and promote its creation (Bates, 2001). Progressive change happens when bargaining between rulers and ruled, and between public and private actors, enables people to identify and build on common interests, and produce “win-win” outcomes. These may include, for example, security in exchange for recognising a legitimate, coercive role for the state; state protection of property rights (initially informal and exclusive) in return for productive investment; compliance with tax demands in return for political and civil rights and public goods and services.

International drivers

International drivers are defined as “the global or regional factors that influence the domestic political economy”. They primarily include economic processes operating at the global or regional level, but also include trends in international relations and security as well as other aspects of globalisation, including the ease of communication and the flow of ideas. These drivers affect the various strategies adopted by elite groups for winning, using and retaining power, and the conditions for state-society bargaining. In tracing these links, it is possible to assess which international drivers are likely to bring about improvements in governance and which may be fuelling corruption.

Model of change

Figure 1.1 illustrates the model of change embodied in the tool.



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Chapter 2

Using the tool: A four-step framework analysing the effects of international drivers

The tool follows a four-step analysis, outlined in Table 2.1. It begins with an assessment of the country’s situation and its domestic political economy, comprising the key processes and interactions that explain governance and corruption outcomes. The second step screens a long list of potential international drivers using a set of diagnostic questions which identifies those drivers that are most significant in the country context. The heart of the analysis is undertaken in the third step, where the tool guides users in identifying the particular interactions between the “shortlisted” international drivers and the domestic political economy. The fourth and final step has a practical focus: making international action more effective through specific programmes and applications of international instruments.

Table 2.1. The tool in four steps

Step 1  Understanding the domestic political economy	Step 2  Identifying international drivers	Step 3  Tracking the effects of international drivers	Step 4  Drawing conclusions and assessing the scope for action
Key questions Structures: What are the fundamental features of the country’s political economy landscape? Institutions: What type of state and institutional environment exists? What are the rules of the game? Political processes: How do elites win and maintain power? What games are being played within the rules? What types of behaviour does this generate? What types of state-society bargaining are taking place?	Key questions Which international drivers matter in a particular country context? What are the particular characteristics of each driver?	Key questions What are the primary effects of each driver on the political process? What are the secondary effects on institutions and structures? How do changes in institutions and structures feed back into the political processes? What are the likely or observed outcomes for corruption and governance?	Key questions What has been learned from the analysis? Where is there greatest potential for international actors to make a difference? How can international actors engage more effectively to address weak governance and corruption?
Methods Country-level political economy analysis. Focused questions on the state, politics and elite incentives.	Methods Menu of potential international drivers. Diagnostic questions for assessing which drivers are likely to be important.	Methods Diagnostic questions assessing primary, secondary and feedback effects of specific drivers. Narrative summary describing complex interactions and pathways of change.	Methods Matrix of existing instruments, tools and conventions. Analysis of applicability and potential impacts of instruments, tools and conventions.

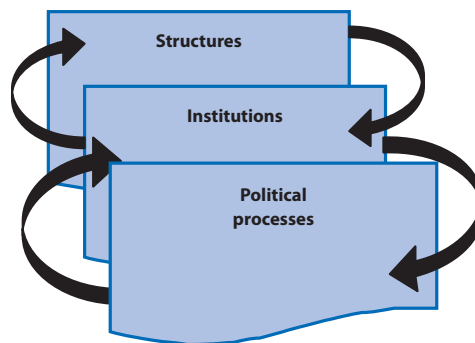
Step 1 – Understanding the domestic political economy

This should be a brief assessment focused on identifying the essential points that set the context for the main part of the analysis that follows. It can usually be derived from existing political economy assessments without the need for new research.

Several existing analytical frameworks for political economy analysis are suitable for this assessment.¹ These explain governance and corruption as the outcome of processes occurring at three levels, referred to here as structures, institutions and political processes:

1. **Structures** are defined as fundamental factors that shape the political economy. As a rule, structures only change slowly and cannot be readily influenced in the short to medium term. Examples include natural resource endowments; the broad structure of the economy deriving from international comparative advantage; the main types of revenue available to government; and the geopolitical and regional security context.
2. **Institutions** (*rules of the game*) are defined as the formal and informal rules and relationships – including cultural norms – governing the behaviour of agents (actors). The nature of the state and the extent to which it works according to formal rules or more personalised, informal arrangements are particularly relevant. Institutions are susceptible to change over the medium term as a result of changes in structures and/or political processes.
3. **Political processes** (*games within the rules*) are concerned with contestation among social groups and between social groups and the state over the use, production and distribution of resources. They occur within the constraints established by the framework of structures and institutions. Elite strategies and state-society bargaining are two key sets of processes that should be analysed under this heading.

Figure 2.1. The three levels of political economy analysis



The questions in Boxes 2.1, 2.2 and 2.3 provide a systematic way to explore the impact of structures, institutions and political processes on the overall political economy. The questions are selective, with the focus on understanding the effects of international drivers. However, they are not appropriate to all countries, and will need to be adapted and supplemented according to the context.

Structures

The analysis should examine the structural factors influencing the level and nature of government revenues, in particular the country's natural resource endowments and the broad structure of the economy. A diversified economic structure will usually result in a

broader tax base, generating better prospects for productive state-society bargaining over the use of tax resources, and stronger pressures for public accountability and curtailment of corruption. On the other hand, resource-dependent economies that provide governments with large sources of unearned income generally do not generate such pressures.

Another group of structural factors relates to the country's geostrategic position, the level of external interference, its access to international military assistance, and security risks arising from conflicts in neighbouring countries. The security conditions a country faces will have an impact on elite strategies, time horizons (a sense of insecurity may generate short-termism), the balance of power between elite groups (increased prominence of military), and the prospects for constructive state-society bargaining.

It is also important to consider structural factors arising from the history of state formation, whether this has resulted in lasting political settlement and sense of national identity, and the groups that have been included or excluded in this process.

Many other structural factors may be worth considering in certain country contexts: large socio-economic disparities between regions, ethnic and social divisions, demographic shifts, environmental factors and climate change are but a few examples.

Box 2.1. Structures: Suggested questions

What are the overall level of economic development and structure of the economy? How do these factors affect the level and type of revenues available to government? What is the balance of "earned" revenues (derived from taxpayers) and "unearned" sources (derived from mineral rents, ODA, etc.)?

What natural resources are available, exploited, and under government control? Are these resources found across the country or concentrated in particular regions? Are they point source resources (e.g. oil or Kimberlite diamonds) or are they dispersed, easily extracted and therefore less easily controlled (e.g. alluvial diamonds)?

How does the country's geostrategic position affect the domestic political economy? Is the state in an "unstable neighbourhood"? Is it threatened by neighbouring countries? Are borders and border areas porous and lightly governed? Is the country located on a narcotics transshipment route? Does the country receive international military assistance (for example in counterterrorism), or host foreign military bases?

How has the history of state formation influenced the emergence of elite groups? Has it led to any underlying bargains between different regions or ethnic groups? Are there significant social or economic cleavages that affect state legitimacy and the likelihood of internal conflict?

To what extent are structural factors subject to change over time, for example through the long-term effects of climate change? Has the country experienced a rapid transformation in its structural conditions, for example because of a major oil discovery?

Institutions

The analysis should explore the manner in which political processes are shaped by formal and informal rules. A particular focus should be on explaining the character of the state, the distribution of power, and the nature of political competition. Are these three areas subject to predictable rules or are they volatile and heavily influenced by powerful personalities? In each of the three, rules of the game emerge through a combination of formal institutions – established by the constitution and other legal frameworks – and informal practices based on social, ethnic and familial ties.

Box 2.2. Institutions: Suggested questions

Overall, what type of state is the analysis concerned with, and to what extent is it governed by formal rules or used as an instrument of personal rule? Broadly speaking, where does the state sit on the spectrum between collapsed states and personalised rule on the one hand, and institutionalised competitive states on the other? (Refer to Annex A.)

Does the state have the capacity to control its territory, raise and manage public revenue, and devise and implement policy?

What is the distribution of power between the executive and other key groups (legislature, judiciary, military, religious groups, traditional authority and other non-state actors)?

Are the formal institutions of the state (including the national systems of integrity) robust and predictable? Do they provide credible sanctions against corruption and other abuses of power? To what extent does the government system follow transparent, established rules in relation to the recruitment, promotion, remuneration and management of public sector staff, arrangements for raising revenue, budgeting, public expenditure, accounting and auditing? Are formal institutions easily manipulated by individuals in positions of authority, or sidelined by informal institutions, rules and practices (such as personal or ethnic-based patronage networks)?

What type of political competition takes place? Is it subject to well-enforced rules? How do politicians conduct and finance election campaigns? How do politicians gain electoral support? What do voters expect their elected representatives to deliver: individual patronage benefits, or broader public goods? How frequently do elections bring a change in power?

What major political or socio-economic trends or pressures are helping to change the nature of institutions? Examples might include changes in the nature of political competition, a changing pattern of economic growth, urbanisation, migration and other demographic changes.

Political processes

The analysis should take into account the strategies employed by ruling elites to win, use and maintain power; the extent to which they must bargain with other societal groups; and the consequences of these processes for governance and corruption. It should first identify those groups with political and military power that constitute the core of the country's ruling elite, and examine the extent to which they must respond to other powerful groups (the business elite, religious leaders, warlords, organised crime, etc.) or broader social movements.

Step 2 – Identifying international drivers

The second step provides a framework to determine which international drivers matter in a particular country context. International drivers can be broadly divided into seven categories based on their effects on the domestic political economy:

1. Sources of rents and unearned income;
2. Opportunities and constraints to conceal and move illicit assets;
3. Foreign investment;
4. Global and regional security threats and responses;
5. International legal measures and sanctions against domestic elites;
6. Reputational pressures on political elites from regional and international actors;
7. External ideas and skills.

Box 2.3. Political processes: Suggested questions

Who are the ruling elites controlling the state and military apparatus? From where have these groups arisen? Do they reflect a particular ethnic, dynastic or geographical background? How stable have these groups been historically?

What are the relationships between the ruling elite and other powerful groups – for example business elites, the military, religious leaders, warlords and organised criminals? How are these intra-elite relations sustained and contested?

What other social groups have the ear of the ruling elite? What groups and constituencies (trade unions, mass movements, etc.) can challenge the elite's power?

Which international political, economic and military actors matter on the domestic stage (e.g. multinational businesses and investors, donors, international military actors such as peacekeepers or other outside military forces, transnational criminal or terrorist groups)?

How does the ruling elite win, use and maintain power? What strategies are used – for example buying off violent opposition, creating rents to satisfy powerful players, dispensing political patronage to groups of supporters, or providing more inclusive public goods? To what extent are these strategies based on coercion, co-optation or civic political competition?

To what extent are these strategies sustainable and stable over the long term? Is there an immediate threat on the horizon that may influence elite strategies – for example an impending election, a fiscal or banking crisis, or internal or external security concerns? If so, how are elites responding (e.g. short time horizons, capital flight)?

What forms of bargaining occur among different sections of the elite, and between elite and non-elite groups? What is the effect on elite strategies? Does this bargaining take place through multi-party political competition, lobbying pressure on government, informal influence or official mechanisms for consultation, labour unrest, or violent or non-violent protest? Are groups mobilising around narrow, exclusive interests or broader shared interests in public goods? To what extent do external threats to the regime and other exogenous shocks alter the conditions under which bargaining takes place?

These seven drivers are described in Table 2.2 which highlights the potential impacts of drivers and provides questions that an analyst can use to assess relevance in specific contexts. The list is not exhaustive; it is anticipated that those applying the framework will identify other important drivers.

These diagnostic questions also help to establish particular characteristics of each driver that influence the ways in which it affects the domestic political economy. In determining which drivers matter most, it is important to not only consider those that are *currently* shaping governance outcomes, but also those with the *potential* to affect governance in the future. For instance, recent oil discoveries may not yet be generating rents, but they could have a significant impact on elite incentives in the future (e.g. Ghana and Uganda).

Table 2.2. **Potential international drivers**

<p>1. Sources of rents and unearned income</p> <p>Access to high levels of rents and unearned income can reduce elite incentives to bargain with citizens and encourage elite predation. Global demand for high-value natural resources (particularly from point source resources) can generate significant rents for the government and ruling elite and weaken political incentives to foster growth and stimulate tax revenues. These goods can have a particularly corrupting influence on politicians and law enforcement officials in transshipment areas. The rents generated by the corrupt practices of foreign businesses attempting to secure advantage in domestic markets can be substantial, and sufficient to undermine competition and the integrity of procurement processes.</p>	
<p>International drivers</p> <p>Global markets in lawful goods – High global demand for natural resources and commodities creates very large rents.</p>	<p>Diagnostic questions</p> <p>Are high-value lawful commodities exported in significant quantities from the country (e.g. oil, gas, timber, minerals, diamonds)? What proportion of GDP do they represent?</p> <p>Are these point source natural resources (that can easily be controlled), or are they more dispersed?</p> <p>How is this trade controlled/regulated? Do revenues flow through state coffers, or are they privately appropriated? At what point in the value chain are rents created and captured? How are the proceeds channelled?</p>
<p>Global markets in illicit goods – High global demand for drugs, counterfeit goods, weapons, etc. The value (e.g. in the case of narcotics) may be created by legislation in importing countries.</p>	<p>Is the country a significant producer of, transit point for, or exporter of illicit goods (e.g. drugs, weapons, pirated goods)?</p> <p>Is it a potential or actual entrepôt for the distribution (smuggling) of illicit goods into neighbouring or wealthy countries?</p> <p>Is the country a significant source of illegal migrants, or a transit country for human trafficking?</p> <p>Is the country a significant source of international fraud?</p> <p>Are there transnational organised criminal networks operating at a large scale in the country?</p>
<p>Foreign business bribery – Willingness of foreign businesses to pay bribes to secure market access or domestic resources.</p>	<p>Are there significant opportunities for, and examples of, foreign companies engaging in corrupt practices in public procurement, allocation of concessions or market entry?</p> <p>Is there evidence that foreign companies pay bribes to gain access to domestic markets?</p>
<p>Official Development Assistance – Inflows of ODA into government coffers, the domestic economy and foreign reserves.</p>	<p>How aid-dependent is the country? How effective is public expenditure management?</p> <p>Do donors wield sizeable influence over domestic policy?</p>
<p>2. Opportunities and constraints to conceal and move illicit assets</p> <p>The ease with which elites can conceal, launder and transfer their financial assets has a significant impact on domestic governance and corruption. If elites have little difficulty in disguising the origins of illegally earned assets (i.e. through money laundering), engaging in corruption or criminal activities becomes that much more profitable and secure. Foreign business bribery often involves the transfer of illicit payments into accounts in third countries. Overseas tax havens and banking secrecy also facilitate tax evasion by individuals and enterprises.</p>	
<p>International drivers</p> <p>Illegal transfers – Ease or difficulty with which financial assets can be illegally transferred out of the country for the purposes of evading taxes or moving the proceeds of corruption and criminal activities.</p>	<p>Diagnostic questions</p> <p>Does the domestic and international regulatory environment make it relatively easy for domestic elites and organisations to transfer financial assets overseas illegally?</p> <p>Are there significant illicit transfers of money out of the country? How easy is it to move money abroad? Which particular mechanisms and financial instruments are used for the purpose of moving illicit financial assets?</p> <p>Is there a high level of tax evasion?</p> <p>Is transfer pricing widely practiced by companies operating in the country? Does the country have transfer pricing legislation in place and the administrative capacity to enforce it?</p> <p>Are there successful efforts to recover stolen assets from overseas?</p>
<p>Money laundering – Ease or difficulty of disguising the illegal origins of funds to make it appear that they have been generated from legal sources.</p>	<p>Is the country a significant source of, or destination for money laundering for proceeds of crime and corruption?</p>

Table 2.2. **Potential international drivers** (continued)

<p>3. Foreign investment</p> <p>The scale and character of foreign investment can have an impact on the broader character of governance, as well as on the incentives surrounding corruption. External investors and local entrepreneurs – especially exporters facing external competition – may lobby governments to provide more inclusive public goods (e.g. infrastructure, phytosanitary regulation or certification of timber or diamonds). They may also introduce more transparent systems of accounting and corporate governance. On the other hand, if external investors seek to work in collusion with ruling elites to secure resources or business concessions, this may result in less transparent governance and increased corruption.</p>	
<p>International drivers</p> <p>Competition to attract foreign investment – Significant inflows of foreign investment.</p>	<p>Diagnostic questions</p> <p>Is the country a major destination for FDI and other forms of foreign investment? Is the country actively trying to encourage increased FDI?</p> <p>Into which sectors of the economy is investment flowing?</p> <p>From which countries is most foreign investment coming – OECD countries, China, India, the Gulf States? etc.</p> <p>Are these foreign enterprises bound by their own domestic legislation and codes of conduct related to bribery and other forms of corruption?</p> <p>Is exposure to regional or global competition changing incentives of domestic business?</p>
<p>4. Global and regional security threats and responses</p> <p>This category includes externally driven security threats and responses that might undermine or bolster the state's power and legitimacy and thereby affect elite incentives towards corruption. The extent to which a country faces significant security threats from beyond its borders can shape how political and military elites exercise and share power. In insecure contexts, elites may be more prone to self-protection with shortened time horizons that encourage predatory types of behaviour and capital flight to safer locations. Significant external military support to a country's government can bolster the position of its political and military elite, but at the same time reduce the need to bargain constructively with citizens and domestic opposition.</p>	
<p>International drivers</p> <p>Regional security threats – Regional insecurity and conflicts.</p>	<p>Diagnostic questions</p> <p>Is there an external military threat? Are there current or potential conflicts with neighbouring countries?</p> <p>Is the country in an “unstable neighbourhood”? Do conflicts in neighbouring states create insecurity in the country?</p> <p>To what extent do illegal arms transfers into the country undermine security?</p>
<p>Global security threats and responses – Transnational terrorist and non-state military actors. Global security concerns shaping the foreign policy, military and spending priorities of powerful “partner” countries.</p>	<p>Are transnational military or terrorist organisations operating in the country?</p> <p>Does the country receive significant external military support from other countries?</p> <p>Does it generate revenue / external support from hosting military facilities?</p>
<p>Global markets in military services – Commercial market in military services through foreign mercenaries or private security companies.</p>	<p>Do country elites rely on hired military services to protect themselves and their activities?</p>
<p>5. International legal measures and sanctions against domestic elites</p> <p>The ability of external actors to impose legal or other sanctions on domestic governments and elites can have significant (but often unanticipated) effects on domestic governance and corruption. International organisations and governments (such as the International Criminal Court) can initiate legal proceedings against political or military elites, impose trade embargoes against particular regimes, freeze the assets of countries and individuals, and restrict the travel of persons known to be linked to corruption. These initiatives are seen as a means to punish and externally constrain the actions of governments and individuals. In some cases, however, they can stimulate corruption, as elite time horizons may be shortened and new opportunities for rent seeking (e.g. through smuggling) are created.</p>	
<p>International drivers</p> <p>International prosecution – In-country legal proceedings against elites or organisations (including businesses).</p>	<p>Diagnostic questions</p> <p>Are key political, military or business elites facing prosecution outside the country for their actions (including corruption)?</p>
<p>Trade restrictions – Embargoes or other restrictions on goods or services imported or exported.</p>	<p>Does the country face any restrictions on the import or export of key goods and services?</p>
<p>Financial or travel restrictions – Constraints on travel or overseas financial assets.</p>	<p>Do domestic elites face any restrictions on their travel abroad? Have their overseas assets been investigated or frozen?</p>

Table 2.2. **Potential international drivers** (*continued*)

<p>6. Reputational pressures on political elites from regional and international actors</p> <p>The actions and opinions of external actors and organisations can act as an external check or influence on the behaviour of domestic governing elites. Concern for reputation abroad can shape elite behaviour at home. Regional and international organisations and membership bodies can help shape domestic rules (particularly round trade), and can also in some cases create incentives for more rules-based behaviour and a degree of mutual accountability. Consumers and lobby groups in wealthier countries can place the reputation of transnational companies under pressure, leading to changes in market incentives and regulation. International media and civil society contribute to public opinion and place pressure on the reputation of governing elites. International organisations can also provide support to national civil society organisations.</p>	
<p>International drivers</p> <p>Pressures on the reputation of governments – Membership in international organisations, peer pressure, global norms, and international media.</p>	<p>Diagnostic questions</p> <p>To what extent are governing elites concerned about their international reputation? Are they interested in a legacy? Do leaders participate on the regional or international stage? Do they respond to diplomatic pressure? Has the country's governance been subject to peer review and if so, how has this exercise been received by government and political leaders?</p> <p>Which international organisations and peer groups are elites responsive to?</p> <p>What impact do international media have on domestic political debates and decisions?</p>
<p>Regional economic and political organisations – Regional political forums, peer groups and trade rules.</p>	<p>What role do regional bodies (e.g. ECOWAS, COMESA, ASEAN) play in domestic economic and political decisions and on elite incentives?</p>
<p>Pressures on the reputation of international business – From consumers, advocacy groups or governments in importing countries.</p>	<p>Are international businesses facing reputational pressure in relation to their activities in the country? Are they changing their behaviour, or pushing for changes in market incentives, or regulation?</p>
<p>International civil society and advocacy – International exchange of information and institutional support on governance issues including corruption.</p>	<p>Are domestic civil society groups that are engaged in governance and corruption well networked and supported by international partners? Does this strengthen their capacity to act?</p> <p>Do international NGOs, democracy and human rights organisations have a significant presence/voice in the country? Is the media active in investigating or reporting corruption?</p>
<p>7. External ideas and skills</p> <p>The flow of external ideas, skills and practices can contribute to improved capacity and approaches. Communities of experts (e.g. tax and audit officials) can not only facilitate cross-learning, but also help foster co-ordinated action and mutual support.</p>	
<p>International drivers</p> <p>Professional networks and organisational links – Professional networks can support the creation of shared norms and disseminate ideas and good practice.</p>	<p>Diagnostic questions</p> <p>To what extent are professionals and officials (for instance parliamentarians, lawyers, tax officials) exposed to ideas from abroad and linked into international networks?</p> <p>To what extent are politically important organisations (political parties, trade unions) linked with regional and global networks?</p>
<p>Diaspora – Flow of diaspora returnees and their ideas and expectations.</p>	<p>Has there been a return from the diaspora in significant numbers? Do returnees permanently resettle? Is there a structured return programme? Do returnees bring new skills, ways of working, different values and fresh expectations about governance and doing business? Do returnees create pressure for reform, or do they hold conservative political views?</p> <p>To what extent is the diaspora networked with politically influential groups in the home country? Is the diaspora broadly supportive of the governing elite or opposed to it?</p>

Rating the importance of international drivers

The questions raised in Table 2.2 should assist analysts in identifying which international drivers are likely to be relevant in a particular country context, and also should provide a sense of their relative magnitude. At this stage, the aim is to provide a general sense of the size of the driver rather than a more detailed assessment of its effects (which comes in the following step). In some cases, it will be possible to judge the importance of the driver in quantitative terms (for example, the magnitude of natural resource rents in relation to GDP), whereas in other cases a subjective judgement will be required (for example for reputational effects). This was attempted for the four case study countries as illustrated in Table 2.3.

Table 2.3. Screening of international drivers for the four case study countries

Ratings: ●●●● very important, ●●● important, ●● moderately important, ● limited importance Note that these are summaries of the ratings; further details may be found in Chapters 3-6.				
	Cameroon	Sierra Leone	Uganda	Zambia
1. Sources of rents and unearned income	Rating: ●●●● Relates to natural resource rents arising from oil and timber.	Rating: ●●●● Especially for narcotics and diamonds.	Rating: ●●● Becoming extremely important with oil discovery.	Rating: ●●●● Copper and other minerals.
2. Opportunities and constraints to conceal and move illicit assets	Rating: ●●●● Relates to transfer pricing and movements of proceeds of corruption to foreign bank accounts.	Rating: ●●● Especially in relation to money laundering connected to the drug trade.	Rating: ●●● Money laundering is a significant problem, but no legislative framework in place.	Rating: ●●● Relates to transfer pricing and movements of proceeds of corruption to foreign bank accounts.
3. Foreign investment	Rating: ●●● Relates to substantial foreign investment in extractive industries and potential for associated bribe payments.	Rating: ●●● Drive to attract foreign investment has led to a stated policy of "zero tolerance" of corruption.	Rating: ●●●● Disputes with foreign companies interested in oil extraction. Role of foreign companies in procurement scandals.	Rating: ●●●● Foreign business bribery, particularly in natural resource sectors.
4. Global and regional security threats and responses	Rating: ● Spillovers from regional conflicts affect north of country.	Rating: ● Regional sources of insecurity have diminished recently.	Rating: ●●● Recent terrorist attack. Role of LRA diminishing.	Rating: ●● Spillovers from Zimbabwe crisis. Role of Zambia in regional peace processes.
5. International legal measures and sanctions against domestic elites	Rating: not relevant No sanctions in place.	Rating: ● Diamond sanctions have been lifted.	Rating: ● No sanctions in place.	Rating: ●●● International civil prosecution of President Chiluba.
6. Reputational pressures on political elites from regional and international actors	Rating: ●● Increasing international criticism of corruption in Cameroon.	Rating: ●● Participation in Kimberley process.	Rating: ●●● International reputation of Uganda tarnished by recent corruption scandals.	Rating: ● Support by the international community to the Task Force on Corruption and the prosecution of former President Chiluba.
7. External ideas and skills	Rating: ●●● Sizeable diaspora, significant brain drain.	Rating: ●●● Sizeable diaspora and returnees.	Rating: ●●● Sizeable diaspora, connections within EAC region.	Rating: ●● Regional networks, expertise brought by foreign companies, diaspora.

Step 3 – Tracking the effects of international drivers

Having identified the key features of the domestic political economy (Step 1) and selected the principal international drivers (Step 2), the elements are now in place for the central part of the analysis. Step 3 analyses how international drivers act upon the domestic political economy (political processes, institutions and structures) and the impact this has on governance and corruption. This is the most challenging part of the analysis, as the processes at work are difficult to unravel and often not fully understood. Considerable complexity and unpredictability frequently arise from several factors: multiple international drivers may interact; observed outcomes may have multiple causes; change may be non-linear; and processes may be reinforced by feedback mechanisms.

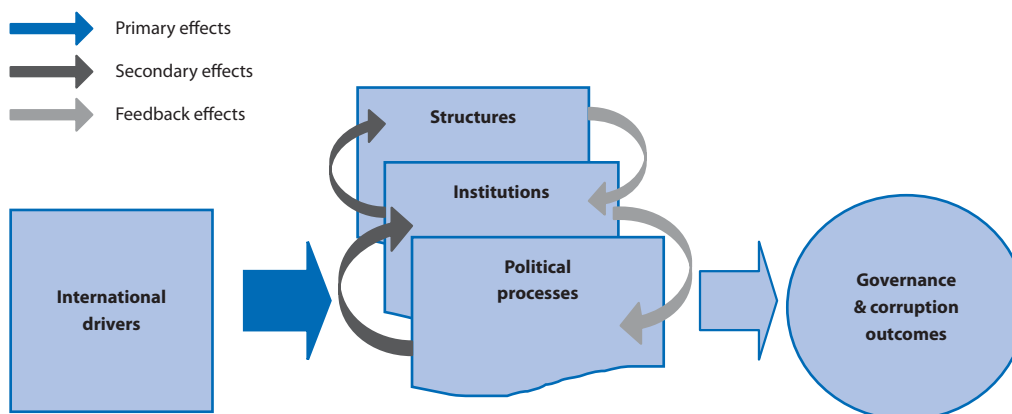
In view of this complexity, it is important to ensure that the analysis remains manageable but not simplistic. With this in mind, it is useful to distinguish three categories of effects:

- **Primary effects:** These are the immediate effects of the international driver on the domestic political economy, and usually operate at the level of *political processes*. Most crucially, they describe the effects of the driver on the strategies employed by elites to win, use and maintain power; on intra-elite dynamics; and on broader processes of state-society bargaining. For example, a primary effect of natural resource extraction may be to shift elite strategies towards gaining control of the resulting rents and distributing these to small groups of supporters. Easy access to rents will likely undermine conditions for constructive state-society bargaining that could otherwise result in more inclusive forms of governance.
- **Secondary effects:** These are the knock-on effects arising from primary effects. They often describe the way in which political processes affect *institutions* and, ultimately, *structures*. For example, a secondary effect of drugs transshipment could be to undermine formal institutions through the corruption of law enforcement agencies and the judiciary. These effects, which may be slower to emerge, have broader impacts on governance and corruption than the primary effects.
- **Feedback effects:** This refers to mechanisms that reinforce the effects of existing drivers and often relate to the effects of changes in institutions and structures on the nature of *political processes*. For example, a feedback effect resulting from the weakening of formal institutions could be the reduced credibility of anti-corruption measures, leading to opportunities for more rampant rent-seeking and predatory behaviour.

Taken together, these effects generate ***governance and corruption outcomes***. Some of those outcomes may derive directly from the primary effects of an international driver (e.g. a trade embargo creating greater opportunities for corruption associated with smuggling), while others may derive from secondary effects (e.g. losses in government revenue resulting in reduced state capability).

In some situations, the processes described by this model may be fuelled by a combination of international drivers. For example, international organised crime is driven by the rents created by trade in illicit goods. To enjoy the proceeds of this trade, organised criminals must also be able to launder profits (often abroad). Hence a combination of drivers under the headings “Sources of rents and unearned income” and “Ability to conceal

Figure 2.2. The effects transmitted by international drivers through the domestic political economy



and move illicit financial assets” will be relevant. Depending on the subject under study, it may be helpful to examine the effects of groups of drivers working in combination. Secondary drivers could be identified that enhance or otherwise influence the effect of a fundamental primary driver.

The following sections present a series of questions that are intended to help identify primary, secondary and feedback effects for the main categories of international drivers. The framework has been organised so that key drivers identified under a numbered section in Step 2 (Table 2.2) can be analysed by referring to the corresponding numbered section in Table 2.4. In answering these questions, the analyst should be able to construct a narrative description of how specific drivers work their way through the county’s political system, and identify potential or actual governance outcomes.

Table 2.4. **The effects of international drivers**

1. Sources of rents and unearned income	
<p>The <i>primary effects</i> relate to the specific ways in which different sections of the elite seek to gain access to and capture rents, and may use these resources for self-enrichment or power preservation. Depending on who gains access to rents and unearned incomes, there are likely to be significant effects on the dynamics of state-society bargaining. <i>Secondary effects</i> may include effects on government revenues, and the very toxic effects of drugs trafficking on the integrity of public agencies and law enforcement bodies.</p>	
<p>Primary effects</p> <p>1) <i>Effects on elite strategies</i></p> <ul style="list-style-type: none"> Based on the understanding of the characteristics of different resources and revenue flows (Step 2), which elite groups are able to capture and benefit from rents? How are elite groups preserving their access to rents? Which groups must be bought off to maintain access to rents? Who are the rents shared with? What proportion of the rents is retained by extractive industries? Consider the links between politicians and businesspeople, and between politicians and the military. What effect do future projections/expectations about resource availability have on elite strategies for winning, using and maintaining power and the time horizons they employ? <p>2) <i>Effects on state-society bargaining</i></p> <ul style="list-style-type: none"> How does access to rents affect the need for the ruling elite to bargain with citizens (e.g. over taxation)? Do they face demands for better management of natural resources or more productive use of public revenues from organised social groups? What might alter the dynamics of state-society bargaining? How do international influences (e.g. from businesses or development partners) influence the accountability relationships between elites and wider society? <p>3) <i>Effects of international markets and regulatory instruments</i></p> <ul style="list-style-type: none"> To what extent are changes in international markets, consumer demand and international regulatory instruments altering the magnitude or nature of rents, and consequent elite strategies? Are market changes shifting the incentives of business groups? 	<p>Secondary and feedback effects</p> <p>1) <i>Effects on state revenues</i></p> <ul style="list-style-type: none"> What impact does the driver have on the scale and composition of government revenue? Does it shift the balance from earned sources of revenue (e.g. direct taxation) to unearned sources (e.g. mineral royalties)? Does the state’s dependence on unearned sources of income reduce pressures for state-society bargaining and public accountability? Does this loss of revenue undermine the state’s ability to perform basic functions? Does this affect the nature of state-society bargaining (feedback)? <p>2) <i>Effects on formal institutions</i></p> <ul style="list-style-type: none"> Does the process of capturing or securing rents generate corruption in public regulatory or law enforcement bodies, thereby undermining the integrity of formal institutions and weakening their ability to sanction corrupt behaviour more widely? Narcotics trafficking may have particularly toxic effects on the integrity of public agencies and law enforcement bodies.

Table 2.4. **The effects of international drivers** (continued)

<p>2. Opportunities and constraints to conceal and move illicit assets</p> <p>The <i>primary effect</i> of illicit financial flows will be to reduce the risks of asset confiscation faced by elites engaged in tax evasion, corruption and criminality, and thereby to increase the attractiveness of these activities. The ability to move assets abroad also provides elites with an easy exit strategy and may shift incentives towards short-term predation rather than fostering longer-term growth. The prospects for constructive state-society bargaining will also be diminished in this context. Likely <i>secondary effects</i> are the loss of government revenue and resulting weakening of state capacity.</p>	
<p>Primary effects</p> <ul style="list-style-type: none"> • Does the ability to move assets abroad significantly reduce the risks associated with tax evasion, corruption and criminality, and increase incentives for this type of behaviour? • Does the ability of elites to move assets abroad reduce their interest in fostering growth at home and increase tendencies towards short-term predation? • To what extent does international co-operation in combating money laundering and tax evasion restrict illicit flows out of the country? Have there been cases involving the repatriation of stolen assets? Is this affecting elite incentives, and if so, how? • Is international co-operation in money laundering, tax evasion and asset recovery making it more risky and costly for elites to move assets abroad? 	<p>Secondary and feedback effects</p> <ul style="list-style-type: none"> • To what extent do illicit financial flows deprive governments of revenues? What are the resulting effects on state capacity? • Are illicit financial outflows aided by corrupt banks and regulatory officials in the country? Has this undermined financial integrity more widely? • Does large-scale tax evasion and capital flight undermine the perceived fairness and legitimacy of the tax system, further weakening tax compliance?
<p>3. Foreign investment</p> <p>The prospect of foreign investment may have a <i>primary effect</i> of shifting the incentives facing elites away from predation and towards fostering growth. State-society bargaining may begin to reflect the emergence of common interests between political and economic elites around creating an enabling business environment and ensuring public goods provision. However, much depends on the nature of the investment and the economic activity receiving support, and whether this generates broad-based, employment-generating growth, or more narrowly focused growth in a single sector or geographical zone. When growth is under way, there may be a significant <i>secondary effect</i> on government revenues and state capability. There may also be pressures for reforms to make formal institutions operate in more predictable and business-friendly ways. However, fair competition may be harmed when powerful business and political interests collude to rig markets and institutions in their favour.</p>	
<p>Primary effects</p> <ul style="list-style-type: none"> • Given the nature of the investment and the pattern of growth that it may generate, which sections of the elite may perceive a long-term interest in supporting economic development rather than engaging in predation? • To what extent will non-elite groups benefit from investment and the resulting growth? Does this have the long-term potential to shift the basis of political competition away from exclusive patronage and towards public goods provision? • To what extent will the economic activity generate rents? How are various groups positioning themselves to capture these rents? • Are domestic business interests changing in response to pressures and opportunities created by export markets and inward investment? 	<p>Secondary and feedback effects</p> <ul style="list-style-type: none"> • To what extent will the pattern of growth boost government revenues from earned or unearned sources? Can this create pressures for broader public accountability? • Will the promise of investment spur business demands for public goods (better regulation to comply with global standards, better infrastructure)? • Are powerful investors likely to seek to gain advantage through corruption and bribery, thereby undermining the integrity of formal institutions?

Table 2.4. **The effects of international drivers** (continued)

<p>4. Global and regional security threats and responses</p> <p>Depending on the nature of the security threats, there may be different <i>primary effects</i> on the political process. A significant external threat to regime survival may encourage elites to seek to maximise their gains from rent seeking and predation over the short term while seeking to transfer their assets and themselves abroad as an insurance strategy. Other types of threat may require elites to cede more power to the security forces, or to appeal for citizen support and mobilisation. Depending on the strategy followed by the elite to contain the threat, there may be an erosion in the integrity and capacity of formal institutions, or a more determined effort to establish discipline and strengthen the capacity of those institutions that play a role in bringing peace and security (<i>secondary effects</i>).</p>	
<p>Primary effects</p> <ul style="list-style-type: none"> • How do elite groups respond to the security threat? How might it affect their time horizons and incentives to engage in predation and capital flight? • In order to counter the threat, must the political elite cede more power to the security forces or other political actors? How does this affect the sharing of rents? • Can elite groups contain the threat by hiring security services on the international market, or relying on international military assistance? • Does the elite strategy to counter the threat involve an appeal for popular support and citizen mobilisation? Or is the threat being used to justify internal repression? How might this affect the nature of state-society bargaining? 	<p>Secondary effects and feedbacks</p> <ul style="list-style-type: none"> • Do problems of insecurity undermine the integrity and capacity of formal institutions, or does the threat focus minds on ensuring greater discipline and effectiveness of formal institutions?
<p>5. International legal measures and sanctions against domestic elites</p> <p>International legal measures and sanctions targeted at elites and states have a variety of distinct primary effects depending on the nature of the measure imposed.</p>	
<p>Primary effects</p> <ul style="list-style-type: none"> • What is or might be the effect of an international legal measure (e.g. an ICC indictment) taken against individuals in the ruling elite? Is there a deterrent effect? Or would the politicians affected seek to strengthen their grip on power in response to the legal threat? • To what extent are the economic interests of ruling elites affected by international sanctions? • What incentives are created by an international trade embargo? Which groups may benefit from smuggling and from associated rents? How does this affect the ruling elite's grip on power? • How might international travel bans and asset freezing operations affect the ability of elites to draw on the support of international networks and move assets abroad? • In what ways do international sanctions change the context for state-society bargaining? Will this strengthen or weaken the hand of the ruling elite in the bargaining process? 	<p>Secondary and feedback effects</p> <ul style="list-style-type: none"> • How might international sanctions affect economic performance, government revenues and state capacity?
<p>6. Reputational pressures on political elites from regional and international actors</p> <p>The <i>primary effects</i> may include constraints on the strategies employed by political elites to win and maintain power, and on their tolerance of some forms of corruption. If external reputation matters to governing elites (either as an end in itself or as a means for strengthening their domestic legitimacy), pressure to maintain that reputation from international or regional actors and organisations, externally linked civil society and the international media may lead to open bargaining with other social groups. It may also result in specific responses to identified forms of corruption. Pressures on reputation (e.g. from consumers or investors) can also affect the behaviour of many foreign investors and transnational companies (including their sourcing practices and use of bribery). <i>Secondary effects</i> may include improvements in the transparency of corporate business practices and reforms to national systems of integrity.</p>	
<p>Primary effects</p> <ul style="list-style-type: none"> • Given the reputation concerns of the ruling elites identified in Step 2, do perceptions of their actions abroad influence their behaviour? • How do reputation concerns affect the behaviour of transnational companies? Can this be a source for improved (more transparent) business practices? • How does the driver affect the capacity and bargaining power of other groups in society (e.g. civil society organisations, the media, social movements)? 	<p>Secondary and feedback effects</p> <ul style="list-style-type: none"> • Are reputational pressures a driver for improvements in organisational behaviour (e.g. adoption of codes of conduct)? • To what extent are institutional reforms driven by reputational pressures (e.g. measures to strengthen national integrity systems driven by international perceptions of corruption in the country, or investment climate reforms driven by business climate assessments)?

Table 2.4. **The effects of international drivers** (continued)

<p>7. External ideas and skills</p> <p><i>Primary effects</i> may include changed ideas, values and expectations of administrative, business and other elites. Where there are large numbers of returnees it will be important to consider their political alignment (reformist or conservative), and whether they act as a source of pressure for greater accountability, or engage in existing patterns of rent seeking. International networks of professionals and foreign technical assistance, as well as foreign investment, may also bring new ideas, values and pressures for accountability onto the domestic scene. This may produce <i>secondary effects</i> where changed patterns of behaviour lead to a new understanding of the rules of the game through which formal institutions and businesses operate.</p>	
<p>Primary effects</p> <ul style="list-style-type: none"> • Do returning diaspora create new sets of values, pressures for accountability and stronger interest in growth and development, or do returnees tend to hold conservative political views and behave according to prevailing elite strategies? • To what extent are domestic organisations affected by the transfer of ideas and skills from abroad through international networks of professionals and investors, connections with the diaspora, or foreign technical assistance? How are these ideas received? 	<p>Secondary and feedback effects</p> <ul style="list-style-type: none"> • Do new ideas and skills implant new ways of working that are changing the nature of organisations and institutions over the longer term? • Do state institutions (e.g. the national revenue authority) benefit from transfer of new approaches and skills from abroad through networks and technical assistance, and how is this changing the tax base and accountability?

In mapping the effects of international drivers, it may be helpful to construct a narrative describing how the specific drivers work their way through a political system, and the governance outcomes (particularly corruption) that they are likely to generate. Usually, it will not be possible to prove causality in mapping these processes. However, it should be possible to establish plausible scenarios of how the driver is likely to operate given the understanding of the political economy and elite incentives.

The narrative should cover the following:

- The **key international driver** under consideration;
- Other (**contributing**) **international drivers** that may influence the way that the primary driver works;
- The **primary effects** of the driver;
- The **secondary and feedback effects** of the driver; and
- The overall governance and corruption **outcomes**.

The two case studies in Boxes 2.4 and 2.5 provide illustrations of these pathways of change. One explores the ways in which international drivers related to the diamond trade contributed to governance and corruption outcomes in Sierra Leone in the 1970s and 80s. A second explores more positive outcomes in the forest sector in Ghana.

Box 2.4. Diamonds, corruption and conflict in Sierra Leone

From the late 1970s to the early 1990s, sustained international demand for diamonds contributed to major corruption and destabilising competition and conflict in Sierra Leone.

The high value of diamonds on the global market means that they have the potential to generate very high rents for those who control their export and trade. This can make them tempting targets for elite capture.

The ease with which Sierra Leone's diamonds can be mined and exported makes it inherently difficult for the government to regulate and control revenues. Unlike Botswana, where diamonds are mined underground in deep Kimberlite pipes, Sierra Leone's diamonds are found in alluvial gravels across wide swathes of the southern and eastern parts of the country.

Under the colonial government and during the first decade of independence, the private Sierra Leone Selection Trust (SLST) was able to be fairly effective at regulating the mining and export of diamonds. As a result, diamonds contributed significantly to the state's public revenues and foreign reserves.

In 1971 however, President Siaka Stevens disbanded the SLST and established the National Diamond Mining Company (NDMC). This decision effectively privatised rather than nationalised the diamond concessions and "all important decisions were now made by the prime minister and his right hand man, a Lebanese businessman named Jamil Mohammed" (Smilee, Gberie and Hazleton, 2000).

Stevens was a masterful power broker and used his patronage over the diamond sector to secure wealth and strengthen his powerbase. Control over the NDMC ensured that diamond revenues could be channeled into Steven's and Jamil's coffers. Since the diamonds were in areas loyal to the political opposition, Stevens "allocated licenses to political loyalists, [who helped to form] political colonies in the heartland of the opposition" (Bates, 2008, p. 102). Illicit mining smuggling was ignored as long as it was carried out by political and financial supporters of the regime. This resulted in a significant decline in the legitimate diamond trade: from two million carats in 1970 to 595 000 carats in 1980 and 48 000 in 1988 (Smilee, Gberie and Hazleton, 2000).

Many of the diamonds traded through both "official" and unofficial channels moved through international networks of Lebanese traders, some of whom had strong links to the different factions in the Lebanese civil war. When Jamil was exiled, these trade networks were partially replaced by "Israeli 'investors' with close connections to Russian and American crime families, and with ties to the Antwerp diamond trade" (Smilee, Gberie and Hazleton, 2000).

Key driver: High global demand for diamonds

Contributing drivers:

- Industry willingness to buy rough diamonds regardless of source;
- Porous regional borders;
- Global (Lebanese) trading networks;
- The Lebanese civil war.



Primary effects:

- Nature of diamond resource creates strong incentives for an elite strategy based on the capture of the resource and distribution of rents to narrow groups.
- High rewards from rent seeking in the sector provided the President and his associates with significant financial rewards and sources of patronage.
- Diamond industry captured by a narrow group of elites.
- Decreased time horizon and security for elites as state reach and capacity weakened.



Secondary and feedback effects:

- State revenues and foreign reserves undermined.
- Formal institutions of the state weakened (public administration).
- Weakened ability of the state to control territory and deliver public goods and services.



Box 2.4. Diamonds, corruption and conflict in Sierra Leone *(continued)*

While Stevens and his close allies were able to secure significant wealth from the diamond trade, government revenues and foreign reserves suffered a dramatic decline. This in turn impaired the state's capacity to reward its civil servants and to deliver public goods and services. It also helped to foster an informal "shadow" economy that soon dwarfed the formal economy.

By the mid-1980s, therefore, the illicit mining sector had absorbed the official mining sector and the state's capacity and legitimacy were fundamentally undermined – contributing to state fragility and collapse.

References:

- Bates, R. (2008) *When Things Fell Apart: State Failure in Late-Century Africa*, Cambridge University Press Cambridge, England.
 Brown, T. *et al.* (2007), *Sierra Leone Drivers of Change*, UK Department for International Development.
 Reno, W. (1995), *Corruption and State Politics in Sierra Leone*. Cambridge University Press, Cambridge, England.
 Smilee, I., L. Gberie and R. Hazleton (2000), *The Heart of the Matter: Sierra Leone, Diamonds and Human Security*, Partnership Africa Canada, Ottawa.

Governance & corruption outcomes:

- Resulted in large-scale corruption;
- Contributed to creation of a "shadow state" and "shadow economy";
- Social contract undermined;
- Contributed to state fragility.

Box 2.5. Improving forest governance in Ghana

Over the past decade, various efforts have been made to improve forest governance in Ghana and reduce corruption in the timber industry. Since 2003, new approaches targeting the international trade in timber have engaged a wider range of actors and achieved significant progress in improving forest sector governance.

The timber industry is an important part of the Ghanaian economy that employs large numbers of people in harvesting and processing operations. Until the mid-2000s, logging was occurring at unsustainable levels. There were widespread accusations of corruption and mismanagement within the forestry authorities based on well-established patron-client networks linking logging companies, resource regulators, politicians and local chiefs. Commercial interests dominated environmental or social concerns, and high levels of illegality and tax evasion resulted in high levels of lost revenues. Efforts to reform the sector and improve forest governance through a largely technocratic approach, were failing to deliver any real results. Attempts by many private sector actors to receive certification of legal wood or achieve sustainability of their timber were failing in the context of overall weak governance of the forest sector.

Since the G8 summit in 1998, international interest has focused on reducing illegal logging, deforestation and corruption in the forestry sector through renewed attention to the demand created by the international timber trade. The UK government stated its commitment in government contracts to procuring only verified legal wood for use. Implementation of this policy was repeatedly challenged but began to be strongly enforced in 2003. Ghanaian timber companies, unable to credibly prove the legality of their wood, were suddenly losing some of their most stable and lucrative market.

Key driver: Increasing demand in international timber markets for verified and legal wood

Contributing drivers:

- International civil society pressure to reduce rates of deforestation;
- More recently: potential for new sources of revenue through carbon financing that require improved monitoring of forest management;
- Range of domestic drivers relating to demands to sustain an industry that supports a large number of livelihoods and conserve remaining forest resource.



Primary effects:

- Shifting patterns of demand led to the reduction of rents in the illegal timber trade;
- Breakdown of patron-client networks – linking the timber industry, forest authorities, politicians and local chiefs – that had driven unsustainable logging.

Box 2.5. Improving forest governance in Ghana *(continued)*

At the same time, there was growing recognition of the timber trade as a “sunset industry” in Ghana, based on over-harvesting and dwindling forest resource. Given the importance of timber harvesting and processing as a source of employment, attention increasingly focused on improved management so as to allow a gradual decrease rather than sharp decline in the industry. The greatly reduced volumes of easily accessible timber and a change in the pattern of consumer demand towards certified wood products led to a reduction in the rents available and hence the potential to buy political influence and support.

More recently, the potential for payments for reduced deforestation (such as through the proposed REDD scheme) and carbon markets have increased interest in improving governance in the forestry sector. Awareness of the levels of revenue lost through illegal logging and tax evasion in the timber industry, combined with the potential for new revenue sources in a carbon trading market, has highlighted the importance of the forestry sector for economic development in Ghana.

The EU published the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003, outlining a process for negotiating legally binding bilateral trade agreements. These Voluntary Partnership Agreements (VPAs) describe a comprehensive, consensus-based legality assurance and licensing system for timber exports, based on national legislation. The EU provides development assistance for the licensing scheme and its implementation. Ghana was one of four countries to open negotiations with the EU on a VPA. It was seen as providing a means to ensure that international timber markets would remain open, as well as reinforcing a national forest sector reform agenda.

The VPA process requires that a consensus be reached between stakeholders including government, the private sector and civil society on the definition of legality and how compliance with this definition can be verified. The need to achieve consensus balances the control of different actors over the reform agenda, as well as ensuring the development of a robust and implementable system. The VPA process has succeeded in engaging a previously fragmented group of stakeholders in constructive dialogue, and is helping to improve governance throughout the forest sector.

Ghana was the first country to ratify a VPA with the EU in 2009, and work is currently under way to implement the reforms and systems required to launch the legality assurance and licensing scheme in 2011.

- FLEGT VPA approach encouraged multi-stakeholder consultation, contributing to improved citizen-state engagement in the forestry sector.



Secondary effects:

- Increased attention from different parts of government on the revenues available in the forestry sector, in the context of dwindling forest resource and potential for carbon financing;
- Improved performance of government regulatory bodies covering the forest sector.



Governance & corruption outcomes:

- Reduced corruption and illegality in the forestry sector;
- Improved systems to clarify what is required to operate legally in the country, and to ensure compliance with relevant legislation.

Step 4 – Drawing conclusions and assessing the scope for action

The final step in using this tool draws together the elements of the preceding analysis to develop a focused set of conclusions and recommendations for international action. This is the opportunity to distil the analysis and highlight the critical issues, and to consider how international engagement could be more effective in tackling those issues.

The conclusions section should address the following three sequential questions:

1. How do international drivers affect corruption and governance?
2. Which drivers should international actors seek to address, and where do the actors have influence and leverage to do so?
3. What instruments can international actors use at the global, regional and country levels to address the effects of international drivers?

What has been learned from the analysis about how international drivers affect corruption and governance?

In synthesising the main findings, the analysis should judge which international drivers appear to have the biggest influence on the domestic political economy. This should be determined on the basis of the combined evidence from Steps 2 and 3 that consider both the magnitude of the drivers and their effects on governance. It is important to distinguish between the existing effects of present drivers and the possible effects of drivers that are likely to be important in future. The findings should also stress the new lessons that have been learned from the analysis, and whether there are new or unexpected insights that run counter to conventional approaches to understanding governance and corruption.

To illustrate the findings that may result from country studies, Box 2.6 shows which drivers were identified by the case studies as having the greatest impact on governance and corruption.

Box 2.6. Important international drivers highlighted by the four country case studies

Cameroon	<ul style="list-style-type: none"> • Natural resource rents from oil and timber – evidence of corruption and bribe paying by foreign and domestic companies, in particular at the stage of awarding concessions. • Illicit financial flows, evidence that proceeds of corruption are being held in foreign bank accounts and property.
Sierra Leone	<ul style="list-style-type: none"> • Rents from transshipment of narcotics from South America to Europe, contributing to organised crime and corruption of law enforcement. • Diamonds increasingly traded through official channels and benefiting state revenues; negative effects of smuggling on governance becoming less evident.
Uganda	<ul style="list-style-type: none"> • Potential effects of the oil discovery may be to intensify patronage politics and widen regional inequalities. • Concerns over money laundering from Uganda and the absence of legislation to counter money laundering.
Zambia	<ul style="list-style-type: none"> • Foreign business bribery has helped to fuel corruption in public procurement and concessioning in Zambia. • Support by the international community to the Task Force on Corruption and the prosecution of former President Chiluba.

Which drivers should international actors seek to address, and where do the actors have influence and leverage to do so?

The analysis should assess which international drivers are most open to action by international and regional actors. These are likely to have been identified as having the most important influence on governance and corruption at the country level. However, the assessment should not neglect those drivers judged to be of some or limited importance when international actors are well placed to make a difference. For example, aid-funded initiatives can be particularly effective in terms of building international networks of expertise. There also may sometimes be arguments for focusing on drivers whose effects are felt at both the country and global levels (e.g. drug trafficking, illegal logging).

Having selected priority areas for international action, the assessment should then identify the particular sources of leverage and influence that are available to international actors. A distinction should be drawn between regulatory measures at the global and regional level that affect the country in question, and country-level programmes supported by international bodies. For example, if foreign business bribery is identified as a problem in a particular country, action could then be taken at: 1) the international level, through measures supporting the OECD Convention on Combating Bribery and other instruments; and 2) the country level, through programmes aimed at e.g. strengthening procurement systems and transparency requirements applying to extractive industries.

International action is often most effective when it exploits several sources of leverage and brings in a variety of actors around an agenda of common interest. For example, the EU Forest Law Enforcement, Governance and Trade (FLEGT) initiative combines EU consumer demand and market access requirements for certified timber with nationally led processes to define legality and implement certification requirements. In relation to the latter, FLEGT has opened up a dialogue between government, civil society and the private sector on issues relating *inter alia* to timber allocation processes, payment of fees and taxes, equity in resource access rights and benefit-sharing arrangements. Working on both the demand and supply side for a particular commodity, FLEGT points to the value of a “joined up” approach that uses all of the levers available to tackle a particular challenge.

The following questions should help to identify potential actors, sources of pressure for change, and areas of common interest.

International level

- Is there an opportunity to appeal to OECD member countries to address the effects of the international drivers, drawing on their own concerns with lost tax revenues, organised crime and international security?
- Do consumers in OECD countries and elsewhere have an interest in sourcing goods and commodities that are certified as meeting legal, social and environmental requirements?
- Are businesses in OECD countries and elsewhere concerned about the damage to reputation that might arise from corrupt activities in developing countries?
- Are international NGOs and advocacy groups concerned with the issue in question?

Regional level

- Are regional organisations concerned with the issue in question? Is there potential for action through legal and regulatory measures, regional investment programmes, and pressure from regional bodies on reputation?

Country level

- What interests do national governments have in addressing the issue? Does the issue raised threaten access to markets in OECD countries? Does it result in lost tax revenues? Does it threaten law and order and national security?
- Is the private sector concerned with the issue in question? What drives this concern (market access, pressures on reputation, social responsibility, employee safety)?
- Are civil society groups concerned and actively engaged with the issue in question? Is there potential to step up this engagement? Is there a concern with transparency surrounding the issue in question and resulting revenue flows?

What instruments can international actors use at the global, regional and country levels to address the effects of international drivers?

With the potential levers for international action now identified, it is possible to develop practical recommendations for action. The discussion should consider the application of existing international instruments, and include recommendations for country-level programmes that support their implementation. While these recommendations are likely to remain general, they will be useful in identifying the broad types of instruments and programmes that would suit the particular country context. The specific design of these instruments and programmes will need to be informed by additional analysis, as a follow-up to the use of this tool.

Annex B provides an annotated list of international instruments categorised on the basis of the seven groups of drivers considered in this study. The list can be used as an aid in considering which international instruments are suited to addressing the drivers in question, which instruments are already in use, and where there may be opportunities for additional action.

In considering the options, it is important to understand how the different international instruments are intended to operate in terms of the particular mechanisms and processes highlighted by this tool. The numerous mechanisms include:

- Imposing constraints on sources of rents and the ability to profit from them. Most of these are soft law instruments (recommendations, guidelines, voluntary requirements, etc.) that seek to build on reputational pressures on business and governments in consuming countries. The aim is to achieve voluntary compliance with measures to increase the transparency of resource flows (e.g. the Extractive Industries Transparency Initiative – EITI) or certify sources of commodities (Kimberley, FLEGT).
- Increased scrutiny of international financial transactions and asset holdings, with the aim of curtailing money laundering and tax evasion, and facilitating recovery of stolen assets.

- Measures to discourage international companies from engaging in corruption and other illegal acts in their investments in developing countries. These include a combination of hard law and soft law instruments.
- Measures aimed at stimulating citizen pressure and civil society oversight in countries affected by international drivers. Examples include provisions for civil society engagement in the EITI (civil society scrutiny of published figures) and the FLEGT initiative (civil society participation in the definition of legally produced timber).

Having identified suitable international instruments and understood how they are expected to work, analysts should be in a position to consider the performance of particular instruments in practice. This may include evidence of how well instruments already in place have performed and predictions about the effectiveness of new instruments. The analysis should consider whether the instrument addresses all the effects of international drivers identified by the tool, and whether there are important gaps. Several examples of gaps were identified in the four country case studies. In Cameroon, it was concluded that much of the corruption in natural resources extraction has occurred at the stage of concessioning, which is not touched by the EITI. In Zambia, where foreign business bribery was identified as a key issue, the case study noted that investors increasingly come from non-OECD countries that are subject to fewer anti-bribery controls.

The analysis should also be helpful in considering which instruments are suited to a particular country context, and what supporting measures can help them work most effectively. The performance of instruments can vary significantly among countries depending on the level of motivation of different stakeholders and the extent to which they share common interests. For example, interest in the EU FLEGT initiative will vary among countries depending on the importance of EU market access and the extent to which governments are concerned about revenues lost through illegal trade. Moreover, the success of the initiative depends crucially on the quality of engagement by industry and civil society stakeholders, a condition that varies depending on the openness of a country's political system.

There are also important technical challenges in implementing international instruments at the national level, which are likely to require external support from development and other international agencies. For example, many low-income countries face major capacity constraints to implementing instruments to fight money laundering and tax evasion. Without accompanying measures to generate such capacity, the effects of the instruments themselves will be modest.

Note

1. These may include DfID's Drivers of Change Studies, the Netherlands Ministry of Foreign Affairs' Strategic Governance and Corruption Analysis (SGACA), the Swedish International Development Agency's Power Analysis and the World Bank's Problem-Driven Governance and Political Economy Analysis, as well as relevant academic research and analysis by the International Crisis Group.

Chapter 3

Cameroon case study

This case study is intended to illustrate the application of the international drivers of corruption framework, and provides an initial scoping of the main drivers affecting Cameroon. Structured around the four steps of the framework and the guiding questions, the study identifies two drivers as being particularly important in explaining domestic corruption and governance problems: rents arising from the trade in natural resources (in particular oil and timber), and illicit financial flows.

This study is based on a rapid review of literature sources. Many of its conclusions are tentative and would need to be verified through key informant interviews and in-country research.

Step 1 – Understanding the domestic political economy

Structures

Cameroon is a low-income country, whose economy is based largely on agriculture and natural resource extraction. Economic development has been uneven, with growth centred on the central parts of the country around Douala, Bafoussam and Yaoundé. The north and east of the country have experienced far less development.

Cameroon has substantial natural resource endowments. Extractive industries currently account for 10.6% of GDP, the bulk of this arising from oil production, mainly offshore. Oil production dropped from its peak of 186 000 barrels/day in 1985 to the current 85 000-90 000 b/d. However, recent high prices and new finds have spurred renewed interest and investment in the sector. There are large-scale exports of timber (USD 491 million in 2007 or 2.4% of GDP), around 80% of which are sold in EU markets. (Asia is an increasingly important export destination.) Mineral exports currently amount to USD 536 million (2.6% of GDP), but there is significant potential for development (*e.g.* bauxite).

Government revenues are heavily dependent on unearned sources, in particular oil and development assistance. Between 2003 and 2007, oil and ODA grants amounted to 48% of total government revenues. Oil revenues are rather volatile, but currently make up around a third of government revenues (EIU, 2009). Non-oil revenue has also increased rapidly in recent years as a result of reforms that have made tax administration more efficient.

Cameroon is a largely stable country in a conflict-prone region. Continued instability in Chad and the Central African Republic affects northern Cameroon, where porous borders have contributed to security problems, in particular highway banditry. The transfer of the Bakassi Peninsula from Nigerian to Cameroonian sovereignty in 2008 has been associated with localised insecurity and militancy (Bakassi Freedom Fighters).

Cameroon emerged as a state from a colonial carve-up and several transfers of territory from German to British and French control. The country became independent following a civil war, with the winners heavily dependent on French support. Consequently, there is a weak sense of nationhood. Some groups, in particular the English-speaking minority, continue to harbour grievances based on a perception that they are excluded from the political settlement.

Institutions

Cameroon can be characterised as a state governed according to personalised rule, with weak adherence to formal rules. Since independence, there have been two long-serving Presidents (Ahmadou Ahidjo, 1960-82; Paul Biya, 1982-present), and both have sought to limit political competition and centralise power.

The state possesses capacity to control its territory, regulate access to natural resources, raise revenues and deliver some basic services. A recent International Crisis Group report notes that “there are significant pockets of competence and professionalism, and the general functioning of institutions is far from the disintegration suffered by ‘failed states’” (ICG, 2010).

Power is heavily centralised in the executive. At independence in 1961 Cameroon adopted a federal structure, but the constitution was changed in 1972 to create a unitary state. Multiparty democracy was introduced in the early 1990s, but this has never effectively challenged the ruling party, the Cameroon People’s Democratic Movement. Opposition groups are weak, fractured and subject to harassment, and there have been various abuses of incumbency, including electoral rigging. The ruling party holds 85% of the seats in the legislature, which ensures that the latter does not operate as an arena for political contestation. The judiciary is also heavily influenced by the executive.

Formal institutions are frequently manipulated to serve the interests of the ruling elite. This has recently been exemplified by the abolition of the two-term limit on the presidency. The International Crisis Group notes the “Cameroonians’ lack of faith in public institutions and the prevalent understanding that the rules of the game are ultimately contingent on political power” (ICG, 2010, p. 7). In this context, corruption has flourished in all parts of government, with recent surveys suggesting that the problem is most acute in customs, the revenue authority, public works, forestry and the police. Some estimates suggest that 40% of the state budget (CFA 1 861 million in 2006) has been misappropriated through overbilling, procurement fraud and direct embezzlement (*Le Figaro*, 15 October 2007). Anti-corruption measures have generally been driven by politics rather than robust institutions. For example, many commentators suggest that the recent anti-corruption drive “Sparrowhawk” (*Opération Epervier*) “is President Biya’s response to the emergence of rival currents in the ruling party, enabling him to enforce loyalty through highly politicised prosecutions of regime barons” (ICG, 2010, p. 17).

Political processes

The ruling elite is narrowly centred on President Biya and his associates. The dominant strategies for power preservation have been to co-opt potential competitors or to use state power against opponents. Regime stability has been built on an extensive patronage network channelled through the structures of the state and the ruling party. It is fuelled by corruption, looting of public finances and state-owned banks, access to rents in the natural resource sector, and the growth of public sector employment. Under the thin veneer of national unity, there is a constant juggling of competing interests between different ethnic groups and regions.

Under this system, a narrow elite has visibly prospered, generating growing resentment within broader Cameroonian society. Over the past few years, corruption has been more openly discussed in the Cameroonian press, including revelations of President Biya's frequent and costly foreign trips and his substantial wealth and property holdings in Europe (CCFD-Terre Solidaire, 2009).

In the absence of strong opposition parties or other forms of political contestation, street protests have become the main outlet for social grievances. In 2008, a taxi drivers' strike in Douala to protest rising fuel prices spread into widespread protests and riots in several cities and led to a bloody crackdown. Some observers suggest the country has been driven close to the crisis point by a combination of economic stagnation, youth unemployment and growing resentment of high-level corruption. However, political risk assessments continue to point to the likelihood that the regime will endure up to and beyond the 2011 presidential elections (EIU, 2010).

Step 2 – Identifying international drivers

Table 3.1 presents a brief assessment of the relative importance and nature of international drivers of corruption in Cameroon.

Table 3.1. Summary of international drivers of corruption in Cameroon

1. Sources of rents and unearned income	Extractive industries (mainly oil, mineral and timber) account for 10.6% of GDP. Oil provides around a third of government revenues. The importance and effects of these drivers are discussed under Step 3 below. Development assistance provides another important source of unearned income. <i>Rating: important</i>
2. Opportunities and constraints to conceal and move illicit financial assets	There is evidence of substantial illicit financial outflows from Cameroon and largescale property holdings by the ruling elite in Europe (see Step 3 below). <i>Rating: very important</i>
3. Foreign investment	There is substantial foreign investment in extractive industries, mainly by French companies. Asian investment is becoming increasingly important. Net FDI flows were estimated at USD 282 million in 2007 (1.4% of GDP). Foreign investment has often been associated with bribe payments. <i>Rating: important</i>
4. Global and regional security threats and responses	Spillovers from regional conflicts have created insecurity in northern Cameroon, but are not a major threat to the regime. <i>Rating: limited importance</i>
5. International legal measures and sanctions against domestic elites	Cameroon is not subject to international legal measures or sanctions. However, Cameroon was selected to be reviewed in the first year of the current UNCAC Review Mechanism cycle. <i>Rating: not relevant</i>
6. Reputational pressures on political elites from regional and international actors	President Biya is not particularly active on the international or regional stage, but is keen to remain in favour among Western donors. International advocacy NGOs are increasingly critical of corruption in Cameroon. <i>Rating: moderately important</i>
7. External ideas and skills	There is a significant brain drain of skilled workers leaving Cameroon. The sizeable diaspora has modest influence on domestic affairs. There are growing links between international and Cameroonian civil society organisations. <i>Rating: moderately important</i>

Step 3 – Tracking the effects of international drivers

The effects of the two most important international drivers are discussed in Box 3.1.

Box 3.1. Natural resources rents

Oil sector. There is evidence of large-scale corruption in the oil sector in the 1980s and 1990s, mainly centred on manipulation of the process of awarding concessions. The Elf Aquitaine trial revealed a well-established system of corrupt payments to African leaders in exchange for secure oil concessions that was linked to broader French foreign policy interests (Heilbrun, 2005). Cameroon was included in these networks, and illegal payments primarily benefited the head of state and ruling party (BBC, 24 April 2003). According to Loïc Le Floch-Prigent, former Chief Executive of Elf Aquitaine, “Paul Biya could never have come to power and contained the Anglophone community in Cameroon without the help of Elf Aquitaine” (CCFD-Terre Solidaire, 2009). Elf appears to have achieved considerable influence in Cameroon at one stage, controlling two-thirds of the oil concessions.

With falling production, the importance of oil rents has declined. However, recent high prices and new oil discovery have led to renewed interest in the sector and a new round of concessioning. There are signs of increased commitment to improve transparency in the oil sector. In 2005, Cameroon pledged to adhere to the Extractive Industries Transparency Initiative (EITI) and has since published two reports. Measures centre on data on production and oil revenue, eliminating extra-budgetary spending by the state-owned oil company (SNH), and conducting annual external audits of the SNH accounts.

Timber. The timber sector in Cameroon has been another source of rent benefiting logging companies and politicians. Again, corruption has centred on the award of concessions, but there is evidence of widespread bribe paying and circumvention of forest regulations and controls throughout the industry (*Libération*, 15 May 2008). The major driver of this trade has been demand from the European Union, which accounts for 80% of exports.

Within the timber sector, there are some encouraging trends and initiatives that may act to stem the industry’s widespread corruption. Global Witness, which carried out independent monitoring of forest law enforcement in Cameroon between 2000 and 2005, noted widespread illegal activities carried out by various leading forest companies in Cameroon, as well as high levels of corruption within the forestry administration. However, their reports point to a “trend towards increasing regularity of control and decreasing infractions in the forest sector” (Global Witness, 2005). In May 2010, Cameroon and the EU concluded negotiations of the FLEGT Voluntary Partnership Agreement. This will put in place a system to certify the legality of timber and a system of supply chain verification from forest to port.

Key driver: High international demand for oil, timber and minerals

Contributing drivers:

- Foreign investment in extractive industries, bribe paying by foreign companies;
- Geostrategic interests; French interests in regime stability and securing markets in central and west Africa;
- Changing nature of the international timber market; increasing demand for legally sourced timber.



Primary effects

- Direct payment of bribes to politicians and high-level administrators controlling access to resources;
- Natural resource revenues have supported government budgets, providing the means to maintain patronage expenditures.



Secondary effects

- Access to unearned revenue sources reduces the need for state-society bargaining.
- Rampant rent seeking and corruption in the natural resource sectors have undermined the integrity of government organisations charged with managing and regulating extractive industries, thereby facilitating further corruption.
- Distortion of political competition, e.g. alleged use of Elf Aquitaine funds in Paul Biya’s election campaign in 1992 (*La nouvelle expression*, 21 February 2005).

Box 3.2. Illicit financial flows

Annual illicit financial outflows from Cameroon have recently been estimated at USD 842 million for the period 2002-06 (Kar and Cartwright-Smith, 2008). This is equivalent to around 5.6% of GDP over the same period, a substantial figure that is close to net ODA receipts (6.1% of GDP).

The bulk of these illicit flows probably arises from transfer pricing practiced by foreign companies operating in Cameroon. They also include tax evasion by Cameroonian companies and individuals and the proceeds of corruption. Those proceeds may also be paid directly by international companies into the accounts of Cameroonians held in third countries (without ever entering Cameroon). The Elf trial highlighted a complex system of payments through bank accounts held in Switzerland and other tax havens.

In spite of strong suspicions of substantial holdings of looted or corrupt money in offshore financial centres, there are currently no international processes under way to recover and repatriate these funds (CCFD Terre Solidaire, 2009).

Key driver: Opportunities and constraints for elites to conceal illicit financial assets or move them abroad

Contributing drivers: Foreign investment and foreign business bribery



Primary effects

Increased rewards and reduced risks associated with corruption caused by illicit financial flows that enable:

- International companies to avoid Cameroonian taxation through practices of transfer pricing;
- Cameroonian individuals and companies to safeguard the proceeds of tax evasion and corruption by moving them to offshore financial centres where confiscation is unlikely;
- Direct payments between international companies and Cameroonian individuals in third countries.



Secondary and feedback effects

Substantial loss of government revenue, undermining state capability and service delivery.

Widespread resentment of the wealth held by Cameroonians abroad damages the perceived fairness of the tax system (further weakening compliance) and state legitimacy more broadly.

Step 4 – Drawing conclusions and assessing the scope for action

The principal international drivers operating in Cameroon can be clearly identified: they relate to the rents generated by natural resource exports as well as the ease by which the proceeds of corruption can be hidden in offshore financial centres. The costs incurred are very substantial and probably outstrip the benefits brought by official development assistance. This indicates the importance and urgency of concerted international action.

In relation to restricting the corrupt use of natural resource rents, there are new international instruments at work – most importantly the EITI and FLEGT – that have significant potential to increase transparency and reduce illegality in extractive industries. There is anecdotal evidence that in Cameroon, the FLEGT process, and the improved relationship between government and civil society that arose as a result, has led to a situation where it is now possible for corruption in the forest sector to be spoken about openly in meetings and workshops with government. A recent EITI review found that most of the transparency

requirements have been adhered to. However, there is a concern that the instrument does not accurately target the ways in which rents are earned and corruption occurs within extractive industries. The case of timber and oil in Cameroon suggests that corruption is particularly likely at the stage of awarding concessions. It does not appear that EITI or FLEGT, as currently conceived, can effectively address corruption at this concessioning stage.

There is a need for enhanced international action to address the problems of illicit financial flows from Cameroon and illicit assets held abroad. This could include the use of international mechanisms for the recovery of stolen assets, tighter controls on transfer practices used by international companies, and stricter enforcement of anti-bribery rules. The Elf Aquitaine scandal highlights the responsibility of OECD countries to ensure that transnational companies operating in Cameroon behave according to higher ethical standards. In this sense, the investigation into the Elf scandal has been imbalanced and incomplete: it focused solely on how a few individuals within Elf benefitted personally from corruption, but without probing the payments made by Elf to African politicians, or the extent to which this was associated with grand corruption in countries including Cameroon.

While Cameroon was selected to be reviewed in the first year of the UNCAC Review Mechanism, it has not yet confirmed its participation in this review or its wish to defer its review to the second year.

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Chapter 4

Sierra Leone case study

Introduction

According to the UN Human Development Report (2007), Sierra Leone remains one of the poorest places in the world. By the end of the 1980s, the country was nearing a state of collapse, following years of poor governance and economic mismanagement under Siaka Stevens' APC government. The protracted conflict of the 1990s destroyed much of the country's basic social and economic infrastructure, resulting in entrenched and widespread poverty. While the causes of the war were complex, there does appear to be some consensus that poor governance, rampant corruption and the creation of a socially excluded underclass were responsible for creating the preconditions for war. Diamonds played a crucial role in fuelling the conflict, as the various parties funded their war efforts through mining activities (Maconachie, 2008).

The end of the civil war in 2002, the elections that followed and the change in government in 2007 brought with it hope that the country could rebuild itself and shake off the perverse practices that had shaped the political, social and economic landscape prior to and during the conflict. However, Sierra Leonean politics and society have proved far less susceptible to change than was hoped. Many of the pre-conflict socio-political institutions, practices, networks and players have sustained, albeit with some new players in the field. New international drivers have also come to the fore in Sierra Leone and in other countries in West Africa, playing an increasing role in the transshipment of illicit goods.

This case study considers the structural and institutional processes shaping the domestic political economy in Sierra Leone, and how international drivers have influenced country level governance.

Step 1 – Understanding the domestic political economy

Structures

After many years of economic contraction, the postwar period has brought about a certain level of economic recovery. The agricultural, mining, manufacturing, construction and services sectors have all rebounded from their wartime levels, resulting in an improvement in the government's fiscal position.¹ Sierra Leone has significant mineral deposits and other natural resources (primarily diamonds but also gold, rutile, timber and others) that offer genuine potential as a source of revenue. Rutile is increasing its share of GDP, from being totally absent during the war years to contributing USD 95 million in 2008. Since 2000, the government has increased its control over the diamond mining sector through laws, regulations, monitoring and decentralisation, resulting in a rapid increase in

official exports of diamonds from USD 10 million in 2000 to over USD 140 million in 2005 (Partnership Africa Canada, 2006).²

With the establishment of the National Revenue Authority (NRA) in 2002, tax collection has allowed revenue levels to recover somewhat, although broadening the treasury's tax base remains a priority and is identified as such in the President's Agenda for Change (Koroma, 2008). However, given the near-total absence of a private sector or middle class, the extent to which the state is dependent upon its citizens or business community for tax revenues is minimal, with clear implications for the extent to which citizens can hold their government to account. Currently, local government sets taxation levels but collection is organised through chiefdoms. Chiefdoms, not government, hold the information on population numbers, making it easy to siphon money from the system. The government recognises the need to reform this system, but with limited state reach into the countryside, low human resource capacity and difficulty in attracting officials to work in more remote and risky areas, it is hard to see how it will successfully take over this responsibility from the Chiefs in the near future and improve the tax collection system.

International development aid continues to be of primary importance to state revenue,³ a situation that has implications for governance and accountability (Brown *et al.*, 2005). However, with the possibility of declining ODA, particularly in the face of the current financial crisis, this may become less of an issue.

In terms of territorial integrity and Sierra Leone's geostrategic position, the country has historically had very porous borders and smuggling across those borders to Liberia and Guinea is believed to be common, primarily of diamonds. During the civil war, Liberia became a major centre for massive diamond-related criminal activity, with connections to guns, drugs, and money laundering throughout Africa and considerably further afield (Smilee, Gberie *et al.*, 2000). In return for weapons, Liberia provided the Revolutionary United Front with an outlet for diamonds. Since the end of the war, smuggling continues primarily into Liberia but also into Guinea Conakry.

Institutions

Sierra Leone's colonial history put in place a number of patterns that the country's political economy continues to follow. Crucial among these was the creation of a bifurcated system – a spatial and political divide between Freetown (former Colony) and the rest of the country (the Protectorate), and the practice of indirect rule through favoured chiefs. This system allowed local despotism and unchecked abuses by chiefs that generated a strong sense of resentment (Thomson, 2007).⁴ Post-independence governments have made little effort to change this situation, maintaining the colonial system of indirect rule. The two main parties – Sierra Leone People's Party (SLPP) and the All People's Congress (APC)⁵ – have historically relied on Chiefs to control the countryside, to garner revenue and to secure votes.⁶ This has not only accentuated the bifurcation, but also weakened the state in general by limiting its penetration into rural areas.

Sierra Leone's numerous secret societies, which have existed since pre-colonial times, may also have played an important role in creating unofficial networks of governance. Most rural Sierra Leoneans continue to be served by and under social forms of governance embodied in customary law and chiefs (Brown *et al.*, 2005). The idea of "a shadow state", in which rulers draw authority from their ability to control markets and their material rewards (in the case of Sierra Leone, perhaps diamonds and more recently drugs), draws heavily on these informal institutions of governance (Ellis, 2009, p. 195). Indeed, much of

the business of government is carried out through these institutions and processes, with structured networks between office holders, civil servants, traditional leaders and business elites.

In a society scarred by civil war, where trust is a scarce commodity, intra-elite networks of trusted confidants are an essential part of the business of politics and commerce. Business dealings, government contracting and licensing, and political fundraising all take place within intra-elite networks of trust. Although much progress has been made over the past five to ten years, the formal institutions of the state are not considered to be robust or deeply rooted. For many Sierra Leoneans, political identification lies primarily with social networks tied to particular settlements and neighbourhoods. Politicians rely on these networks for support, since it is extremely difficult to win elections without them. The incumbent's long-term survival and the durability of its members hinges on the ability to maintain and mobilise these local networks by continuing to deliver state services and resources to them. This is the root of the patronage system that is so central to how Sierra Leone works (Brown *et al.*, 2005).

So far, little progress has been made in reforming the patronage system through developing credible checks on executive power from parliament, the media and civil society, or through reform of the judicial system and civil service (Thomson, 2007). Progress has been made in areas supported by a coalition of interests, such as the security sector,⁷ police and local government reform. There has also been some convergence of interest in reforming the diamond sector and safeguarding the flow of aid by tackling corruption and improving financial management. However, local commitment in many areas has been tempered by resistance from vested interests, resulting in limited success in actually implementing the reforms.

Political processes

Sierra Leone's political system and its economy are dominated by a relatively narrow group of elites, mainly based in Freetown and drawn from a range of ethno-linguistic, geographical and religious groups. One of the defining features of the elite is their links to government and their ability to accumulate and accommodate networks of people (both horizontal and vertical), as is common within a patronage system. Historically, two ethnic groups, the Temne and the Mende, have competed for political dominance, with roughly even ethnic and geographic support bases. In weak states, the ability to control resources is frequently more important than the ability to control and administer territory. Sierra Leone's ruling elite has in the past secured its survival through alliances with foreign investors and private security forces. In a country with severe fiscal restraints and limited public policing capacity, adequate private security provision is often considered a key condition for foreign investment. The Sierra Leone Office of National Security estimates that about 30 private security companies (PSC) currently operate in the country, but the actual number may be higher. The private security sector is largely unregulated and unsupervised. Total employment in the country's private security industry may be as high as 5 000 (Abrahamsen and Williams).

The only ways of making money in Sierra Leone are through being in government, the diamond trade, or both. Given the frequent changes of government and several periods of military rule since independence, elites have tended to adopt short time horizons and have sought to maximise rent extraction during their time in power.

The current president entered power with the manifesto of “zero tolerance” of corruption, capitalising on the blatant failings of the previous government. In his “Agenda for Change”, President Koroma stressed the desire to work closely with development partners – important stakeholders given the importance of aid to the economy – and the need to encourage foreign direct investment. The President has therefore been keen to be seen internationally as tough on corruption, and has revised and launched the National Anti-Corruption Strategy (NACS) and passed into law the Anti-Corruption Act. The latter requires public servants, including the President himself, to make asset declarations.

At decentralised levels, the chiefs form a powerful elite group with considerable control over local networks, natural resource licensing, revenue collection and securing votes. Chiefdoms benefit according to the number of mining licences issued and the value of diamonds recovered from their territory, which forms the Diamond Area Community Development Fund (DACDF). However, there have been several documented instances of systematic abuse of the system by chiefs (Jackson, 2006). The potential for corruption is enhanced by poor financial management of the chiefdoms. Given the huge divide between Freetown and the rest of the country, the government has little control over the rural areas and there are no signs of the state at this level.

Step 2 – Identifying international drivers

Table 4.1 summarises the international drivers operating in Sierra Leone grouped under seven headings. A brief rating of the apparent importance of each driver is provided.

Table 4.1. **Summary of international drivers of corruption in Sierra Leone**

1. Sources of rents and unearned income	<p>West Africa is growing in importance as a transit route for cocaine from South America to Europe, and has emerged as a hub for organised crime of various sorts. UNODC identifies at least eight different forms of trafficking into, out of and through the region, including trafficking in human beings and firearms (UNODC, 2005). The smuggling of diamonds from Sierra Leone should also be added to this list. Diamonds have in the past been an important driver of corruption and continue to be a lucrative source of rents for the elite and their networks. This is facilitated by the high international demand for this valuable gemstone, ease of mining and smuggling, and weakly controlled borders in Sierra Leone.</p> <p>The increasing use of Sierra Leone as a transshipment point for cocaine and other illegal drugs is an international driver of recent and growing importance to Sierra Leone's domestic governance. Although Sierra Leone is not thought to be the largest transshipment point on this route, the country is certainly playing a significant and growing role in the illegal trade as an air destination of the northern trade hub.* These drug flows present opportunities for enrichment not found in the legal economy, and currently do not pose significant risks to those involved due to the poor capacity of enforcement and police functions. In the President of Sierra Leone's Agenda for Change, drug trafficking and corruption are identified as major risks for the country.</p> <p><i>Rating: important (particularly for drugs and diamonds)</i></p>
2. Opportunities to conceal or move illicit financial assets	<p>The ease of international financial transactions, coupled with weak domestic capacity to monitor these, provides a significant incentive for transferring assets overseas. There is no clear legislative framework to prevent money laundering.</p> <p>Money laundering has very strong links to the drug trade. Drug trafficking is cash-intensive and drug dealers usually rely on cash as a premium medium of exchange, which must be hidden and converted to avoid detection. Money laundering is therefore a crucial step in the success of drug trafficking. The existence of offshore banks in tax havens, predominantly in the West, has also allowed drug traffickers to develop complex international networks. It is estimated that the international drug trade is worth approximately USD 400 billion annually, of which USD 300 billion is laundered predominantly in Western financial institutions and tax havens (Africa Partnership Forum, 2009). Tackling drug trafficking is therefore very much linked to tackling money laundering. This requires enhanced international co-operation on issues such as access to financial information, financial sector regulation and banking supervision. Although international instruments and conventions are in place to deal with these issues, it is so far unclear what impact this is having at the domestic level.</p> <p><i>Rating: important</i></p>

Table 4.1. **Summary of international drivers of corruption in Sierra Leone** (*continued*)

3. Foreign investment	<p>As highlighted in the President's Agenda for Change, Sierra Leone is keen to attract foreign investment – and diamond licensing creates an important sector. The recent focus on reinstating the rutile mines also offers potential for foreign investment. The need to attract foreign investment is intrinsically linked to the issue of reputation pressures, since the government is keen to maintain a “clean” reputation – as illustrated by their stated “zero tolerance” of corruption, in order to attract FDI.</p> <p><i>Rating: important</i></p>
4. Global and regional security threats and responses	<p>The main threat to Sierra Leone's security situation stems from ongoing tensions in Guinea and the Yenga border dispute (UN Security Council, 2009), and problems in the north of Côte d'Ivoire, although there is no immediate threat from the latter.</p> <p>Most tension is internal and largely results from high unemployment, which remains one of the most intractable problems facing the government.</p> <p><i>Rating: Currently of limited importance</i></p>
5. International legal measures and sanctions against domestic elites	<p>Sierra Leone is at present subject to two UN sanctions. The first relates to an embargo on the import of arms into the country and the second prevents entry into or transit through their territories of leading members of the former military junta and of the Revolutionary United Front.</p> <p>Previously, the sanctions regime included prohibitions on the import of all rough diamonds from Sierra Leone. However, the Security Council decided to allow the diamond sanctions to expire on 4 June 2003 in the light of the government of Sierra Leone's increased efforts to control and manage its diamond industry and ensure proper control over diamond mining areas, as well as its full participation in the Kimberley Process.</p> <p><i>Rating: of limited importance</i></p>
6. Reputational pressures on political elites from regional and international actors	<p>Regional reputation pressures on the government of Sierra Leone may have some influence on domestic dynamics, although it is not clear to what extent it changes the way in which the elite bargain with different social and political groups. This may be a useful subject for more in-depth investigation.</p> <p><i>Rating: somewhat important</i></p>
7. External ideas and skills	<p>Sierra Leone is well linked into a wide range of regional and international networks that facilitate exchange of ideas, as illustrated by the Sierra Leone Conference 2009 and Sierra Leone's participation in the inaugural African Tax Administration Forum in 2009.</p> <p>Diaspora networks are extensive and there have been many returnees coming back to Sierra Leone following the end of the conflict, bringing with them education, skills, experience and also new ideas. Some are active in politics and are having some influence in both the leading party and opposition groups.</p> <p><i>Rating: moderately important</i></p>

Note: * The southern hub appears to be the Bight of Benin; transshipment is then routed through Togo, Benin, Ghana and Nigeria. The northern hub involves the two Guineas (Bissau and Conakry) as entry points, with Sierra Leone and Mauritania as additional air destinations (UNODC, 2009).

Step 3 – Tracking the effects of international drivers

Box 4.1. Diamonds

From the late 1970s to the early 1990s, sustained international demand for diamonds contributed to major corruption, destabilising competition and conflict in Sierra Leone.

Diamonds were first discovered in Kono District in Eastern Province in 1930 and have played an important role in the fate of the country ever since. In 1934, the Sierra Leone Selection Trust (SLST) was established and a considerable amount of revenue was being reinvested in “local” development (Maconachie, 2008). From 1930 to 1998, approximately 55 million carats were mined (officially) in Sierra Leone. At an average price in 1996 dollars of USD 270 per carat, the total value is close to USD 15 billion (Smilee, Gberie *et al.*, 2000). In 1970, the Sierra Leone government acquired a 51% share in SLST and the National Diamond Mining Company (NDMC) was formed. This effectively privatised the diamond sector into the hands of an elite few, since Stevens used his patronage over the diamond sector to secure wealth and strengthen his power base. This resulted in a significant decline in the legitimate diamond trade as licences were allocated to political loyalists. Being sourced largely from alluvial gravel deposits rather than Kimberlite pipes, Sierra Leone’s diamonds can be easily mined and exported, making it difficult for the government to regulate and control revenues.

While Stevens and his close allies were able to secure significant wealth from the diamond trade, government revenues and foreign reserves suffered a dramatic decline. This helped foster an informal “shadow” economy that soon dwarfed the formal economy, undermining the state’s capacity and legitimacy and contributing to its fragility and collapse.

Many of the diamonds traded through both “official” and unofficial channels during this time moved through international networks of Lebanese traders. Sierra Leone’s diamonds became an important informal tax base for various Lebanese militia groups with allies in the country. However, following the exile of the key player in this network – Jamil Mohammed – trade networks were partly taken over by “Israeli ‘investors’ with close connections to Russian and American crime families, and with ties to the Antwerp diamond trade” (Smilee, Gberie *et al.*, 2000).

Key driver: High global demand for diamonds

Contributing drivers:

- The international industry’s willingness to buy rough diamonds regardless of source;
- Porous regional borders;
- Global (Lebanese) trading networks;
- The Lebanese civil war.



Primary effects:

- The high value and ease of mining and smuggling alluvial diamonds enabled an elite strategy based on capture of the resource and distribution of rents to narrow groups.
- High rewards from rent seeking in the sector provided the president and his associates with significant financial rewards and sources of patronage.
- Diamond industry captured by a narrow group of elites.



Secondary effects:

- State revenues and foreign reserves undermined;
- Formal institutions of the state weakened (public administration);
- Weakened ability of state to control territory and deliver public goods and services;
- Decreased time horizon and security for elites as state reach and capacity is weakened.

Box 4.1. Diamonds (continued)

More recently, the government has taken steps to control this trade and has even signed up to a number of international initiatives as part of this effort (EITI and the Kimberley Process Certification Scheme – KPCS). From these efforts, the government has achieved some measure of progress in rebuilding the regulatory infrastructure and reducing smuggling. There is no doubt that it has succeeded in expanding the legal part of the diamond sector, as evidenced by increasing government revenue.* The number of licences awarded grew from 100 at the end of the war to over 2 400 in 2005 (Thomson, 2007).

KPCS has been widely heralded as a possible way forward in breaking the link between the legitimate trade in diamonds and uncontrolled “conflict” diamonds. In Sierra Leone it has had some measure of success in that it has forced a large volume of illicit diamonds out of underground networks and into official channels (Maconachie, 2008). More recently, Sierra Leone has signed up to the Extractive Industries Transparency Initiative, although the country has yet to undergo validation. Implementing such an initiative also comes with a number of important challenges, including: balancing the need for contract confidentiality with the need for new legislation that imposes regulations and data transparency, establishing of modalities for gathering the required data; and building the capacity of government and civil society to be able to competently engage in the process.

* However, Government revenues continue to be small and comprise a share of 3% export tax and license fees, plus royalties and taxes paid by the larger-scale players. A quarter of the tax revenue is allocated to the Diamond Areas Development Fund and a quarter to cover the costs of the Government Gold and Diamond Office (GGDO). The Government has deliberately not imposed large levies on the alluvial sector since smuggling is so easy that high tax rates would undermine the legal trade completely.



Governance & corruption outcomes:

- Major corruption;
- Contributed to creation of a “shadow state” and “shadow economy”;
- Social contract undermined;
- Contributed to state fragility.

Box 4.2. Sierra Leone's growing importance in the transshipment of cocaine

West Africa has become a transshipment point of increasing importance for the trafficking of cocaine and other illegal drugs. Sierra Leone plays a significant and growing role in this trade. The high value of the drugs on the international market makes this a lucrative source of rents for the elite.

Over the past five years,* West Africa has emerged as a hub for cocaine trafficking between South America and Europe. This is indicated by the sharp increase in seizures in the region, from 758 kg in 1998 to 5 691 kg in 2007 (UNODC, 2007), and is a response to the declining North American market and growing European market. UNODC estimates that at least USD 1 billion worth of cocaine is currently trafficked through the region (UNODC, 2009). The high demand for cocaine and other drugs in Europe and the high value of these drugs on the global market mean that they have the potential to generate very high rents for those who control their export, transshipment and trade.

Nigeria was foremost in the illegal transshipment of narcotics in the 1980s and 1990s, but the breakdown of civil authority in several countries in the region has created an opportunity for drug traffickers (Fofana, 2008). The drug monitoring agency of ECOWAS has described both Sierra Leone and Guinea Bissau as the major routes for transshipment of hard drugs in the sub-region. In both countries, the security apparatus is weakened by a lack of resources, corruption and widespread poverty, making it easy for traffickers to co-opt poorly paid security personnel (Fofana, 2008). Given the relatively weak governance and economic position of the country, the drug trade poses a genuine threat to Sierra Leone. In the first report of the UN Secretary General on UNIPSIL, drug trafficking was identified as “the biggest single threat to Sierra Leone, especially since drug trafficking tends to be accompanied by arms and human trafficking, corruption and the subversion of legitimate State institutions.”

The bulk shipments (by sea and air) tend to be controlled by Latin American traffickers, primarily from Colombia and Venezuela. In June 2007, the Venezuelan authorities seized 2.5 million tonnes of cocaine on a private plane that was about to take off for Sierra Leone (UNODC, 2007). West Africans clearly play a role in the transit to Europe and distribution onward, primarily through using couriers on commercial air flights. Nigerian organised crime groups are also active in the trade throughout West Africa. Nigerian middlemen are also playing a leading role in the development of a trans-Saharan route for smuggling cocaine into Europe, using Tuareg guides (Ellis, 2009).

Key driver: High demand for cocaine and other illegal drugs in Europe and the need for “easy” transshipment points.

Contributing drivers:

- Downturn in drug market in North America;
- Increased law enforcement successes in the Caribbean and Europe;
- Favourable political context offered by civil war-weakened state institutions, including police and judicial system;
- Business characterised by high profits;
- The existence of offshore banks in tax havens has allowed drug traffickers to develop complex international networks;
- Porous regional and borders.



Primary effects:

- Huge profits from drugs transshipment provide criminals and corrupted officials with massive rents and sources of patronage.



Secondary effects:

- Undermining formal law enforcement institutions;
- Illegal drugs entering the domestic market;
- Weakened ability of state to control territory and deliver public goods and services;
- Decreased time horizon and security for elites as state reach and capacity is weakened.



Box 4.2. Sierra Leone’s growing importance in the transshipment of cocaine *(continued)*

Although evidence remains sketchy, it is widely believed that this trade not only corrupts lower-level officials (in particular the police and border authorities), but also higher-level politicians (Ellis, 2009). The decentralised and networked nature of the drug trade in the region makes it particularly difficult to identify links between organised crime and the state. However, it is likely that the trade involves, and indeed requires, high-level political complicity. For example, it was reported in October 2008 that police were investigating Sierra Leone’s Minister for Transport and Aviation, Kemoh Sesay, after his brother (also manager of the national soccer team) was arrested in September in connection with the seizure of 700 kg of cocaine on a chartered plane at the country’s main airport (World Politics Review, 2008)

UNODC has played an important role in raising awareness of the growing importance of this trade in West Africa by compiling and publishing data on seizures, arrests and the various flows operating in the trade. This may in turn result in the trade shifting to other, less watched locations, although it is unlikely to lead to an end to the trade. UNIPSIL presently supports strengthening of the Sierra Leone Joint Drug Interdiction Task Force (UN Security Council, 2009).

* According to Ellis (2009), West Africa’s role in the international drug trade has historical roots going back for over half a century as a transit point for Lebanese smugglers to transport heroin to the USA since as early as 1952, and African-grown marijuana to Europe by Nigerian and Ghanaian smugglers a decade later.

Governance & corruption outcomes:

- “Perverting economies and rotting society” (UNODC, 2007);
- Contributed to creation of a “shadow state” and “shadow economy”;
- Social contract undermined – greater state fragility.

Step 4 – Drawing conclusions and assessing the scope for action

The analysis developed in Box 4.2 has set out to provide a brief overview of the domestic political economy in Sierra Leone and an initial examination of how the various international drivers, both positive and negative, may influence particular trends within this.

Sierra Leone is an extremely poor country and institutions to tackle malfeasance are weak and lack sufficient resources or political will to deal with such complex and deeply entrenched patterns that underpin corruption in the country. Incentives exist at all levels to make money in any way possible. As you move higher up the hierarchical chain, it simply means that more people (extended family, clan, wider networks, etc.) are expecting your “support” and the pressure to service those expectations are greater. This is the basic tenet of the patronage system that underpins the political economy of Sierra Leone

Although drugs and diamonds do not fundamentally alter the dynamics or incentives underpinning this system, they do raise the stakes and put more pressure on already weak systems. Anti-corruption measures to date do not appear to be fundamentally reordering this system. The many attempts to change the culture of corruption through establishing institutions is not happening quickly enough or having much of an impact on the deeply rooted governance structures that underpin this system.

Notes

1. For example, in 2008 average annual growth in agriculture was 6.1%, in industry 2.0% and in services 6.6% (World Bank, 2009).
2. Sierra Leone signed up to the Kimberley Process in 2003 and also expanded its control system from the district to the chiefdom level by establishing Mines Monitoring Officers (MMO) at these levels. Implementation of the Core Mining Policy and Sierra Leone's efforts to comply with the Kimberley Process have resulted in a significant increase in legal mining licences, from 100 in 2002, to 2 500 in 2006 (USAID, 2007). Sierra Leone has also signed up to the Extractive Industry Transparency Initiative (EITI), although it has yet to pass the validation process.
3. In 2008, GDP was USD 2 billion, of which ODA grants and credits totalled almost USD 300 million. Government revenue was 42.9% of GDP (World Bank, 2009).
4. Despite this background, DfID launched a so-called paramount chief restoration programme in 2000, which included building houses for 50 chiefs and supported elections to fill the vacancies left by those chiefs killed during the war (Hanlon, 2005).
5. The SLPP regimes relied strongly on support from chiefs and promoted the interests of the Mende of southern and eastern Sierra Leone. Siaka Stevens' APC, on the other hand, drew its support mainly from Temnes from the north and Freetown. This division remains significant today.
6. The chiefdoms, while they remain separate from the state, duplicate many of the functions of the modern state, particularly in terms of law and order, justice and political representation.
7. Despite some progress, the security sector still has some way to go. One of the big issues facing the sector is that the size of the army (10 300) is considerably larger than the country needs or can afford. Building public confidence and trust will take time and sustained effort to escape the shadows of the past.

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Chapter 5

Uganda case study

Introduction

This case study considers the domestic political economy of Uganda, and the influence of international drivers on these dynamics. For almost 25 years, Uganda has been characterised by relative economic stability and development, but also by questionable levels of democratic governance. Corruption is perceived to be an increasing challenge in Uganda, with a worsening regional position in Transparency International’s Corruption Perception Index and a number of recent high-profile procurement scandals.

Two key international drivers are considered in more depth in this case study: oil exploration and illicit financial flows. The analysis aims to layer influences of the international drivers over the existing political economy in Uganda in order to identify trends. These may provide insights for development partners seeking to engage with governance issues in the country.

Step 1 – Understanding the domestic political economy

Uganda has a stable political and economic context, dominated by the National Resistance Movement (NRM) and its leader, President Museveni, who have governed the country since 1986. The economy has performed well over this period, averaging 7.8% annual growth since 2000 (World Bank) despite the global economic downturn and vulnerability to fluctuations in markets of its key export commodities. Human development indicators have also shown positive trends over the past decade, although there are reports of significant (and increasing) inequalities and “social exclusion is prominent... [and] structurally entrenched” (Bertelsmann Stiftung, 2009). The very high population growth rate presents a challenge to meeting poverty eradication targets.

Structures

When the NRM took power in 1986, tax revenues were only 2% of GDP. Reform in this area, particularly the establishment of the semi-autonomous National Revenue Authority (NRA) in 1991, pushed this to over 12% in the late 1990s, and it has remained at around this level ever since (Robinson, 2006, p. 23; IMF, 2009, p. 20). Despite greatly improved levels of revenue collection, Uganda remains heavily dependent on aid, which supports around one-third of the total government budget. Grants in the form of budget support and project financing are equivalent to around 2.6% of GDP (IMF, 2009, p. 20). The discovery of oil reserves in Uganda will likely have significant implications for the structure of

government revenues, which are estimated to provide potentially one-third to one-half of total government revenue at their peak (IMF, 2009, p. 15).

Uganda has weak control over its international borders, and smuggling across both land borders and Lake Victoria is believed to be common. The illicit trade is focused on high-value natural resources, particularly gold, timber, gems and ivory. Opening trade routes to South Sudan has helped to boost trade, but given the insecurity in these areas, it has also made the routes popular for robberies (ICG, 2008, p. 12). Organised crime is a growing concern across East Africa, including Uganda, due to weak law enforcement. Uganda has been described as “being susceptible to being used as a transit point for funds and resources that may be used to destabilise central African countries and to perpetuate war in these areas” (ESAAMLG, 2007, p. 7). Trafficking of small arms and light weapons involving Somalia, southern Sudan and DRC is prevalent. It is also believed that people smuggling and drugs trafficking are on the increase, but there is a lack of reliable information on these issues (UNODC, 2009, p. 8). There is currently no significant military threat to Uganda, with the weakening and movement into other territories of the Lord’s Resistance Army (LRA) rebels since 2006. However, Uganda lies in a volatile region and the potential remains for spillover of the conflicts in neighbouring countries. In particular, the terrorist attacks in Kampala in July 2011 underlined the potential for violence to spread from the instability in Somalia. The young and rapidly expanding population may also be a future threat to stability in Uganda, as economic development is unlikely to match expectations. The existence of oil reserves in parts of the country also creates potential for conflict where land rights and tenure are contested.

Since independence, Ugandan politics has been dominated by personalised rule and concentration of power in one “big man”. The move towards political competition (most notably the restoration of multi-partyism in 2005) has reinforced a neo-patrimonial system, where desire to retain power by the president and the NRM has undermined reform, effective policy making and social cohesion (Cammack *et al.*, 2007, pp. 30-31). Ethnic kingdoms have started to re-emerge with uneven degrees of recognition, which has led to accusations of favouritism (Moncrieffe, 2004, p. 31). There are claims of disempowerment of certain ethnic groups, and significant regional disparities in allocation of resources and high-level government positions. Northerners are almost entirely absent from higher levels of public office, and control only around 4% of the national budget, compared to 71% for westerners (ICG, 2008, pp. 5-6). The conflict in northern Uganda has been linked to a sense of marginalisation and victimisation, and there is a general sense that since the Movement came into power, southern Uganda has seen stability, economic growth and improvements to human development indicators, while northern areas have remained largely neglected.

Institutions

The NRM began as a broad and inclusive movement, but has failed to retain this character, and instead power has been consolidated along family, kinship and ethnic ties (Robinson, 2006, p. 13). President Museveni acts as head of state, head of government and commander-in-chief of the national armed forces. He is able to appoint holders of a wide range of offices with the notable exception of key figures in the judiciary (TI, 2003, p. 18). Power is concentrated in “a small circle of leadership within the NRM and the top ranks of the military” (Bertelsmann Stiftung, 2009, p. 8) and effective power to govern relies on military affiliation as well as electoral success. Patronage networks and intra-elite bargaining dominate policy-making processes (Cammack *et al.*, 2007, p. 49). Despite the appearance

of movement toward political competition, the dominant strategy (including removal of presidential term limits) indicates “the present leadership’s determination to retain its supremacy by all means” (Bertelsmann Stiftung, 2009, p. 22). Retaining control of the state is important as it provides the only opportunity for personal enrichment or to sustain loyalty (Cammack *et al.*, 2007, p. 49). There are currently no major sources of rents from natural resource extraction in Uganda, although the exploitation of oil reserves (potentially from 2012 onwards) will have a significant impact on the potential for rent seeking.

Corruption is extremely widespread, perceived to be highest in local government, tax authorities and the police (Afrobarometer, 2008, pp. 23-24). While various integrity systems exist to tackle this, implementation is considered to be extremely weak (Global Integrity, 2009). Social and cultural norms are such that loyalty to personal, religious and family ties takes precedence over objectivity and transparency (TI, 2003, p. 17). The abolition of graduated tax in 2005 removed a major source of local government revenue, increasing dependency on centralised funding and weakening the link between taxes and service delivery. People are therefore now more likely to vote based on personal relationships or ethnic identity rather than government performance and delivery (Cammack *et al.*, 2007, pp. 32-48). Increasingly high proportions of government revenue are directed toward public administration, due to the growth in government bureaucracy and the number of agencies and commissions. The government bureaucracy is seen as a means to reward political supporters (Robinson, 2006, pp. 19-20).

Public awareness of corruption is relatively high, and the media play an important role in highlighting the issue. There are however reports of harassment of journalists who are critical of the state, and self-censorship is thought to occur. Several civil society organisations focus on this issue but may have restraints placed on their activities, and there seems to be efforts on the part of government to co-opt the most competent and visible (Moncrieffe, 2004, pp. 7, 23). There remains a perception of corruption from the top and a culture of impunity in Uganda, which may explain the apparent growth of the problem. For example, despite his role in the NSSF/Temangalo fraud case, Security Minister Mbabazi was exonerated by the president and his position bolstered through the ensuing cabinet reshuffle.¹ Some commentators also suggest the culture of impunity has been reinforced by the international community, which until recently did not appear to be responding to evidence of high-level corruption scandals.

Political processes

Political division within the Movement appears to have been increasing, and there is suggestion that the support base is dwindling based on increasing awareness of corruption and inefficiency. Challenge has been coming from traditional forms of leadership, particularly kingdoms and ethnic or tribal groups (Moncrieffe, 2004:27). Cammack *et al.* suggest that this rediscovery of tribal kingdoms has been encouraged by the president (2007:30). These ethnic identities can be used politically, and also serve to reconsolidate power toward the centre by weakening the sense of cohesion at local level. The NRM has become increasingly subject to personalised rule by the president. Power has been consolidated around an elite group in which family and regional affiliations dominate (Cammack *et al.*, 2007, p. 13). Challenges to presidential power are generally confronted not by overturning or bypassing formal institutions, but by relying on personal networks and practices to manipulate the existing environment (Cammack *et al.*, 2007, p. 47). There are also attempts to integrate rivals into existing patterns of patronage and corruption. This is exemplified by the government’s attempts to corrupt representatives of the LRA

during peace talks, as well as the unclear expenditures and impact of the Northern Uganda Reconstruction and Social Funds (ICG, 2008, pp. 15, 18).

Political competition has been a major driver of corruption in Uganda, despite the ban until 2005 on multi-party politics. Elections are very expensive and time-intensive to contest, and candidates may become severely indebted (Moncrieffe, 2004, p. 23). This means that an election is seen as an investment, which will be repaid once in office. Service delivery is an important issue – the focus of public attention is on delivery of basic services, reducing poverty and generating employment. Commitments to universal primary education and the abolition of user fees for health services have improved human development indicators and are popular with the electorate. The 2011 presidential elections (as in previous elections) had a driving tendency towards populist policies. There is a sense in Uganda that the state should provide “like a parent” (Afrobarometer, 2008, p. 10), resulting in populist – rather than necessarily effective – policy making and the need to “deliver” for supporters. In some instances, the focus on service delivery has run contrary to macroeconomic policies or impeded reforms (Robinson, 2006, p. 20). International influence does appear to have some impact on elite strategies and policy making, due to the high reliance on international aid flows and the desire to attract increased foreign investment. The president linked the restoration of multi-party politics in 2005 to concerns of foreign investors rather than domestic pressure (Bertelsmann Stiftung, 2009, p. 22).

Corruption is a significant issue in Uganda. It is estimated that over US\$330 billion (US\$184 million) is lost every year to corruption in procurement. (African Peer Review Mechanism, 2009, lxii), which represents around 7.5% of government spending. Corruption or malpractice in procurement is believed to be particularly problematic in the defence sector, but there have been a number of recent scandals relating to procurement across government. The auditor-general has estimated that 20% of funds for public procurement are lost through corruption, which is significant given that public procurement accounts for an estimated 70% of all government spending. Uganda’s political elite has recently been shaken by dramatic revelations by the auditor-general relating to massive misuse of funds for the Commonwealth Heads of Government Meeting (CHOGM) held in Kampala in 2007 (PAC, 2010). Most of the cases involved corrupt transaction and malpractice between Ugandan politicians and officials and Ugandan companies. However, several international companies (and their Ugandan subsidiaries) are also named in the PAC report (but not pursued through legal channels). Corruption has also been linked to private sector interests, through non-transparent loans or business deals (including privatisation in the 1990s) in exchange for political favours and support (Cammack *et al.*, 2007, p. 31). It has reportedly had a significant negative impact on private sector development, with many banks forced to close, liquidate or deregister (TI, 2003, p. 17). Despite the “elimination of all forms of corruption” appearing as part of the NRM’s Ten Point Programme when it came to power in 1986, major corruption is now believed to be entrenched at the highest levels of the leadership (*The Independent*, 2010).

Step 2 – Identifying international drivers

Table 5.1 summarises the international drivers operating in Uganda grouped under seven headings. A brief rating on the apparent importance of each driver in terms of corruption/anti-corruption outcomes is provided.

Table 5.1. Summary of international drivers of corruption in Uganda

1. Sources of rents and unearned income	<p>Trade in natural resource materials – including gold, timber, gems and ivory – human trafficking, illicit trade in small arms and light weapons and (to a lesser extent) narcotics are all believed to occur on Ugandan territory, although information sources are limited. The rents generated by these activities are likely to be substantial, and have fed into a domestic construction boom and other money laundering activities.</p> <p>To date, much of the Ugandan economy has depended on agriculture; coffee exports in particular have provided a significant source of income. This is set to change, with the discovery of commercially viable oil reserves in the west of Uganda. The significance of oil exploration, in terms of the revenues available, makes it an important driver for domestic political economy dynamics.</p> <p>Public procurement, particularly of military assets, from overseas has been linked to a number of cases of major corruption.</p> <p><i>Rating: important, but becoming very important</i></p>
2. Opportunities and constraints to conceal and move illicit assets	<p>Money laundering is understood to be a significant problem, yet there is no clear legislative framework to prevent money laundering.</p> <p>Uganda has been assisted by EU and UK government fraud offices in asset recovery and forensic investigations. It is also receiving some support from the UN Office on Drugs and Crime (UNODC) and the World Bank for capacity strengthening to tackle money laundering, although this is largely on hold, awaiting the passing of the anti-money laundering bill in Parliament.</p> <p><i>Rating: important</i></p>
3. Foreign investment	<p>Uganda is making efforts to attract increased foreign investment, including from Asian investors who were expelled under Amin's regime.</p> <p>The existence of oil-licensing areas creates a new and important sector for foreign investment. However, Tullow Oil has experienced licensing difficulties purportedly linked to a tax dispute (Financial Times, 27 August 2010).</p> <p>Public procurement, including sourcing from international suppliers, is believed to be a significant cause of corruption in Uganda.</p> <p><i>Rating: very important</i></p>
4. Global and regional security threats and responses	<p>There is currently no significant external military threat to Uganda, although the region remains volatile. Bombings in July 2011 in Kampala have been linked to militant Islamist groups in Somalia, reportedly attacking Uganda in response to the presence of Ugandan peacekeeping troops in Somalia. The rebel group originating in northern Uganda, the LRA, has weakened substantially over the past five years, as well as shifting its activities outside of Ugandan territory.</p> <p>Uganda has a reputation in the region for aggression, due to a long-standing exclusive focus on a military solution to the LRA and allegations of involvement in conflict in Sudanese and Congolese territories.</p> <p><i>Rating: moderately important</i></p>
5. International legal measures and sanctions against domestic elites	<p>There are no significant legal measures or sanctions in place against Uganda or prominent individuals. However, questions have been raised in the UK Parliament challenging the validity of Ugandan diplomatic passports, as several individuals entering the UK with these have been charged for money laundering offences.</p> <p>Uganda was selected to be reviewed in the first year of the current UNCAC Review Mechanism cycle, and is currently undergoing the peer review process by Ghana and Romania.</p> <p><i>Rating: Of limited importance</i></p>
6. Reputational pressures on political elites from regional and international actors	<p>Regional reputation pressures (from membership of the East African Community and other bodies) on the government of Uganda have some influence on domestic dynamics. For example, willingness to negotiate with the LRA was attributed to a desire to “transform its war-like image in the region” (ICG, 2008, p. 15), and regional economic integration is renewing focus on improving oversight of financial flows.</p> <p>Another case in point is the progress made on follow-up of the Global Fund for Aids, Tuberculosis and Malaria corruption scandal, largely as a result of international pressure (including on reputation) from the board level in Geneva. However, the government is also strong-willed and can be uncompromising in its approach. There are instances where the government has pursued priorities in spite of strong criticism in both domestic and international arenas. This includes occasional clashes with donors despite Uganda's reliance on international aid (Bertelsmann Stiftung, 2009, pp. 22, 26).</p> <p>Massive corruption in expenditures linked to the Commonwealth Heads of Government Meeting illustrates another reputational effect. The pressure to deliver the event on time and according to international standards may have helped to justify the failure to adhere to procurement practices.</p> <p><i>Rating: moderate importance</i></p>
7. External ideas and skills	<p>Despite poor communications infrastructure, Uganda is well linked into a wide range of regional and international networks that facilitate exchange of ideas.</p> <p>Diaspora networks are extensive, and some elements have been linked to financing of the LRA or political opposition parties in attempts to challenge the NRM regime remotely.</p> <p><i>Rating: important</i></p>

From the analysis developed in Table 5.1, two key international influences that emerge are oil exploration, due to the scale of the potential impact this may have on Uganda, and the ability to conceal and launder assets, which is an area of increasing international and regional concern. These drivers are analysed in more detail in Step 3.

Step 3 – Tracking the effects of international drivers

Box 5.1. Oil exploration

The discovery of significant oil reserves in Uganda offers a major new source of revenue for the country but also presents significant resource management challenges.

The commercial exploitation of Ugandan oil reserves offers significant potential as a government revenue source, to decrease dependence on international financing and support poverty eradication objectives. Current estimates are of up to 2 billion barrels of commercially exploitable reserves, with extraction potentially commencing in 2012. Government revenues from these reserves are estimated to potentially provide one-third to one-half of total government revenue at their peak (IMF, 2009, p. 15). This offers significant opportunity for rent seeking, but at present the revenues expected from oil do not reduce the importance of taxation as the main source of government revenues. They may however produce shifts in international influence in Uganda, as dependence on traditional development partners declines.

Oil reserves, as a point source natural resource, can be relatively easily controlled. This offers both opportunities and challenges from a governance perspective. The oil exploration areas lie along the western border of the country, from the southern corner to the border with Sudan. Traditionally, leaders from west Uganda dominate at national level, controlling 71% of the entire government budget, and occupying 74% of high-ranking positions in the military (ICG, 2008, pp. 5-6). Although there is provision in the Constitution for Equalisation Grants to ensure local government revenues are balanced across different districts, in practice this does not appear to happen (TI, 2003, p. 68), and the west and south of Uganda are generally viewed as receiving more resources and being better developed than the east and north. The need to ensure continued support in the geographic areas where the oil exploration sites are located, and the revenues generated in them, may be used to justify further disparity in resource allocation in future.

Key driver: High global demand for oil.

Contributing drivers:

- International energy companies keen to invest in Uganda;
- International NGO and donor scrutiny of oil production and transparency;
- Domestic driver: desire of current regime to maintain power;
- Domestic drivers relating to demands to improve infrastructure and eradicate poverty in Uganda.



Primary effects:

- High levels of rents available to elites;
- Need to maintain political support in oil-producing regions may alter regional disparities in resource allocation and representation at higher levels of government;
- Reduced influence of traditional development partners.



Box 5.1. Oil exploration *(continued)*

The extension of exploration areas into the northern region does however provide new opportunities for integration of the north. Since 2006 the north has largely been free of conflict and the government has made efforts to reintegrate the region, largely through co-opting it into existing patronage networks. The USD 900 million Northern Uganda Peace and Recovery Development Plan (PRDP), intended for reconstruction and IDP resettlement, has been described as part of the NRM's political agenda. PRDP may be used as a source of largesse to co-opt northern political leaders into the system. The Northern Uganda Reconstruction and Social Funds transferred so far have had minimal impact but are associated with high levels of corruption (ICG, 2008, pp. 7, 18).

The high value of rents available from exploitation of oil resources is likely to strengthen the desire of the existing regime to maintain control of the state machinery, as well as increasing resources available to achieve this through patronage or financing of the military. The focus of the current regime on maintaining control is already significant, and it is therefore unclear that availability of oil revenues will significantly alter this dynamic; it will however raise the stakes in terms of levels of resource to control. Already international observers have raised concerns over potential militarisation of the oil industry, with close family members of the president in control of the military in oil-producing areas and involved in private security companies in the area.

Existing legislation to govern the control of petroleum resources dates from 1985 and does not provide a strong framework for oversight or transparency of how the reserves are managed (Global Witness, 2010, p. 4). There is already a tax and licensing dispute with one foreign operator (Tullow: see *Financial Times*, 27 August 2010), which may signal future problems, and highlights the need for transparency and predictability in Uganda's dealings with foreign investors. The international community has not yet sufficiently engaged with the Ugandan government on the issue of oil revenue transparency.

Secondary effects:

- Consolidation of power among current elites as rents or available revenue to supply patronage networks increase;
- Potential for increased integration of the northern region; also however, potential for continued under-development and increased exclusion of the east, leading to unrest.



Governance & corruption outcomes:

- Possible common “resource curse” problems, including lack of transparency of revenue collection and use, and decreased accountability to citizens;
- Continued efforts of current regime to maintain power, with larger resource base available. Expected continued pattern of patronage and co-opting of dissenters;
- Shifts in domestic dynamics, but continued under-representation of the eastern region.

Box 5.2. Money laundering and illicit financial flows

Money laundering is acknowledged to be an issue in Uganda, but despite ongoing efforts little progress has been made in tackling the problem. Although international drivers may be helping to fuel demand for illicit or unregulated financial transactions, increasingly regional and global drivers are helping to promote the anti-money laundering (AML) agenda.

Money laundering is acknowledged to be an issue in Uganda, although documented evidence of the scale of the problem is weak. Estimated size of illicit financial flows emerging from Uganda is around USD 217 million per annum (Kar and Cartwright-Smith, 2008, p. 27). Sources of laundered funds are diverse, including procurement corruption, trafficking in drugs, arms or people, and even illicit funds raised in other countries in the region, such as the proceeds of piracy in Somalia.

The Uganda Anti-Money Laundering Committee (UAMLC) was established in 2000 to co-ordinate a response to the issue. The low technical capacity of banks to monitor transactions and lack of transparency in the system make it difficult for authorities to regulate financial flows. Under Ugandan law, there are no restrictions on international capital transfers, and although the Bank of Uganda has developed AML guidelines and requests that large international transfers be processed through the bank, none of these provisions is supported by law. Existence of strong diaspora networks in countries such as the United Kingdom also facilitates the international transfer of funds.

Legislation on related issues of terrorism financing has been introduced and implemented. There has been a particular focus on targeting the financing of militant groups originating in Rwanda and the LRA, as these reinforce the government's efforts to discredit and squeeze out these groups. However, other types of money laundering have not been addressed through legislation. Despite discussion in Parliament and multiple drafts of AML legislation since 2002, limited progress has been made. A comprehensive AML Bill was drafted in 2009, and has been recently debated in Parliament (April 2010). It should be noted, however, that drafts have been produced and presented to Parliament on previous occasions with no success, and the time frame for enacting the legislation is unclear.

The limited uptake of AML practices in Uganda suggests that the domestic political economy does not create incentives for comprehensive or well-implemented anti-money-laundering legislation. The ability to launder illicit money is central to the elite's ability to enjoy the proceeds of corruption, to manage patronage networks, and to mobilise political campaign financing.

Key driver: Corruption and illicit trade flows providing rents that need to be concealed or moved.

Contributing drivers:

- Low domestic capacity to monitor or regulate financial transfers;
- Extensive diaspora networks allowing money to be moved overseas through family links;
- Domestic factors including the use of laundered funds for political financing or charitable donations, creating strong support networks for perpetrators.



Primary effects:

- The ease with which money can be laundered is an enabling factor that makes Uganda particularly susceptible to corruption and organised crime;
- Loss of state revenue through tax evasion, as assets can be concealed or moved overseas.



Secondary effects:

- Economic integration and foreign investment could be placed at risk unless Uganda financial institutions can tackle the perception of impropriety. Restrictions on international transactions with Uganda financial institutions are likely to become more onerous;
- The risk of long-term reputation damage to Uganda if AML agenda is not addressed.



Box 5.2. Money laundering and illicit financial flows (continued)

In view of these domestic constraints, the AML agenda is mainly driven by international pressure: Uganda has been lagging behind other Member States of the East African Community in the implementation of AML legislation. The country is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), which published a critical assessment of Uganda's compliance with the FATF (40+9) recommendations (ESAAMLG, 2007). International support to AML efforts in Uganda has been significant, particularly the technical assistance and hardware being provided by the United Nations Office on Drugs and Crime (UNODC) and institutional support planned by the World Bank. The EU Fraud Operations unit and UK Serious Fraud Office have assisted Uganda in forensic investigations and asset recovery. These efforts to support Uganda in tackling money laundering are a significant component of attempts to decrease corruption in the country.

Governance & corruption outcomes:

- Regional and international links damaged as other countries become wary of transactions involving Uganda;
- Continued corruption enabled by loose AML controls;
- Government weakened due to loss of revenues and increased interest in Uganda from criminal elements seeking to launder funds.

Step 4 – Drawing conclusions and assessing the scope for action

This analysis has set out to provide an overview of the domestic political economy in Uganda, and examine how international drivers may influence particular trends within this. The influence of international factors needs to be seen against the background of governance and corruption in Uganda. The Ugandan political environment is dominated by the NRM, which has held and consolidated power nearly 25 years. Patronage networks are extensive and corruption is entrenched in many state institutions. The influence of international drivers and efforts to tackle them are determined by how these interact with domestic factors. International drivers alone are unlikely to lead to specific governance and corruption outcomes, but may offer new influences or opportunities that can be explored by international development partners.

The international community has tended to regard foreign aid as its main source of influence in Uganda. However, such influence has proved to be fairly modest. Donors are showing reduced tolerance of corruption, as illustrated by DfID's recent cutting of budget support following the Commonwealth Heads of Government Meeting scandal (*Uganda Monitor*, 8 November 2010) and the tough response to the corruption cases involving the Global Fund for AIDS, TB and Malaria. While such actions send an important signal, they are unlikely to change fundamentally the underlying political economy dynamics. Indeed, Uganda's discovery of oil will reduce financial dependence on donors and provide new resources to fuel the patronage networks that underpin the political system. There is a risk that oil revenues will increase the stakes for control of the state, and may reinforce regional disparities in the control of and access to state resources.

In this context, there is an urgent need for international actors to look for new levers and sources of influence that can be used constructively in the fight against corruption. A key area for international action and support will be transparency in oil revenue management and licensing of oil companies. This will be essential to ensure that the newly found resources can be managed effectively and equitably in a manner that avoids fuelling

corruption and worsening regional disparities. Another priority identified by this report is more concerted international action in support of anti-money laundering in Uganda. Efforts to tackle money laundering have not yet produced much result, mainly because they would threaten the ability of elite groups to enjoy the proceeds of corruption. However, as regional integration and foreign investment become more important for the Ugandan economy, the incentives to tackle the problem may become clearer. This pressure could be enhanced through greater international attention to the shortcomings of AML practices in Uganda, coupled with tougher due diligence requirements by banks operating in OECD countries that receive money from Uganda. At the same time, international organisations could do more to support positive measures to build AML technical capacity within Ugandan financial institutions.

As Uganda is currently undergoing the UNCAC peer review process, it will have a country review report and executive summary on its implementation of Chapters III (criminalisation and law enforcement) and IV (international co-operation) of UNCAC.

Note

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Chapter 6

Zambia case study

Introduction

This case study aims to illustrate the application of the international drivers of corruption framework, by providing an initial analysis of the main international drivers affecting Zambia. It is structured around the four steps of the framework and the guiding questions. After briefly analysing the political economy context and highlighting a range of significant international drivers, it explores two drivers in more detail: foreign business bribery and the international role in the prosecution of former President Chiluba.

Step 1 – Understanding the domestic political economy

Structures

Zambia's development picture is mixed. On the one hand, Zambia's economy has grown strongly during the past decade, averaging 7.9% per annum from 2002 to 2009. This growth has had a significant impact on urban poverty levels, and Zambia is very close to becoming a middle-income country (in terms of GNI per capita). On the other hand, little of this growth has reached rural areas; 80% of rural Zambians still live in extreme poverty, and Zambia remains one of the least developed countries in the world, ranking 164 out of 180 on the Human Development Index.

The Zambian economy and government revenues rest on a narrow base. Zambia displays many of the symptoms of a mineral-based staple trap: its economic fortunes and (to an extent) the character of its politics, have historically been shaped by its reliance on the unearned rents generated from copper mining. This has meant that government revenues have been tied to the boom-and-bust cycles of world commodity prices. Throughout the past several decades, Official Development Assistance (ODA) has been the other key source of unearned revenue for the government. While the relative importance of ODA has declined as a proportion of GNI in recent years, ODA continues to provide about 20% of government revenues.

The government's reliance on mining revenues and ODA has limited its need to "earn" revenues through taxation and to bargain with citizens over the provision of public goods and services. From independence until the mid-1970s, the government and the ruling UNIP Party could rely on the state-run copper mining company (ZCCM) as a cash cow to finance public projects and patronage. As copper prices fell over the following two decades, however, Zambia's political elites bled ZCCM dry to pay for consumption and patronage.

Declining copper prices and the eventual privatisation of the mines in 2000 led political elites to look elsewhere for sources of rents with which to finance their patronage networks.

Patronage was central to the process of state formation in Zambia. During the first decade of independence, Zambia's "integrity, cohesiveness and sovereignty were quite fragile". As a result, "distributing patronage to key constituencies in the form of bureaucratic, managerial and ministerial posts was an essential tool of consolidating both political power and the state itself" (World Bank, 2008). As will be seen below, the creation and allocation of rents remains a pervasive means of political management in Zambia.

While the neighbourhood has improved in recent years, Zambia's role as a "front line state" during resistance movements in South Africa, Rhodesia, Namibia, Mozambique and Angola had a significant and detrimental impact on its economy throughout the 1970s and 80s. Zambia's geostrategic position (*e.g.* Zimbabwe's economic meltdown and the recent conflict in DRC) continues to affect the domestic economy.

Institutions

Zambia displays many of the characteristics of a minimally institutionalised state, in which personalistic and patrimonial practices coexist with a modern bureaucracy. The public service, judiciary and system of elected representation are all institutionalised to varying degrees. However, the distinction between the public and the private spheres is porous; personal and government resources (including financial resources) are not clearly separated and patronage is pervasive. State resources are used to maintain power and the boundaries between state and political party finances are permeable.

The Zambian state possesses the capacity to control its territory and has a monopoly on violence. Zambia has been a stable country throughout most of its existence and the military has been held in check by the executive. There are currently no strong secessionist movements in the country and there are few sources of internal conflict beyond a very local level. Although the capacity of some ministries and departments (*e.g.* the Ministry of Finance and the Office of the Auditor-General, OAG) has improved in recent years, most Zambian Ministries lack the human and financial resources to mobilise and manage public revenue or to plan and implement public policies effectively.

Zambia has a strong presidential system in which authority is heavily concentrated in the executive; other branches of government (*i.e.* parliament and the judiciary) are relatively weak. Policy making tends to be top-down and the president exercises wide discretion. In this context, the president relies on patronage to win and maintain power. While under Kaunda, patronage focused on balancing the interests of different ethnic groups, under President Chiluba, the focus was more narrowly on individual political entrepreneurs. More recently, under Presidents Mwanawasa and Banda, patronage has entailed a mix of both of these patterns. In this context, petty corruption, major corruption and political corruption have been pervasive.

While informal rules of the game often trump formal ones and the ruling elite is often able to operate without discretion, there are some constraints on impunity. Kenneth Kaunda's acceptance of defeat in 1991, President Chiluba's failure to secure a constitutional amendment to run for a third term, and the prosecution of President Chiluba and many of his key associates on corruption charges all provide examples where presidential impunity has been reined in. Constraints come from both inside and outside government. Within government, "the Office of the Attorney General, the Anti-Corruption Commission and the courts [and until last year], the Task Force Against Corruption – though subject to various degrees of

political influence – nonetheless often attempt to enforce laws and rules in an environment that is not always hospitable to them” (World Bank, 2008). Outside pressure comes from a relatively “organized civil society (mainly funded by donors) and a vociferous media” (NORAD/OPM, 2007, p. 30).

Political processes

Historically, the ruling elite in Zambia has centred on the President, his special assistants, cabinet ministers and key members of the ruling party. Political dominance has been achieved through a combination of co-opting potential competitors (by rewarding ethno-regional groups and key individuals) or by using state power to weaken political opponents (exploiting instruments like the Public Order Act).

Over the past decade and a half, other actors have increasingly mattered for winning and maintaining power. Civil society organisations (including church groups) and the media have increased in influence as have the private sector and business elites. The relative strength of the leading opposition party, the populist Patriotic Front (PF), has also shaped political strategies. For instance, the recent rise of economic nationalism, championed by the PF, has led the government to favour Zambian businesses at the expense of international (“Western”) business interests (Taylor and Simutanyi, 2007). Zambia’s dependence on foreign aid makes multilateral and bilateral donors important actors on the domestic stage.

Both President Banda and his predecessor President Mwanawasa faced relatively weak electoral mandates and power bases within their own parties when they came to power. President Mwanawasa came to power with only 29% of the vote, while President Banda assumed power following a narrow election win. As a result, both had to invest significantly to shore up their authority. For Mwanawasa this included drawing opposition figures into his cabinet and launching an anti-corruption campaign (a move which not only bolstered his domestic standing, but also served to disempower his predecessor, President Chiluba). These strategies helped Mwanawasa win the 2006 elections with a much-improved 43% of the vote.

President Banda’s political strategy has been less clear-cut. Banda was vice president at the time of Mwanawasa’s death and was able to parlay his position to secure the ruling MMD party’s leadership and a narrow and contentious victory in the 2008 by-election. President Banda has continued to rely on a coalition approach to governing, but more recently he has faced significant challenges to his authority within his own party as well as from some opposition leaders who backed him in the past. The opposition has also been making gains in by-elections. This means that the upcoming 2011 elections are likely to be the “most fiercely contested poll since the advent of multiparty rule 19 years ago” (Africa Confidential, 2010).

The political insecurity of the current regime may have implications for elite time frames and for the quality of governance, particularly in the run-up to the election. To maintain his position at the head of the party and to win re-election, the president and his close associates must look for ways to reward allies in the short run – through for instance ministerial or bureaucratic appointments and granting officials increased discretion. As with other recent elections, the president and his ministerial allies are spending state resources on pork barrel projects. The current government is taking an aggressive approach to political criticism and attempting to narrow the space for political opposition, civil society and the media outlets. Winning elections in Zambia requires significant material resources, and

the ruling elite faces strong incentives to secure rents to build its war chest. The insecurity surrounding the current regime may also encourage short-termism within government as officials seek to secure gains while they are still in office.

Step 2 – Identifying international drivers

Table 6.1 presents a brief assessment of the relative importance and nature of international drivers of corruption in Zambia.

Table 6.1. **Summary of international drivers of corruption in Zambia**

1. Sources of rents and unearned income	<ul style="list-style-type: none"> • The level of demand (and price paid) for copper, cobalt and other point sourced minerals fundamentally shapes domestic growth and government revenues. In 2009, copper production reached a 30-year high and represents 64% of Zambia's total exports. <i>Rating: very important</i> • Some foreign investors appear willing to pay bribes to secure market access, to secure resources (land and mineral rights) and to win government tenders (procurement). <i>Rating: very important</i> • ODA is a significant source of government revenue through the Poverty Reduction Budget Support Programme and donor sectoral investments. <i>Rating: important</i> • Global demand for illicit drugs: there is limited production (cannabis and mandrax) and transshipment (cocaine and cannabis) of illicit drugs in Zambia, less than in the 1990s. <i>Rating: limited importance</i>
2. Opportunities and constraints to conceal and move illicit assets	<ul style="list-style-type: none"> • The ease of international financial transactions, coupled with a relatively weak domestic banking sector and regulatory environment, creates incentives to transfer assets overseas. There is some evidence that Zambian-based banks are a destination for domestic and regional money laundering activities. <i>Rating: important</i> • The recent asset recovery trails of ex-President Chiluba and others may have discouraged illicit offshore investments or shifted them to new "havens" (e.g. W. Africa). <i>Rating: important</i> • Transfer pricing is practiced by international companies (including mining companies) working in Zambia. <i>Rating: important</i>
3. Foreign investment	<ul style="list-style-type: none"> • Following the privatisation of the economy and the more recent resurgence of copper mining, foreign direct investment has increased. There is greater competition to secure mineral and resource rights to Zambia's copper, cobalt, gemstones and other minerals as well as to secure market access, win concessions and secure tenders for large-scale infrastructure investments. <i>Rating: important</i> • Foreign investment is increasingly coming from non-OECD countries, particularly China but also India, countries in North Africa and South Africa. These countries and others are not bound by domestic legislation or codes of conduct related to bribery and other forms of corruption. Use of soft loans and other practices to secure contracts. There are allegations of foreign investors providing political party financing. The extent of Chinese investment in Zambia has triggered a domestic political backlash. <i>Rating: very important</i> • Some foreign investors appear more willing to pay facilitation payments to secure tenders, and Chinese investments have utilised "soft loans" to secure contracts. <i>Rating: important</i> • Zambia is currently an Extractive Industries Transparency Initiative (EITI) candidate and is expected to complete validation in May 2011. <i>Rating: important</i>

Table 6.1. **Summary of international drivers of corruption in Zambia** (*continued*)

4. Global and regional security threats and responses	<ul style="list-style-type: none"> • Security threats from regional conflicts have declined in recent years, and have seldom been a threat to the regime or significant source of corruption. Zimbabwe's economic decline and its economic governance have created a thriving black market and cross-border trade with Zambia. <i>Rating: moderately important</i> • Zambia appears to be forging strategic alliances with other regional countries in the context of increasing regional integration. Zambia's leaders have a history of strong engagement in regional peace negotiations. <i>Rating: moderately important</i>
5. International legal measures and sanctions against domestic elites	<ul style="list-style-type: none"> • The international community played a key role in financing and providing technical assistance to the Zambian Task Force on Corruption, OAG and the Anti-corruption Commission (ACC). The international civil prosecution of President Chiluba and 20 of his associates in London for corruption and asset recovery. Zambia has been assisted by the UK Government Fraud Office in asset recovery and forensic investigations in these prosecutions. <i>Rating: important</i> • Zambia has ratified the UN Convention Against Corruption and the AU's Convention Preventing and Combating Corruption in 2007 and the SADC's protocol against corruption in 2003. It has done little to domesticate any of these conventions. • Zambia was selected to be reviewed in the first year of the current UNCAC Review Mechanism cycle, and is currently undergoing the peer review process by Italy and Zimbabwe. <i>Rating: of limited importance</i>
6. Reputational pressures on political elites from regional and international actors	<ul style="list-style-type: none"> • Zambia continues to contribute positively to regional organisations (SADC and COMESA). The headquarters for COMESA is in Lusaka. <i>Rating: of limited importance</i> • Regional and international reputation often matters to Zambian leaders, who value their position on the regional stage. <i>Rating: of limited importance</i> • International media has played a role in scrutinising significant governance issues including corruption. <i>Rating: of limited importance</i> • Domestic civil society has strong links to international NGOs <i>Rating: important</i>
7. External ideas and skills	<ul style="list-style-type: none"> • Zambian government and administrative elites are increasingly linked to regional networks (e.g. African Parliamentarians Network Against Corruption) <i>Rating: of limited importance</i> • The increased presence of foreign businesses in some sectors (e.g. banking, accountancy and manufacturing) has improved domestic corporate governance, standards and capacity. <i>Rating: important</i> • The Zambian diaspora is a moderate source of both investment and ideas in Zambia, but the number of returnees and their political engagement is limited. <i>Rating: of limited importance</i>

From the analysis developed in Table 6.1, the impacts of two international drivers are explored in more detail in Boxes 6.1 and 6.2.

Step 3 – Tracking the effects of international drivers

Box 6.1. Foreign business bribery

Foreign business bribery has helped to fuel corruption in public procurement and concessioning in Zambia.

The willingness of some foreign investors and businesses to make unofficial payments to secure commercial advantage is commonly thought to be relatively widespread in Zambia. The privatisation of state businesses, increasing global demand for Zambia’s mineral and other resources, and large-scale infrastructure projects have generated business opportunities for international investors in Zambia.

In this context the procurement, contracting, licensing and granting of use rights all create significant scope for rent seeking by government officials in gatekeeping positions. Key potential sources of rent include: concessions for mining and mineral exploration including for gemstones; land for commercial farming and for tourist lodges; and public procurement processes (especially for large infrastructure investments).

While corruption in leasing, procurement and contracting requires government officials to be willing to accept payment for services, the supply side of corruption is equally important. Outside investors appear to have regularly sought to gain access to economic opportunities in Zambia through a range of corrupt practices, including bribery and other facilitation payments. While many investors in Zambia come from countries in which domestic legislation and codes of conduct prohibit bribery, an increasing number come from countries in which such legislation is not on the books.

In a context in which formal oversight institutions are relatively weak, government salaries are low, the need to maintain patronage networks is high and there is a recent history of impunity, these inducements are often accepted and actively sought out by politicians and senior bureaucrats.

In recent years, there have been a number of high-profile cases in which “kickbacks” have allegedly been offered to government officials. These include contracts for road and bridge construction and maintenance projects, new radar systems for Lusaka and Livingstone International Airports, fertiliser, and medical and school supplies.

One of the most prominent recent alleged incidents (reported in the press and investigated by Transparency International) concerns attempts to rig a USD 1 billion, two-year tender to supply and deliver petroleum. It is alleged that a middleman acting on behalf of LITSACO, a large Russian oil company, approached Zambia’s energy minister to bias the tendering process in their favour.

Key driver: Willingness of some foreign investors to pay bribes and use other corrupt practices to secure access to markets and resources (land and mineral rights) and to win government tenders (procurement and contracting).

Contributing drivers:

- High levels of investment from countries with no domestic legislation or codes of conduct related to bribery;
- Global competition to secure mineral and resource rights as well as to win concessions and secure tenders for large-scale infrastructure investments and public procurement;
- Some deterrent effect of recent high-profile domestic and international prosecutions of corruption cases.



Primary effects:

- High rewards offered create incentives for government officials to accept “unofficial” payments for access to markets and government contracts;
- Rewards to middlemen to act as fixers between businesses and political and administrative elites.



Secondary effects:

- Undermining of transparency in public procurement processes and other systems of integrity, thereby facilitating further corruption;
- Loss of public revenue.



Box 6.1. Foreign business bribery *(continued)*

These incidents continue to undermine reform efforts, decrease trust in public servants and procurement processes, and reinforce the need for locals as well as internationals to pay off officials to get things done.

In recent years, internal government processes (whistleblowers and the OAG) as well as the media and civil society have helped to expose a number of higher profile cases of business bribery – shining a spotlight on both government officials and foreign investors.

Governance & corruption outcomes:

- Increased likelihood of corruption in public procurement, leasing and licensing.
- Decreased public trust in the integrity of government and of individual public officials.
- Economic nationalism and rejection of reforms to key sectors of the economy (e.g. electricity, land, urban water).

Box 6.2. The international community's role in the Task Force on Corruption and prosecution of former President Chiluba

The international community provided significant technical and financial support to the Task Force on Corruption and the prosecution of former President Chiluba. This case shows both the opportunities and limitations of external support to anti-corruption efforts.

In 2001, at the behest of President Levy Mwanawasa, the Zambian National Assembly lifted his predecessor's presidential immunity. This opened the way for the President Chiluba and his key associates to be prosecuted for corruption.

President Mwanawasa established an inter-agency Task Force to investigate public corruption, prosecute those responsible and recover assets for the period 1991-2001. The Task Force bypassed existing anti-corruption architecture, including the Anti-corruption Commission (ACC). The ACC lacked the internal capacity to conduct such complex and multi-jurisdictional investigation in a confidential manner. The Task Force also had the added advantage of reporting directly to the president, making it a powerful political tool.

The international community (Denmark, Ireland, the Netherlands, Norway, Sweden, the United Kingdom and the United States) provided significant technical and financial resources to the Task Force. These donors not only funded the core functions of the Task Force, they also helped to pay for high-level technical support (e.g. forensic accounting, international legal investigations etc.). In addition, the UK Serious Fraud Office supported the Task Force in its forensic investigations and asset recovery efforts. These investments significantly strengthened the capacity and reach of the Task Force.

In 2003, a criminal case against President Chiluba was filed in Lusaka. The court case alleged that the President and two key associates had defrauded the Zambian state of more than USD 40 million through diversion of funds to the London Branch of the Zambia National Commercial Bank (ZANACO). In 2008, the Zambian government stated that it had recovered nearly USD 60 million in assets allegedly stolen during the 1990s. In the end, Chiluba was acquitted of all charges in 2009. However, four of his associates were found guilty and imprisoned for three years.

A second civil action was filed in London in 2006 against Chiluba and 20 of his associates. This case was also based on the alleged diversion of state assets to private ZANACO accounts in London. In 2007, the high court found that Chiluba and his associates were liable for a total of USD 46 million (later USD 58 million).

The political impetus for continuing to pursue Chiluba weakened with the death of President Mwanawasa in 2008.

Key driver:

International financial and technical support for the prosecution of former President Chiluba and his associates for corruption.

Contributing drivers:

- International media coverage of the Task Force and Chiluba case;
- Co-operation from international banks in asset recovery efforts;
- International financing of domestic civil society.



Primary effects:

- Former President Chiluba tried for corruption in both Zambia and in the United Kingdom;
- 20 other former government officials and associates prosecuted for corruption;
- Creation of an anti-corruption Task Force.



Secondary effects:

- Strengthened institutional capacity to investigate complex and major corruption cases;
- Stronger inter-agency co-operation and teamwork within the Zambian government;
- The case led the UK government (DfID) to fund the Proceeds of Corruption Unit (focusing on money laundering by politically exposed persons) and the Overseas Anti-Corruption Unit (investigating foreign bribery by UK businesses and nationals).



Box 6.2. The international community's role in the Task Force on Corruption and prosecution of former President Chiluba *(continued)*

The implications of the Task Force and the court cases for governance and corruption in Zambia are mixed. Removing the immunity of and prosecuting a former head of state for corruption is unprecedented in Africa. While Chiluba was acquitted, a number of key associates have been convicted, sending a strong message to sitting government officials and politicians. On the other hand, the length of time it took to conclude the prosecution, and ultimately the dropping of appeals after President Mwanawasa's death, sapped public support for the prosecution.

Governance & corruption outcomes:

- Precedent set for holding a head of state accountable for actions while in office. This will factor into the future strategies of any sitting Zambian president and senior politicians and administrators.
- The long time frame entailed in Chiluba's trial and his eventual acquittal may have weakened public and government appetite for high-level prosecutions.

Step 4 – Drawing conclusions and assessing the scope for action

Many different international factors shape the strategies of political elites in Zambia and have implications for the character and impact of corruption. In Zambia as elsewhere in the region, political elites need significant resources to win and maintain power. Accessing rents is central to this process, and a range of international drivers affect the scale and accessibility of these rents.

The case study has focused on two sets of drivers of importance in Zambia: the high-profile prosecution of the former president and foreign business bribery. Both of these drivers illustrate the importance and limitations of international interventions to rein in corruption at a country level.

Reducing the supply side of bribery matters as much as addressing the demand side, and international investors often possess the resources with which to distort domestic tendering and licensing processes. A range of international instruments exists to expose and sanction international investors engaged in corruption including the OECD Convention on Combating Bribery, OECD Guidelines for Multinational Enterprises, domestic legislation outlawing bribery (*e.g.* the United States' Foreign Corrupt Practices Act), and the EITI. However, many of these instruments remain aspirational, and key investors in Zambia increasingly come from non-OECD countries.

The international community's provision of technical and financial resources to the Task Force on Corruption ensured that it had the capacity and reach to conduct robust investigations into complex, high-level and politically sensitive corruption cases. On the other hand, the inability to convict the president despite millions of dollars and six years reveals the profound difficulties faced with major corruption cases that go to the heart of the political establishment in Zambia and other countries.

As Zambia is currently undergoing the UNCAC peer review process, it will have a country review report and executive summary on its implementation of Chapters III (criminalisation and law enforcement) and IV (international co-operation) of UNCAC.

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Conclusion

International drivers have a significant impact on domestic governance and corruption. This report has provided a framework to systematically analyse how these processes operate in different country settings. Its ultimate purpose is to provide the basis for more focused and prioritised international action by helping to distil the often dauntingly complex interactions between global, regional and domestic political economies.

While a deeper assessment of the framework's utility and insight will require further testing through country studies, a number of initial insights have emerged from the development of the framework and the brief case studies.

- The breadth of processes and drivers considered by the framework reinforces the importance of a **more selective and prioritised approach to tackling corruption** at both the domestic and international levels. There is currently a proliferation of country-level initiatives as well as international instruments, tools and conventions for improving transparency and integrity. This can sometimes lead to a scattershot approach to addressing corruption, which may miss those aspects of the domestic political economy that matter most. By identifying the sets of drivers most crucial to weak governance and corruption in a particular country, the framework can help donors and their domestic partners prioritise and co-ordinate their response. It can also shed light on those drivers and domestic processes that are more open to reform versus those that are more intractable. This may help international actors to realise the limits of their influence, assess the feasibility of their interventions, and manage risk.
- A focus on international drivers can be useful for broadening perspectives on tackling corruption **beyond the conventional approach to aid delivery**. Aid projects have an important role in supporting formal institutions (through the transfer of ideas and resources) and in strengthening civil society oversight. However, by looking more broadly and systematically at the range of international drivers at work, a much wider agenda for action is revealed. OECD countries have considerable influence over many of the drivers and instruments discussed in this report, and are therefore well-positioned to take action. The effects will be most powerful where action is taken on a joint and co-ordinated basis, and is informed by rigorous analysis.
- A **political economy perspective is essential** in analysing the impact of international drivers on domestic governance and corruption. This perspective entails a focus not just on the formal, rule-based institutions of governance, but also on the informal rules of the game, the complex interactions between economic and political change, and the context-specific incentives that shape political behaviour. By placing political economy at the heart of the framework, the analysis is able to dig deeper into international-domestic political dynamics, thus enhancing the framework's explanatory power.

- The framework and case studies demonstrate that similar **international drivers can play out very differently in different country contexts**. Their impacts are fundamentally shaped by the domestic political economy. International drivers that may contribute to a dramatic escalation of elite predation in one country may have a much less marked impact in another.
- The framework has highlighted the **centrality of revenues and rents** to elite strategies for winning, using and maintaining power. An assessment of these factors is central to understanding how the resources sustaining regimes are generated and controlled, the implications for corruption and governance, and the likely effects of international drivers.
- The framework highlights the complexity of the processes at work and the **numerous factors that may interact to generate a specific pathway of change**. It is important to look at primary, secondary and feedback effects, and to consider the interactions among different international drivers, as well as their individual effects. Where multiple international drivers are at work simultaneously, there may be particularly damaging effects on governance.

*Annex A***Types of state and political systems**Table A.1. **Types of states and political systems**

Types of political systems	Characteristics	Institutional stability of the state	Organisational capacity of the state	Degree of state legitimacy	Types of policies in place
Collapsed states	No effective central government	Extremely low	Extremely low	Low to nonexistent	No policies
Personal rule	Personalities and personal connections	Dependent on personal control of power	Low	Low	Policies are unstable; a major objective is to enrich those in power; few basic public services are provided
Minimally institutionalised states	Personalities and some impersonal institutions	Basic rules of the game, but function poorly	Low/modest	Low/modest	There exist organisations to provide a range of basic public and welfare services; coverage is patchy and often based on patronage
Institutionalised non-competitive states	Stable and legitimate institutions, no open competition	Clear rules of the game, centralisation, authoritarianism	Modest	Modest	A wide range of basic and welfare services may be provided, but citizens have little influence over the range and type of provision
Institutionalised competitive states	Stable and legitimate institutions, competition	Clear rules of the game, not subject to significant change	High	High	A wide range of basic and welfare services is provided; the range and type of provision are major themes in politics

Annex B

International tools, instruments and conventions

A wide range of regional and global instruments has been established in response to perceived and actual threats to international and domestic governance, or to raise the standard of conduct of global business practice, professions and individuals. Some of these instruments are formal legal conventions and monitoring frameworks providing a global platform to which signatory countries are required to adhere. Others are voluntary initiatives dealing with governance in, for example, the extractives sector. There is also a wide range of less formalised instruments that aim to raise standards and promote best practice – in, for example, taxation or accountancy – through the establishment of professional networks and associations.

Many of these instruments have been supported by various donors in either their design or their implementation in-country. In an environment of scarce aid funds and a growing emphasis on measuring performance and impact, it is important to reflect on the applicability of these instruments and their potential to address the governance challenges faced at global, regional and domestic levels.

In a subsequent iteration of the framework, it will be necessary to analyse the instruments presented in Table B.1 and their ability to make a difference domestically in terms of their impact or influence on the “pathways of change”. This analysis should also indicate areas where international engagement is most likely to make a difference, and highlight areas already well covered by such engagement as well as areas where there are significant gaps. At this stage, the annex simply presents the instruments in relation to the main driver – highlighting their intended impact, how they work, and their implementation (if any) to date. This should act as an aid to consideration of the gaps and coverage in international engagement and the applicability of the different instruments in different country contexts.

Summary of instruments

As indicated in Table B.1, some of these instruments have either a direct or indirect influence on more than one of the seven drivers outlined in the framework. For simplicity, the instruments have been organised according to the main driver, indicated by XX in Table B.1. The secondary influences of the instrument are indicated by an X, where relevant.

Table B.1. Summary of instruments

	Drivers	Group 1 Instruments addressing sources of and access to rents	Group 2 Instruments tackling illicit financial flows	Group 3 Instruments shaping incentives created by foreign investment	Group 4 Instruments affecting global and regional security threats	Group 5 Instruments providing for legal measures and sanctions against states, elites and companies	Group 6 Instruments creating reputation pressures	Group 7 Instruments bringing access to external ideas and skills
	Instrument							
1	Africa Peer Review Mechanism (NEPAD)	X	X	X			XX	X
2	African Union Convention on Preventing and Combating Corruption	X	X		X	XX	X	X
3	Basel Committee on Banking Supervision		X					XX
4	Committee on the Global Financial System	X	X					XX
5	Construction Sector Transparency Initiative	XX		X				
6	CONTACT – Country Assessment in Accountability and Transparency		X				XX	X
7	Council of Europe: Criminal Law Convention on Corruption	X	XX		X			
8	Extractive Industries Transparency Initiative	XX	X	X				X
9	Financial Action Task Force on Money Laundering (FATF) and FATF-style regional bodies		XX			X	X	
10	Forest Law Enforcement, Governance and Trade (FLEGT)	XX	X	X				X
11	The Global Forum on transparency and exchange of information for tax purposes		XX				X	X
12	Group of States Against Corruption (GRECO)						XX	X
13	International Convention for the Suppression of the Financing of Terrorism		X		XX	X		
14	International Tax Dialogue	X	X					XX
15	Joint Sanction Accord	XX	X	X				
16	Kimberley Process	XX		X				
17	Medicines Transparency Alliance	XX						
18	OAS Inter-American Convention Against Corruption	X	X			XX		
19	OECD Convention on Combating Bribery	X	X			XX	X	
20	OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas	XX			X	X	X	

Table B.1. Summary of instruments (continued)

Instrument	Group 1 Drivers Instruments addressing sources of and access to rents	Group 2 Instruments tackling illicit financial flows	Group 3 Instruments shaping incentives created by foreign investment	Group 4 Instruments affecting global and regional security threats	Group 5 Instruments providing for legal measures and sanctions against states, elites and companies	Group 6 Instruments creating reputation pressures	Group 7 Instruments bringing access to external ideas and skills
21 OECD Guidelines for MNEs	X					XX	
22 OECD Model Tax Convention		XX	X				
23 OECD Risk Awareness Tool for MNEs		X	XX			X	
24 OECD Transfer Pricing Guidelines	X	XX	X				
25 Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement	XX						
26 SADC Protocol Against Corruption	X	X			XX		
27 Stolen Asset Recovery Initiative (StAR)	X	XX	X				
28 UN Convention Against Corruption	X	X			XX		
29 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances	XX	X			X		
30 UN Convention Against Transnational Organised Crime	X		X	X	XX		
31 UN Model Tax Convention		XX	X				

X indicates the secondary influences of the instrument. XX indicates the main driver.

Table B.2. Instruments addressing sources of and access to rents

Instrument	Construction Sector Transparency Initiative (CoST)
Intended impact	Curb rent-seeking behaviour of public officials on publicly funded construction projects, and tackle endemic corrupt practices of national and international construction companies by making information pertaining to construction projects publicly available.
How it works	CoST is based on an idea similar to EITI (described below) and focuses on public disclosure of information in order to enhance the accountability of procuring bodies and construction companies for the cost and quality of public sector construction projects. The aim is to reduce wasted opportunities and expenditure by allowing the public to make the comparisons between what was planned and what was delivered, as well as to raise questions.
Implementation	CoST is a voluntary initiative currently being piloted in seven countries, with another country recently signed up as "associate" country. CoST was officially launched in 2008 and the pilot runs for two years, ending in October 2010. During 2010, CoST will be undergoing an evaluation exercise in order to learn lessons from the pilot implementation and define the next steps in terms of roll-out.
Further info	www.constructiontransparency.org/
Instrument	Extractive Industries Transparency Initiative (EITI)
Intended impact	The EITI is a voluntary initiative and internationally recognised framework that supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining.
How it works	To become an EITI candidate, a country must meet four criteria, including the development of a work plan documenting how the country intends to achieve EITI compliance. The plan must be discussed with and agreed to by key stakeholders. To achieve EITI compliant status – or to extend candidate status beyond two years – a country must complete an EITI Validation.
Implementation	EITI currently has 30 candidate countries (although Guinea has recently been suspended) and 2 compliant countries (Azerbaijan and Liberia). Twenty out of 22 countries have not met their 2010 deadline to complete external verification of their progress. Validation, as the verification process is known, is a critical quality assurance mechanism that underpins the credibility of the EITI. Progress in different countries varies, but a large question mark now hangs over the EITI's effectiveness as an international standard for improving transparency and accountability in the oil, gas and mining industries. During the course of 2010, the EITI Secretariat plans to undergo an impact assessment of EITI and learn lessons from the implementation process.
Further info	http://eititransparency.org/

Table B.2. Instruments addressing sources of and access to rents (continued)

Instrument	EU Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreements
Intended impact	Reduce illegality in the international timber trade and improve governance in the forestry sector of timber-producing countries; encourage importers to take responsibility for governance of the wood they buy and encourage European governments to purchase legal, sustainable wood products.
How it works	<p>The European Commission adopted an Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) in 2003. The Action Plan outlines a suite of measures intended to engage with both supply- and demand-side drivers of illegal logging and to strengthen forest governance. A key element of the Action Plan is the negotiation of a number of bilateral trade agreements (known as Voluntary Partnership Agreements, or VPAs) between the EU and tropical timber-producing countries that wish to be involved. VPAs require timber-producing countries to develop, through multi-stakeholder dialogue, a comprehensive national definition of legality of timber and an independently audited assurance system able to ensure compliance with this. The EU provides funding for capacity building and institutional investment in order to implement the assurance system.</p> <p>Other elements of the EU FLEGT Action Plan aim to increase the incentives for timber-producing countries to improve governance in the forestry sector by reducing market demand for cheap timber from unverified sources. A Due Diligence Regulation will come into effect in 2013 that requires any supplier placing timber/timber products (from any source) on the EU market to exercise due diligence in ensuring the legality of these products.</p>
Implementation	<p>Ghana is the only country to have ratified an Agreement with the EU, but negotiations have been completed with Cameroon and Congo Brazzaville. Negotiations are ongoing with the Central African Republic, Liberia, Malaysia and Indonesia. Gabon, the Democratic Republic of Congo and Vietnam have formally requested to commence negotiations. Countries that have expressed interest in learning more about FLEGT and the possibility of a VPA are Ecuador, Bolivia, Colombia, Guyana and Papua New Guinea.</p> <p>VPAs are generally seen as an effective means for timber-producing countries to develop multi-stakeholder dialogue about challenges in the forestry sector and as providing a framework for identifying core challenges for governance in the sector including weaknesses in the legal framework. Some challenges remain, and Global Witness has published a number of policy briefs that have raised some concerns over the implementation of FLEGT.</p> <p>The FLEGT agenda will be greatly strengthened by the introduction of further demand-side measures by timber-importing countries. The EU Due Diligence Regulation will increase demand for credibly verified legal timber. The United States has already adopted legislation that allows companies to be prosecuted for importing illegal timber (Lacey Act Amendment 2008); this is causing questions to be asked right through the supply chain about the legality of the original material.</p>
Further info	<ul style="list-style-type: none"> • http://ec.europa.eu/environment/forests/flegt.htm • www.globalwitness.org • www.illegal-logging.info

Table B.2. Instruments addressing sources of and access to rents (continued)

Instrument	Kimberley Process
Intended impact	Following a landmark UN resolution supporting the creation of an international rough diamond certification scheme in 2000, the Kimberley Process (KP) arose from the efforts of diamond-producing states in 2002 to “stop the trade in conflict diamonds”.
How it works	<p>The Kimberley Process Certification Scheme (KPCS) entered into force in 2003. The KPCS set out to control the production and trade of rough diamonds across the entire international market, bringing producers, government and civil society into the process. KP imposes extensive requirements on its members in order for shipments to be declared “conflict free”, and puts up a barrier to the entry of conflict diamonds into trading markets.</p> <p>Official KP minimum requirements include national legislation and institutions; export, import and internal controls; commitment to transparency; and statistical data exchange. Furthermore, certified members can only trade with other KP-certified participants.</p>
Implementation	<p>Open to all countries, as of December 2009 the instrument had 49 members representing 75 countries – which, KP sources estimate, accounts for 99.8% of global production. Notably, the instrument represents the successful voluntary union of governments, the international diamond industry and civil society. The KP claims not only to have quickly stemmed the flow of conflict diamonds, but also to have become “a unique conflict-prevention instrument to promote peace and security”.</p> <p>KP supporting figures point to a reduction of conflict diamonds’ share of the international market, from an estimated 15% to a fraction of 1% since the 1990s. The 2006 external review carried out by Global Witness confirms the KP’s effectiveness, asserting it to be “international co-ordination at its best” in the form of a “novel voluntary model for multilateral agreement and action”.</p> <p>While the instrument’s success appears to have been based on its “ad hoc voluntary system of administration”, this could subsequently prove to be its Achilles heel, as future challenges are expected to focus on the transition from implementation to compliance. Compliance efforts are expected to highlight differences in capacity and commitment as well as governments’ willingness to take responsibility for the monitoring and verification of industry self-regulation. Future issues are also likely to include the Review Monitoring System and questions as to how best to address chronic under-performers.</p>
Further info	www.kimberleyprocess.com/ ; www.globalwitness.org/media_library_get.php/272/1269532575/GW%20Commissioned%20Report%20on%20KP.pdf
Instrument	Joint Sanction Accord
Intended impact	This Accord gives all participating multilateral development banks (MDBs) a new tool to hold accountable firms that are engaging in fraudulent and corrupt practices in development projects, as well as handing companies a powerful incentive to clean up their operations.
How it works	Cross-debarment, combined with greater information sharing and co-ordinated investigations, is intended to allow the MDBs to prevent, detect and deter fraud and corruption more robustly.
Implementation	MDBs signed an agreement in April 2010 to cross-debar firms and individuals found to have engaged in wrongdoing in MDB-financed development projects. It aims to improve harmonisation between donors on compliance and enforcement actions. It is intended to demonstrate to partner governments and private sector firms that each institution is maintaining the same high standards. The new Accord includes the African Development Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank Group, and the World Bank Group.
Further info	www.afdb.org/ ; www.adb.org/ ; www.ebrd.com/ ; www.iadb.org/topics/transparency/IAD/ ; www.worldbank.org/integrity

Table B.2. Instruments addressing sources of and access to rents (continued)

Instrument	Medicines Transparency Alliance (MeTA)
Intended impact	MeTA aims to bring together governments, the private sector and civil society to (re-)examine the medical supply chain from “manufacturer to patient”. Using a multi-stakeholder approach and explicit recognition of information and accountability as primary tools, MeTA aims to improve access to affordable, genuine medicines for poor people, particularly in developing countries.
How it works	In each of the countries currently participating in MeTA, a national stakeholder forum is set up with members of government, business and civil society. Bringing together different interest groups is a key element in the MeTA approach. Members of this multi-stakeholder forum agree an annual work programme, which is co-ordinated by their chosen national MeTA secretariat. These forum meetings themselves represent a significant opening up of a previously secretive process. The forum is tasked with making available publicly existing information on the medicines supply chain, from import and manufacture to patient use. Secondly, it seeks ways of making more data accessible by looking at gaps in information on the quality, availability, price, promotion and use of medicines – and, where possible, identifying ways of overcoming them. Governments taking part in MeTA commit themselves to disclosure of a standard set of core data about medicines – and to involving civil society, business and other sectors in using the data to help confront problems in the pharmaceutical market.
Implementation	<p>Launched in May 2008, the pilot phase involves seven countries – Ghana, Jordan, Kyrgyzstan, Peru, the Philippines, Uganda and Zambia – and has witnessed high-level political commitments to MeTA’s core principles. All pilot countries appear to have benefited from a wide range of committed stakeholders, a key factor capitalised upon by a further commitment to publicising the data generated and encouraging follow-up action. The pilot phase ended in September 2010. A second phase with a GBP 20 million, ten-year commitment is proposed, depending on a successful evaluation of the pilot phase.</p> <p>Challenges mainly appear to concern a lack of human resources to efficiently run the national secretariats and bridging the gap between research and action.</p>
Further info	<ul style="list-style-type: none"> • www.medicinestransparency.org/ • www.slideshare.net/MeTApresents/meta-evaluation-and-future

Table B.2. Instruments addressing sources of and access to rents (continued)

Instrument	OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
Intended impact	This Guidance provides a framework for detailed due diligence as a basis for responsible global supply chain management of tin, tantalum, tungsten, their ores and mineral derivatives, and gold. The purpose of the Guidance is to help companies respect human rights and avoid contributing to conflict through their sourcing decisions, including the choice of suppliers.
How it works	<p>Due diligence is an ongoing, proactive and reactive process. While specific due diligence requirements and processes will differ depending on the mineral and the position of the company in the supply chain (as detailed in the Mineral Supplements), companies should review their choice of suppliers and sourcing decisions, and integrate into their management systems the following five-step framework for responsible supply chains of minerals from conflict-affected and high-risk areas:</p> <ol style="list-style-type: none"> 1. Establish strong company management systems: adopt, and clearly communicate to suppliers and the public, a company policy for the supply chain of minerals originating from conflict-affected and high-risk areas; structure internal management to support supply chain due diligence; establish a system of control over and transparency of the mineral supply chain; strengthen company engagement with suppliers; establish a company-level or industry-wide grievance mechanism as an early-warning risk-awareness system; 2. Identify and assess risk in the supply chain in light of the standards of their supply chain policy; 3. Design and implement a strategy to respond to identified risks: report findings of the risk assessment; devise and adopt a risk management plan; implement the plan, monitor and track performance of risk mitigation efforts, and report back to designated senior management; undertake additional fact and risk assessments for risks requiring mitigation; 4. Carry out independent third-party audit of due diligence at identified points in the supply chain; 5. Publicly report on their supply chain due diligence policies and practices.
Implementation	The Guidance was developed through a multi-stakeholder process with in-depth engagement from the OECD, African countries (members of the International Conference on the Great Lakes Region [ICGLR] and South Africa), industry and civil society, as well as the United Nations. Three multi-stakeholder consultations were held in Paris in December 2009 and April 2010 and a joint ICGLR-OECD consultation took place in Nairobi in September 2010. As a result, the Guidance has a practical orientation, with emphasis placed on collaborative constructive approaches to complex challenges. United Nations Security Council Resolution 1952 [S/RES/1952(2010)] supported the due diligence recommendations contained in the final report of the United Nations Group of Experts on the Democratic Republic of the Congo, which endorses and relies on the OECD Due Diligence Guidance. The Guidance has been approved by the OECD Investment Committee and the OECD Development Assistance Committee, and has been endorsed by the 11 member states of the ICGLR in the Lusaka Declaration, adopted on 15 December 2010.
Further info	www.oecd.org/dataoecd/62/30/46740847.pdf
Instrument	OECD DAC Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement
Intended impact	The Recommendation called on members, in co-operation with recipient countries and the international development institutions, to introduce or require anti-corruption provisions governing bilateral aid-funded procurement, thereby reducing opportunities for corruption in this area.
How it works	<p>In May 1996, the DAC High-Level Meeting approved the Recommendation, and the 1996 OECD Ministerial Council Meeting requested that the DAC follow up on the Recommendation and report back on progress within one year.</p> <p>This instrument recommends that this work be carried out in co-ordination with other work undertaken in the OECD and elsewhere to eliminate corruption, and in collaboration with recipient countries. The DAC also recommends that member countries work to ensure proper implementation of their anti-corruption provisions. They should also draw to the attention of the international development institutions to which they belong the importance of proper implementation of the anti-corruption provisions envisaged in their rules of operation.</p>
Implementation	<p>Member countries' actions to follow up the Recommendation can be grouped as follows:</p> <ul style="list-style-type: none"> • Introduction/strengthening of anti-corruption provisions – The following 20 member countries have introduced or are about to introduce explicit anti-corruption clauses or to strengthen existing similar provisions: Australia, Belgium, Canada, CEC, Denmark, Finland, France, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. In many cases, the clauses are new and based on the “model clause” previously considered by the DAC; • Currently reviewing positions – The remaining two member countries (Austria and Germany) are currently reviewing their positions in their efforts to tackle corruption effectively and to give effect to the Recommendation.
Further info	www.oecd.org/document/30/0,3343,en_2649_34855_2394526_1_1_1_1,00.html

Table B.2. **Instruments addressing sources of and access to rents** (continued)

Instrument	UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
Intended impact	To address and control the transnational trade in illicit goods, particularly drugs and related substances.
How it works	<p>This Convention, established in 1988, provides comprehensive measures against drug trafficking, including provisions against money laundering and the diversion of precursor chemicals. It provides for international co-operation through, for example, extradition of drug traffickers, controlled deliveries and transfer of proceedings. The Convention builds on and supports two earlier Treaties on drug control, namely the Single Convention on Narcotic Drugs, 1961 and the United Nations Convention on Psychotropic Substances, 1971. An important purpose of these two treaties is to codify internationally applicable control measures in order to ensure the availability of narcotic drugs and psychotropic substances for medical and scientific purposes, and to prevent their diversion into illicit channels. They also include general provisions on illicit trafficking and drug abuse.</p> <p>The International Narcotics Control Board (INCB) is the independent and quasi-judicial monitoring body for the implementation of the United Nations international drug control Conventions.</p>
Implementation	<p>The UN Conventions on control of narcotics have been widely adopted, with 183 states being parties to the 1961 and 1971 Conventions, and 182 to the 1988 Convention (as of July 2007). The International Drug Policy Consortium, a global network of NGOs and professional networks addressing drug policy issues, have criticised the effectiveness of these Conventions, arguing that there are uncorrected technical inconsistencies in the text, that there are significant differences in interpretation of their meaning or “spirit”, and that the nature and scale of global drug problems has changed immeasurably since they were adopted. The IDPC has argued that an objective and technically led review of the operation of the Conventions is needed to ensure that they are still “fit for purpose”.</p>
Further info	<ul style="list-style-type: none"> • www.incb.org/pdf/e/conv/1988_convention_en.pdf • www.idpc.net

Table B.3. Instruments tackling illicit financial flows

Instrument	Council of Europe Criminal Law Convention on Corruption
Intended impact	The Council of Europe's (CoE) Criminal Law Convention on Corruption (CLCoC) sets out to establish a European regional consensus on member states' responsibilities in the areas of criminalisation and international co-operation with respect to corruption. The Convention aims to make disposal of the proceeds of corruption overseas more difficult and reduce bribery of public officials and the private sector.
How it works	The Convention affirms state responsibilities with respect to corruption in the areas of criminalisation and international co-operation. It covers a broad range of criminal offences, encompassing not only bribery of domestic and foreign public officials, but also international public officials and bribery in the private sector. It also furnishes a framework for regional co-operation providing improved mutual law enforcement assistance – including in extradition, investigations, and confiscation and seizure of proceeds of corruption; also included are restrictions on the use of banking secrecy to block co-operation. The Convention clarifies corruption-related offences; requires states to treat concealment of corruption as money laundering; makes provisions regarding the state's responsibility to establish the liability of companies; prescribes mutual legal assistance between countries and the exchange of information, and firmly assigns monitoring responsibilities to the Group of States Against Corruption (GRECO – see detailed description below).
Implementation	Following negotiation by the 46 member states and several "observer states", the Convention came into force in July 2002. Transparency International observed that the implementation has succeeded in reaching regional agreement of a joint framework to address corruption, via provisions such as: inclusion of a broad range of criminal offences; improvement in mutual law enforcement assistance; broad jurisdictional provisions; the provision of corporate liability; the requirement of effective criminal penalties; the requirement for specialised anti-corruption authorities; provisions for the protection of whistleblowers; and a functioning review process. However, concerns are raised about the absence of preventive measures, the lack of provisions on statutes of limitation, and the fact that parties are able to express reservations in relation to some provisions.
Further info	<ul style="list-style-type: none"> • www.transparency.org/global_priorities/international_conventions/conventions_instruments • www.transparency.org/global_priorities/international_conventions/conventions_instruments/coe • www.u4.no/themes/conventions/coecrimconvention.cfm
Instrument	Financial Action Task Force (FATF) and FATF-style regional bodies
Intended impact	To reduce opportunities for money laundering, terrorist financing and illicit financing by setting international standards and policies, and monitoring compliance with these standards.
How it works	The Financial Action Task Force (FATF) is the international intergovernmental body responsible for setting anti-money laundering and anti-terrorist financing standards and policies. The FATF also assesses and monitors compliance with FATF standards; conducts typology studies of money laundering and terrorist financing methods, trends and techniques; and responds to new and emerging threats, such as proliferation financing.
Implementation	<p>In April 1990, the FATF issued a set of 40 Recommendations for improving national legal systems, enhancing the role of the financial sector and intensifying co-operation in the fight against money laundering. These Recommendations were revised and updated in 1996 and 2003 in order to reflect changes in money-laundering techniques and trends. The 2003 Recommendations are considerably more detailed, in particular with regard to customer identification and due diligence requirements, suspicious transactions reporting requirements, and seizing and freezing mechanisms. Over 180 jurisdictions have joined the FATF or a similar regional body, and committed at the ministerial level to implementing the FATF standards and having their anti-money laundering (AML)/counterterrorist financing (CFT) systems assessed. The FATF Standards are also endorsed by other standard-setting bodies (such as the IMF and World Bank) and by the United Nations Security Council (UNSC) in UNSC Resolution 1617.</p> <p>There are a number of FATF-style regional bodies – such as the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) and the Eastern and South African Anti-Money Laundering Group (ESAAMLG) – that aim to ensure compliance with FATF recommendations in their member states.</p>
Further info	<ul style="list-style-type: none"> • www.fatf-gafi.org/dataoecd/48/11/45139480.pdf • www.esaamlg.org/ • www.giaba.org/

Table B.3. Instruments tackling illicit financial flows (continued)

Instrument	The Global Forum on transparency and exchange of information for tax purposes
Intended impact	To develop standards in transparency and exchange of information in order to tackle global problems in the financial system, particularly relating to tax havens.
How it works	One of the primary tools of the Global Forum is the establishment of Model Agreements on exchange of information on tax matters between jurisdictions.
Implementation	<p>The Global Forum was set up in 2000 to provide a global and inclusive setting for co-operation on issues of transparency and information exchange; it currently groups more than 80 countries and jurisdictions. New participants are being invited to join, from both the developed and the developing world.</p> <p>The Global Forum's main achievements have been the development of transparency standards; the exchange of information through the publication of the Model Agreement on Exchange of Information on Tax Purposes in 2002; and the publication of a paper setting out the standards for maintaining accounting records Enabling Effective Exchange of Information: Availability Standard and Reliability Standard, developed by the Joint Ad Hoc Group on Accounts in 2005. These standards were adopted by the G20 Ministers of Finance at a meeting in Berlin in 2004 and by the UN Committee of Experts on International Co-operation in Tax Matters in October 2008. They serve as a model for the vast majority of the 3 600 bilateral tax conventions entered into by OECD and non-OECD countries, and may now be considered as the international norm for tax co-operation.</p>
Further info	<ul style="list-style-type: none"> • www.itdweb.org/Pages/Home.aspx • www.oecd.org/site/0,3407,en_21571361_43854757_1_1_1_1_1,00.html
Instrument	OECD Model Tax Convention
Intended impact	As with the UN Model Tax Convention, the OECD Model set out to prevent/ eliminate international double taxation with a view to recognising the importance of foreign investment in a globalising world. Unlike the UN Model, the OECD Model has been drafted primarily for bilateral relations between developed countries.
How it works	The OECD Model serves as a template for bilateral negotiations of treaties concerning income and capital taxes. This Model is accompanied by a set of commentaries reflecting OECD-level interpretation of the content of its provisions. In the case of interest dividends and business profits earned through branches and subsidiaries, the Model generally allocates the primary right to tax to the country of investment (the host or source country) rather than the country from which capital investment originates (i.e. the home, or resident country). However, in the case of royalties it provides exclusively for taxation in the country of residence.
Implementation	<p>Close to 390 treaties among OECD member countries and over 3 000 other treaties worldwide are based on the Model, and the Convention, according to the OECD, has also had considerable influence on bilateral treaties among non-OECD countries. During their implementation, treaties based on the Model raise various problems of application and interpretation requiring constant review and regular changes to the Model. The OECD has conducted a large number of training sessions for developing countries and emerging countries, to make them aware of the provisions of the OECD and UN Models and to discuss issues related to their negotiation, application and interpretation.</p> <p>Criticisms of the Convention continue to centre on its favouring developed countries, despite the vigorous outreach attempts of the OECD's Committee on Fiscal Affairs during the past ten years. Among the many changes made to the Model over the years, some have directly addressed forms of tax evasion detrimental to developing countries, such as the changes made to Article 26 on Exchange of Information, and the inclusion of a new Article (Art. 27) on assistance in recovery of taxes. These changes could greatly benefit developing countries and indeed, some have come on board since these changes were made. Also, unlike the UN Model, the OECD Model now includes a mandatory arbitration provision. This ensures that the mutual agreement procedure cases are resolved – thereby addressing both issues related to the credibility of the mutual agreement process and, more generally, doubts on the commitment of the respective countries to follow the provisions of their tax conventions. As noted below with regard to the UN Model, "[s]ince tax conventions provide the tax certainty necessary to attract foreign investment, any doubt as to a country's commitment to follow their provisions can have a detrimental effect on its capacity to attract foreign investors".</p>
Further info	www.oecd.org/document/55/0,3343,en_2649_33747_1913957_1_1_1_1,00.html

Table B.3. Instruments tackling illicit financial flows (continued)

Instrument	OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (“TP Guidelines”)
Intended impact	The TP Guidelines provide a mechanism and guidance for governments to protect their countries' taxable basis against the artificial shifting of profits out of their jurisdiction through the mispricing of cross-border transactions within multinational enterprises (MNEs), while at the same time attempting to limit MNEs' exposure to double taxation.
How it works	<p>Promoting the arm's-length principle (ALP),¹ the TP Guidelines provide detailed guidance to taxpayers and tax administrations to ensure that the conditions of transactions that a domestic taxpayer undertakes with foreign associated enterprises are not distorted by the control relation between the parties, and are conducted at “market” price. Under the TP Guidelines, multinational enterprises (MNEs) should report taxable profits that reflect the economic activity undertaken within a country to that country (<i>i.e.</i> profits that reflect the functions performed, assets used, and risks assumed by the MNE in that country).</p> <p>By providing a consensual framework on how to apply the ALP in practice, the TP Guidelines also aim to inspire business confidence among MNEs, by reducing the risks of double taxation that could result from a dispute between two countries on the allocation between them of the taxable profits arising from a particular transaction.</p>
Implementation	Since their original publication in 1995, the TP Guidelines have been under continual review; this has led to several additions and revisions (1996-99, 2009). A major update is expected for mid-2010. The TP Guidelines represent a voluntary framework that can be used by countries to design domestic transfer pricing legislation and to resolve transfer-pricing disputes with trading partners. The TP Guidelines are used by all OECD member countries, as well as an increasing number of non-OECD economies that recognise the need to implement transfer pricing rules that meet international standards.
Further info	<ul style="list-style-type: none"> • www.oecdobserver.org/news/fullstory.php/aid/670/Transfer_pricing:_ • www.oecd.org/document/10/0,3343,en_2649_33753_43659338_1_1_1_1,00.html
Instrument	Stolen Asset Recovery Initiative (StAR)
Intended impact	StAR's ultimate goal is to “ensure that there are no safe havens for those who steal from the poor”. Encouraging developing and developed countries to take joint responsibility and collective action to tackle corruption, StAR activities should either directly or indirectly affect the transnational flow of corruptly acquired assets by “encouraging and facilitating a more systematic return of assets stolen by politically exposed persons through acts of corruption”.
How it works	<p>StAR, set up in April 2007, is a partnership between the United Nations Office on Drugs and Crime (UNODC) and the World Bank (WB); it uses the UN Convention Against Corruption as its legal framework. Its activities are also in line with the recommendations of the Working Group on Asset Recovery established by the Conference of the States Parties to the UN Convention against Corruption. Funding is received from the WB, UNODC, a multi-donor trust fund and direct contributions to UNODC. StAR's three components are: Global Knowledge and Advocacy, Institutions and Capacity Building, and Country Engagement – Recovery of Stolen Assets.</p> <p>StAR's partnership principles centre on international asset recovery, recognising this to be a demand-driven country-led activity. StAR supports individual countries where they have requested assistance and where the country demonstrates a commitment to good governance and anti-corruption measures. StAR has developed a number of tools and knowledge products designed to assist practitioners and advance policy. Training and capacity-building activities have also been carried out at the national and regional levels.</p>
Implementation	<p>Implementation of country assistance has been limited to those individual countries that have directly requested StAR assistance and that meet the minimum good governance and anti-corruption criteria for engagement. An external review of StAR was launched in March 2010. Several knowledge products have been developed and launched.</p> <p>As well as a Management Committee, an advisory group, Friends of StAR (FStAR) was established to advise the WB and UNODC management on the strategic direction of StAR. Comprised of high-level sector advocates, policy makers and practitioners, FStAR has identified the following areas for improvement:</p> <ul style="list-style-type: none"> • Identify development indicators to highlight successes through the asset recovery process, in order to make individual country cases more predictable; • Conduct reforms in financial centres; this will require a concerted effort; • Utilise a wide range of entry points to advance the national policy agenda on asset recovery, employing regional champions as advocates; • Assist partner countries in the development of effective national communications strategies about the StAR initiative.
Further info	www.worldbank.org/star

Table B.3. Instruments tackling illicit financial flows (continued)

Instrument	UN Model Tax Convention
Intended impact	The Convention sets out to prevent/eliminate international double taxation (the imposition of similar taxes in two or more states on the same taxpayer) and to prevent discrimination among taxpayers to best foster an international investment climate, deemed beneficial to developing countries.
How it works	The UN Model Tax Convention is a template for generating a treaty between two countries agreeing to avoid double taxation and to prevent fiscal evasion. Indeed, the principal goal of countries that enter into tax conventions is to eliminate double taxation so as to promote cross-border or international trade and investment. The bilateral treaty sets out the details of the agreement in relation to individual and corporate income tax, income tax of legal entities, income tax of non-residents, etc.
Implementation	The goal of eliminating double taxation can be hampered when countries that have entered into a tax convention adopt different views as regards the relevant facts or interpretation of the Convention's provisions. The Mutual Agreement Procedure ("MAP"), put forward in Article 25 of the UN Convention and incorporated in almost all bilateral treaties, aims to enable the resolution of disputes between countries that have signed tax treaties. The MAP process is undergoing increasing strain: both the volume and complexity of MAP cases have increased sharply and this trend is certain to continue in the future. Under paragraph 2 of Article 25 of the UN Model, the competent authorities "shall endeavour" to resolve MAP cases in a satisfactory manner. To carry out this obligation fully, every effort must be made to reach a satisfactory resolution of the issues involved. However, there is no formal requirement for the competent authorities to reach an agreement, and therefore situations arise in which a tax convention dispute between two countries is simply not solved. This is damaging to the credibility of the mutual agreement process and, more generally, raises doubts about the commitment of the respective countries to follow the provisions of their tax conventions. Since tax conventions provide the tax certainty necessary to attract foreign investment, any doubt as to a country's commitment to follow their provisions can have a detrimental effect on its capacity to attract foreign investors.
Further info	<ul style="list-style-type: none"> • http://unpan1.un.org/intradoc/groups/public/documents/UNPAN/UNPAN014878.pdf • http://unpan1.un.org/intradoc/groups/public/documents/un/unpan002084.pdf

Note: 1. The ALP is found in Article 9 of the OECD and UN Model Tax Conventions.

Table B.4. Instruments shaping incentives created by foreign investment

Instrument	OECD Risk Awareness Tool for Multinational Enterprises
Intended impact	The OECD Risk Awareness Tool aims to support companies that invest in countries where governments are unwilling or unable to assume their responsibilities of governance. It is meant to help businesses face and deal with the security threats and other difficulties that arise when working in such challenging investment environments. It is a follow-up to the OECD Guidelines for Multinational Enterprises mentioned above. It is non-prescriptive and designed to be consistent with the objectives and principles of the Guidelines.
How it works	The Tool proposes a list of questions that companies might ask themselves when considering prospective investments in weak governance zones. Areas covered in the tool include: obedience to the law and international instruments; heightened managerial care; political activities; and knowing clients and business partners. The Tool does not create new obligations on companies, but is intended to be used by them in the context of their own assessment procedures. The Tool might also be used to provide a complementary source of information and ideas when grappling with the issue of responsible investment.
Implementation	As this is a support Tool, it is not meant to be implemented as such but rather voluntarily adopted or utilised by enterprises.
Further info	www.oecd.org/dataoecd/26/21/36885821.pdf

Table B.5. Instruments affecting global and regional threats¹

Instrument	International Convention for the Suppression of the Financing of Terrorism
Intended impact	This Convention aims to tackle the financing and support of terrorist activities within and beyond the member countries.
How it works	The Convention prohibits any person(s) from directly or indirectly, unlawfully and wilfully providing or collecting funds with the intention or knowledge that they will be used to carry out an act that constitutes an offence under one of the nine treaties listed in the Convention's annex. The Convention obligates each state party to establish the terrorist offences as criminal offences under its domestic law, thus making them punishable by appropriate penalties, including prosecution or extradition.
Implementation	The Convention was adopted by the UN General Assembly (UNGA) in Resolution 54/109 of 9 December 1999. The Convention entered into force on 10 April 2000.
Further info	www.nti.org/e_research/official_docs/inventory/pdfs/finterr.pdf

Note: 1. There is a large number of UN conventions and instruments that have been established to tackle various aspects of terrorist activity. These are too numerous to be described in detail in the annex but are listed here for those wishing to investigate the area further: 1) the 1970 Convention for the Suppression of Unlawful Seizure of Aircraft; 2) the 1971 Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation; 3) the 1973 Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons; 4) the 1979 International Convention against the Taking of Hostages; 5) the 1980 Convention on the Physical Protection of Nuclear Material; 6) the 1988 Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation; 7) the 1988 Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation; 8) the 1988 Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf; and 9) the 1997 International Convention for the Suppression of Terrorist Bombings.

Table B.6. Instruments providing for legal measures and sanctions against states, elites and companies

Instrument	African Union Convention on Preventing and Combating Corruption
Intended impact	To prevent corruption and develop consistent legal standards through criminalisation of a wide range of corruption offences, particularly with regard to the public sector (e.g. illicit enrichment, money laundering, concealment of property).
How it works	<p>The Convention represents regional consensus on what African states should do in the areas of prevention, criminalisation, international co-operation and asset recovery.</p> <ul style="list-style-type: none"> • Sectors covered – Public sector and private sector corruption; • Corruption offences covered – A wide range of offences including: bribery (domestic or foreign), diversion of property by public officials, trading in influence, illicit enrichment, money laundering and concealment of property; • Measures – Prevention, criminalisation, regional co-operation and mutual legal assistance, recovery of assets; • Level of obligation – Primarily mandatory provisions. <p>The AU Convention provides for a follow-up mechanism involving an Advisory Board on Corruption within the African Union, which is assigned a range of functions including research and collection of information; advice to governments; and regularly reporting to the Executive Council on state parties' progress in implementing the Convention, drawing on annual reports to the Board by the various countries.</p>
Implementation	The African Union Convention on Preventing and Combating Corruption (AU Convention) was adopted in Maputo on 11 July 2003 and entered into force on 5 August 2006, 30 days after the deposit of the 15th instrument of ratification. To date, more than 30 Member States have ratified it and are state parties to the Convention.
Further info	<ul style="list-style-type: none"> • www.africa-union.org/root/au/Documents/Treaties/treaties.htm • www.u4.no/themes/conventions/auconvention.cfm

Table B.6. Instruments providing for legal measures and sanctions against states, elites and companies
(continued)

Instrument	OAS Inter-American Convention Against Corruption
Intended impact	The Inter-American Convention against Corruption (IACAC) of the Organisation of American States (OAS) represents the first international judicial instrument dedicated to fighting corruption. This pioneering judicial instrument aims to promote the development of the necessary mechanisms to “prevent, detect, prosecute, and eradicate corruption” as well as to “promote, facilitate, and regulate co-operation between State Parties on these matters”.
How it works	<p>The Convention obliges parties to implement anti-corruption measures related to judicial systems and public policies. It focuses on two spheres of activity, namely the prevention of corruption (focusing largely on the fulfilment of public functions, the governance of public officials, appropriate government procurement and the involvement of civil society), and the repression of corrupt practices (primarily through criminalisation and incorporation into domestic judicial systems of a series of practices, such as active/passive/transnational bribery, illicit enrichment, improper use of classified information/state property, misuse of influence on public authorities and the diversion of assets).</p> <p>The Convention also contains a series of provisions to strengthen co-operation between Member States in areas such as mutual legal assistance, technical co-operation, and the identification and extradition of individuals and identification/seizing of their assets.</p>
Implementation	<p>The Convention was adopted in March 1996 and came into force June 1997, with all 34 signatories from OAS Member States endorsing the Convention.</p> <p>Transparency International (TI) suggests that little concrete progress has been made in using the IACAC in the fight against corruption, and that the blocking of civil society by Venezuela represents a significant challenge to the OAS. Monitoring the Convention's implementation using a sample of countries, TI found countries to have made “few advances”, underlining requests for indicators that reflect real levels of Convention implementation. Indicative of the sluggish implementation is the performance of the Convention's follow-up mechanism (MESICIC). While MESICIC seems comprehensively structured, comprising two bodies (Conference of State Parties and Committee of Experts) and a monitoring process (involving country self-assessments, written responses from civil society, an active secretariat), it has suffered from the non-participation of Member States. The 2008 OAS follow-up to the Convention urged Member States to participate in MESICIC and re-emphasised the requirement of its voluntary funding. The follow-up Convention also urged Member States to apply the necessary measures within domestic law to comply with their commitments to the Convention, highlighting the weakness of this effectively voluntary Convention and the absence of enforcement measures.</p>
Further info	<ul style="list-style-type: none"> • www.transparency.org/global_priorities/international_conventions/conventions_instruments/oas_convention; www.oas.org/juridico/english/FightCur.html • www.oas.org/juridico/english/ag-res_2410_2008.pdf • www.transparency.org/news_room/latest_news/press_releases/2010/2010_03_24_oea_venezuela_english
Instrument	OECD Convention on Combating Bribery
Intended impact	The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is a legally binding international agreement. It is the first and only international anti-corruption instrument focused on the “supply side” of the bribery transaction (<i>i.e.</i> the person or entity offering a bribe).
How it works	Signatories to the Convention (currently 38 countries) must agree to establish in their national laws a criminal offence of bribing a public official, and to implement effective policies to prevent, detect, investigate and sanction foreign bribery. The Convention covers bribery committed through an intermediary, subsidiary or other agents – and bribes that benefit a foreign public official's family or political party, or another third party. Other obligations under the Convention include providing prompt legal assistance to other countries investigating foreign bribery allegations, denying tax deductibility of bribe payments and imposing sufficient sanctions for foreign bribery convictions.
Implementation	<p>The Convention establishes an open-ended, peer-driven monitoring mechanism to ensure thorough implementation of the international obligations that countries have taken on under the Convention. This monitoring is carried out by the OECD Working Group on Bribery, which is composed of representatives of participating countries. Delegates to the Working Group both invite review by their peers, and serve as examiners for other countries.</p> <p>The monitoring process has so far followed a two-phase process. Phase 1 examinations are in-depth reviews of each country's national laws and other legal measures to implement the Convention; Phase 2 reviews the effectiveness of parties' legislative and institutional anti-bribery frameworks in practice.</p>
Further info	www.oecd.org/daf/nocorruption

Table B.6. Instruments providing for legal measures and sanctions against states, elites and companies
(continued)

Instrument	SADC Protocol Against Corruption
Intended impact	<p>The purpose of the Protocol is:</p> <ul style="list-style-type: none"> • To promote the development of anti-corruption mechanisms at the national level; • To promote co-operation in the fight against corruption by state parties; • To harmonise anti-corruption national legislation in the region.
How it works	<p>The Protocol makes corruption, or any of the offences directly related to it, an extraditable offence, making it difficult for criminals to have a haven in one of the SADC countries. The Protocol can be used as a legal basis for extradition in the absence of a bilateral extradition treaty. It also provides for judicial co-operation and legal assistance among state parties. The Protocol provides preventive measures such as easy access to information, codes of conduct and protection of whistleblowers, as well as criminalising the bribery of foreign officials. The Protocol also addresses the issue of proceeds of crime by allowing for their confiscation and seizure.</p>
Implementation	<p>The SADC Protocol Against Corruption was adopted by the SADC Heads of State and Government at their August 2001 Summit held in Malawi, making it the first sub-regional anti-corruption treaty in Africa. The Protocol was signed by all 14 SADC member states. It became operational in July 2005, 30 days after its ratification by two-thirds of the SADC members.</p>
Further info	<p>www.sadc.int/index.php?action=a1001&page_id=header_about_this_site</p>
Instrument	UN Convention Against Corruption (UNCAC)
Intended impact	<p>UNCAC is the most comprehensive legal instrument aimed at tackling corruption in a variety of forms, providing both a framework and a variety of important minimum standards for state parties. The main driver that this Convention deals with is the control of rent-seeking behaviour by regulating private financial flows, establishing key offences in criminal legislation, and making provisions for stolen asset recovery, international co-operation on banking secrecy, etc.</p>
How it works	<p>UNCAC was adopted by the General Assembly in Resolution 58/4 of 31 October 2003 and entered into force on 14 December 2005. It is the first global framework to harmonise anti-corruption efforts worldwide. The Convention goes beyond previous instruments of this kind, criminalising not only basic forms of corruption such as bribery and the embezzlement of public funds, but also trading in influence and the concealment and laundering of the proceeds of corruption. The Convention covers the prevention, investigation and prosecution of corruption and the freezing, seizure, confiscation and return of the proceeds of offences. Asset recovery is a fundamental principle of the Convention, and several provisions specify how co-operation and assistance are to be rendered. An entire chapter of the UNCAC is devoted to prevention, with measures directed at both the public and private sectors. States also agree to co-operate with one another in every aspect of the fight against corruption, including prevention, investigation and the prosecution of offenders.</p>
Implementation	<p>140 countries have signed the Convention and 150 states are now party to it. At its third session held in Doha, Qatar in November 2009, the Conference adopted the terms of reference of the Review Mechanism for the UN Convention. The implementation of four chapters of the Convention will be reviewed in a peer review process in two cycles, with criminalisation, law enforcement and international co-operation in the first cycle of five years, and prevention and asset recovery in the second cycle of five years. The response to the comprehensive self-assessment checklist endorsed by the Conference forms the backbone of country reviews by two other state parties. The state under review and the reviewing states engage in dialogue on the basis of the self-assessment, with country visits or joint meetings in Vienna where requested by the state under review. Country review reports are prepared by the reviewing experts assisted by the secretariat, and agreed to by the states under review, which are also encouraged to publish their reports. The Implementation Review Group (IRG), established in the terms of reference, is tasked with overseeing the review process and with considering technical assistance needs and priorities. The IRG adopted the guidelines for governmental experts and the secretariat at its first session in June 2010 and launched the first year of reviews. Twenty-six states are currently undergoing review.</p> <p>The Conference also established two working groups, on prevention and asset recovery, to assist it in enhancing implementation of the two corresponding chapters in the Convention.</p>
Further info	<ul style="list-style-type: none"> • www.unodc.org/unodc/en/treaties/CAC/index.html • www.uncaccoalition.org/ • www.qeh.ox.ac.uk/RePEc/qeh/qehwps/qehwps150.pdf

Table B.6. Instruments providing for legal measures and sanctions against states, elites and companies
(continued)

Instrument	UN Convention Against Transnational Organized Crime and its Protocols
Intended impact	To address transnational organised crime related to international markets in arms, human trafficking, money laundering, etc.
How it works	The United Nations Convention against Transnational Organized Crime was adopted by the General Assembly in its Resolution 55/25 of 15 November 2000. The Convention is supplemented by three Protocols, which target specific areas of organised crime: a) to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children; b) the Smuggling of Migrants by Land, Sea and Air; and c) the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition. States that ratify this instrument commit themselves to taking a series of measures against transnational organised crime, including the creation of domestic criminal offences (e.g. against participation in an organised criminal group, money laundering, corruption and obstruction of justice); the adoption of new and sweeping frameworks for extradition, mutual legal assistance and law enforcement co-operation; and the promotion of training and technical assistance for building or upgrading the necessary capacity of national authorities.
Implementation	Since it came into force in 2003, the Convention has been ratified by 147 signatories and 154 parties. Protocol 12a on human trafficking has been ratified by 117 signatories and 137 parties; Protocol 12b on smuggling of migrants by 112 signatories and 123 parties; and Protocol 12c on trafficking in firearms by 52 signatories and 79 parties. As with many of the international treaties and conventions, there has been very little analysis to date evaluating the effectiveness or impact of this Convention.
Further info	www.unodc.org/unodc/en/treaties/CTOC/index.html

Table B.7. Instruments creating reputation pressures

Instrument	African Peer Review Mechanism (NEPAD)
Intended impact	The African Peer Review Mechanism (APRM) is intended to establish a voluntary, African-led peer review mechanism to ensure conformity by Members of the African Union (AU) to a set of core values on governance and development, and to serve as a centrepiece of the New Partnership for Africa's Development (NEPAD). Regular monitoring and the resulting peer pressure from other African states are intended to act as incentives to improve governance performance.
How it works	The APRM's mandate requires it to ensure, via periodic review, that the policies and practices of participating countries conform to values set out in four thematic areas: democracy and political governance, economic governance, corporate governance and socio-economic development. The APRM is not conceived as a review process for relevant anti-corruption conventions in the Africa region, but includes elements of monitoring government anti-corruption activities and performance against the requirements of anti-corruption conventions. The review process includes country self-assessments based on a questionnaire, onsite visits by expert review teams who consult with government, private sector and civil society representatives, active plenary discussions, and revision of country reports and action plans by the APR Panel of Eminent Persons. The process is committed to national ownership and leadership through an open and participatory process.
Implementation	Founded in 2003 within the context of NEPAD, as of June 2008 the APRM counted 30 members (the AU has 53 states/76% of the African population). However, to date, only 12 member countries have been peer reviewed (two more are forthcoming) and the voluntary funding mechanism appears problematic, as several member countries are in arrears. The peer review mechanism is complex. Critics have claimed that the rules are not always clear, and that the training and technical advice that have been provided to the countries under review are insufficient (www.u4.no). There is also a general lack of awareness of the financial, logistical, research and political challenges of the APRM process.
Further info	<ul style="list-style-type: none"> www.aprm-international.org/ www.u4.no/helpdesk/helpdesk/query.cfm?id=192

Table B.7. Instruments creating reputation pressures (continued)

Instrument	Country Assessment in Accountability and Transparency (CONTACT)
Intended impact	CONTACT is a self-assessment tool to enable countries to evaluate their financial architecture and integrity systems. It was an attempt by the UN to bring a uniform methodology to the assessment of national accountability systems in order to identify strengths and weaknesses in the system and propose improvements.
How it works	CONTACT provides a checklist of questions and guidelines with accompanying assessment checklists relating to a country's financial structure and integrity systems. Aspects covered include information management, planning and budgeting processes, internal control and auditing, revenue administration, procurement and asset management, and the prevention and control of corruption and cash management. It was designed to assist governments on an ad hoc basis and not as part of any program for implementation.
Implementation	A spinoff from the UN Aid Management and Accountability Framework in the 1990s, CONTACT became operational in 1996. No guidance is provided on how the checklists should be evaluated or the form in which the results should appear.
Further info	<ul style="list-style-type: none"> • www.gaportal.org/tools/country-assessment-accountability-and-transparency-contact • www.undp.org/governance/docs/AC_guides_contact.htm
Instrument	Group of States against Corruption (GRECO)
Intended impact	GRECO's objective is to improve the capacity of its members to fight corruption by monitoring their compliance with the Council of Europe's anti-corruption standards, through a dynamic process of mutual evaluation and peer pressure.
How it works	<p>GRECO contributes to identifying deficiencies and insufficiencies of national mechanisms against corruption, and to prompting the necessary legislative, institutional and practical reforms in order to better prevent and combat corruption. GRECO also provides a platform for the sharing of best practice in the prevention and detection of corruption.</p> <p>The functioning of GRECO is governed by its Statute and Rules of Procedure. Each member state appoints up to two representatives who participate in GRECO plenary meetings with a right to vote. GRECO elects its president, vice-president, and members of its Bureau who play an important role in designing GRECO's work programme and supervising the evaluation procedures.</p> <p>GRECO assumes responsibility for the coherent follow-up of all of the Council of Europe's Guiding Principles in the Fight against Corruption, including the Criminal Law Convention on Corruption (CLCoC). Of particular interest is GRECO's membership application process, since only those that participate fully in the mutual evaluation process can remain members.</p>
Implementation	Currently, GRECO comprises 47 member states (46 European states and the United States). GRECO was set up on 1 May 1999 by Belgium, Bulgaria, Cyprus, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Lithuania, Luxembourg, Romania, Slovakia, Slovenia, Spain and Sweden. Poland, Hungary, Georgia and the United Kingdom joined shortly afterwards. Bosnia and Herzegovina was the first non-member state of the Council of Europe to become a member in February 2000.
Further info	www.coe.int/t/dghl/monitoring/greco/default_en.asp
Instrument	OECD Guidelines for Multinational Enterprises
Intended impact	The Guidelines aim to influence business practice and also the manner in which the business community interacts with other stakeholders, particularly governments. They encourage transparency through disclosure of information and recommendations on corporate governance in order to foster a culture of ethical business practice within the enterprise.
How it works	These Guidelines provide voluntary principles and standards for responsible business practice, with the aim of helping improve the foreign investment climate through better corporate governance. The Guidelines promote self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate. The Guidelines provide recommendations on the disclosure of information; employment and industrial relations; the environment; combating bribery; consumer interests; science and technology; competition; and taxation. Guidance on implementation procedures is also provided.
Implementation	The Guidelines are intended to provide a source of guidance to multinational enterprises and are therefore voluntary in nature. There is no clear method in place to measure the implementation or impact of the guidelines.
Further info	www.oecd.org/daf/investment/guidelines

Table B.7. Instruments creating reputation pressures (continued)

Instrument	Basel Committee on Banking Supervision
Intended impact	To improve international banking standards through exchanging information and developing guidelines.
How it works	The Basel Committee on Banking Supervision provides a forum for regular co-operation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting a common understanding. At times, the Committee uses this common understanding to develop guidelines and supervisory standards in certain areas, such as international standards on capital adequacy; the Core Principles for Effective Banking Supervision; and the Concordat on cross-border banking supervision.
Implementation	The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, China, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.
Further info	www.bis.org/bcbs/
Instrument	Committee on the Global Financial System
Intended impact	The Committee on the Global Financial System (CGFS) is a central bank forum for the monitoring and examination of broad issues relating to financial markets and systems. It helps to elaborate appropriate policy recommendations to support the central banks in the fulfilment of their responsibilities for monetary and financial stability.
How it works	The Committee on the Global Financial System monitors developments in global financial markets for central bank governors. The Committee has a mandate to identify and assess potential sources of stress in global financial markets, to further understanding of the structural underpinnings of financial markets, and to promote improvements to the functioning and stability of these markets. It does this through regular monitoring discussions among CGFS members; through co-ordinated longer-term efforts, including working groups involving central bank staff; and through the various reports that the CGFS publishes. The CGFS also oversees the collection of the BIS international banking and financial statistics.
Implementation	The CGFS, formerly known as the Euro-currency Standing Committee, was established in 1971 with a mandate to monitor international banking markets. Its membership includes deputy governors and senior officials from central banks in Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Singapore, Spain, Switzerland, United Kingdom, and others.
Further info	www.bis.org/about/factcgfs.htm
Instrument	International Tax Dialogue
Intended impact	ITD sees taxation as being at the heart of good governance and state building, and works to ensure countries develop tax systems that are perceived to be fair as an important way of building state legitimacy.
How it works	The International Tax Dialogue (ITD) is a collaborative arrangement involving the EC, IDB, IMF, OECD, UK-DFID and World Bank Group. It encourages and facilitates discussion on tax matters among national tax officials, international organisations, and a range of other key stakeholders. ITD organises international conferences and events, and provides technical assistance to tax professionals, policy makers, administrators and institutions.
Implementation	ITD was established in 2002.
Further info	www.itdweb.org/Pages/Home.aspx

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International Drivers of Corruption

A TOOL FOR ANALYSIS

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