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Master Thesis


ANALYSIS OF ANTI-CORRUPTION MEASURES IN MULTILATERAL DEVELOPMENT BANKS

CASE OF THE WORLD BANK, AFRICAN DEVELOPMENT BANK GROUP AND
ASIAN DEVELOPMENT BANK

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Abstract

Corruption has been identified as one of the biggest obstacles for political, economic and societal development. Up until late 1990 corruption was considered to be a taboo topic while international actors did not want to intervene in other countries trying to maintain decent diplomatic relations. It was only after public corruption scandals that the international community decided to intervene and proclaim the fight against corruption. Corruption is a multidimensional phenomenon which causes are a subject of multiple research, while the research on the effects of corruption still remains weak. However, literature agrees that corruption only prolongs underdevelopment with slowing down the financial prosperity, increasing social dissatisfaction, causing brain drain, and increasing possibilities of terrorism.

Today, multilateral development banks are at the forefront of zero tolerance to corruption as their general mission in to eliminate extreme poverty and promote sustainable development. Multilateral development aid reached the amount of USD 41 billion in 2016. Having in mind that projects there are financing are usually located in poor countries with corrupt governments and weak institutions, multilateral development banks need to have strong and decisive anticorruption measures in order to eliminate corrupt behaviour and to deliver results of their projects.

Thus, this Master thesis aims to understand how anti-corruption measures are formulated in selected multilateral development banks, more precisely in the World Bank as a key international actor, and in two smaller regional banks - African Development Bank Group and in Asian Development Bank. The analysis is divided into two parts. Firstly, a document analysis was conducted which provided information about the organisational culture, codes of conduct, levels of transparency and outlined three understandings of corruption and their objectives how to eliminate it. Secondly, comparative analysis of anti-corruption efforts indicated that the selected banks are mostly implementing all the adequate measures identified in the literature. However, more research is needed to understand and follow the effectiveness of these anti-corruption measures.

Key words: Corruption, multilateral development bank, the World Bank, anti-corruption measures, sustainable development, good governance, transparency, accountability

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List of Abbreviations

ADB	Asian Development Bank
ADF	African Development Fund
AfDB	African Development Bank
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
EU	European Union
IACD	The Integrity and Anti-Corruption Department
IATI	International Aid Transparency Initiative
IMF	The International Monetary Fund
MDB	Multilateral Development Bank
NTF	Nigeria Trust Fund
OAI	Office of Anticorruption and Integrity
ODA	Official development assistance
OECD	The Organisation for Economic Co-operation and Development
TAF	Technical Assistance Fund
UN	United Nations
UNPD	United Nations Development Programme

1. Introduction

There has been a strong agreement that corruption presents one of the greatest political, economic and social challenges in achieving development goals and reducing poverty. Up until late 1990s, corruption was considered a taboo topic both from the state agents and from development institutions. State actors did not want to intervene in domestic politics of a recipient country for the benefit of maintaining the diplomatic relations. On the other hand, institutions such as the World Bank did not consider themselves responsible for controlling the project cycle. Corruption can be defined as *the abuse of entrusted power for private gain* (Transparency International, 2011). It is one of the main reasons behind continuous poverty in developing countries and impediment of economic growth. Income inequality, lower GDP per capita, brain drain, endemic poverty, reduced efficiency of public sector, lower investments instable economy and political system are just some of the corruption consequences. These major consequences on the economy and the society motivated researchers to analyse what precisely corruption is and what are its causes and effects. Literature review indicates that corruption is a highly complex and multidimensional issue. The awareness of negative influences of corruption has been raised in 1996 speech, by then World Bank president James D. Wolfensohn, addressing the corruption as *a cancer to development process*. (Bhargava, 2005, p.1). In the last decade, the need for change has been recognised. Initiatives as The United Nations (UN) *Convention against Corruption* and OECD *Convention Against Bribery of Foreign Public Officials in International Business Transactions* are advocating for global actions and development of anti-corruption strategies. Corruption control is becoming an imperative both in the government and in developing institutions and organisations. The World Bank being at the forefront of leading the change process and inspiring others to follow. However, many organisations are still not keen to addressing the issue properly or are only theoretically addressing it, while the practicalities are still missing. Multiple studies have been conducted on the effects of corruption, but the effects of anti-corruption measures and its design is still not covered to make representative conclusion. However, with the establishment of organisations as Transparency International and International Aid Transparency Initiative more data from the grassroots level and analysis of lessons learned have enabled to shed the light on the value of

control mechanisms and the importance of financial flows tracking. Developing anti-corruption measures is a very challenging task. Corruption by nature is multidimensional, depending on different motives that can trigger dishonest behaviour of an agent. The problem continues with the fact that development aid is usually aimed towards the most corrupt settings. That is why the need for proper measures and adequately trained personal on the field is needed. Literature usually agrees that increasing transparency, training the employees, raising salaries of public officials, developing internal and external controlling mechanisms, establishing a whistle-blower channel and having strong policies and code of conduct are essential to curb with corruption and manage a project cycle in a way that the value is delivered to intended beneficiaries. Multilateral development banks (MDBs) play an important role in setting the anti-corruption agenda as they are a major force in attracting the donor interest and forwarding the funds to development projects. In this sense, emphasis should be put into analysing their anti-corruption measures and transparency efforts.

1.1 Problem Formulation

Multilateral development banks (MDBs) have a history of raising awareness and curbing corruption. MDBs are one of the most important actors in international development and such role comes also with a responsibility to achieve project goals, reduce risks for donors and deliver sustainable projects. According to the OECD (2017), in 2016 multilateral assistance increased to USD 41 billion which represents 28% of total net official development assistance (ODA) (OECD, Development Co-operation Report, 2017). That positions MDBs as important actors in the development process. It is highly important that their resources and cross-border operations are handled effectively and efficiently as MDBs are the facilitators of change, development and prosperity. With the strive to achieve the Sustainable Development Goals (SDGs), mutual partnerships and initiatives are needed to connect all actors in multilateral aid. Therefore, the role of MDBs is more important than ever, as they have the opportunity to be agents of change that fight poverty and corruption. Because of their complex cross-border operations, comprehensive systems of controls are an imperative. As already mentioned, corruption is a difficult matter to curb. Cremer (2008) has identified three types of corruption that is distinct for the development aid – bribery, misappropriation and nepotism. They are all potential risks that donors and implementing

partners face in a project cycle. That is why anti-corruption measures are necessary to reduce probability of a dishonest actor. The World Bank is continuously setting an example to other multilateral and bilateral agencies. There are also mutual agreements as *2010 Agreement on Mutual Enforcement of Debarment Decisions* to synchronise MDBs integrity management systems (Transparency International, 2016). Despite that, the yearly cost of bribery is estimated to be from \$1.5 to \$2 trillion (IMF, 2016). However, the real amount is certainly higher as bribery is only one type of corruption taking place. African and Asian development banks, together with the World Bank, UN fund and European Development fund are in the top cluster of receiving the most of donors funding. Considered that the World Bank is a leader in development with already properly established anti-corruption procedures, while the European Development fund is mainly focused on the development within the European Union, the elimination process let the focus of interest for this thesis to smaller regional banks, more specifically to African Development Bank (AfDB) and Asian Development Bank (ADB). Even though, all multilateral banks agree that the corruption has negative consequences and it is an obstacle to reducing poverty, the question is if their anti-corruption measures are adequately formulated and are covering all the measures presented in the literature review. In 2015 AfDB received 76 cases of corruption complains, while ADB received 285 complains (Transparency International, 2016). To put into perspective, these 285 complains are reported to have influenced 31 contracts with an estimated value of USD 394 million (Transparency International, 2016). This amount indicates a significant difference of complains among the two banks, even more when the complaints are put in the financial context. Also, this data raises questions on the anti-corruption measures implemented by the MDB and their scope of complexity.

Therefore, the research question of this master thesis is:

How are anti-corruption policies and measures formulated in multilateral assistance of the World Bank, African Development Bank and Asian Development Bank?

During the analysis, additional questions will be answered such as *How is corruption approached in the WB, AfDB and ADB? How transparent are the measures employed by the WB, AfDB and ADB? Why is good governance needed to curb with corruption phenomena?*

The analysis will provide answers to these questions by first conducting a document analysis to understand the measures and their organisational culture, together with transparency efforts. Next, in order to adequately evaluate the anti-corruption measures, a comparative approach is needed. Therefore, a comparative framework with list of anti-corruption criteria was designed based on the literature review. The list of criteria is drawn mostly from the book *Corruption and Development Aid* by Georg Cremer. This will extend the comprehension of the measures and potentially detect patterns or flaws in their strategies. For the theoretical framework of the thesis agency theory or principal – agent model is used. This model examines the relationship between a principal and the agent and explores institutional factors that can have an impact on behaviour or choices of an agent. Thus, the model will be used as an analytical approach to initiatives of the principle to reduce the probability of dishonest behaviour. Furthermore, it can be found that transparency is one of the most listed anti-corruption measures in the literature review. Thus, this thesis will shed light to importance of transparency when analysing the initiatives and measures conducted by the MDBs. Therefore, the main objective of this thesis is to understand the anti-corruption measures established by the World Bank, African and Asian development bank. The analysis aims to explain whether the MDBS are following the same pattern or are the measures different. This master thesis argues that good governance in terms of anti-corruption measures and transparency efforts can lead to improved institution efficiency and to success in achieving project goals.

The structure of the master thesis is as follows: Firstly, a literature overview will be provided with the most prominent research made on the subject of corruption and anti-corruption. Next, the methodological aspect will provide information on how the data was collected, how qualitative research was conducted and how the data was interpreted. Then, a theoretical framework of the thesis will introduce the agency theory and the concept of transparency. Next, a background chapter will introduce the complexity behind the term corruption. This includes understanding the causes and consequences of corruption, types of corruption specific to development aid and consequently introducing the concept of anti-corruption. The background chapter is intended to deepen the understanding of corruption and the necessity for strong and effective anti-corruption measures. Next, a comparative analysis of MDBs anti-corruption measures will be provided together with the analysis of

their transparency. Finally, a conclusion will round up the entire thesis and provide answers to the research question.

2. Literature Review

There is a comprehensive research on the subject of corruption, mostly focused on the causes and effects of corruption. Findings of these papers are quite important as they enable a profound understanding of corruption and how does it come about. Furthermore, analysing causes and effects is also important to come closer in reaching a clear consensus on the definition of corruption. This matter is quite complex for several reasons. For example, studies have shown that multiple motives can trigger corrupt behaviour which leads to uncertainty when designing and implementing anti-corruption measures. Also, interpretation of corruption varies from the country, epoch and culture (Dimant, 2014). Some scholars are focused on the sociological background of corruption, some on economical while others stress the importance of political conditions in a country.

Furthermore, there is a debate on the possible effects' corruption can have on the economy. Three streams can be identified among scholars. For example, the hypothesis "grease the wheels" was presented by Leff (1964), Huntington (1968) and Leys (1965) arguing that the use of money can bypass inefficient bureaucracy of non-functioning institutions. Hence, offering "speed-money" (Dimant, 2014) to public officials can motivate them to perform more efficiently and faster, thus leading to increased productivity and eventually, economic growth (Dimant, 2014). Second stream of scholars have found that the effects of corruption can be vague. Hanousek and Kocenda (2011) argue that lower corruption can both increase or decrease public investment, as results vary from the institutions and countries analysed (Kochanova, 2015). On the contrary, majority of scholars agree that corruption has a negative impact on the society and economy. Mauro (1995) presented social costs, reduced efficiency and investment activity as negative effects of corrupt behaviour on economic growth (Mauro, 1995). Mauro's research was later reaffirmed by Brutietti and Weder (1998) and Mo (2001). Consequently, international institutions as the UN, the World Bank and the OECD started publishing their own resolutions on corruption prioritising this issue. *UN's resolution* in 1998, *OECD's Convention on combating bribery* in 1999 were one of the steppingstones towards the fight against the corruption (Meon & Sekkat, 2005).

The issue of corruption in development aid was brought to attention after being neglected for a long time by development organisations and civil sector. Foundations of today's strongest institutions were established after the devastation of World War 2; however, certain time was required for them to get stronger and efficient. At the beginning, institutions did not consider themselves responsible for project control and transparency. Furthermore, by the end of 1990s the data from the field was considered to be of sensitive nature which led to government resilience to be more involved. At the same time, scholars showcased only positive effects of corrupt behaviour in their research (Cremer, 2008). However, in the last decade the focus of research has shifted, and this malpractice is being broken (Cremer, 2008). One of the most important and comprehensive conventions against corruption was brought by the UN at the end of 2005, the initiative was followed by the World Bank in 2007 with introduction of their strategy - *Strengthening World Bank Group Engagement on Governance and Anti-corruption* (GAC) (Olken & Pande, 2012). The World Bank, being one of the most important financial donors, thus interested in transparency and efficient use of aid, has developed the *Control of Corruption Index* and published a significant amount of materials on evaluations, best practices and lessons learned to cope with corruption better.

Anderson and Gray (2007) in *Policies and Corruption Outcomes* assert that systematic efforts in observed Eastern European countries led to reduced bribery. Systematic efforts were comprised of legislation revision, proper risk analysis implementation, audit and improved means of sanctioning. Also, one of the most relevant books in the domain of the thesis is *Corruption & Development Aid* by Georg Cremer. Cremer has been dedicated to this issue since 1990s and in this publication (2008) provides a complete overview of corruption, its forms and degrees in development aid, consequences, roles of multiple actors involved in project development and implementation, and steps, recommendations on how to deal and reduce corruption in project work (Cremer, 2008). This book is of significant relevance for this thesis, as some of Cremer's insights will be used to develop a criteria framework that will allow the author to assess how MDBs cope with corruption, and if their policies and anti-corruption strategies are in line with the developed criteria. To further support the analytical framework of the thesis publications from other relevant institutions will be used. For example, Transparency International's *Collective Resolution to Enhance Accountability and*

Transparency in Emergencies and a publication from Anti-Corruption Resource Centre (U4) *How to monitor and evaluate anti-corruption agencies: Guidelines for agencies, donors, and evaluators* (2011).

Analysing the literature review on corruption in development aid, it is evident that in the last decade there has been an increase in relevant publications as the academia and the institutions have put more emphasis on this issue. However, majority of the research is still focused on causes and effects of corruption while literature on anti-corruption measures is lacking. Furthermore, more research on the efficiency of anti-corruption measures is needed.

This thesis aims to contribute to a deeper understanding of multilateral development banks and their anti-corruption measures, in particular efforts of the World Bank, together with African and Asian development bank as they are often neglected in the research area. Considering all the above presented literature, this thesis will place an interest in developing a framework to test and evaluate present measures of MDBs.

3. Methodology

This chapter will define methodological implications of the thesis to understand the connection between the research question and the objective with the selected research methods. First, the reasoning behind the choice of topic will be discussed. Next, the research design of the study will be presented as well as the data collection. In order to answer the research question of the study, comparative analysis will be presented as the research method to understand how the World Bank and two regional multilateral banks cope with possible corruption in their projects and to compare their anti-corruption policies.

3.1 Choice of topic

The topic of corruption has been long analysed in the academia; however, analysing and comparing anti-corruption policies of African Development Bank and Asian Development Bank provides a fresh outlook to the issue. A certain literature is available with comparison of legal and policy frameworks of AfDB and ADB through their engagement in fragile states¹,

¹ See for example: https://link.springer.com/chapter/10.1007/978-3-319-62695-6_6

but no similar literature was found regarding their policies and efforts to cope with corruption.

The topic of this research was also influenced by author's internship project on aid transparency, in which transparency efforts of a certain NGO were analysed with a focus on International Aid Transparency Initiative (IATI)². IATI is an online register of donors and NGOs that focuses on aid transparency, development and projects to improve efficiency of aid and the fight against poverty. The purpose of IATI is to follow the financial flows from a donor organisation or a government to an implementing NGO or a recipient country. Having realised the importance of aid transparency in development work, curiosity shifted to the origins of development projects and the multilateral banks. Thus, this thesis explores how some of the main contributors of financial aid cope with corruption, maintain control of the project and if they translate those norms and values to the organisations or projects there are financing.

3.2 Research design

The purpose of this paper is to provide a deeper understanding of corruption in development aid, to investigate how and which legal and policy frameworks multilateral banks such as AfDB and ADB use, to cope with possible misuse of their finances or regulations. Loans and projects by multilateral development banks can be of great significance to national development. They enable investments that may not be approved by smaller banks. Consequently, allowing the projects that otherwise may not be implemented, they provide a possibility for a broader influence. However, project effectiveness depends on their business models as well on their legal policies (Humphry, 2014). Strong institutions are believed to be the foundation of sustainable development (UNA-UK, 2016). Strong institutions are also part of the Sustainable Development Goals as the target 16. Tackling corruption is one of the sub goals within that target as a measure to achieve development (Transparency International, 2017). Therefore, the research domain of this thesis is within the development studies, with the purpose to interpret available documents to discuss anti-corruption efforts of MDBs. The development perspective allows the author to understand

² <https://www.aidtransparency.net/>

what opportunities anti-corruption measures can bring, how donor's measures influence the implementing organisations and beneficiaries, and eventually project success.

The methodological approach of the dissertation is within the liberal paradigm, as the institutions and multilateral organisations are viewed as actors who have a considerable impact on the agenda, in this case on the anti-corruption agenda. Furthermore, institutions can influence state cooperation, and have mechanisms to punish fraud (Ozkan & Cetin, 2016).

To answer the problem formulation of the research, qualitative method was chosen in connection to the theoretical approach. Contextual information was gathered through official websites of AfDB and ADB. Contextual information refers to information that portrays the culture and the environment of an institution, their mission, vision and business strategy (Dale Bloomberg & Volpe, 2016). This information was necessary to collect as *"elements within the environment or culture may influence behaviour"* (Lewin as cited in Dale Bloomberg & Volpe, 2016, p. 70). Hence, contextual information is important to understand the foundations of banks in question, their policies and efforts in development work and how those influence actors involved. Document analysis was conducted to study the contextual information. Document analysis provides context, additional data, means of following the process of change and development of assessment topic through a systematic reviewing of available documents (Bowen, 2009). This approach was chosen as it allows the research to interpret the data and provide a meaning to the subject matter (Bowen, 2009). Document analysis was used to investigate the culture, business models and anti-corruption measures and policies of AfDB and ADB.

Documents were analysed using the process of coding. Coding is *"a system of classification-the process of noting what is of interest or significance, identifying different segments of the data, and labelling them to organize the information contained in the data"* (Dale Bloomberg & Volpe, 2016, p. 198). Using coding, anti-corruption measures, policies were analysed and formatted into categories to be able to conduct the following step of the analysis – evaluate the data using comparative analysis.

Next, a criteria framework was developed based on the literature review, more specifically on the Georg Cremer's book section – *Corruption in Project Work: An Analysis of Weakness*, and additional synthesis project reports of lessons learned from Transparency International and U4. The developed framework allowed an analytical process of strategy comparison for controlling the corruption. Comparative analysis “*enhances the understanding of one's own society by placing its familiar structures and routines against those of other systems (understanding); comparison heightens our awareness of other systems, cultures, and patterns of thinking and acting*” (Esser & Vliegthart, 2017). Furthermore, using this approach allowed the author to test the theory in two different settings and to assess the anti-corruption implications (Esser & Vliegthart, 2017). Therefore, the comparison made it possible to understand the significance of corruption and mechanisms that are necessary to curb with this development phenomena. The research was approached with inductive reasoning.

3.3 Data collection

3.3.1 Document Analysis

Qualitative research has been conducted to provide answers to the problem formulation of this dissertation. The analysis is constituted of two parts. As already stated in the research design; firstly, a document analysis will be conducted. Contextual information was gathered from the official web pages of MDDBS. This primary data enabled a better insight into their values, culture, strategy and business models. To examine AfDB anti-corruption efforts, special focus was put in analysing following documents: *Integrity and Anti-Corruption Department - Annual Report 2014*, *Whistle Blowing and Complaints Handling Policy*, *Uniform Framework for Preventing and Combating Fraud and Corruption*, all collected through the AfDB official website. When analysing anti-corruption means of ADB, special focus was put in assessing ADB Institutional documents such as: *Anti-corruption Policy*, *Enhancing the Role of ADB in Relation to Tax Integrity (Update to the Anti-corruption Policy)*, *Second Governance and Anti-corruption Action Plan (GACAP II)*, *Review of the Implementation of ADB's Governance and Anti-corruption Policies: Findings and Recommendations* and *Revised Capacity Development Action Plan*. All ADB Institutional documents were collected online from their official website. Furthermore, a document from *International Financial*

Institutions Anti-Corruption Task force in which both banks participated was analysed. These documents were chosen as they enabled the author to understand how each of the analysed multilateral banks recognizes corruption, and which policies, mechanisms and initiatives were put into place to secure proper funds utilization. Furthermore, primary data was supplemented by other resources, such as Mopan's *Institutional Assessment Report on African Development Bank*. Although, there are not as much secondary publications on Asian Development Bank, the following document - *Explaining Aid Project and Program Success: Findings from Asian Development Bank Interventions*; was also reviewed.

3.3.2 Comparative Analysis

For the second part of the analysis, a comparative framework was developed. In order to develop the framework data was collected from Development & Corruption Aid by Georg Cremer. Also, this was supported by reports from Transparency and reports from U4. This data provided a significant value in the production of the comparative approach framework and shed light on necessary preconditions and good practices for reducing corruption risks.

3.4 Theoretical considerations

Theories provide a conceptual understanding and explanation of a certain phenomenon and can be used to predict its behaviour. Also, theories can challenge and expand present knowledge within the assessed setting (Labaree, 2018). The theoretical framework for this thesis will be constituted of *Principal – Agent theory* and the concept of *Accountability and Transparency*. The principal – agent theory has its roots in neo-institutional economics, and it focuses on “*the institutional factors that affect the decisions of individuals*” (Groenendijk, 1997, p. 207). For this reason, it is a valuable framework for our thesis as it deals with the relationship between the principal who has the power to establish mechanisms to curb with the corruption, and the agent who should adopt those measures (Persson, Rothstein, & Teorell, 2013). We argue that multilateral institutions, precisely the WB, AfDB and ADB can act as principals while recipients of their development assistance as agents. In this way, the principal-agent theory is important for developing institutional reforms and policies for reducing corruption (Amundsen, Andvig, Fjeldstad, & Sissener, 2001). Therefore, this theory assumes that the WB, AfDB and ADB will hold the role for controlling the corrupt behaviour (Persson, Rothstein, & Teorell, 2013). That is why this theory will help understand anti-

corruption measures that analysed banks have undertaken, as well as to analyse if those measures are formulated properly.

The second concept on which this thesis will rely on is the principle of transparency and accountability. This concept was implemented because research has shown that corruption is viewed as a result from an absence of transparency and accountability principle (Anti-Corruption Mechanisms to Enhance Transparency, Integrity and Accountability in Public, 2010). Furthermore, UNPD has incorporated both of those principles as components of their corruption formula (Anti-Corruption Mechanisms to Enhance Transparency, Integrity and Accountability in Public, 2010, p. 2):

$$\text{Corruption} = (\text{Monopoly} + \text{Discretion}) - (\text{Accountability} + \text{Integrity} + \text{Transparency})$$

This implies that improving accountability, transparency and integrity can be steps against corruption, and an important strategy for development of anti-corruption measures. Therefore, this thesis will follow up on the above-mentioned formula and incorporate those elements when analysing the mechanisms of AfDB and ADB.

3.5 Limitations

Corruption is a subject of many research and publications - this abundance of material can lead to future implications and further development of the matter. However, our problem formulation deals with corruption in the development assistance which already narrows the research quite a bit. Furthermore, anti-corruption measures and both AfDB and ADB are not researched and evaluated enough.

It should be noted that e-mail invitations for interviews have been sent to all analysed MDBs with no answer by the date of thesis submission. That led to retrieving majority of the information from the official documents of the banks. However, those documents can be bias and present the ideal situation and efforts. Even though there are some additional subject-related documents on the webpage of AfDB, unfortunately those are on French language, and this study is limited only to the documents on English language.

Also, the real image of anti-corruption measures cannot be properly presented as some of the available documents are quite outdated and do not present the current picture. For example, *Integrity and Anti-Corruption Department - Annual Report 2014* is essentially the

last Annual Report that was published on AfDB website. The author of the study is completely aware of the above stated limitations, however the data available led the research in a deductive way and is of value for the future discussions. Moderation to the limitations were made by complementing the study with secondary available data.

Therefore, variety of data (primary and secondary), combination of methods (document and comparative analysis), and use of different theories and concepts (principal-agent theory, transparency and accountability concept, developed framework) are used to achieve data triangulation (Dale Bloomberg & Volpe, 2016) and address the challenge of corruption adequately.

4. Theory

In the following section theoretical framework of the dissertation will be introduced. The agency theory and the concepts of transparency and accountability will serve to assess how corruption is addressed in the World Bank, African Development Bank and in the Asian Development Bank. The model of principal and agent (or so-called agency theory) will serve to discuss the importance of the relationship between the donor and the recipient. This model will help to introduce the possibility of reducing corruption with setting the appropriate measures for controlling the behaviour of the agent. Accountability and transparency will serve as a supportive concept to illuminate their importance in both donor and recipient relationship and conduct in development assistance.

4.1 Principal – Agent Theory

Principal-Agent theory (or agency theory) is a part of neo-institutional economics literature. The theory was developed with a purpose of modelling the relationship between the one who assigns the work and has the possibility of controlling the process (*the principal*) and the one who the work is assigned to (*the agent*). This relationship is modelled with the metaphor of a contract. The aim of the theory is to modify the contract so that the relationship between the principal and agent is optimal (Eisenhardt, 1988). Over the years, the agency theory surpassed its application in the organizational sphere, and has extended its application to compensation systems, risk management, decision-making systems and mathematical models (Eisenhardt, 1988).

The theory addresses the issues that agents can usually have when performing the work for the principal, and on the other hand, the issues that principals can have with meeting their requirements. Therefore, the agency theory provides comprehension of both behaviours, interprets both views. The actions and issues principals face when delegating and modifying the activities, and actions and issues that an agent can have while delivering the work (Mitnick, 2014).

The most common way of describing the agency theory is using the cases (Demski & Feltham cited in Eisenhardt, 1988). In the first case, the principal is aware of agent's work. Giving the fact that the principal is „*buying the agent's behaviour, a contract based on behaviour is the most efficient*“ (Eisenhardt, 1988, p. 490). If the contract would be established on outcomes, that would have the possibility of transmitting the risk (Eisenhardt, 1988).

The second case deals with the principal not having the information of the work that agent has done. If the agent's interest shifted, and it is focused on itself, work delivery might not be as arranged in the beginning. That leaves the principal with two possibilities. Either to uncover the agent's actions with acquiring the information, or to formulate a contract that is set up on agent's performance, or outcomes. This way, the relationship is motivated to meet preferences of the principal but placing the risk on the agent side (Eisenhardt, 1988). Outcomes are not the only element that can manifest risk, in the function of behaviours there are also factors as policies, economic situation, competitors and others that can have an influence on the outcomes. Having such complexity of elements influencing outcomes, their fulfilment becomes more unpredictable and can have financial consequences (Eisenhardt, 1988). „*The choice between a contract based solely on behaviour and one partially based on outcomes depends on the trade-off between the cost of measuring behaviour and the cost of transferring risk to the agent through a contract partly based on outcomes*“ (Demski & Feltham cited in Eisenhardt, 1988). Therefore, if it is not that expensive to observe behaviour or it is costly to risk with the agent, a contract founded on behaviour will be the best option.

Therefore, the problem domain of the agency theory is related to control with a basis of efficiency. The theory understands actors motivated by self-interested and there is information asymmetry between the principal and the agent. Also, decisions are believed to be cost exchanged (Eisenhardt, 1988).

4.1.1 The principal – agent model of corruption

As already mentioned, the principle – agent model has been used in many fields. Model's application has also been theorized and tested with an application to corruption. This is because the potential it has for modelling actors' behaviours by controlling and acting in multifaced systems, precisely institutional factors that can influence actors' behaviour.

A simple model is: An institution needs to share the activities to individuals in order to be efficient. Successful coordination is difficult when delegated work is handled by self-interested actors who are not concerned with the efficiency of the institution. There are three issues for motivation in public sector. Firstly, different objectives of management and subordinate employees can lead to conflict of interest. Because of the different motivations, employees (agents) follow their own interest, ignoring the institution's objectives. Next issue has to do with employees having the information which the management doesn't have. This is called *informational asymmetry* and is common in numerous institutions. Final recognized issue is the problem one institution has with creating a motivation system that translates into a broader system with institutions cooperating. All three matters are manifestations of different information and motivations (Amundsen, Andvig, Fjeldstad, & Sissener, 2001).

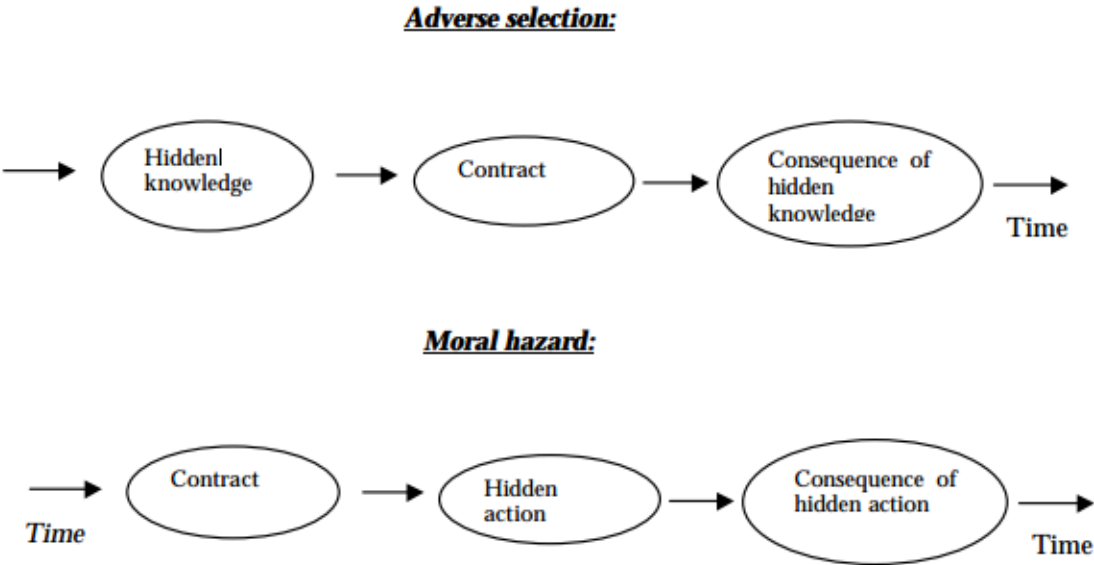
Klitgaard (1998) suggests that corrupt interaction can be observed in three actors' interaction. In the basic interaction, "*the principal (P) is honest, the agent (A) is bribed by a non-member, a client (C)*" (Klitgaard cited in Amundsen, Andvig, Fjeldstad, & Sissener, 2001, p. 80). In this model, the assumption is that the agent and client are self-interested, meaning their behaviour is depending on the "*on calculations of potential personal gains and losses that may result from their behaviour*" (Amundsen, Andvig, Fjeldstad, & Sissener, 2001, p. 80).

As mentioned above, the main problem in this interaction is the information asymmetry and different objectives of the principal and agent. This is also usually the case in public institutions when the principal is not aware of agent's intentions and his motivation. This creates a problem for the principal as he is not able to make a successful interaction. The problem of not being able to identify if the agent is honest or dishonest is called adverse selection, while the second problem of not knowing if the actions of the agent are

productive or corrupt is called the moral hazard (Amundsen, Andvig, Fjeldstad, & Sissener, 2001). Picture 1. outlines the issue of information asymmetry.

Therefore, the principal is confronted with two challenges. How to detect a self-interested agent even before he is contracted or employed. This problem is focused around recruitment. Thus, the application of the model can lead to procedures that ensure transparent procedure, strong qualifications and skills, and eliminate actors whose motivation is dishonest. Second problem the principal faces is when self-interested actors are contracted how to influence their choice to be honest. Therefore, the issue lies on understanding how potential opportunists decide on their behaviour (Amundsen, Andvig, Fjeldstad, & Sissener, 2001).

Figure 1 Problems of Information Asymmetry



Source: Amundsen, I., Andvig, J. C., Fjeldstad, O. H., & Sissener, T. K. (2001). Corruption: A review of contemporary research. December, p.81

To conclude, the focus on the relationship between the principal and the agent can help in constructing the understanding of corruption. Also, the model delivers a framework to analyse employees or possible contractors’ behaviour. The analysis can help with introducing preventive measures or possible penalties which may influence agent’s behaviour and eventually institutional surroundings (Amundsen, Andvig, Fjeldstad, & Sissener, 2001).

4.1.2 Critique of the agency theory

Even though the agency theory has a wide application and is used as a reference in many areas, there are some criticism towards the theory. For example, Donaldson (1990) argues that the model is dominated by individualism, that the motivation model is not enough described and that the whole model is overly simplified and idealistic (Donaldson, 1990). Also, the criticism of individualism is one of the most mentioned by the academics, as the model usually models the relationship between one principal and one agent. However, that is not relatable in today's world, as majority of the behaviours are including multiple actors. The model with a variety of actors can serve in situations as collusion. Furthermore, there is only one interaction between the principal and the agent in the model, while in reality there are multiple interactions. Having more than one interaction can have an impact on the learning mechanism. However, there are also some shortcomings in the multiple-interaction model, the information dispersion becomes hard to follow, and which actor has what information can have a major influence on the outcomes of the model. As the model is so applicable, naturally many critics have risen. However, academia has tried to influence some of those shortcomings by introducing extensions to the model to be able to understand also more complex environments (Ackere, 1993).

4.2 Concepts of Transparency and Accountability

The power of information has become an important topic in the last decade. This led to transparency movements in economic, social and political arena. Even though most academics and practitioners would agree on the importance of transparency, its definition is somewhat problematic. This may be due to the fact that transparency is difficult to quantify and measure with general indicators, as its understanding is different depending on the setting and circumstances. Also, the definition of transparency has been influenced by specific events or unexpected crises that took place, developing the term even more.

Several events triggered transparency changes, some being UN *Universal Declaration of Human Rights* in 1948 and Watergate in the 1970. 'Right to know' reforms followed the UN Declaration in majority of the developing countries (Fox, 2017) and the public was able to have a better insight into government work with new laws and principles that came to life

after Watergate. This allowed the public to hold their government more accountable (Vaughn, 2000 cited in Ball, 2009). Civil sector has also had a major impact on transparency discourse with their advocacy for institution responsibility, creation of new regulations and making finances more transparent (Fox, 2017).

This issue was emphasised even more with the establishment of Transparency International in the 1990s and their development of *Corruption Perception Index* (Ball, 2009) which covered 176 countries in 2016 (Transparency International, 2017). Stakeholders usually connect transparency with 'good governance, anti-corruption measures and budget management (Fox, 2017). As previously mentioned, there are multiple interpretations behind the definition of transparency.

Ball argues that transparency can be put in three contexts:

" Transparency as a public value embraced by society to counter corruption, transparency synonymous with open decision-making by governments and non-profits, and transparency as a complex tool of good governance in programs, policies, and nations" (Ball, 2009, p. 293). Suggesting more transparency also points toward the perception of an existing problem which can be solved with more open information.

Transparency can be defined as *"a process by which information about existing conditions, decisions and actions is made accessible, visible, and understandable"* (International Monetary Fund, 1988, p. 6). Also, transparency should allow citizens to have access to policies and data so that they can evaluate the institutions and question their performance (Nelson, 2001). This allows the citizens to hold their government or institutions *accountable*. UN defined accountability as *"the obligation on the part of public officials to report on the usage of public resources and answerability for failing to meet stated performance objectives"* (Armstrong, 2005, p. 1). Schendler pointed out that accountability can be identified as the right to acquire information, and the ability for sanctions (Schendler cited in Fox, 2017). In the literature transparency is usually connected to accountability and with anti-corruption measures. It is referred that transparency is functioning as *"accountability mechanism on the behaviour of public officials"* (Williams, 2015, p. 806). In this context, information has an impact on agents' behaviour influencing him to behave honestly. That is why transparency is very often underlined in anti-corruption measures as one of the major

tools to influence self-interest or dishonest behaviour (Williams, 2015). This also follows the UNDP formula that was previously mentioned: *Corruption = (Monopoly + Discretion) – (Accountability + Integrity + Transparency)* (Anti-Corruption Mechanisms to Enhance Transparency, Integrity and Accountability in Public, 2010).

As previously mentioned, transparency is somewhat difficult to measure. However, there are some indexes and indicators that are covering some part of transparency. Bellver and Kaufmann (2005) in their working paper combined multiple data sets and divided transparency in economic/institutional transparency, and political transparency (Williams, 2015, p. 808). Also, ‘transparency in the public sector’ is one of the elements in Country Policy and Institutional Assessment (CPIA indicator) conducted by the World Bank (Williams, 2015, p. 809). Both the World Bank and the Regional Development Banks are strong advocates for improving transparency since 1990s when they agreed to be more open and to adopt new accountability policies (Nelson, 2001).

Nelson outlined three dimensions of transparency between MDBs, the state and the citizens (Nelson, 2001, p. 1837):

1. *“Government disclosure toward the MDBs: monitoring and markets*
2. *Government and MDB transparency toward citizens: transparency as good project management and good governance*
3. *MDB transparency directly to citizens of member countries”*

Now that the theoretical considerations have been explained, the thesis will move to the construction of comparative framework. This framework will serve to compare the anti-corruption policies of AfDB and ADB and help to better understand how and why corruption is addressed.

4.3 Comparative Framework

Herein the rationale and the idea behind the comparative framework will be given. The objective of this master thesis is to analyse anti-corruption measures in multilateral assistance, specifically in the World Bank, African Development Bank and Asian Development Bank. In order to organise the measures applied by the MDBs, a comparative

framework will be developed. For the purpose of this thesis a comparative framework was developed according to Georg Cremer (2008) chapter *Analysis of Weakness and Confronting the Challenges* and other institutional reports. The idea for the framework was inspired by Pawel Tverskoi paper³. Some elements of the criteria according to the literature will be presented in the following paragraph.

Weakness analysis has been used as a tool to control the corruption and to make sure that all the important steps are thought through. This enables the project leader to double check the procedure. In general, the literature agrees on certain anti-corruption measures that are essential to eliminate dishonest behaviour and information asymmetry. For example, it is necessary to *train the employees* so that they are able to behave in a certain way when a potential bribery occurs and to recognise dishonest activities. That leads to necessity of *corruption control mechanisms*. Important part of the control is the integration of *anti-corruption clauses*. Even though these clauses are mostly raising the awareness, they should be an indicator that the donor is willing to stop the project if evidences on corruption occur. Also, Cremer argues that introducing *a middleman or intermediary* is an effective measure in procurement bidding procedures. In this way, intermediary reduces the risk of a dishonest agent to influence the bidding procedure with the public official. Also, the intermediary has already experience in mediating these types of projects, so with the accumulated knowledge in procurement procedures, he is able to detect potential offer that is not realistic. Also, another very common measure in the literature is giving *higher wages to public officials* in order not to consider taking a bribe. Furthermore, it is essential to *set the priorities* while planning the reforms and mechanism. Next, setting up *internal control* mechanisms in a recipient country and having an *independent audit* are also one of the criteria that will be tested. Furthermore, having '*whistle-blowing*' mechanisms is also important to enable citizens or other actors to report illegal activities. Finally, every project cycle should end with *lessons learned* and *monitoring of project effects* (Cremer, 2008). All above stated will serve as an underlying analytical framework that will assess anti-corruption measures of AfDB and ADB and to highlight potential areas that can be improved.

³ Available at <https://www.um.edu.mt/library/oar/handle/123456789/10290>

5. The Background Chapter

The purpose of the following chapter is to provide a background and a frame around the thesis problem formulation of addressing corruption in multilateral aid. It is necessary to understand what the concept of corruption represents to be able to properly approach the problem. The chapter will begin with exploring the definitions of corruptions and agreeing on the definition that will be used for the purpose of this thesis. Next, types and consequences of corruption will be outlined, also corruption in development assistance will be studied. As it is generally agreed that corruption is a threat to development and has negative consequences, the topic of anti-corruption will be introduced. Furthermore, as the analysis of the thesis is focused on AfDB and ADB, the role of multilateral banks and the World Bank will be presented. OECD estimates that 40% of official development assistance (ODA) goes through multilateral system (OECD, 2012). Therefore, this chapter aims to introduce all the relevant concepts that are necessary to understand for the analysis part that will follow in the next chapter.

5.1 Corruption

Corruption is a social phenomenon that can have negative consequences on economic development. It signifies an interaction between two or more people, in certain social circumstances, which when expanding, have consequences for a wider social and economic environment. This expansion operates as “*additional tax on businesses*” (PWC, 2016) and can eventually enlarge the cost of business. IMF estimated that the yearly cost of bribery is from \$1.5 to \$2 trillion (IMF, 2016). However, it is estimated that the cost is even larger as bribery is only one form of corruption. Even though the research on corruption became popular in the last two decades, corruption has a long history. Signs of corruption could be found in the time of ancient Greece, during life of philosophers as Plato and Aristotle. Moreover, it was mentioned by the Prime Minister of Indian kingdom two thousand years ago (Dimant, 2014). In the past corruption was analysed mostly for the purpose of different types of laws, just recently its effects on economy and development were starting to be explored. This may be due to the efforts and advocacy of institutions such as the World Bank, Transparency International, United Nations and the International Monetary Fund who all recognised corruption as a possible disease for the society.

5.1.1 Definition of Corruption

The pursuit for a comprehensive definition of corruption has been to some extent complicated. This eventually has to do with the nature of corruption and its perception in a society, culture or a country. Perceptions of a behaviour can differ, and what some understand as a gift, others might understand as a bribe. Furthermore, corruption has been a taboo topic and people engaged in or people who have witnessed corrupt behaviour are not very keen to discuss about it. Despite the complexity, the academia and institutions have made some important contributions and multi-disciplinary studies that led to general understanding of corruption, consequently achieving progress in that area (Amundsen, Andvig, Fjeldstad, & Sissener, 2001) which is essentially necessary for development of measures against such phenomenon.

Khan defined corruption as *“behaviour that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private-regarding motives such as wealth, power, or status”* (Khan based on Nye, 1996, p. 684).

In the Civil Law Convention on Corruption (1999), Council of Europe defined corruption as: *“Corruption means requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage or prospect thereof, which distorts the proper performance of any duty or behaviour required of the recipient of the bribe, the undue advantage or the prospect thereof”* (Council of Europe, 1999, p. 3).

However, this thesis will understand corruption through Transparency International definition as follows: *“the abuse of entrusted power for private gain”* (Transparency International, 2011). This definition is widely accepted by the literature and in line with other institutions such as the World Bank, IMF and others. The abuse can be understood as administrative offense, not obeying the political rules, moral mistake or act of crime. Entrusted power covers all segments of state’s authority, but also other actors such as non-governmental organisations (NGOs), private companies and others. Finally, private gains can be explained through acts that benefit self-interest using connections, instead of acting for the benefit of public, organisational or societal interest. Similarly, private gains are also considered to be self-interested benefits from a public entrusted matter as a project or other similar questions (Vanjskopolitičko inicijativa BiH, 2013, p. 7).

There has been much discussion on the causes of corruption, but there are several causes on which the academia agrees. Firstly, *weak laws and regulations* enable self-interest agents to involve in dishonest behaviour more easily without being frightened of the possible sanctions. Second, when agents have the *opportunity to abuse power* they are more likely to require bribes in order to finish work, also businesses not working entirely by the law tend to bribe the officials to hide their activities. Next, *relatively low income per capita* can also trigger dishonest behaviour. Considering that the economy of those countries is not working properly, jobs and income are lacking, agents might decide to do work outside the law regulations in order to earn more. *Closed economic and political system* have also shown to be causes of corruption. Research has shown that citizens in democracies and open societies decide more rarely to participate in the act of corruption, while closed systems are usually connected with social inequalities where also the government is involved in state capture. Finally, historical and sociological causes also play a role in corruption involvement, as in some countries corruption is just an everyday life and way of functioning to deal with the system (Bhargava, 2005, p. 5).

5.1.2 Types of Corruption

There are different types of corruption classification in the literature depending on the sector, level and interpretation. In this section a small overview of general classification will be provided while three areas specific for corruption in development aid will be included later. Some authors classify corruption depending if a public official is involved. If a public official is involved, then it is about political corruption. On the other hand, if the public official is not involved, then it is about corruption in the private sector or business corruption.

The World Bank outlined six types of corruption: *Grand corruption, political corruption, corporate corruption, administrative corruption, petty corruption and systematic corruption* (Bhargava, 2005). Grand corruption takes place among high positioned government officials such as ministers or presidents that benefits a small group of other politicians or people in business sector. Political corruption implicates lawmakers who abuse their positions and power providing favours in return for rewards, sacrificing the benefits of the society or public interest. Corporate corruption involves private corporations and their contractors or customers, also corporate officials who behave for their self-interest and on the cost of the shareholders. Administrative corruption has to do with lowering taxes, manipulating

regulations or contracts in favour of individuals or companies motivated by bribery. Petty corruption takes place with public officials and ordinary citizens, involves relatively small amounts of money that can motivate facilitation in official transactions, or fast forward citizens access to for example hospitals, schools or other agencies. Finally, systemic corruption is corruption that has spread and is dominant in all spheres of a society (Bhargava, 2005, p. 5).

5.1.3 Consequences of Corruption

Similar as with causes of corruption, consequences or effects can also be viewed through economic, political or social setting. As already mentioned, majority of the scholars agree that consequences of corruption are mostly negative. This is because the profit of a corrupt individual or a group, is far less than the damage corruption causes to the economic system. Some of them being: income inequality, low public-sector quality, smaller GDP per capita and others (Lambsdorff in Dimant, 2014, p. 27). When corruption spreads in a society, public sector and citizens who depend on its quality suffer (Dimant, 2014). Furthermore, when a public sector is corrupt, large investments can become difficult to accomplish and consequently foreign investors can pull back from their deals and redirect the funds to a more investment friendly country. Therefore, corruption reduces efficiency of an economy and prevents its growth. Also, corruption can sabotage opportunities and investments, consequently leading to citizens discontent and adding to their decisions to leave the country, eventually causing the brain drain. For example, high skilled workers have a greater probability for leaving, as they expect high returns on their high self-investments into knowledge. As this is lacking in a corrupt system, they have more tendency to leaving. In administrative or political structures, corrupt public official disrupts the functioning systems. If taking bribes makes an official to do his job better and faster, then the official can decide to wait for the bribes to finish the work (Dimant, 2014). Dimant argues that: *“Such procrastination mainly results from missing bureaucratic transparency and ambiguous procedures, which consequently leads to increased social costs and thus negatively affects welfare”* (Dimant, 2014, p. 28). Moreover, political corruption also has highly negative consequences to the society, not only disrupting the economic growth but also negatively influencing on social values and norms, creating doubts for legal system and government (Dimant, 2014).

To summarise, the World Bank outlines these five consequences of corruption:

1. *“Corruption undermines economic development*
2. *Corruption undermines political stability and government legitimacy*
3. *Corruption undermines the social fabric itself*
4. *Corruption jeopardizes the allocation of resources to sectors crucial for development*
5. *Corruption encourages and perpetuates other illegal activities”* (Bhargava, 2005, p. 5).

Therefore, to reduce or eliminate all these consequences that corruption might bring, it is necessary to establish proper regulations that might not bring visible outcomes in the short term but will reduce effects of corruption in the long term. To reduce threats of corruption, sustainable and effective anti-corruption measures that aim specific causes of corruption need to be established by the government (Dimant, 2014).

5.2 Corruption in Development Aid

In the past the topic of corruption was considered a taboo among the institutions and development organisations. Corruption in development aid is a quite specific problem as the aid is distributed to either government or non-governmental organisations, mostly in countries where corruption is an everyday behaviour (Cremer, 2008). Because majority of these countries are still underdeveloped, there is not enough properly working regulations and mechanisms. Therefore, development projects are often realised under lack of transparency and security (Cremer, 2008). This is particularly alarming, considering that in developing countries, significant investments and projects are mainly funded by development aid. In the past, official development agencies did not acknowledge responsibility for controlling the implementation of projects, they did not perceive as a part of their duties to investigate the conditions of implementation. For example, the World Bank was not involved in the project cycle implementation and control up until 1990s, as it did not want to intervene in the recipient country politics. Both multilateral and bilateral donors were very silent regarding that issue, as they considered the subject of corruption very sensitive and wanted to maintain diplomatic relations, thus they keep quite a low profile (Cremer, 2008).

However, that is not a present situation anymore with more and more institutions addressing the problems of corruption and coming forward with conventions, regulations

and generally having an increased attention towards proper allocation of money. However, this matter is still somewhat controversial, and it is necessary to constantly raise attention. OECD field analysis showed that some donors are still opposing to some anti-corruption measures. Reasons states were connected to lack of leadership, resistance to implement more straightforward, confrontational measures and others (Cremer, 2008). Also, it should be stated that collecting data from the field is very challenging, as many people, either public officials or beneficiaries are afraid of losing their positions or other consequences. Therefore, it can be concluded that both corruption and anti-corruption are subjects that are of sensitive nature for donors and recipients with hesitation on both sides. However, the World Bank is on the lead with bringing light to the problem of corruption, developing concepts, publications, frameworks in order to curb with corruption properly. This makes difficult for other donors not to follow, as they cannot pretend that their funds and projects are not affected with corrupt behaviour (Cremer, 2008).

Cremer identifies three types of corruption related to development aid: *Bribery, misappropriation and nepotism* (Cremer, 2008). Bribery is defined as “*a trade-off between two participants or two groups of participants, one who bribes and one who accepts the bribe*” (Neugebauer cited in Cremer, 2008, p.10). Briber can for example pay the bribe to an official in order to get a contract or for example more quantity of an item. Furthermore, a bribed official can modify a contract, change the amounts, supplies in order to achieve greater profit for the briber. Another example is bribing in order to hide illegal activities or delay procedures and impose costs (Cremer, 2008).

Misappropriation occurs when an official agent misuses its power and finances that he has been entrusted with. This behaviour can be found when a public officer has been delegated the task of financial allocation, and this behaviour is not motivated by a bribe. However, as some controls exists regarding the financial allocation, a group of people is usually involved in the act of misappropriation to be able to bypass the control. This usually involves falsifying bills or setting up procurement contracts in favour of profit. This means that the contractor submits an offer that is higher than the realistic price, wins the contract and pays the extra money to the corrupt official (Cremer, 2008). According to 2007 the World Bank *Annual Integrity Report*, 36% of allegations were connected to setting up a procurement contract (Annual Integrity Report, 2007).

Nepotism occurs when *“an official position is exploited to give preferences to individuals or groups with whom the officer has a close relationship”* (Cremer, 2008, p. 13). Nepotism is specifically linked to employment, and favouring contracts. Person involved in nepotism secures his position in the organisation this way, with building a group of corrupt individuals around him (Cremer, 2008).

5.3 Anti-corruption

When analysing corruption, it is also necessary to define and understand what anti-corruption implies and what are some of the most important anti-corruption policies and measures established by institutions. Anti-corruption can be defined as *“designed to eradicate or prevent dishonest or fraudulent conduct”* (Oxford dictionaries, 2018). Dimant argues that in order to decrease dishonest behaviour that leads to corruption, formulation of norms and values that will be complemented with regulations and policies is needed (Dimant, 2014, p. 32). Fjeldstad and Isaksen in their paper argue that anti-corruption actions should comprise of economic, political and institutional reforms (Fjeldstad & Isaksen, 2008). While the World Bank addresses the need of first addressing the issues or causes of corruption in the government or institutions. The World Bank recognises corruption as a complex phenomenon and advocates for a multidimensional approach that will cover both legal and prosecutorial dimensions and also recognizes the importance of civil society involvement (Bhargava, 2005, p. 4). Subsequently, these are the areas that are recognised as weak and in need for more regulations: *“inadequate pay for civil service workers, opaque rules and regulations, excessive discretionary power given to public officials, inadequate regulation of the private sector, state capture, political corruption, weak disclosure requirements in the public and the private sector, lack of a free media, and limited space for civil society organizations”* (Bhargava, 2005, p. 4). This aligns with Doig and Riley argument that to effectively curb with complexity of corruption, one must implement a variety of solutions, not only single solution (Doig & Riley, 1998). Furthermore, the World Bank recognises that anti-corruption initiatives should include:

1. *“Ensuring that loans and grants to developing countries are used effectively.*
2. *Bolstering donor support for reform.*
3. *Reducing the incentives for multinational businesses to pay bribes.*

4. *Promoting international programs to control organized crime and the flow of illicit funds.*
5. *Improving the institutional framework for resolving international disputes* “(Bhargava, 2005)

Along with all the above mentioned, in the category of addressing and curbing corruption are also important initiatives and resolutions brought by the most prominent institutions of today. However, they are developed on a voluntary participation and are not legally binding. Some of them are the *UN Convention Against Corruption (UNCAC)*, *the African Union’s Convention on Preventing and Combating Corruption*, the *OECD Convention Against Bribery of Foreign Public Officials in International Business Transactions* (Bhargava, 2005), the *Council of Europe Civil Law Convention on Corruption*, the *Council of Europe The Criminal Law Convention on Corruption* (Vanjskopolitičko inicijativa BIH, 2013).

6. Analysis

The World Bank is not the only institution that recognized the dangers of corruption and addressed the challenges that corruption brings. Anti-corruption programmes have become an imperative for the majority of international development organisations. Development aid is usually intended for poor countries to eliminate poverty, build infrastructure and improve health and education system. As such, those countries are already facing some sort of corruption in their domestic politics and operations. As it is often that the institutions in the poor countries are weak and ineffective. This makes project implementation even riskier and challenging. Many organisations have started following the path of the World Bank and establishing their own internal fraud investigation departments with regulations and policies. However, the scope of these regulations and policies tend to vary. This section will start by introducing how multilateral development banks function, what are some of their priorities and why donors engage in multilateral aid. Then the World Bank will be introduced as one of the vital actors in multilateral aid. European Union, African Development Bank, and Asian Development Bank, together with the World Bank are the highest donor's investments recipient. These institutions share similar visions and common functions, but there are also some distinctions. The World Bank has universal membership, while only donor states are a

part of the European Union. Also, the models of financing are different. While EU provides grants that do not need to be reimbursed, African and Asian Development Bank offer mainly loans. Differences between these institutions in regulations and policies are underlined in their main challenges and their responses. Therefore, in this chapter, the attention will be given to understand anti-corruption measures in multilateral aid, specifically in the World Bank, African and Asian development banks and to evaluate those measures using comparative framework criteria.

6.1 Multilateral Development Banks (MDBs)

Multilateral co-operation enables developing countries to meet their challenges with funds provided by donors and governments. Donors and governments are the main investors in the multilateral system which has the responsibility to channel their funds in a controlled manner, so they reach their ultimate destination or beneficiaries. However, with the increased complexity of the multilateral system that task can become quite challenging. The variety of organisations and banks participating in multilateral assistance are increasing every year together with different forms of financing. According to OECD, the latest data showed that multilateral organisations funds reached an all-time peak in 2013 with USD 59 billion, which represented 41% of ODA. Over 60% of these financial transactions were aimed to European Union, the World Bank Group and United Nations (OECD, 2015). OECD defines Multilateral operational agencies as:

"In Development Aid Statistics (DAC) statistics, these international institutions with governmental membership which conduct all or a significant part of their activities in favor of development and aid recipient countries. They include multilateral development banks (e.g. World Bank, regional development banks), United Nations agencies, and regional groupings (e.g. certain European Union and Arab agencies)" (OECD, 2012).

Multilateral development banks play a crucial role in this system. Data showed that majority of the DAC members investments from 2006 to 2010 were up to 81%, which went to: "the European Development Fund (EDF) plus the European Union (36%), International Development Association (IDA) (22%), UN Funds and Programmes (9%), the African and Asian Development Banks (AfDB and AsDB) (5% and 3%), and the Global Fund to Fight AIDS, Tuberculosis and Malaria (7%)" (OECD, 2012). This data is quite interesting as it shows that

from all regional banks, only African and Asian Development Banks are a part of the top five recipients cluster.

European Investment Bank defines MDBs "*as supranational institutions set up by sovereign states, which are their shareholders*" (European Investment Bank, 2018). Their objectives are usually in line with policies and aims developed by membership government. MDBs are mostly focused on establishing and promoting economic and social growth in developing countries, managing investments, collecting capital to improve the lives of citizens. MDBs are also active in capital markets in order to finance their loans with collected capital (European Investment Bank, 2018).

In this master thesis, MDBs are perceived as principals in the interaction with multiple agents. These agents are usually located in poor countries with weak institutions and governments. For that reason, the agent is more likely to make a decision to act corruptly as he is benefiting more. This leads to the creation of strategies that are directed also towards strengthening the national government and their fiscal processes as well as procurement procedures. Since corruption leads to the circle of bad governance and continuous underdevelopment, the role of the principal MDB is to reduce the information asymmetry and detect dishonest agents. Transparency has been identified as one of the important measures that lead to accountability. Therefore, transparency is incorporated more and more in strategies of MDBs.

Multilateral organisations are important actors in international relations. Thus, countries are trying to strengthen their position with participation in multilateral assistance. For example, the Australian Government outlined seven benefits that this cooperation can bring. Firstly, *influence* – multilateral organisations have a higher possibility to solve an issue or to influence a policy dialogue. Secondly, they have a greater *reach and scale* which some countries may not reach individually. Next, they are important actors in setting *global policies and standards*. Also, they have accumulated *knowledge* and can perform activities more efficiently and effectively. Next, they have a great ability to *coordinate* and thus reduce the possible cost for donors. Finally, they have *innovative* approaches to situations and are able to bring *leverage* for a region and spread its influence (Australian Government, Department of Foreign Affairs and Trade, n.d.).

6.2 The World Bank

When talking about multilateral organisations, it is necessary also to address the World Bank, "*a vital actor for financial and technical assistance to developing countries around the world*" (The World Bank, n.d.). The World Bank was founded in Washington, DC. in 1944 and nowadays it has set up two goals to achieve by 2030. Firstly, to end extreme poverty and to share prosperity. It is comprised of five organisations: The International Bank for Reconstruction and Development (IBRD), The International Development Association (IDA), The International Finance Corporation (IFC), The Multilateral Investment Guarantee Agency (MIGA), The International Centre for Settlement of Investment Disputes (ICSID) (The World Bank, n.d.). The World Bank delivers "*low-interest loans, zero to low-interest credits, and grants to developing countries*" (The World Bank, n.d.). Their projects and investments confirm their 2030 goals, so the investments cover areas as education, infrastructure, health services, and others. Also, these activities are made in collaboration with governments, other multilateral organisations, and the private sector (The World Bank, n.d.).

The World Bank is also a leader in reforms and lessons learned from project implementations as the bank was one of the first institutions that addressed the problems of corruption. In now very famous speech from 1996 by then-president James D. Wolfensohn, corruption was addressed as "*cancer on the development process*" (Bhargava, 2005, p.1) and with that, the awareness and the fight against corruption began to spread.

Huther and Shah outlined four dimensions of bank's corruption strategy:

1. "*Preventing fraud and corruption in Bank projects.*
2. *Helping countries that request Bank assistance for corruption.*
3. *Mainstreaming a concern for corruption in Bank's work*
4. *Lending active support to international efforts to address corruption*" (Huther & Shah, 2000, p. 1)

The World Bank has been an active advocate for anti-corruption measures and for strengthening institution to be able to cope with possible corruption. What is special in their strategy is constant public reporting, evaluations, and lessons learned from previous investments and projects. Also, in their report *Making Services Work for Poor People*, they highlighted the importance of citizens voices and their participation in the development and

upgrading of government policies and activities (Fjeldstad & Isaksen, 2008). This can also be visible in the option on their website to '*Report Suspected Fraud or Corruption*' where dishonest behaviour is categorised in Coercion, collusion, corruption, fraud, obstruction and other (The World Bank, n.d.).

To this day, the World Bank has one of the most comprehensive anti-corruption strategies that involve all sectors and motivates reforms in national governments. Some results of these actions are as follows: The World Bank's loans for better governance, public sector reforms and rule of law have led to USD 2.9 billion in 2005. Also, the Bank has an open telephone line 24-hour for corruption reporting. Furthermore, dedicated departments for *Institutional Integrity* and the *Sanctions Committee* have been instituted. After 330 organisations were found to be involved in dishonest behavior, the Bank interrupted their cooperation and publicly announced their data and sanctions. Finally, the World Bank invests over USD 10 million a year for appropriate measures and further detection of corruption (Bhargava, 2005, p.9). With all these initiatives, the World Bank also hopes that other MDBs and NGOs will follow their lead and continuously work on their efforts to detect and reduce corruption.

The World Bank understands that corruption can occur in many forms and is subjective to specific circumstances of a country and/or an individual. Therefore, the Bank is active in the private sector, public sector, and in the civil society to better detect, curb and prevent deviant behaviour. Additionally, being active in all sectors and with the civil society enables the Bank to promote and improve behaviours, establishing the norms towards anti-corruption and educating the community for sustainable development. In this way the World Bank as a principal is acting preventively; educating the agents and establishing norms in their projects can lower the possibility of a corrupt act and have a positive impact on the decision-making process of an agent.

Furthermore, the Bank is dedicated to the relationship between good governance and institutions and continues to raise global attention towards that issue. This attention and an action plan towards the governance and institutions are very much needed, as research shows that there is a strong correlation between governance and broader measures of development (Bank, 2006). Evidence suggests that the two are interdependent which in this

context indicates that anti-corruption measures need to be an integral part of state-building processes and policies strengthening in the developing countries (Bank, 2006).

In their publications, it is indicated that the Bank Group has a proactive approach towards corruption as previously stated and interpreted through agency theory. In this way, the principal (WB) performs detailed inspections and screening of possible projects and aims to cut and lower possible risks that a project, clients, governments or other contractors hold. This way, the WB as the principal is lowering the risk of informational asymmetry and with the detailed scanning of employees and potential contractors as agents. As previously mentioned, if the corrupt behaviour is detected, the project or a contractor are excluded from any form of cooperation with the WB. Also, detected corrupt behaviour or misconduct is reported to the responsible government. According to the data available, the WB has detected fraud and sanctioned more than 700 cases. In 2018, 83 firms have been excluded from cooperation and reported to their governments (Bank, 2006).

The most recent update in the WB commitment towards curbing the corruption was made after the UK Anti-corruption Summit in May 2016. The following update is published on the pages of the WB:

- “1. We will work to build the capacity of our clients to deliver on their commitments to enhance transparency and reduce corruption.*
- 2. We will enhance our support for the implementation of anti-money laundering requirements and for the recovery of stolen assets*
- 3. We will extend on our work in the areas of tax reform, illicit financial flows (IFFs), procurement reform, and preventing corrupt companies from winning state contracts” (The World Bank, 2018).*

This commitment following the Summit is interesting as the focus seems to be on the capacity building of possible partners or implementing countries to ensure that their state-building apparatus is strong and efficient. This again underlines with the previously mentioned correlation between good governance and institutions, which consequently in the long term indicates the possibility of lowering the corruption rate. Also, enhancing transparency of actions and clients is enabling to detect potential dishonest behaviour while

placing the risk on agent's side since zero tolerance on corruption by the WB principal is acknowledged (Eisenhardt, 1988).

Some of the activities that will be conducted as a result of above stated commitments are: *Creation of Public Participation Principles and Guidance of Global Initiative for Fiscal Transparency (GIFT), Development of the Open Fiscal Data Package, Expanding the use of Public Expenditure and Financial Accountability Assessments (PEFA), Setting international standards on asset recovery and money laundering, Strengthening Tax Policies, Using Beneficial Ownership information to support tax transparency, Supporting Open Contracting (OC) principles and Leading the Development of the Methodology for Assessing Procurement Systems* (The World Bank, 2018). These activities are the aftermath of the UK Summit in 2016 and are the latest edition to the anti-corruption strategy of the World Bank. However, two years after, there are quite a few of them that have not even started with the development or planning and are planned for the future time. For some activities, there are visible outputs in terms of produced methodology, but for others, more information is needed on how the specific measure will be implemented in reality and in which time-frame.

Often institutions can be biased in their publications and present data in a more embellished form. Even though the World Bank is a key actor in the multilateral aid and at the forefront in the fight against corruption, there are still some independent evaluations and academia critics that are pushing the World Bank to improve even more. This criticism comes for a reason as in the past the World Bank was in the centre of global attention when corruption inside the institution came to light. After some of the incidents, the WB has upgraded and strengthened their employment and contractual procedures and is at the forefront of promoting *transparency*. This is visible in form of open data registrar for their strategies, their internal procedures, and evaluations in which there are critical even to their performance and raise awareness towards improving the current state and implementing lessons learned. Also, as previously mentioned, the WB publishes the list and cases of identified corrupt cases and agents with penalties. Furthermore, the WB publishes Annual Report detailing anti-fraud and corruption investigations not only to showcase dishonest agents but to highlight the lessons learned and to lead the path to inspire other MDBs and development agencies to do the same.

While initiatives at the World Bank are inspiring and effective, there is also some prominent criticism of the concrete actions of the WB. Catherine Weaver in her book 'Hypocrisy Trap: The World Bank and the poverty of reform' shed a light on the operational inconsistencies of the WB. She argues that the Bank only states its engagement to good governance and sustainable development but is not invested in translating these standards into practice or actions (Weaver, 2008.). Specifically, the example provided had to do with the 'East Asian Miracle' and the emerging region for which the WB asserted in 1994 Report that the authoritarian state contributed to an attractive market for investments (Weaver, 2008). This was in direct contradiction of what the WB was advocating for in the case of anti-corruption at that time. However, since then the WB has developed significantly and currently employs more than 10 000 people globally (The World Bank, n.d.). In the following section, these efforts of two regional multilateral banks will be presented and evaluated.

6.3 African Development Bank

African Development Bank was established in September 1964 with a purpose to bring social and economic development to Africa. There are three entities in the group: the African Development Bank (AfDB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF) (African Development Bank, n.d.). AfDB was established after an agreement with 23-member states. AFB and NTF are concessionary extensions of the Bank. Latest available data at the African Development Bank indicate that by May 2015, there are 80 countries (54 African countries and 26 non-African) that are members of the African Development Group. Bank has a capital of USD 90 billion including USD 4 billion in reserves. The objective statement of the AfDB is *“to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction”* (African Development Bank, n.d.). To succeed in this objective, the Group is *“mobilizing and allocating resources for investment in regional member countries; and providing policy advice and technical assistance to support development efforts”* (African Development Bank, n.d.).

In the beginning, the AfDB main instruments were loans, together with credits and technical assistance. With the strengthening of institutions in the mid-1980s and the need to respond to new challenges in development, the AfDB adopted *Structural Adjustments Programmes* intended for the macro and *Sectoral Adjustment Programme* for the structural level. Also,

the Technical Assistance Fund (TAF) provides education and training to member countries for institutional capacity building (African Development Bank, n.d.). In 2017 Bank distributed UA⁴ 5.43 billion which is the highest disbursement in the history of the Bank (African Development Bank, 2017).

The Bank has established Integrity and Anti-Corruption Department (IACD) in 2005 as the Group perceived "*corruption, fraud and other sanctionable practices as highly inimical to the achievement of its mandate*" (African Development Bank, n.d.). In this sense, the Group perceived corruption as a hostile enemy of their mission and is dedicated with "*multipronged approach to combating these harmful practices*" (African Development Bank, n.d.). Some of the proactive approaches the Group uses include risk assessment, sensitization programmes, surveillance measures and offers reporting/whistle-blowing mechanism to prevent, detect and curb the corrupt behaviour.

Highest standards are applied by the IACD when there are claims about corrupt behaviour. The department is divided into the Integrity and Prevention Division and the Investigation Division (African Development Bank, n.d.). The Investigation Division receives claims about possible corrupt behaviours and begins the investigation. The results of the investigation are forwarded depending on the position of the corrupt agent, whether the agent works for the AfDB or if it is an external agent. If the agent works within the AfDB, the report will be delivered to the President of the AfDB. In other cases, the report is forwarded to other relevant divisions in sanctions (African Development Bank, n.d.).

Taking the principal approach, the AfDB has a strict sanctions policy which is independent of the Investigation Division. AfDB uses the principle of proportionality and takes into account surrounding factors of the behaviour. Some sanctions that AfDB uses are reprimands, debarment, restitution (The African Development Bank Group, n.d.). Furthermore, AfDB is a part of *the Joint International Financial Institutions Anti-Corruption Task Force* together with the Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank Group, International Monetary Fund, Inter-American Development Bank Group and World Bank Group (The African Development Bank Group, n.d.). The Anti-Corruption Taskforce authorized *the Uniform Framework for Preventing and*

⁴ 1 UA=1 SDR (International Monetary Fund Special Drawing Rights)

Combating Fraud and Corruption in September 2006 and have agreed on other related principles (The African Development Bank Group, n.d.). AfDB as a participant of the *Agreement for Mutual Enforcement of Debarment Decisions* together with other MDBs can ban or veto an individual or firm if other MDBs have resolved that the individual or a firm have participated in corrupt practices (The African Development Bank Group, n.d.).

Similarly, as the WB, the AfDB identifies sanctionable practices as "*corrupt, fraudulent, collusive, coercive and obstructive practices in relation to Bank Group financed operations*" (The African Development Bank Group, n.d.). Furthermore, information asymmetry is handled through well-established *whistle-blower* procedure and *Voluntary Disclosure Program*. This way AfDB is able to receive information on possible sanctionable practices and modify the contract with the agent to get the desired outcome.

AfDB outlines the IACD strategy as follows:

1. *"Proactive prevention through risk assessments, sensitization programmes, due diligence, and other activities*
2. *Mainstreaming integrity issues into Bank Group operations and activities*
3. *Providing technical support to regional member countries in integrity issues and enhancing accountability*
4. *Participation in international and regional integrity initiatives*
5. *Investigations, sanctions, and other deterrence processes"* (African Development Bank, n.d.).

According to the AfDB Annual Report 2017, the IACD received 78 sanctionable practices complaints, compared to 86 in 2016. Out of 86, 39 cases were investigated which resulted in 9 determined sanctionable activities which were then submitted to the Sanctions Commissioner for final decisions (African Development Bank Group, 2017). Interestingly, the mandate of the Office was extended in 2016 because of 30 allegations received for staff misconduct. Allegations were grouped by type in the Report which outlined that 37% of claims were related to conflict of interest, while the misuse of AfDB's property and professional conduct were reported at 23% (African Development Bank Group, 2017).

The Office of Integrity and Anti-Corruption also publishes Annual reports in which it is possible to track the statistic and get an insight into sanctionable practices and which entities were penalised and for how long. However, it should be noted that the last available Annual report is regarding the years 2015/2016 and was published only in September 2018. Also, AfDB does not have all the advanced mechanisms and procedures that the WB uses in their anti-corruption strategy, but there is a database available that contains a significant number of general information about the projects, guidelines and for this thesis interesting – Evaluation reports. However, when ‘Quality Assurance & Results’ is chosen from the drop-down menu of Evaluation reports; there are no results on the search. Furthermore, this thesis identifies transparency as one of the essential components of the anti-corruption strategy; while in the case of AfDB and their IACD section there is little or none mentioning of the importance of transparency on their website or in the 2015/2016 Annual Report. To be precise, the word ‘transparency’ has been mentioned only three times in the 2015/2016 IACD Annual Report and more in context that AfDB ‘should ensure more transparency and accountability’, with no precise information on how they are planning to achieve that or what are their current strategies of promoting transparency in their projects (African Development Bank Group, 2018). Transparency is mentioned in the AfDB Annual Report 2017 as a component in their faster decision making but again, there are no adequate explanation or details provided (African Development Bank Group, 2017). This is a bit problematic as the African continent is known for weak governments and continues reported corruption. As the WB is showcasing transparency in their actions and projects, as well as demanding transparency from the agents they are financing, the AfDB should also follow the lead and request and develop proper transparency indicators in their IACD unit. However, it should be noted that the AfDB has been ranked 4th in the 2018 Aid Transparency Index Report, established by Publish What You Fund, among 45 other key development and humanitarian organisations. This place was a result of AfDB reporting on projects and their aid distributions in development activities (African Development Bank Group, 2018). Nevertheless, as previously stated, in their open register of Evaluation reports, there were no results on ‘Quality Assurance & Results’. Thus more investment and efficiency are needed in their IACD unit.

6.4 Asian Development Bank

Asian Development Bank (ADB) was founded in 1966 with the aim to provide financial support to Asia and the Pacific region as one of the underdeveloped regions in the World. ADB visualises "*a prosperous, inclusive, resilient, and sustainable Asia and Pacific*" (Asian Development Bank, n.d.) with dedication to exterminate acute poverty. Even though the region has many prosperities, there are still 330 million surviving on less than \$1.90 a day and 1.24 billion on less than \$3.20 a day (Asian Development Bank, n.d.). To combat extreme poverty, ADB is dedicated to partnerships with other institutions and member governments to deliver change and provide economic and social improvements.

The major clients of ADB are their member organisations but the Bank also delivers support to private entities with investments and loans. ADB's multilateral development assistance is characterised by providing loans, technical assistance, and grants (Asian Development Bank, n.d.). Also, ADB states that their development impact is amplified by "*facilitating policy dialogues, providing advisory services, and mobilizing financial resources through co-financing operations that tap official, commercial, and export credit sources*" (Asian Development Bank, n.d.).

To eliminate extreme poverty they are active in both public and private sector projects with the emphasis placed on these priorities:

1. *“Addressing remaining poverty and reducing inequality*
2. *Accelerating progress in gender equality*
3. *Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability*
4. *Making cities more liveable*
5. *Promoting rural development and food security*
6. *Strengthening governance and institutional capacity*
7. *Fostering regional cooperation and integration”* (Asian Development Bank, n.d.).

ADB has altogether 67 members, from which 48 members are regional, from Asia and Pacific. ADB finances its operations through bonds on capital markets, from members'

contributions, returns on loans and earnings from their loaning activities (Asian Development Bank, n.d.). In 2017 ADB arrived at USD 32.2 billion in activities and total operations (Asian Development Bank, n.d.). Since ADB provides such a large assistance and operates within the region that is so-called "Asian paradox" recognised as a region of large economic growth but having also high percentages of corruption (e.g China and Indonesia) (Chen, Wang, Wu, & Jeon, 2015) it is necessary to serve as a strong principal and have an effective Anticorruption unit.

Within the ADB there is an Office of Anticorruption and Integrity (OAI) which is dedicated to *"improving governance by combating corruption and other violations that undermine the achievements and credibility of ADB-related activities or among staff members"* (Asian Development Bank, n.d.). ADB also claims zero tolerance towards corruption for transparent and accountable aid (Asian Development Bank, n.d.). Effective aid and the importance of anti-corruption efforts are stated in their ADB Strategy 2030. OAI is responsible for procurement evaluations, delivers assistance on the integrity due diligence, applies tax integrity policies in their projects and on the national level to governments. ADB is also aware of the importance of hiring honest agents which will deliver results and act upon the contracts, that is ensured with pre-screening of the employees. Furthermore, to properly educate and curb with possible dishonest agents inside the ADB, a Respectful Workplace Unit was established in February 2017 (Asian Development Bank, n.d.). OAI is also focused on the education and external training for their employees to be fully aware of their Anticorruption Policy and to improve their skills when faced with the dishonest behaviour of an agent. Not only is the OAI focused on educating their internal employees but is also focused on eliminating corrupt behaviour in the private sector through proper education for individuals in entities to be able to detect and report possible corruption in ADB projects and activities (Asian Development Bank, n.d.). ADB has many documents and practical guidelines prepared and available on their website for educational purposes and corruption detection. For example, their institutional document *Asset Inspection for Project Integrity: A Reference Guide for Executing and/or Implementing Agencies* is intended to educate how to identify risks and authenticate that funds are used for their intended purpose and reassure that project beneficiaries are aware of their benefits. The document contains a checklist of how to prepare and inspect project delivery and their outcomes (Asian Development Bank, 2018).

In order to be able to detect corrupt behaviour or inconsistencies in ADB activities and projects, OAI has unrestricted access to all information and records of ADB (Asian Development Bank, n.d.). This helps to lower the possibility of moral hazard and information asymmetry that can occur both inside the ADB or during the implementation of their projects.

ADB understands corruption as *“the abuse of public or private office for personal gain”* (Asian Development Bank, 1998). The Banks anti-corruption policy was made in July 1998.

Their anti-corruption policy is intended to reduce systematic corruption through three major objectives:

1. *“Supporting competitive markets and efficient, effective, accountable, and transparent public administration as part of ADB’ broader work on good governance and capacity building*
2. *Supporting promising anti-corruption efforts on a case-by-case basis and improving the quality of our dialogue with the DMC on a range of governance issues, including corruption*
3. *Ensuring that ADB projects and staff adhere to the highest financial and ethical standards”* (Asian Development Bank, 1998).

The ADB has clearly identified and connected that work on the governance and capacity building (Objective no.1) is needed for a more effective, accountable and transparent markets which will then deliver results. This also indicates that the focus is more on the prevention rather than on the prosecution. ADB identifies two priority areas in the Objective no.1: *“policy dialogue for economic liberalization and public administration reform”* (Asian Development Bank, 1998, str. 20).

In the Objective no.2, it is stated that the ADB can support anti-corruption efforts when they are requested by the member government and in line with the ADB’s strategy and for the area that ADB has knowledge (Asian Development Bank, 1998, str.26). This objective includes possible mechanisms as: *“analysis of countries operational strategy, country assistance program discussion, country portfolio review missions, project appraisal, review of mission and implementation of the project”* (Asian Development Bank, 1998, str.26).

To support Objective no.3, there are five dimensions outlined: *i) Maintaining the integrity of ADB lending and TA operations, ii) Strengthening the ADB's procurement policy, iii) updating the ADB's Code of Conduct and creating independent internal reporting mechanisms to address allegations of corruption among ADB staff or within ADB operations, iv) improving the quality of oversight and management of ADB loans and grants, and finally v) ensuring that all ADB staff are familiar with the anticorruption policy and act in a manner consistent with both the letter and the spirit of this policy* (Asian Development Bank, 1998, str.27).

It is visible that through these objectives the ADB had a clear understanding of how corruption should be approached even in 1998. Also, it is notable that the ADB provides much more information and guidelines how to combat corruption with specific to- do lists and elaborations; this indicates lack of clarity and transparency on the website of African Development Bank. Having the principal-agent approach, these objectives and clearly stated measures how to achieve them are on the right path to be able to reduce the possibility of corruption through governance and strong institutions, transparency and screening and education of the ADB staff. Similarly, as the AfDB, ADB and its OAI publish Annual Reports on corruption combating and money laundering. However, it should be noted that OAI has already published the Annual Report 2017, while the latest AfDB Report is analysing years 2015/2016. Furthermore, the Annual Report 2017 by OAI (Asian Development Bank) is far more comprehensive and detailed when presenting their work and accomplishments. These efforts have also been recognized by the 2018 Aid Transparency Index Report as the Asian Development Bank is currently in the first place out of 45 agencies. According to the IAO Report, in 2017 ADB received 226 complaints from which 39 investigations were opened. Even 85% of the complaints were focused on the projects and 71% of investigations were typed as a fraud. This resulted in banning 30 firms and 22 individuals (in 2016 98 firms and 40 individuals were debarred) (Asian Development Bank, 2018).

7. Comparative analysis and Discussion

After the document analysis of selected multilateral development banks, the anti-corruption measures drawn primarily from Cremer (2008) are presented in Table 1. *Comparative analysis of anti-corruption measures in the World Bank, African Development Bank Group and Asian Development Bank.*

Table 1. Comparative analysis of anti-corruption measures in the World Bank, African Development Bank Group and Asian Development Bank

ANTI-CORRUPTION MEASURES	WB	AfDB	ADB
Weakness analysis	X		X
Integration of beneficiaries; Civil engagement	X	X	X
Pre-employment security screening	X	X	X
Education and training of the employees	X	X	X
Anti-corruption clauses; corruption control mechanisms	X	X	X
Introducing intermediary in Procurement procedure		X	X
Benefits for employees / higher wages to public officials	X	X	X
Internal control mechanisms	X	X	X
Independent audit	X	X	X
'Whistle-blowing' mechanisms	X	X	X
Debarment regulations	X	X	X
Lessons learned	X	X	X
Monitoring of project effects	X	X	X
Transparency efforts	X	X	X

Source: Made by the author according to Cremer (2008)

In general, the comparative framework with criteria based mostly on Cremer (2008) has shown that selected multilateral development banks are overall harmonized regarding formulation of their anti-corruption strategies and measures. The information regarding the criteria was obtained through official documents of MDBs in question. However, not everything was available to confirm or deny, for example, the World Bank did not state in their documents that they encourage employing an intermediary in procurement procedure while they do have extensive guidelines for procurement. On the other hand, AfDB and ADB have outlined the possibility of hiring a consultant for the purpose of procurement. The same case is with the criteria of the 'Weakness analysis', while both the WB and the ADB have sections in their documents on analysing the potential strengths and weaknesses of a project, it was not found in documents available at AfDB website. Overall, it is visible that all three banks are in accordance with their anti-corruption measures. This can also be attributed to The Anti-Corruption Taskforce in which all three analysed MDBs participate and have agreed and signed mutual documents such as *the Uniform Framework for Preventing and Combating Fraud and Corruption* and *the Agreement for Mutual Enforcement of Debarment Decision*. On the ADB online register, there is even transparent debarment decision based on the WB sanctions of an individual or firms detected in corrupt behaviour. This is a showcase example where actual outcomes of mutual agreement are visible and accessible to the public. Also, the World Bank is definitely at the forefront of formulation Anti-corruption measures, while highlighting the importance of integrity, transparency, and accountability. Two regional banks are following the path of the WB. In the ADB *Anticorruption and Integrity framework*, the bank outlines the need to adapt and follow the path of the World Bank on specific areas such as procurement standards (Asian Development Bank, 2010). The effort of applying such a diverse set of criteria in all three MDBs can be interpreted through agency theory. Even though, selected MDBs do differ in the application of this measures which has not been possible to test in this thesis, there is a visible understanding that MDBs as principals can alternate their behaviour in order to influence on both internal agents and external agents to reduce deviant behaviour and moral hazard. Regarding the transparency arena, all three MDBs have obtained high scores according to the 2018 Aid Transparency Index, with the Asian Development Bank being in the first place. The analysis has shown that there are some shortcomings in the transparency of anticorruption measures and procedures of the African Development Bank which was also

confirmed by the 2014 IDEV Independent Evaluation of the Operational Procurement Policies and Practices of the AfDB. The evaluation raised a concern on the data available on suspected sanctionable behaviour and the small amount of AfDB reports on corrupt individuals or projects which do not go in hand with reporting from other international institutions on projects related to Africa (The MOPAN Secretariat, 2017).

To synthesize the results of the analysis, certain similarities were observed in the formulation of anti-corruption strategies in the case of the World Bank, African Development Bank Group and the Asian Development Bank. These similarities can be categorized into three anti-corruption phases adopted by the selected MDBs: Prevention, Detection, Investigations, and Sanctions.

Prevention

Given the fact that corruption is a highly complex issue and has both social and economic causes and effects, it is difficult to eliminate the possibility of a dishonest agent or an entity. However, MDBs are aware that the proper prevention in terms of anti-corruption policies and clauses, codes of conduct, ethical standards, guidelines for employees for internal and external detection of corruption are valuable tools to prevent corrupt actions. Also, integrity mechanisms are recognized as tools in establishing norms which together with zero tolerance policies are able to demonstrate MDBs strong commitments as principals towards the rigorous fight against the abuse of their financial and technical assistance. Furthermore, preventing corruption is visible in the mutual partnerships of the WB, AfDB, and ADB as investigations and sanctions of one MDB is an alarming signal for other MDBs which often exclude cooperation with the sanctioned subject. Continuous monitoring and applying lessons learned are in addition prevention strategies. Applying risk and weakness assessment before and during the project enables to detect unusual indications and prevent the misuse of MDBs resources. However, while all these initiatives are of great value, there are differences in utilizing all these mechanisms in terms of practical application and their frequency which requires more research in the future.

Detection

Previously mentioned risk and weakness assessments are also tools for proper detection of corrupt behaviour. But MDBs are putting their attention towards Whistleblowing strategies

and the security of an individual to feel safe and sure that their complaints will be screened and important. Since there is always a certain fear in an individual to report delicate issues, MDBs have developed specific policies that ensure their security. Our analysis has shown that reported allegations vary from MDB to MDB and also their typology. However, there is a lot of criticism in the international development community towards MDB and whistleblowing strategies and their reporting but due to the sensitivity of the data, MDB are not so keen in being transparent about them. Another detection program was launched by the WB in terms of the Voluntary Disclosure Program, which was later followed by the AfDB.

Investigations and Sanctions

All three selected MDBs have shown transparency in their publications on investigations and sanctions. According to the data available, the World Bank receives the most reported allegations and has divided investigation on the internal and external department. Furthermore, all three MDBs are publishing the outcomes of their investigations as well as the lists of corrupt agents so that other MDBs become aware of them. Interestingly, in all three banks, there is a big difference between received allegations and actual allegations that lead to a proper investigation and sanctions. This is due to incomplete, non-credible and non-verifiable reports. This also indicates that more education is needed on what corrupt behaviour implies or how to properly file a complaint. When it comes to sanctions, MDBs do not have legislative powers to undertake some serious measurements, so their activity is restricted to administrative sanctioning. One example, as previously stated, is debarring individuals or entities for longer than one year and because of the MDB mutual agreements, they are denied from cooperation with other MDBs.

All these measures indicate strategies from selected MDB with possible variations in their application and frequency. Also, each of the selected MDB has its own mission and objectives they aim to accomplish. There is a visible tendency in their anti-corruption strategies that shows their efforts not only in improving the internal integrity and quality but also working on integrity, state and capacity building of the community for which the project is intended. A good example of this is the dedication of the Asian Development Bank to work directly on good governance and capacity building. Available evidence shows that broader measures of development are interdependent with the level of governance quality (the

World Bank, 2006), and that is why MDBs are devoted to the importance of good governance and are investing in country's transparency and capacity.

8. Conclusion

This master thesis was intended to understand and compare how anti-corruption measures are formulated in three selected multilateral development banks: The World Bank, African Development Bank Group and Asian Development Bank.

Corruption has been identified as one of the biggest political, economic and societal challenges of modern time. It is connected to extreme poverty, political instability, the social dissatisfaction which leads to brain drain, crime and many other effects which are affecting governments and societies around the World. Corruption has long been neglected by and international institutions as they did not consider themselves responsible to tackle this problem. One of the first actors to raise global attention towards corruption were the United Nations and the World Bank. Both institutions are nowadays at the forefront of eliminating extreme poverty globally and are key actors in the fight against corruption as it has been identified as one of the greatest obstacles towards development. Corruption is a multidimensional phenomenon, and while most research is focused on the causes of corruption, more advanced research is needed on the effects of corruption, especially in the development aid.

Multilateral development banks are institutions which provide financial and technical aid to promote development and eliminate poverty and are one of the most important actors in international development. Given the fact that multilateral assistance reached USD 41 billion in 2016 it is essential that they have adequate anti-corruption strategies, policies, and measures especially since their projects are often located in underdeveloped countries with weak governments and institutions and where corruption is a part of everyday life. It is estimated that only the cost of bribery reaches to USD 2 trillion per year. According to the data available levels of corruption are not declining at the rate they are expected with all the international cooperation and initiatives. That is why it is necessary to raise a more detail debate on the current anti-corruption measures of prominent institutions and try to understand their formulation.

To understand the anti-corruption efforts of selected MDBs two-level analysis was conducted. Firstly, document analysis was provided which shed light on various comprehensions of corruption, each depending on specific culture, vision, and objectives of a multilateral development bank in question. Second, a comparative analysis was conducted to evaluate anti-corruption measures of selected MDBs. The comparative framework was designed based on the literature review, mostly on the book *Corruption & Development Aid* by Georg Cremer which provides a valuable resource for detecting corruption in all stages of the project cycle.

Agency theory and its Principal-Agent model was used for the theoretical framework of the thesis. This model examines the relations between the principal and the agent and their contract. The theory argues that with modification of the contract, the principal can modify also agents' behaviour and reduce the possibility of corrupt behaviour. Thus, the model was used as an analytical approach to understand the initiatives of the principle when trying to reduce the probability of dishonest behaviour. Even though multilateral development banks operate in a multilevel environment, this model was used to explain the reasoning behind MDBs investment in developing multiple guidelines, clauses and efforts to invest in state and capacity building of project related government. Agency theory was complemented with the concept of transparency which has been identified as one of the most advocated anti-corruption measures in the literature review. However, the concept of transparency is still in the search for the academic theorization and debate. Thus, this thesis sheds light on the importance of transparency when analysing the initiatives and measures conducted by the MDBs.

Results of the two-level analysis provided answers to the research question of this Master thesis on How are anti-corruption measures formulated in the World Bank, African Development Bank Group and Asian Development Bank. Document analysis provided insights into internal and external guidelines of the selected MDBs and detected four common areas for which the anti-corruption measures are formulated.

These areas are as follows: Prevention, Detection, Investigations, and Sanctions. For prevention to be possible, MDBs are focused on educating the employees about the code of conduct, ethics standards, their anti-corruption policies which will help an individual to better detect dishonest behaviour and agent. Furthermore, all three analysed MDBs have

integrity mechanisms and are also preventing corruption with mutual agreements that enable them to exclude an agent who was involved in corrupt behaviour. To detect corrupt behaviour analysed MDBs are conducting continuous risk and weakness assessment, before and during the project and have available whistleblowing procedures. The World Bank and Asian Development Bank have shown great transparency in their investigations and sanctions, as they are using this area not only to exclude potential corrupt behaviour but also to showcase their zero tolerance to corruption. That is why both Banks are publishing regularly on their registers individuals and entities which are banned for more than a year to engage in financial or technical support by the Banks. However, African Development Bank still lacks in this arena and in their transparency and up-to-date reporting on corrupt agents and entities.

The second level of the analysis indicated that all three MDBs are harmonized in their anti-corruption efforts and are diligent representatives to raise awareness on the issue of corruption in development aid. This is due to the fact that the two regional banks ADB and AfDB are following the path of the World Bank which is dominating the fight against the corruption.

The analysis has shown that the World Bank, the African Development Bank Group and the Asian Development Bank have all identified that strong anticorruption measures are necessary for development to be possible. This is because the correlation of the governance and development in the long term is strong. Thus, investing in transparency, capacity and state building and education can deliver results in the long term and work towards reducing extreme poverty. Even though the results of the analysis have indicated that selected MDBs anti-corruption measures are in line with the literature review, there is still much research needed on the effectiveness and implementation of those measures as there are some possible inconsistencies and biased publishing.

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