

Combating corruption and public financial management (PFM)





Hello!

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Poor PFM facilitates corruption

What is corruption?

What are the effects of corruption?

But first, let's see what Ban Ki-moon has to say about corruption

◉ ***“Corruption has disastrous impacts on development when funds that should be devoted to schools, health clinics and other vital public services are instead diverted into the hands of criminals or dishonest officials”***


◉ UN Secretary-General Ban Ki-moon’s Message for International Anti-Corruption Day 9 December 2015

“



Defining public sector corruption

- Our definition:
 - *“the use of public position to gain private advantage, such as wealth, power, or status”*



Some real life examples of corruption-related activities from PFMConnect's Pinterest corruption board

☉ Three examples:

■ Bogus employees


<http://www.graphic.com.gh/news/general-news/62333-35-000-names-expunged-from-nss-payroll.html>

■ Obtaining bribes to overlook an offence

<https://au.pinterest.com/pin/48835977188293416/>

■ Favouritism in awarding government contracts

▪ http://koreatimes.co.kr/www/news/nation/2016/04/113_203101.html



Recently reported examples of public sector corruption related activities on our Pinterest corruption board

◉ **Bogus employees:**

- “The Ghanaian National Service Scheme (NSS) has cleared 35,000 names of non-personnel from its payroll leading to a reduction in the number of NSS personnel on the payroll from 75,000 to 40,000 during the 2015/16 service year”

• **Obtaining bribes to overlook an offence:**

- “Sierra Leone police seek end to corruption in traffic and road safety management”

◉ **Favouritism in awarding government contracts:**

- “Defence contractors raided over alleged corruption in arms dealings”



Contributing PFM and other factors leading to corrupt outcomes

◎ **Bogus employees:**

- Failure to maintain up-to-date personnel records

◎ **Obtaining bribes to overlook an offence:**

- Theft, violence and corruption go unpunished (bribery)

◎ **Favouritism in awarding government contracts:**

- Failure to comply with approved public procurement procedures



Impact on government performance of these corrupt outcomes

◎ **Bogus employees:**

- Poor financial control causes unplanned service reductions

◎ **Obtaining bribes to overlook an offence:**

- Failure of policing results in protection rackets and theft from businesses

◎ **Favouritism in awarding government contracts:**

- Procurement corruption hampers business efficiency improvement and opportunities for new firms to grow



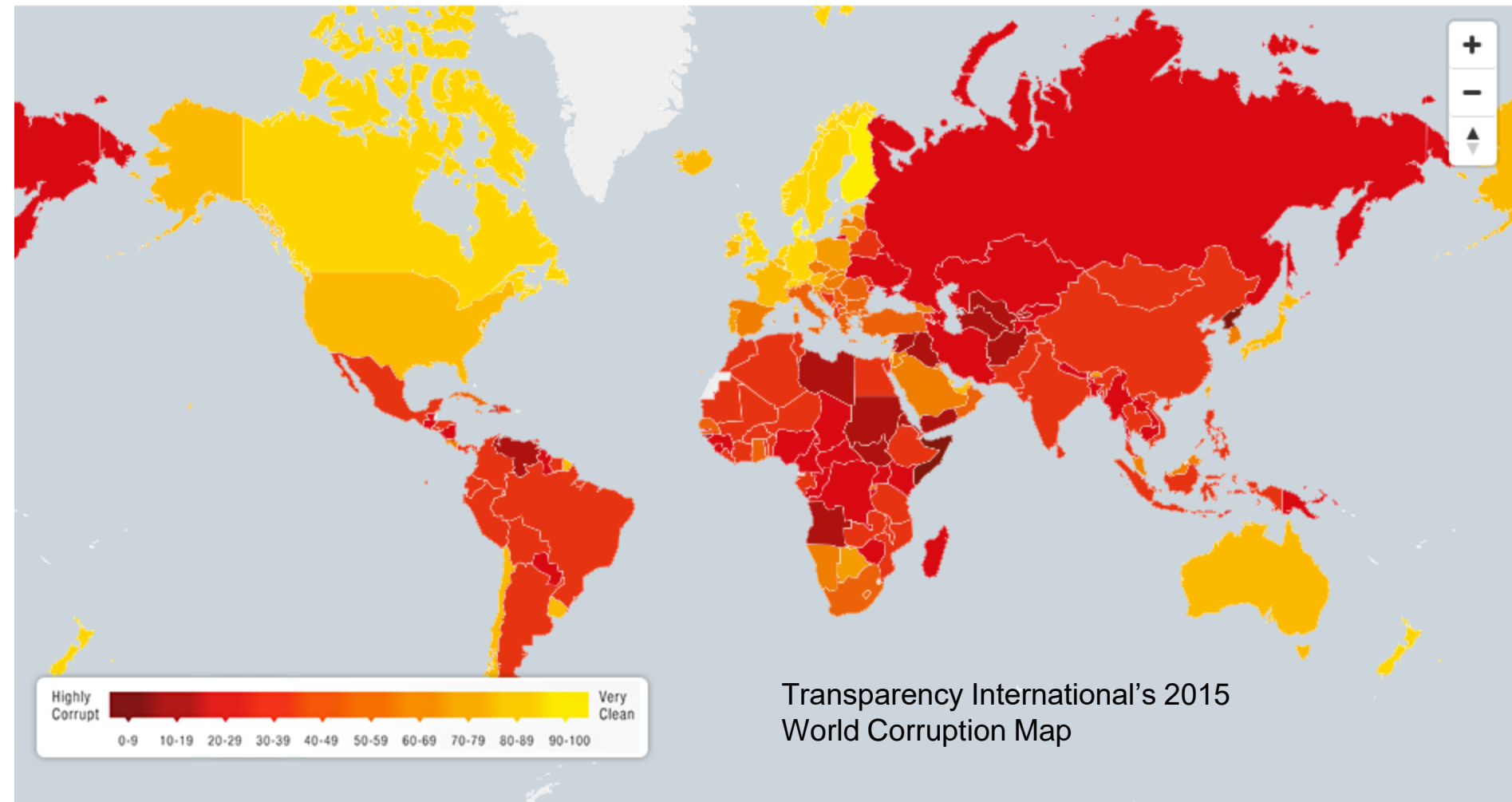
How significant is corruption?

Corruption is a significant problem in terms of:

- Geographical coverage
- Costs imposed on society at large

Corruption is world-wide







Corruption is costly

- ◉ **Global Financial Integrity has estimated that the cost of illicit flows (including corruption) is**

US\$1,000,000,000

- ◉ **Private sector corruption is estimated to be at least US\$500 billion**

◉ <http://www.gfintegrity.org/report/illicit-financial-flows-from-developing-countries-2004-2013/>



International action to combat corruption

- ◉ **United Nations Convention against Corruption**
<https://www.unodc.org/unodc/en/treaties/CAC/>

- ◉ **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**
<http://www.oecd.org/corruption/oecdantibriberyconvention.htm>



**What is the relationship
between corruption and PFM,
if any?**

⦿ **We have investigated this relationship in two
phases:**

- **Phase 1 – effects of corruption**
- **Phase 2 – effects of poor PFM**



Relationship between corruption and PFM: Phase 1

- ⦿ For 184 countries, we correlated relationships between:
 - *control of corruption*
 - *government effectiveness*
 - *World Bank 2013 per capita income data*
 - *Rand Corporation's Trace (bribery) Matrix risk scores*



Control of corruption and government effectiveness correlations

Table 1: Corruption Correlations		
Corruption measure	WGI Government Effectiveness	GDP/head
WGI Control of Corruption	Significant correlation	Significant correlation
Trace (bribery) Matrix	Significant inverse correlation	Significant inverse correlation



Relationship between corruption and PFM: Phase 2

- ⦿ **Using 2013–2015 PEFA results for 39 countries, we correlated relationships between selected PEFA PFM indicators/dimensions and :**
 - *control of corruption*
 - *government effectiveness*
 - *World Bank 2013 per capita income data*
 - *Rand Corporation's Trace (bribery) Matrix risk scores*



PFM Correlations

Table 2: PFM Correlations to Corruption and Government Effectiveness

PFM quality assessed using PEFA Performance Indicators	Control of Corruption	Trace Risk Index	Government Effectiveness
Degree of integration & reconciliation between personal records and payroll data	Significant Correlation	No significant correlation	Significant Correlation
Effectiveness of internal controls for non-salaried expenditure	No significant correlation	Significant Correlation	Significant Correlation
Frequency and distribution of internal audit reports	Significant correlation	Significant Correlation	Significant Correlation



Actions to combat corruption

- ⦿ **Effective PFM reforms**
- ⦿ **Wider public sector reforms**
- ⦿ **Improved judicial systems**
- ⦿ **Online service delivery**
- ⦿ **Privatisation**



Effective PFM reforms to combat corruption

Avoid technical complexity

PFM reforms must be sustainable and able to be supported by current information and communication systems and skills

External audit reports

These must have be fully disclosed to the public

Supporting financial regulations

These should be coherent, simplified where feasible but more exacting in high risk and high value areas - unnecessary bureaucracy should be eliminated

Complaints mechanisms

The public must have access to effective complaints to ensure value for money in service delivery and improve probity

Internal audit reporting

The internal audit function must have reporting access to the most senior government official

Transparency

Government information systems, including websites, must make key policy decisions and financial performance data publicly available



Supporting public service reforms

Leadership

Senior officials and politicians must demonstrate exemplary leadership

Civil Service Watchdogs

Civil service watchdogs should underpin standards of conduct and have investigatory powers

Codes of conduct

Adhering to codes of conduct must be a condition of employment

Recruitment

Recruitment must be undertaken on merit

Appraisal processes

Robust appraisal and disciplinary processes are necessary

Training

Induction and in-service training must be at an adequate standard



Judicial systems must be freed from corruption and political interference

Using online service delivery to avoid personal contact when making payments





Privatisation

- ⦿ **Consider privatising government services that are of a fully commercial nature subject to appropriate arrangements for sale and regulatory oversight.**



Role of development partners in assisting PFM reforms

- Development partners can:
 - *Establish appropriate incentive frameworks*
 - *Identify opportunities*
 - *Adopt the necessary long-term perspective required for PFM reforms*
 - *Collaborate with governments and other development partners to track progress and drive change*
 - *Link funding for PFM reform activities to the attainment of specific milestones previously agreed with governments*
 - *Advocate for transparency in financial matters and press freedom*



Conclusions

- ◉ Corruption can have a highly detrimental impact on economic performance and service delivery and developing countries can ill-afford the effects – the Panama Papers have raised the level of concern
- ◉ PFM and other supporting reforms can make a major contribution to reducing corruption – this includes tax reforms in many countries
- ◉ International development partners should provide more cohesion in the battle against corruption
- ◉ Success requires long time-frames



Postscript

If you like, you can -

- ◉ Download PFMConnect's blog at:

<http://blog-pfmconnect.com/international-development-challenge-public-sector-corruption/>

- ◉ View (and like) our Pinterest Corruption Board at:

<https://au.pinterest.com/pfmconnect/>



Thanks!

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