



Federal Ministry
for Economic Cooperation
and Development



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Anti-Corruption and Integrity in German Development Policy

A Strategy

BMZ Strategy Paper 4 | 2012e



List of Contents

EXECUTIVE SUMMARY	3
A. INTRODUCTION	4
1. Purpose of the Strategy Paper	4
2. Definition and fundamentals: anti-corruption and development policy	4
3. A new strategic orientation for anti-corruption	5
4. Anti-corruption: a growing international consensus	8
B. LEVEL 1: ANTI-CORRUPTION REFORMS IN PARTNER COUNTRIES	10
1. Framework for action, and approaches	10
1.1 Making anti-corruption measures effective	11
1.2 Systematically mainstreaming anti-corruption	12
1.3 Cooperation with other donors	13
2. Three key sets of actors against corruption	14
2.1 State institutions	14
2.2 Civil society, civic participation and the media	15
2.3 The private sector	18
2.4 Achieving more together: multi-stakeholder initiatives	20
C. LEVEL 2: COMPLIANCE AND RISK MANAGEMENT	22
1. Our framework for action: the Systemic Risk-Based Approach	22
2. Internal integrity measures	24
3. Interfacing with implementing partners	25
D. LEVEL 3: INTERNATIONAL COMMITMENTS	28
1. International agreements	28
2. German engagement to tackle the international drivers of corruption	28
ANNEX	30
A.1 International commitments	30
International anti-corruption agreements	30
International agreements	31
OECD Development Assistance Committee – Principles for Donor Action on Anti-Corruption	31
A.2 BMZ strategy papers, official documents	33
A.3 Important organisations and sources of information	34
Organisations and sources of information	34
Tools for measuring governance and the level of corruption	34
A.4 Bibliography	35
A.5 Acronyms and abbreviations	36

Executive summary

Corruption is one of the greatest constraints to development. Where corruption prevails, resources are wasted or mismanaged, potential for development remains untapped, and investors are deterred.

Economic and social development then lags behind, and poverty increases. In developing countries and emerging economies, some USD 20 to 40 billion is lost every year as a result of corruption¹.

Corruption prevention and control (hereinafter referred to as “anti-corruption”) is therefore a key concern in Germany’s official development cooperation. In the present Strategy Paper, the Federal Ministry for Economic Cooperation and Development (BMZ) defines the framework for effective corruption prevention and control, and the action required, in German development cooperation.

This anti-corruption strategy is based on the 3 x 3 = 9 formula. It comprises **three levels of intervention**, includes **three sets of actors**, and is based on **nine guiding principles** for an effective anti-corruption policy:

1. Anti-corruption means strengthening transparency, participation, accountability and integrity. It therefore contributes toward good governance.
2. Anti-corruption includes awareness, prevention and prosecution.
3. Anti-corruption encompasses three levels: supporting partner countries with their anti-corruption reforms, risk management of development funds including internal integrity and compliance management, and supporting international agreements.
4. Anti-corruption involves all three sets of actors: the public sector, the private sector and civil society.
5. German development policy follows a twin-track approach: stand-alone anti-corruption and governance programmes, plus mainstreaming anti-corruption activities in measures in the priority areas.
6. Anti-corruption activities must be appropriate to the country context. This is where our partners benefit from the diversity of German development cooperation instruments.
7. We focus on partner country ownership of reforms; we use partner country systems, thereby strengthening them. We complement this by providing capacity development support, strengthening pro-reform elements and promoting innovative leadership approaches through our development cooperation.
8. Germany is aware of the corruption risks, and through its development policy ensures that these are managed responsibly. To achieve this it pursues a systemic risk-based approach.
9. Policy coherence: in view of the complexity of the topic and the multiple stakeholders involved, the German government must maintain coherent policy positions and directives.

¹ Transparency International UK: Corruption Data, available at: <http://www.transparency.org.uk/corruption-data>

A. Introduction

1. PURPOSE OF THE STRATEGY PAPER

The present paper highlights the central role of anti-corruption in German development policy, and supersedes the BMZ Position Paper entitled “Fighting Corruption in German Development Cooperation”, which was published in 2002.

The paper is a development-policy directive of the BMZ for the execution of German official development cooperation². It defines the framework for anti-corruption and identifies steps to be taken by Germany’s official development cooperation actors. It promotes transparency and integrity in partner countries, and is geared to human rights as the guiding principle of German development policy.

It supplements BMZ Strategy Paper No. 178, entitled “Promotion of Good Governance in German Development Policy”, which emphasises the fundamental importance of corruption prevention and control in German development cooperation, and its role in promoting good governance. The paper draws on principles contained in the BMZ special publication entitled “Minds for Change – Enhancing Opportunities”, as well as the BMZ strategy papers on human rights (08/2011), on the private sector as a partner in development cooperation (05/2011) and on promoting resilient states and constructive state-society relations (10/2009). It also ties in with the position paper on strengthening partner country systems (2010).

The present paper contains binding directives that have a bearing on decision-making in the implementation of German development policy. These directives in turn affect the directives for preparing regional strategies, country strategies and priority area strategies for bilateral development cooperation.

² This encompasses both Financial and Technical Cooperation programmes and activities, including the assignment of German experts and development advisors, and the continued professional training of experts from partner countries.

The paper also affects the positioning of German development policy in the international debate, in cooperation with multilateral organisations, and in European development cooperation. Furthermore, it serves as a decision-making tool for identifying, appraising, planning, implementing, managing and evaluating development projects and programmes. It is the basis for dialogue with the public in Germany, and for cooperation with the German Bundestag and other German federal ministries.

The Strategy Paper is binding for the organisations of Germany’s official development cooperation³, as well as for the German Institute for Development Evaluation (DEval). It serves as a guideline for the business conducted at their own risk by KfW Entwicklungsbank and the KfW subsidiary DEG, and for the International Services business area of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. It also provides guidance for civil society organisations and the private sector.

The BMZ will regularly review compliance with the Strategy Paper. The actions to be taken that the paper specifies are meant to guide the relevant actors within German development cooperation.

2. DEFINITION AND FUNDAMENTALS: ANTI-CORRUPTION AND DEVELOPMENT POLICY

Corruption is one of the greatest constraints to development. Where corruption prevails, **resources are wasted** or mismanaged, potential for development remains untapped, and **investors** are deterred.

³ These include: the Kreditanstalt für Wiederaufbau (KfW) Entwicklungsbank, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH including the Centre for International Migration (CIM), the Federal Institute for Geosciences and Natural Resources (BGR), the Physikalisch-Technische Bundesanstalt (PTB) and Engagement Global gGmbH.

Economic and social development then lags behind. Corruption undermines a country's **democratic processes** and creates legal uncertainty. The costs and consequences of corruption, a global phenomenon, are enormous. The World Bank Institute estimated the costs of bribery alone to have been one billion US dollars in 2004⁴. In developing countries and emerging economies, some USD 20 to 40 billion is lost every year as a result of corruption⁵.

Corruption compromises poverty reduction in developing countries, and disadvantaged sections of the population are particularly badly affected. Corruption deprives countries of their resources, which are then no longer available for development, thus impeding achievement of the Millennium Development Goals.

Above all else, corruption is a symptom of weak or poor governance systems, i.e. a lack of development orientation and weak state structures. **Anti-corruption measures are therefore an integral component of a coherent strategy for promoting good governance and for strengthening the systems of Germany's partner countries for development cooperation.** The term "country systems" is used here to cover both the institutions of the country concerned, and its legal and administrative procedures⁶.

⁴ World Bank Institute (2004): The Costs of Corruption, available at: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190187~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

⁵ World Bank (2007): Stolen Asset Recovery (StAR) Initiative: Challenges, Opportunities, and Action Plan, available at: <http://siteresources.worldbank.org/NEWS/Resources/Starrep-full.pdf>, page 1.

⁶ See: Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (2011): Steigerung der Wirksamkeit in der bilateralen Entwicklungspolitik (EZ), Positionspapier zur Stärkung und Nutzung von Partnersystemen [Federal Ministry for Economic Cooperation and Development (2001): Increasing bilateral aid effectiveness. A position paper on strengthening and using partner systems – German only].

Corruption – a complex phenomenon

There is no universally accepted definition of **corruption**. In the development context the following definition is seen as particularly appropriate: "The abuse of entrusted authority for illicit gain" (NORAD 2009, p. 40 – 41). For development cooperation, it is important to understand that the term "corruption" may be applied to describe the actions of individuals or to characterise systems.

At the level of individuals there are a large number of actions that we commonly refer to as "corrupt". These range from ethical misconduct to administrative misdemeanours, through to criminal offences. Corruption includes not only bribery, but also nepotism, acceptance of advantage, embezzlement and fraud.

Corruption becomes especially problematic for development when it becomes endemic and subverts a political system. Often also referred to as "state capture", this occurs when private interests influence public laws and regulations in such a way as to gain personal benefit, usually to the detriment of society at large. Corruption becomes a means of asserting vested interests, and displaces development orientation as the guiding principle in public decision-making. The distinction between public and private actors and interests becomes blurred.

The term "**anti-corruption**" refers to measures and activities to tackle corruption. It includes measures to actively fight as well as to prevent corruption.

3. A NEW STRATEGIC ORIENTATION FOR ANTI-CORRUPTION

Germany was one of the first bilateral donors to position itself on corruption through its development policy. It did so for instance by becoming a found-

ing member of the U4 Anti-Corruption Resource Centre in Norway (see example in box), and by publishing the BMZ Position Paper entitled “Fighting Corruption in German Development Cooperation” (2002). Since then the demands placed on the anti-corruption work performed in German development cooperation have changed; it has become necessary for us to review our priorities:

A practical example: the U4 Anti-Corruption Resource Centre

Germany is a founding member of the U4 Anti-Corruption Resource Centre (U4), which was established in 2002 as a knowledge and resource centre for anti-corruption. Its services are designed for the development cooperation organisations of the eight donor countries involved today. They include evaluating experience to date, drawing lessons learned and developing guidelines on anti-corruption, conducting trainings (both online and in countries), and running a helpdesk.

Germany was appointed lead donor in 2010 and 2011, and played a key role in shaping the U4 strategy for 2012-2016. For further information please visit: www.u4.no.

→ **International drivers of corruption:** The dynamic changes in the global economy and in the information and communication technologies over the last decade, the growing economic interconnectedness brought about by international trade, the liberalisation of the financial markets and the increasingly dynamic capital flows worldwide have also led to an increase in illegal financial flows in emerging economies and partner countries. This is why the OECD, in its International Drivers of Corruption⁷ (2012) paper, draws attention to the growing importance of international factors for corruption.

It also recommends focusing more closely on these factors as key areas of activity in the fight against corruption. The international factors include international bribery, money laundering and the transfer of illegally acquired assets. Part D of the present Strategy Paper sets out Germany’s contribution to tackling these issues.

- **Increased demand:** An increased global awareness of the effects of corruption on development, and the emergence of strong civic movements and social media as forces for transformation, as in the Arab Spring, require us to systematically integrate anti-corruption into our development cooperation and dialogue with our partners. Part B shows how Germany is systematically incorporating anti-corruption into its development cooperation in partner countries.
- **Responsible action:** The development community also needs to answer the crucial question of whether and to what extent development cooperation itself is a further international factor affecting transparency and integrity within the political economy of partner countries. In Germany too, an increased interest in the use of public funds among citizens calls for responsible management of the development budget. **Part C** identifies the manifold measures for compliance and risk management, and formulates further action required.

Given the complexity of the issues, a multidisciplinary approach involving state and non-governmental actors is required that goes beyond the traditional approaches to development cooperation pursued so far at country level. The BMZ’s new anti-corruption strategy is based on the **3 x 3 = 9 formula**.

⁷ Organisation for Economic Cooperation and Development (2012): International Drivers of Corruption: A Tool for Analysis, OECD Publishing, available at: http://www.oecd-ilibrary.org/development/international-drivers-of-corruption_9789264167513-en

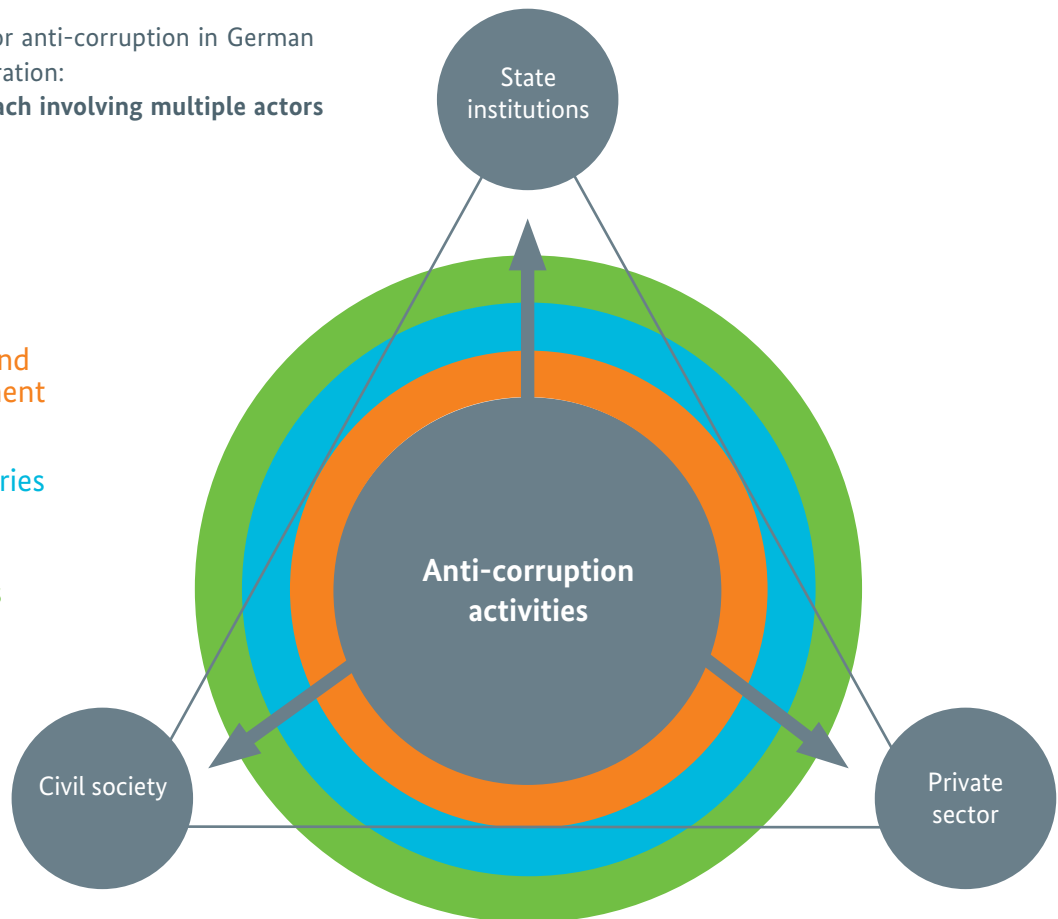
It calls upon the **three sets of actors** – the state, civil society and the private sector – to get involved in the fight against corruption⁸. It encompasses **three levels of anti-corruption** that form a holistic approach:

1. Supporting anti-corruption reforms in partner countries
2. Compliance and risk management
3. Implementing international commitments

The nine guiding principles specified above are fundamental to the implementation of an effective anti-corruption policy.

The 3 x 3 formula for anti-corruption in German development cooperation:
a triple-level approach involving multiple actors

- Compliance and risk management
- Partner countries
- International commitments



Source: BMZ

⁸ See Federal Ministry for Economic Cooperation and Development (2010): Promoting Resilient States and Constructive State-Society Relations – Legitimacy, Transparency and Accountability, available at: http://www.bmz.de/en/publications/topics/good_governance/spezial168.pdf

4. ANTI-CORRUPTION: A GROWING INTERNATIONAL CONSENSUS

Since the mid-1990s corruption has been treated as a global problem. In the course of almost two decades, a growing number of international agreements and initiatives have broadened and tightened up the approach to tackling corruption. Various stakeholder groups have been involved in this process. The anti-corruption agenda has now become an established part of the international development and policy debate.

The **OECD Convention on Combating Bribery of Foreign Public Officials** entered into force in 1999. One outcome of this was that the tax deductibility of corrupt payments was abolished, also in Germany. In 2000 OECD also for the first time introduced a comprehensive list of corruption prevention and control measures as part of its **Guidelines for Multinational Enterprises**. Among other things, these guidelines require member states to establish complaint mechanisms for cases of corruption. Anti-corruption is also one of the 10 principles of the UN Global Compact.

The **United Nations Convention Against Corruption (UNCAC)**, adopted in 2003, is the most comprehensive regulatory framework for tackling corruption to date. It includes provisions for corruption prevention and control, and obliges states to cooperate in international criminal proceedings and in asset recovery. It also provides for mutual financial and technical support between the signatory states. The **regional conventions** include the Inter-American Convention Against Corruption of the Organization of American States, which was adopted in 1996, and since 2003 the African Union's Convention on Preventing and Combating Corruption.

The G20 states have also pledged to fight corruption. At the Seoul Summit in November 2010 they adopted (among other things) the **G20 Anti-Corruption Action Plan**, and established a Working Group to implement it.

In view of the deleterious effects of corruption on development efficiency, the member states of the OECD Development Assistance Committee (OECD-DAC) decided to take a coordinated approach to fighting corruption, and in 2006 approved the **Principles for Donor Action on Anti-Corruption** (see box and annex).

The international **development effectiveness debate** (Paris Declaration 2005, Accra Agenda for Action 2008, Global Partnership for Effective Development Cooperation, Busan 2011) and the Monterrey Consensus on Financing for Development (2002) attached great importance to transparency and accountability. State actors are increasingly being trained and advised on demonstrating accountability, while civil society actors, media, local governments and parliaments are being supported in holding them to account (the demand side of governance). The High Level Forum in Busan (2011) went beyond that by calling for a culture of zero tolerance for all corrupt practices⁹ and a common, open standard for publication of information on resources provided through development cooperation¹⁰.

⁹ Busan Partnership for Effective Development Co-Operation, Fourth High Level Forum on Aid Effectiveness (2011): Outcome Document, available at: http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf, Paragraph 33a

¹⁰ Busan Partnership for Effective Development Co-Operation, Fourth High Level Forum on Aid Effectiveness (2011): Outcome Document, available at: http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf, Paragraph 23c

OECD-DAC Principles for Donor Action on Anti-Corruption

Principle no. 1: Collectively foster, follow and fit into the local vision

Principle no. 2: Acknowledge and respond to the supply side of corruption

Principle no. 3: Marshal knowledge and lessons systematically and measure progress

Transparency is thus an important precondition for protecting development cooperation funds against corruption, and promoting accountability on the use of these funds in partner countries. Together with 18 bilateral and multilateral donor organisations, the BMZ is therefore actively involved in the **International Aid Transparency Initiative (IATI)**, of which it also was a founding member. This improves access to information on development funds, and makes their use transparent and verifiable for the population, civil society and the media.

B. Level 1: Anti-Corruption Reforms in Partner Countries

1. FRAMEWORK FOR ACTION, AND APPROACHES

Cooperating with partner countries is the core task of German development cooperation.

Anti-corruption measures are particularly helpful in contexts where the political will to implement them exists and the partner side explicitly requests them, e.g. because it wishes to be advised on preparing and implementing countrywide action plans for governance and anti-corruption. Political will can certainly be positively influenced by external factors. These include for instance international obligations that the partner has entered into, and for which the partner requires support in order to implement them. They also include the obligation to implement anti-corruption reforms as a conditionality of programme-based approaches, e.g. involving general or sectoral budget support or basket funding.

Anti-corruption is also important, however, where corruption is endemic and constitutes a high risk for the implementation of reform objectives and the development cooperation activities associated with them. This is the case for instance where corruption undermines service delivery by public agencies or exacerbates conflicts over resource allocation and other issues, where private interests take precedence over development goals, or where there are risks concerning the use of funds. In these situations Germany must respond with development cooperation measures for context-specific and gradual risk management. It must do so either by explicitly supporting governance and anti-corruption reforms, and pro-reform elements, and/or by selectively incorporating anti-corruption issues into measures in other sectors of cooperation. Approaches of this kind are especially effective when harmonised with the activities of other bilateral and multilateral donors.

In future, German development policy will systematically address corruption and governance issues in our partner countries. This will begin with the annual assessment of governance performance and the development orientation of partner governments based on our country assessment framework, which is an internal planning and management instrument of the BMZ. This list includes corruption as one of the five criteria for assessing the governance performance and development orientation of partner countries. Furthermore, existing analytical tools will be reviewed to assess their suitability for delivering meaningful information on corruption risks. Where appropriate, the tools will be further developed. These analytical tools include the brief political-economic analyses performed by independent consultants, and the brief socioeconomic analyses performed by the implementing organisations upon request by the BMZ. In the future these analyses will also cover international drivers of corruption, and analyse their effect on the level of corruption in the partner country. These will include external factors such as rents available from resource wealth, and the opportunity to conceal or disguise assets or move them out of the country. Other factors that may affect the level of corruption in partner countries include investment from abroad, global or regional conflicts, the existence of sanctions and other means of generating pressure on national elites, as well as external factors. These analyses can also be supplemented by governance analyses conducted by other bilateral or multilateral donors.

Especially in countries with a high risk of corruption, weak governance structures and a low level of development orientation, it will be necessary to raise and discuss the issues of anti-corruption, integrity and transparency at government negotiations and consultations. Particularly in these contexts, country strategies and priority area strategy papers should address the fight against corruption in the partner country or sector, in order to identify and implement appropriate approaches.

When **new measures of official development co-operation are appraised** the corruption risk will be assessed, and a decision taken as to whether existing measures to fight corruption and fraud are sufficient, or whether further measures need to be taken. This will apply particularly to contexts of state fragility where state institutions and the rule of law are weak, and where corruption often plays a key role in the retention of power or pursuit of a conflict. In post-conflict situations in particular, large amounts of funding are often delivered to the country within a short period of time by various donor organisations, which increases the risk of their misuse. It is especially important here to integrate corruption prevention measures into the delivery of external aid and advisory services right from the outset.

The BMZ will use among other means its policy dialogue with the partner government in order to achieve progress on anti-corruption and integrity. Programme-based approaches (e.g. sector-wide approaches, programme-based projects and financing arrangements such as multi-donor budget support and basket funding) offer particular leverage for integrity and transparency, and for promoting independent oversight institutions and a strong civil society. Aid on delivery and results-based approaches to funding can be tied specifically to anti-corruption efforts and results. Anti-corruption efforts can be integrated into all instruments of Germany's development policy, and should be employed in all modes of delivery on a context-specific basis.

Action to be taken:

- Systematically address corruption and governance in partner countries. To this end, existing analytical tools will be reviewed to assess their suitability for delivering meaningful information on corruption risks, and where appropriate developed further.

- In countries with a high level of corruption, anti-corruption and integrity will be incorporated into the BMZ's strategic instruments (country strategies and priority area strategy papers) as possible areas of activity.
- In partner countries with a high risk of corruption combined with weak governance structures and a low level of development orientation, the BMZ will systematically raise and discuss corruption risks and opportunities for anti-corruption work in bilateral cooperation at government consultations and negotiations. The policy dialogue tied to programme-based approaches will be used to achieve agreed minimum standards and reforms.

1.1 MAKING ANTI-CORRUPTION MEASURES EFFECTIVE

When designing anti-corruption activities, various approaches are possible. One point of departure for anti-corruption measures are existing strategies such as poverty reduction strategies, programme-based approaches or partner country reform programmes. However, it has also proved helpful to support the implementation of international anti-corruption conventions such as UNCAC. This results in shared objectives for anti-corruption, and offers the possibility of identifying high-priority measures in the partner country through a participatory process.

A mix of German development cooperation instruments that is tailored to the local context should be deployed to support anti-corruption reforms. This might include for instance Financial and Technical Cooperation measures, or non-governmental development cooperation performed by the political foundations, church-based institutions or other civil society organisations.

Depending on the context, different modes of delivery may be appropriate: training measures, institutional development, support of partner country institutions for planning, implementation and management, or grants and loans, e.g. to support social and economic infrastructure, the productive sectors and the financial sector. Activities will be realised either as individual projects, or as part of programme-based approaches. They will be implemented by development advisers, seconded experts and national experts. And they will be financed through development loans or budget grants and credits.

A context-specific approach also means that a different approach will be taken for anti-corruption measures in emerging economies than for measures in fragile states, post-conflict states or countries with a low governance performance and development orientation. Key factors for identifying the right approaches are the degree of institutional development, the legal frameworks in place, and the nature of domestic accountability mechanisms within the country concerned. A key goal should be to identify areas of engagement where development cooperation can usefully be leveraged to affect change.

To promote partner country ownership, it will also be appropriate to implement measures to strengthen pro-reform elements both within and outside of state structures. Tertiary education measures, targeted leadership training, dialogue events and support for alumni networks can strengthen pro-reform elites in partner countries.

German development cooperation possesses particular strengths that make it particularly well suited for effective anti-corruption work. These include its responsiveness to partner needs, and its resulting relationships of trust with both state and non-governmental actors. This allows us to act as intermediaries between stakeholder groups, facilitate processes, and thus create spaces for interaction

between all the participating actors (the embassy, the business community, partner institutions and civil society).

Action to be taken:

- Anti-corruption activities will be designed such that actors, instruments, modes of delivery, and the depth and breadth of intervention are tailored to the specific local context.
- German development policy will, in cooperation with partner countries and other donors, assess how anti-corruption measures can be implemented most effectively in fragile and post-conflict states.
- Partner country ownership will also be boosted by strengthening pro-reform elements and by pursuing innovative approaches such as leadership development.

1.2 SYSTEMATICALLY MAINSTREAMING ANTI-CORRUPTION

Anti-corruption activities need not only be implemented in **stand-alone projects** or as part of governance projects. They can also be integrated into other sectors, treating anti-corruption as a cross-cutting issue (the twin-track approach).

A large number of governance projects are already making an important contribution toward fighting poverty. These include projects in the BMZ priority area of “democracy, civil society and public administration”, which promote good financial governance, resource governance, the rule of law and administrative reforms. It also includes decentralisation projects that strengthen participation and accountability at the sub-national level by involving the population. Explicit anti-corruption activities can easily be integrated here, and can lead to sustainable corruption prevention.

Moreover, with a view to achieving the Millennium Development Goals it is also important to implement anti-corruption activities in sectors such as health and education. Corruption undermines not only the legitimacy and capability of state structures; it also undermines respect for and the protection and fulfilment of human rights, e.g. equal access to basic social services such as medical care or education. Women and girls are also exposed to a number of specific forms of corruption such as the solicitation of sexual favours. Incorporating anti-corruption measures into the planning, implementation and evaluation of projects is therefore an important step not only to improve performance in the sector concerned, but also to uphold respect for human rights.

German development cooperation possesses a proven track record of developing anti-corruption activities in a large number of sectors such as education, health, forest, climate change, transport, water and fisheries (see box).

A practical example: the health sector in Guinea

At a clinic in the West African state of Guinea, German development cooperation supported the conduct of an economic efficiency study demonstrating the impacts of the ubiquitous shadow economy. Regardless of whether corrupt actions are legally prohibited or are seen as morally reprehensible, this study clearly showed that corruption is highly inefficient. A survey conducted among patients with and without health insurance revealed that although the former must make higher official payments, they are not forced to make unofficial payments. By contrast, uninsured patients are required to make additional informal payments. This led to a situation in which uninsured patients were paying twice as much for health care services during the period of the survey, even though they were using these services only a quarter as often as insured patients. So introducing health insurance can help prevent corruption, and improve access to health care.

Action to be taken:

→ Implementation of anti-corruption activities will be stepped up through a twin track approach involving explicit anti-corruption projects, combined with the integration of targeted anti-corruption measures into other priority areas. Where required, economic analyses of governance and anti-corruption issues will be prepared in specific sectors, and key messages and conclusions will be integrated into the appropriate priority area strategy papers.

1.3 COOPERATION WITH OTHER DONORS

Where appropriate and possible, German development cooperation will pursue **joint approaches with other donors** such as through joint programming at country level (including joint assistance strategies with multilateral and bilateral donors or EU joint programming).

Particularly in the case of anti-corruption, it is important that donors speak with a single voice in partner countries. Donor coordination in the context of anti-corruption goes beyond specific cooperation arrangements for individual projects. It encompasses a jointly harmonised approach to deal with cases of corruption, as well as appropriate, mutually harmonised responses to any deterioration in the partner country's governance performance or will to reform. It also involves maintaining a uniform approach in day-to-day project work when dealing with the solicitation of sitting allowances for meetings, facilitation payments and the payment of salary top-ups in the public sector (and thus also in the public remuneration system).

Donors who go it alone can achieve only limited results, and such actions may negatively affect relations with the partner. **This is why the OECD-DAC Principles for Donor Action on Anti-Corruption**

call for a jointly harmonised approach by donors.

What this might actually look like is illustrated by the example from Uganda (see box).

**A practical example:
the Joint Donor Response in Uganda**

Given the high level of corruption in Uganda and the poorly discernible will to fight it on the part of the government, in 2009 several donors joined together and developed a Joint Donor Response to Corruption based on the OECD-DAC Principles for Donor Action on Anti-corruption. The approach defined a joint response to cases of corruption and deterioration in governance performance, and created the basis for an open, predictable and honest dialogue between donors and partners on corruption risks and countermeasures. The approach also allowed for an honest dialogue in donor countries about how tax monies were being used in corrupt contexts.

After one and a half years, the joint approach had already led to significant results. The government brought the largest case of corruption (which was linked to the organisation of the Commonwealth Heads of Government Meeting, CHOGM, in Uganda) to court. Stolen assets were identified and sanctions imposed. The joint response work also influenced the design of new programmes; more activities to prevent corruption were being implemented. It also enabled Ugandan actors to identify local entry points to governance reform and systematically supported local change agents.

Action to be taken:

→ Through its development policy, Germany will implement the OECD-DAC Principles for Donor Action on Anti-Corruption in partner countries. Particularly in situations where a country's governance parameters deteriorate, the BMZ will work to achieve a joint donor approach.

→ Germany will work vigorously at the international level and together with multilateral organisations to further develop and coordinate anti-corruption work.

2. THREE KEY SETS OF ACTORS AGAINST CORRUPTION

2.1 STATE INSTITUTIONS

A capable executive, a functioning parliament and an independent judiciary are key to the prevention and control of corruption, which makes them extremely important partners for official development cooperation to fight corruption. **Relevant actors for anti-corruption measures** include anti-corruption agencies, police forces, public prosecutors' offices, ministries of justice, ministries of finance and planning, as well as internal and external control and oversight bodies such as courts of audit and parliaments, local governments, local authority associations and sector ministries, including their downstream agencies, and the justice sector.

Important measures include **supporting partner countries in developing and operationalising anti-corruption strategies, e.g. in the introduction of whistleblower systems and whistleblower protection, capacity development of government institutions, and awareness raising and education**. This includes advising on UNCAC Compliance Reviews, which compare the provisions of UNCAC with local legislation and its implementation (see box).

International experience shows that corruption prevention and control must go hand in hand.

Support across the entire chain, from prevention to detection, through to investigation and criminal prosecution is needed to ensure a functioning government-wide anti-corruption system. This includes sound legal foundations, an efficient and effective

criminal prosecution system, and the promotion of cooperation between state institutions and with other states, especially in connection with legal assistance and asset recovery.

**A practical example:
the UNCAC Compliance Review**

Since 2004 German development cooperation has been supporting partner countries in implementing the UNCAC. The Government of Bangladesh was one of the first to conduct a compliance review, which compares national legislation with the prescriptions of UNCAC. The government used the results to draw up the Bangladesh Action Plan for Compliance, which is now being implemented. So far, compliance reviews have been supported in Indonesia, Kenya, Ghana and now also in Yemen.

The rule of law, and an effective and clean judiciary play an important role in the fight against corruption. A lack of integrity on the part of legal actors fosters legal uncertainty and makes it more difficult to fight corruption. This is why Germany is promoting judicial integrity both at the international level (e.g. by supporting the Judicial Integrity Group¹¹) and through national legal and judicial projects.

Government control and oversight mechanisms such as public financial management, courts of audit and public procurement systems are key to our cooperation partners being able to manage their own development process and pursue their own anti-corruption policies. Another important contribution to corruption prevention is the promotion of integrity, accountability and transparency in public administration, as well as political participation and parliaments, because this can support the emergence of enabling frameworks for anti-corruption reforms. These reforms also strengthen

country systems. This enables donors to make greater use of country systems when delivering development programmes¹².

Action to be taken:

- German development cooperation will support awareness raising, and prevention and control of corruption, and strengthen the entire chain from monitoring through to prevention, detection, investigation and criminal prosecution.
- German development cooperation will support partner countries in legal and judicial reforms, with a special focus on promoting judicial integrity.
- Country systems will be strengthened through capacity development measures to enable partners to better manage their resources and implement projects.

2.2 CIVIL SOCIETY, CIVIC PARTICIPATION AND THE MEDIA

One key task of civil society organisations and the media in the fight against corruption is to create a demand for transparency, and hold state institutions and their representatives to account. This can be achieved for instance through advocacy and public information campaigns. Civil society and the media prompt reforms, and at the same time act as partners of governments and administrations in implementing anti-corruption measures. Independent media and new social media play an important role in exposing and reporting incidents of corruption.

¹¹ For more information, visit: <http://judicialintegritygroup.org>

¹² See: Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (2011): Steigerung der Wirksamkeit in der bilateralen Entwicklungspolitik (EZ), Positionspapier zur Stärkung und Nutzung von Partnersystemen [Federal Ministry for Economic Cooperation and Development (2001): Increasing bilateral aid effectiveness. A position paper on strengthening and using partner systems – German only].

The media and civil society can function as independent watchdog bodies, and hold states to account on the implementation of anti-corruption measures.

Important elements of support for the media and civil society are media promotion, closer networking of the media and civil society, and improved citizen access to media and information¹³.

What is civil society?

Today, the term “civil society” refers to the segment of society that lies between the state and the private sector. Civil society encompasses all engagement by the citizens of a country – through associations, and various forms of initiatives and social movements. This includes all activities that are not profit-oriented and are not dependent on party political interests.

In the fight against corruption, a key contribution is often made by citizens, specialised non-governmental organisations, the media, national human rights organisations, churches, relief organisations, foundations and associations.

The results of the Arab Spring demonstrate that movements with a low level of formalisation can also play a central role in governance revolutions. Education on anti-corruption in schools, through religious institutions, at the workplace and in community centres, and public relations work and campaigns, create awareness. This makes them important instruments in a fight against corruption that is geared to long-term change processes¹⁴.

¹³ On this point see the principles adopted by OECD: Organisation for Economic Cooperation and Development (2011): Improving Support to Domestic Accountability. Towards a System Approach.

¹⁴ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (2012): Fact sheet: Fighting Corruption in and through Education, Eschborn.

At the global level, international non-governmental organisations play a central role in further developing the anti-corruption agenda. The BMZ has cooperated with Transparency International from the outset, for instance. Through development cooperation, Germany promotes selected national chapters of Transparency International, inter alia by assigning integrated experts. It also supports civil society mechanisms in monitoring public financial management, particularly at the local level (see box on budget tracking by civil society organisations).

A practical example: budget tracking by civil society organisations

Since 2007, German development cooperation has been supporting civil society organisations in Cameroon in tracking public budgets. As public funds were being invested in the construction of schools, the civil society organisations, together with affected school students and parents, came across significant irregularities. Numerous planned school buildings had never been built, and money had been embezzled by corrupt actors making improper savings on construction materials. The public relations work carried out by the non-governmental organisations increased pressure on the government to ensure greater transparency and demonstrate accountability.

German political foundations work on corruption-related issues together with parliaments, non-governmental organisations and universities. Together with Transparency International the Konrad Adenauer Foundation, for instance, has studied the corruption risk in party financing in Malaysia. Electoral law reforms and the accusations of corruption they may entail are also a topic addresses through this work in many countries, e.g. by the Friedrich Ebert Foundation in El Salvador or the Konrad Adenauer Foundation in India. Anti-corruption is often treated as a cross-cutting theme, and is therefore integrated

into many projects, particularly in the field of good governance.

In the future, Germany will expand its development cooperation work with civil society organisations. At an appropriate point during the appraisal of new measures, the implementing organisations will consult with civil society in the partner countries, and where appropriate integrate these actors into programmes as external watchdogs. State institutions will be supported in permitting participation by civil society and media, in professionally managing these participatory processes, and in maintaining a constructive dialogue on their observations with civil society actors. Political, economic and social structures must be made transparent.

Civil society actors in partner countries should be enabled to articulate and assert their own interests. They must be given access to information, and allowed to participate in the political and economic processes that affect them. This presupposes the presence of appropriate legal and political frameworks, processes and procedures. Furthermore, the effectiveness of civil society must be strengthened through capacity development. This will include strengthening the skills and qualifications of civil society actors, providing organisational development, and improving the networking capability of organisations so that organisations with similar objectives can cooperate with each other. Since civil society organisations and the media are also not immune to corruption, and in some countries may even be a part of the corrupt power system, it is important that they protect themselves against corruption, perform their duty of accountability, and act transparently. Promoting integrity management in civil society organisations should be an integral part of civil society support. Good examples of such integrity management include Transparency International's recommendations on Preventing Corruption in Humanitarian Assist-

ance (2008)¹⁵ and the Code of Conduct published (in German only) by the umbrella organisation of development non-governmental organisations in Germany (VENRO) entitled Transparency, Organisational Governance and Monitoring (2011)¹⁶.

The performance of a watchdog function by civil society groups and individuals presupposes that whistleblowers are guaranteed protection. Responsible anti-corruption work therefore also includes advising partner countries on designing their legal framework for whistleblower protection in harmony with the resolutions of the G20 Seoul Summit (2010)¹⁷, in order to protect whistleblowers against legal persecution or discrimination.

Action to be taken:

- German development cooperation will consult and involve civil society actors in planning and implementing anti-corruption projects in partner countries.
- German development cooperation will support civil society and the media in corruption prevention and control. This will also include protecting whistleblowers.
- Capacity development of civil society organisations will include strengthening individual capacities of staff, the organisations' networking

¹⁵ Transparency International (2008): Preventing Corruption in Humanitarian Assistance, available at: http://www.transparency.org/whatwedo/pub/handbook_of_good_practices_preventing_corruption_in_humanitarian_operations

¹⁶ Verband Entwicklungspolitik deutscher Nichtregierungsorganisationen e.V. (2011): VENRO-Verhaltenskodex Transparenz, Organisationsführung und Kontrolle [The umbrella organisation of development non-governmental organisations (NGOs) in Germany (2011): VENRO Code of Conduct – Transparency, Organisational Governance and Control – German only], available at: http://www.venro.org/fileadmin/redaktion/dokumente/Dokumente-2011/Januar_2011/Kodex_Transparenz_v06.pdf

¹⁷ Seoul Summit Document, available at: <http://www.bundesregierung.de/Content/DE/StatischeSeiten/Breg/G8G20/Anlagen/G20-seoul-gipfel-dokument-en.html>

capacities and institutional development support (including on internal integrity management). It also includes working with governments to create a legal framework that enables civil society actors to fulfil their mandate.

- German development cooperation will advise state institutions on how to effectively involve non-governmental actors.

2.3 THE PRIVATE SECTOR

The private sector can be affected by corruption in two ways. First of all it can drive corruption, e.g. through bribery of officials, business partners or other decision-makers. Secondly, though, it may also be damaged by extortion or corrupt systems. This affects both international corporations that operate in partner countries, and national companies. A changing awareness of these two ways in which businesses can be affected has led to a tightening up of legislation, plus international initiatives and guidelines, as well as initiatives for self-regulation by the private sector itself.

Standards for corporate conduct in international business dealings are called for e.g. by the **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999)**¹⁸ and the **OECD Guidelines for Multinational Enterprises (2000)**¹⁹. The latter call upon enterprises to fight bribery, solicitation and extortion²⁰. The Guide-

lines also set standards for corporate responsibility in areas relevant to corruption.

In development cooperation, Germany works with and through the private sector to fight corruption (see boxes on the Business Anti-Corruption Portal, and the private-sector anti-corruption initiative in Cameroon). It calls upon businesses to practice corporate responsibility for development, and promotes those that do²¹; at the same time it supports initiatives for self-regulation – usually at the international level –, and supports small and medium-sized enterprises in partner countries in developing compliance systems.

The private sector has become an active partner in implementing anti-corruption measures. This has led to a large number of development partnerships with the private sector, and to initiatives for self-regulation by the private sector. In the latter, businesses agree to minimum standards for corruption prevention. Particularly noteworthy examples include the Transparency International Business Principles, the International Chamber of Commerce (ICC) Commission on Corporate Responsibility and Anti-Corruption, the World Economic Forum Partnering Against Corruption Initiative (PACI) and the Global Compact. The latter is a United Nations initiative in which businesses commit to fight all forms of corruption. This initiative was welcomed and promoted by Germany from the outset. Initiatives for self-regulation harbour major potential, particularly at the **country level** (see box on the private-sector anti-corruption initiative in Cameroon).

¹⁸ Organisation for Economic Cooperation and Development: Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, available at: <http://www.oecd.org/investment/briberyininternationalbusiness/anti-briberyconvention/38028044.pdf>

¹⁹ Organisation for Economic Cooperation and Development: Guidelines for Multinational Enterprises, 2011 update, available at: <http://www.oecd.org/daf/inv/investmentfordevelopment/oecd-guidelinesformultinationalenterprises.htm>

²⁰ Organisation for Economic Cooperation and Development: Guidelines for Multinational Enterprises, 2011 update, available at: <http://www.oecd.org/daf/inv/investmentfordevelopment/oecd-guidelinesformultinationalenterprises.htm>, Section VI

²¹ Federal Ministry for Economic Cooperation and Development: Developing Markets, Creating Wealth, Reducing Poverty, Taking Responsibility – The Private Sector as a Partner of Development Policy, available at: http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier304_03_2011.pdf

**A practical example:
the Business Anti-Corruption Portal**

The Business Anti-Corruption Portal is an Internet portal that provides detailed country information and helpful tools for dealing concretely with corruption risks. It supports chiefly small and medium-sized enterprises that have business operations in developing countries and emerging economies in performing practical risk management. It is based on a public-private partnership between the governments of Denmark, Germany, the UK, the Netherlands, Norway, Austria and Sweden, and the Global Advice Network.

<http://www.business-anti-corruption.com/>

**A practical example: a private-sector
anti-corruption initiative in Cameroon**

In Cameroon in 2001, Guinness and other companies belonging to the Business Council for Africa launched the Business Coalition Against Corruption. This private-sector anti-corruption initiative pursues a zero tolerance strategy toward corruption among all the participating businesses and their supplier and customer chains.

An appropriate way of achieving this is through cooperation arrangements with German businesses that operate in partner countries, as well as with the national committees of the International Chamber of Commerce (ICC), local business associations, chambers of commerce, professional associations and trade unions. Vocational schools and other specialised training institutions are also possible partners for German development cooperation when implementing measures to promote the fight against corruption in the private sector.

German development cooperation also promotes **sector-specific initiatives** that bring together the private sector, the state and civil society in the natural resource, water and pharmaceuticals sectors. German development policy attaches major importance to voluntary social and ecological standards, because this involves a partnership-based and potentially highly structure-building approach.

Governance projects that promote integrity, transparency and efficiency in public administration also help reduce corruption at the interface with the private sector. Measures of this kind often focus on sections of the administration that are particularly susceptible to corruption due to their frequent contact with the private sector, or due to the fact that large volumes of funds flow between the public and private sectors. This applies for instance to public procurement, and the tax and customs administrations. The investment climate can be improved by reforming legislation, regulations and processes so as to reduce the costs and risks of business activity by companies generated by regulation and administration. Supporting public-private dialogue to prioritise reforms and agreeing on approaches to prevent corruption also help build trust, as is the case for instance with the Integrity Pacts developed by Transparency International. To help ensure that these measures are as effective as possible, it is often advisable to consult and involve the private sector actors concerned during both planning and implementation.

At the same time the private sector operates as an actor in its own right in the fight against corruption. By introducing their own internal mechanisms to prevent and detect corruption, more and more businesses are protecting themselves against bribery and corruption. **Integrity or compliance systems** of this kind are now widespread in large multinational companies. Small and medium-sized enterprises in partner countries still have to catch up, however. There is major potential for German development coopera-

tion support here. In this connection it would also be possible to use partnerships with German companies that are committed to promoting integrity standards in their local supply chains.

German development partnerships with the private sector can also be broadened to include integrity issues, e.g. through integrity initiatives by the private sector in Germany. An important role is also played by training offerings for private companies, such as those delivered through the German Global Compact Network, or using the training tool RESIST (see box).

A practical example: Resisting Extortion and Solicitation in International Transactions (RESIST)

Based on real-life scenarios, RESIST is designed as a training tool to provide practical guidance for company employees on how to prevent and/or respond to an inappropriate demand by a client, business partner or public authority in the most efficient and ethical way. The total of 22 scenarios cover different types of corruption-related dilemmas, and are based on the typical cycle of international projects from the tendering procedure through to award, conclusion of contract, and the manifold challenges encountered in project implementation.

RESIST is a joint project of the International Chamber of Commerce (ICC), Transparency International, the UN Global Compact and the World Economic Forum Partnering Against Corruption Initiative. The German Global Compact Network has also prepared a German version, with German development cooperation support:

http://www.unglobalcompact.org/Issues/transparency_anticorruption/index.html

Action to be taken:

- The BMZ will support implementation of the standards of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.
- As part of its approaches for promoting private sector development in partner countries, the BMZ will work to encourage enterprises to comply with the standards laid down in the OECD Guidelines. It will urge international organisations and donor communities to consistently support the standards, and press for international monitoring of compliance with these international obligations.
- German development cooperation can support local small and medium-sized enterprises in partner countries in establishing compliance systems, also in cooperation with German companies operating internationally.
- German development cooperation will support approaches to promote self-regulation and integrity standards in multi-stakeholder initiatives.

2.4 ACHIEVING MORE TOGETHER: MULTI-STAKEHOLDER INITIATIVES

In the last few years various self-regulatory and multi-stakeholder initiatives have emerged that bring together government, private sector and civil society actors, and focus on the responsible management of resources, public funds and private investments in specific sectors. These initiatives do not usually see themselves explicitly as anti-corruption initiatives. However, the approaches they pursue and the results they achieve often provide a basis for anti-corruption reforms. German development policy supports international multi-stakeholder initiatives in sectors that are particularly relevant to development,

such as health (Good Governance for Medicines Initiative, WHO), food/water (Water Integrity Network, WIN, see box) and natural resources (Extractive Industries Transparency Initiative, EITI).

A practical example: promoting integrity in the water sector – the Water Integrity Network

The Water Integrity Network (WIN) was established in 2006, with the aim of fighting corruption in the water sector. The network brings together governments, non-governmental organisations and the private sector, in order to develop specific anti-corruption instruments and promote transparency and integrity in the water supply and sanitation sector. In Uganda, with support delivered through German development cooperation and with the aid of two studies (the Water Integrity Scan) and workshops, WIN succeeded in having the Ministry of Water and Environment's Water and Sanitation Good Governance Action Plan revised. This led to a joint understanding of how and where corruption harms the sector, and what can be done against it.

The Extractive Industries Transparency Initiative (EITI) is seen as a pioneer in the establishment of multi-stakeholder initiatives. Under the EITI, payments made by extractive companies to the governments of countries where they extract resources are disclosed. A multi-stakeholder group comprising representatives of the state, the private sector and civil society monitors this process and discusses the findings. The institutionalised participation of civil society is one particular achievement of initiatives of this kind. Some countries have strengthened the participation of civil society by introducing legislation making EITI compliance mandatory. The protection of civil society actors against political persecution is also seen as a major achievement.

C. Level 2: Compliance and Risk Management

German development cooperation also engages with those countries where governance is poor and development orientation low. **The responsible use of tax monies and the protection of these funds against corruption are therefore of top priority.** This is fundamentally important both for the public acceptance and credibility of German development policy, and for the efficiency and effectiveness of cooperation. Integrity and the transparent use of funds are a sine qua non, and are clearly agreed with the cooperation partner in advance. Germany does not tolerate either corruption or the misuse of funds in its development cooperation, and if required draws consequences: The protection of funds and the integrity of staff have top priority, as well as precedence over the spending of funds that have previously been pledged. Germany is thereby implementing the agreement to promote a culture of zero tolerance of corrupt practices reached at the Fourth High Level Forum in Busan in 2011²².

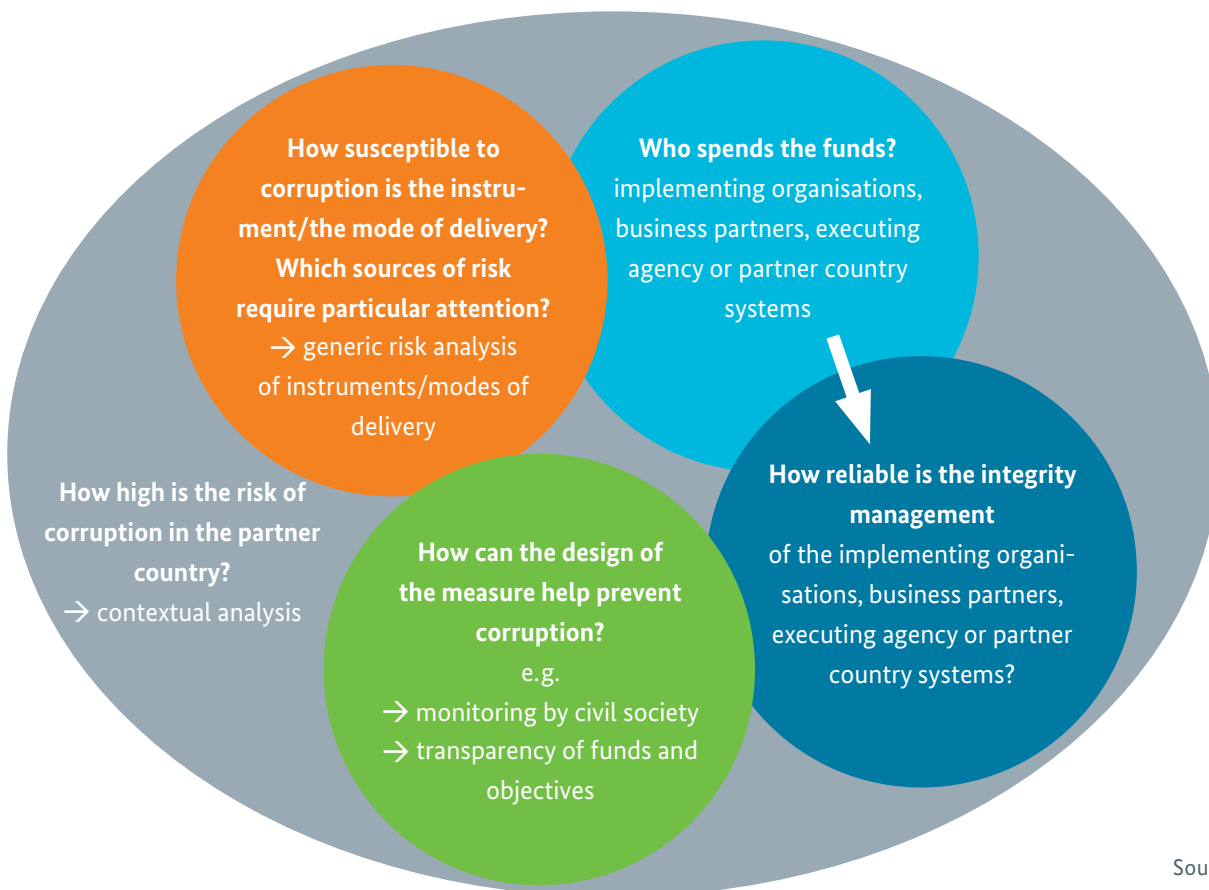
Germany pursues extensive compliance and risk management in its development cooperation. This includes both internal integrity management, and provisions to ensure integrity in implementation by our implementing partners.

1. OUR FRAMEWORK FOR ACTION: THE SYSTEMIC RISK-BASED APPROACH

To ensure effective anti-corruption management when implementing development measures it is necessary to take a differentiated look at the corruption risks. In the future, German development cooperation will **systematically link** the corruption risks at country level, with those of implementing and recipient institutions and instruments, and will adjust the measures listed here to the given potential risk. **Our Systemic Risk-Based Approach comprises five factors that affect the overall corruption risk of a measure:** (1) the general level of governance and development orientation in the partner country; (2) the instrument or mode of delivery selected for development cooperation; (3) the design of the measure; (4) the degree to which control over the measure in question is handed over to an external implementing or recipient organisation or partner country systems and, in conjunction with that, (5) the integrity management practices of the organisations or business partners concerned.

²² Busan Partnership for Effective Development Co-Operation, Fourth High Level Forum on Aid Effectiveness: Outcome Document, available at: http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf, Paragraph 33a.

What are the corruption risks in projects and programmes? Our Systemic Risk-Based Approach:



Source: BMZ

In the future, a systematic analysis of how the programme can be designed to prevent corruption will be included during programme appraisal. For example, an education programme might include a corruption analysis of the sector, and incorporate measures for transparency and accountability. Or the delivery of goods to poorly accessible regions might be monitored by local non-governmental organisations, whose integrity standards are then regularly reviewed.

In our country strategy and priority area strategy papers (including joint strategies with other donors) **the content, objectives and strategic orientation of the instruments to be used in the priority areas are being specified.** Programme proposals will therefore

be obliged to provide information on the quality and capacity of partner systems; for this purpose a detailed analysis of the project executing agencies and partner institutions is envisaged.

Action to be taken:

- Particularly in countries with weak governance structures, concrete steps of reform will be agreed with the partner that show how progress on anti-corruption and integrity can be achieved.
- The BMZ and the implementing organisations will regularly review the five risk factors contained in the **Systemic Risk-Based-Approach**, and where necessary adjust their internal integ-

rity and compliance systems and their modes of delivery. They will carry out a risk analysis of instruments and modes of delivery if no such analysis has yet been conducted.

- Germany will follow up all reports of corruption in connection with its development cooperation, and draw consequences. The protection of German development funds and the integrity of personnel will have top priority, as well as precedence over the spending of funds that have previously been pledged.

2. INTERNAL INTEGRITY MEASURES

Internal integrity management regulates the conduct of staff members of German development cooperation and enables them to maintain integrity in their daily work even in corrupt surroundings. The main guideline is the **Federal Government Directive Concerning the Prevention of Corruption in the Federal Administration** (2004). This makes the principle of dual control and transparency mandatory. It also requires that staff members be trained and sensitised, and prescribes the introduction of special internal prevention measures for personnel management in areas particularly susceptible to corruption. Furthermore, it lays down guidelines for awarding contracts and handling donations. It also includes a Code of Conduct for employees, and provides for the creation of focal points for corruption prevention.

The institutions of German official development cooperation implement this directive through their own integrity management and compliance systems. They possess their own codes of conduct, advisors on integrity issues and (anonymous) reporting mechanisms for whistleblowers. They also conduct regular external and internal audits and risk analyses. To support implementation, it is important that staff members are trained accordingly (see box

on anti-corruption training that generates impact). This applies particularly to employees working in areas that are particularly susceptible to corruption, and their superiors, as well as to employees preparing for an assignment abroad. In the future, training measures will be systematically broadened to include national personnel in projects and programmes. As well as being one of the fundamental responsibilities of the designated integrity and compliance officers, integrity management is also an explicit task of line managers in project countries.

A practical example: anti-corruption training that generates impact

The GIZ trains over 1,000 staff members on anti-corruption every year. This takes place as part of the obligatory training for staff members in Germany and abroad, through in-depth training courses lasting several days and online courses provided by the U4 Anti-Corruption Resource Centre. At these courses, participants are trained to recognise corruption risks, and develop recommendations for their own conduct and for advising partners. Six months after completing the online training provided by U4, 73 per cent of surveyed participants report having incorporated anti-corruption into their day-to-day work. Participants working in middle or senior management positions are especially likely to actively bring what they have learnt to bear in their project work.

Facilitation payments (bribes paid in order to expedite routine administrative procedures) – including such made to local agents – contribute to corruption in partner countries. Payments made to enforce a legal entitlement are only permissible if this is expressly provided for in official rules for fees, a management directive or the like. Germany's implementing organisations for development cooperation are forbidden to make facilitation payments.

Action to be taken:

- Integrity and compliance management systems will be regularly updated in line with current developments, and their capacities strengthened.
- Training will be offered to all personnel of the BMZ and the implementing organisations, and will be obligatory for staff members working in areas that are particularly susceptible to corruption and those preparing for a field assignment.
- Facilitation payments will not be made.
- Whistleblower protection will be guaranteed.

3. INTERFACING WITH IMPLEMENTING PARTNERS

A significant proportion of German development cooperation is implemented not directly by the BMZ or the implementing organisations, but through external actors. These may be partner governments (e.g. in case of budget support or basket funding arrangements), local non-governmental organisations and institutions (e.g. in case of local grants), consulting firms acting as contractors, multilateral development/financing organisations, international non-governmental organisations or global funds.

To guarantee integrity in the use of development funds and prevent possible inappropriate use by implementing partners in development cooperation, Germany relies on a number of preventive measures. Integrity principles and anti-corruption clauses are for instance an integral component of **contractual agreements**. Since 1997, all minutes of government negotiations with partner countries contain anti-corruption agreements that are binding for state implementing organisations. In both Financial and Technical Cooperation, loan agreements, financ-

ing agreements, procurement agreements and contracts include anti-corruption clauses. Contractors are obliged to meet integrity and compliance standards through general terms and conditions and through specific contractual clauses.

Important anti-corruption measures are included in our **procurement procedures**. Binding procurement regulations ensure a transparent award of contracts based on agreed performance criteria. This is also practised by multilateral organisations, whose contracting practices set a standard for bilateral donors. The BMZ and Germany's implementing organisations have mechanisms to prevent unreliable companies from being contracted. When assessing reliability, procurement law also requires the contracting entity to ascertain whether companies have already been convicted of relevant offences in a court of law. In projects that are implemented by partner organisations, the partner organisations are supported in applying these mechanisms during the procurement process. They are also supported in their role as contracting entity throughout the entire project.

In **Financial Cooperation**, risk management is of particular importance in partner-executed projects, in addition to internal integrity management. Germany's Financial Cooperation therefore possesses tried and tested procedures and monitoring mechanisms that are used in all projects to prevent corruption. Close monitoring and support of partners on the ground, during both project design and implementation, are an important prerequisite. During the project planning phase, **institutional analyses** are conducted. These assess among other things the organisation and management, internal incentive systems, relationships with target groups and clients, and economic circumstances and outlook of the selected executing organisation of the partner country.

A practical example: budget support

The assessment of the corruption risk plays a crucial role when Germany decides to grant budget support as part of its development cooperation. This decision must also be approved by the Budget Committee of the Bundestag. The KfW has developed a set of guidelines for assessing the fiduciary risks, according to which countries with endemic corruption may not begin receiving budget support.

One tool used in this assessment is the corruption index of the Worldwide Governance Indicators. The assessment of the corruption risk in budget support

countries also takes into account whether national anti-corruption strategies are in place and are being credibly implemented. Once a country begins receiving budget support, its corruption risk is reviewed annually as part of the reporting process.

When cases of corruption come to light in partner countries, German development cooperation can send important signals in the policy dialogue on budget support, to ensure that the perpetrators of criminal practices are prosecuted, and that preventive measures are taken (see also the BMZ Strategy Paper on Budget Support in the Framework of Programme-Oriented Joint Financing, 2008).

When local partners award contracts in Financial Cooperation projects, each step of the procurement process is monitored by the implementing organisations. This begins with the definition of the services for which tenders are to be invited, and encompasses all steps from reviewing the suitability of the bidders to evaluating the bids. Only those services are financed for which the project executing agency can demonstrate a transparent decision to award the contract. Subsequent **disbursements** are made upon presentation of proof of project progress. Project progress on the ground and the correct use of the funds made available are reviewed at regular intervals. Germany also has a comprehensive risk analysis system for the granting of budget support (see box on budget support), in order to ensure that partner institutions use funds for their designated purpose.

The BMZ is also committed to the systematic implementation of integrity and compliance standards in international and multilateral organisations, and in global funds to which Germany contributes.

In the context of the international aid effectiveness debate and implementation of the Accra Agenda for Action (2008), Germany is committed to **strengthening**

country systems, which in turn means strengthening partner ownership. These systems include for instance procurement and public financial management, as well as monitoring and evaluation systems. At the same time, we need to ensure that country procedures also offer maximum protection both for the partner country's own budget funds, and for the development funds used. One aim of German development policy is therefore to make greater use of partner systems where the quality of these systems permits. Where this is not the case, the aim is to strengthen the systems concerned. If the quality of the systems is not yet high enough, then together with the partners concerned we need to identify how these systems can be improved so that they can be used in the long term. We also need to determine which parts of these systems can already be used now. This approach not only promotes the responsible management of development monies and national budget funds²³. By using parts of country

²³ See: Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (2011): Steigerung der Wirksamkeit in der bilateralen Entwicklungspolitik (EZ), Positionspapier zur Stärkung und Nutzung von Partnersystemen. [*Federal Ministry for Economic Cooperation and Development (2011): Increasing bilateral aid effectiveness. A position paper on strengthening and using partner systems – German only*].

systems, it also attempts to gradually and systematically strengthen and develop these systems, and make them more resistant to corruption.

Structures that are fraught with risk, and weak, are part of the general context in which development cooperation takes place. This means that risks can never be eliminated in development cooperation. Nonetheless, sophisticated measures must be taken to help raise awareness and facilitate prosecution. **It is crucial that we maintain an open dialogue on risks and preventive measures within and across our development cooperation organisations and with our partners. This will allow us to adjust integrity management practices should cases of corruption occur, and review partnerships.** In cases where the relationship of trust has been damaged, where corrective measures remain ineffective or where there is a serious suspicion that criminal offences have been committed in the handling of funds, **the programme or project concerned may be suspended until the suspicions have been fully investigated and appropriate countermeasures can be taken. Alternatively, it may be discontinued.**

Action to be taken:

- The Systemic Risk-Based Approach will also protect funds delivered through external actors. Sources of risk will be systematically analysed, and if required additional measures to fight corruption and fraud will be taken.
- The BMZ will work to bring about the systematic implementation of integrity and compliance standards in international organisations and global funds.
- Civil society organisations, sub-contractors and other organisations receiving or managing official German development cooperation funds should be required to guarantee internal compliance with minimum standards, as defined in

the Federal Government Directive Concerning the Prevention of Corruption in the Federal Administration, and the associated Anti-Corruption Code of Conduct.

- Where possible, German development cooperation will use country systems. Where necessary it will also strengthen them.
- Anti-corruption standards will be agreed on with executing agencies and partner organisations during the preparatory phase. A clear message will be sent that in case of corruption, adjustments will be made or sanctions imposed.
- In case of corruption, projects and programmes may be modified, suspended or discontinued.
- Transparent procurement procedures are an important contribution toward anti-corruption. Lessons learned by multilateral donors will be systematically analysed, and where appropriate applied in bilateral cooperation.

D. Level 3: International Commitments

The German government has pledged to help fight corruption, both in Germany and internationally.

It will meet this obligation through its development cooperation by supporting partner countries in preventing and controlling corruption, and by requiring high standards of integrity and compliance in the management of development funds. However, the factors driving corruption, and the points of departure for tackling them, are to be found not only in partner countries themselves, but also at the international level and in developed countries. German development cooperation will therefore work internationally to further develop and raise the profile of anti-corruption within the United Nations, OECD, U4, and to fight the international drivers of corruption – including in Germany. This also means that the BMZ will press for a coherent approach to achieving these goals within the German government, in order to implement an important part of the OECD Development Assistance Committee's Principles for Donor Action on Anti-Corruption.

1. INTERNATIONAL AGREEMENTS

Germany has ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (see D 2), and has signed but not yet ratified the UNCAC. Since 2004 Germany has actively supported partner countries in implementing UNCAC, e.g. in implementing reform and awareness raising projects. Through its development cooperation work in partner countries, Germany has contributed significantly toward these provisions, and played a key role in enabling partner countries to press ahead in reviewing the compliance of laws and institutions with the UNCAC standards (see box on UNCAC Compliance Review, Part B).

2. GERMAN ENGAGEMENT TO TACKLE THE INTERNATIONAL DRIVERS OF CORRUPTION

The international debate on corruption is increasingly centring on what international factors are driving corruption. This debate on the “International Drivers of Corruption” (OECD 2012) is focusing on international bribery, money laundering and measures to control it by recovering illegally acquired assets. A further focus is revenues from the natural resource sector.

Bribery in international business transactions perpetuates the problem of corruption in partner countries, deprives them of significant funds that would otherwise be available for national development, and deters investors. Bribery in international business is being tackled through the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In Germany, sanctions have been imposed for bribery of foreign officials on more than 30 occasions since 1999. This makes Germany a leader in implementation of the OECD Convention, after the USA. Germany is also actively engaged in regional initiatives to promote implementation of the Convention and the worldwide dissemination of corresponding standards, e.g. in the Asia-Pacific region and in the sub-Saharan African countries.

According to estimates by the United Nations Office on Drugs and Crime, illicit financial flows (including money laundering) in 2009 amounted to USD 1.6 trillion²⁴. The fight against money laundering is therefore a necessary and effective weapon against corruption. The BMZ therefore works to ensure that

²⁴ United Nations Office on Drugs and Crime: Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes. Research Report, available at: http://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf, page 5.

international frameworks, such as those defined within the Financial Action Task Force (FATF) or the G8 and the G20, are actually implemented across the German government.

In addition to anti-money-laundering, the BMZ will also be stepping up its efforts to ensure that illegally acquired assets are returned to the countries of origin or victims rightfully entitled to them. The UNCAC (Chapters IV and V) is the first international instrument to offer possible solutions here. In the future, German development cooperation will increase its support on asset recovery to partner countries, for instance through legal assistance, training and advisory services.

In recent years, natural resource wealth in developing countries and the sometimes very considerable revenues generated from mineral resources have increasingly become a focus of international debates. **The German government therefore attaches great importance to transparency in the natural resource sector, and will continue its support to integrated approaches such as the Extractive Industries Transparency Initiative (EITI).** These initiatives aim to enable resource-rich countries to responsibly manage the income from their resource wealth. The complexity of the factors driving corruption and the diversity of stakeholders involved calls for policy coherence across the German government (one government approach).

Action to be taken:

- The BMZ will support the global dissemination of international standards against bribery and corruption, money laundering, embezzlement etc. through engagement in corresponding regional initiatives, and by sharing knowledge and lessons learned with other donors and implementing organisations.
- Germany will move asset recovery higher up on its development cooperation agenda, and support partner countries in recovering illegally acquired assets.
- To realise its development policy objectives, the BMZ will work to achieve policy coherence across the German government, especially with respect to international bribery, money laundering and asset recovery.

Annex

A.1 INTERNATIONAL COMMITMENTS

International anti-corruption agreements

Name	Entered into force	Member states / parties
Inter-American Convention Against Corruption	3 June 1997	ratified by 33 members and signed but not ratified by one member of the Organization of American States (OAS)
OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions	15 February 1999	ratified by 34 OECD member states and four non-member states (Argentina, Brazil, Bulgaria, South Africa) Germany ratified on 10 November 1998.
Council of Europe: Group of States against Corruption (GRECO)	1 May 1999	monitors the compliance of 49 member states with Council of Europe anti-corruption standards
OECD/ADB: Anti-Corruption Action Plan for Asia and the Pacific	30 November 2001	28 member states of the Asian Development Bank (ADB) have committed to this voluntary Action Plan and are participating in its implementation.
Council of Europe: Criminal Law Convention on Corruption	1 July 2002	ratified by 43 member and non-member states of the Council of Europe and signed but not ratified by seven Germany has signed, but not ratified.
Council of Europe: Civil Law Convention on Corruption	1 November 2003	ratified by 34 member and non-member states of the Council of Europe and signed but not ratified by eight Germany has signed, but not ratified.
United Nations Convention Against Corruption (UNCAC)	14 December 2005	ratified by 159 member states and signed but not ratified by 19 Germany has signed, but not ratified.
African Union Convention on Preventing and Combating Corruption	5 August 2006	ratified by 31 member states of the African Union and signed but not ratified by 15

N.B.: The boxes shaded dark grey indicate agreements that Germany has ratified. The boxes shaded light grey show agreements that Germany has signed, but not yet ratified.

International agreements

Paris Declaration on Aid Effectiveness

Second High Level Forum on Aid Effectiveness, Paris, March 2005

<http://www.oecd.org/development/aideffectiveness/34428351.pdf>

Accra Agenda for Action

Third High Level Forum on Aid Effectiveness, Accra, Ghana, September 2008

<http://www.oecd.org/development/aideffectiveness/34428351.pdf>

Busan Partnership for Effective Development Co-operation

Forth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, December 2011

http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

OECD Development Assistance Committee – Principles for Donor Action on Anti-Corruption

Principle no. 1: *Collectively foster, follow and fit into the local vision*

Meeting the Millennium Development Goals (MDGs) requires, inter alia, the resolve to fight corruption and to meet commitments agreed in relevant international and regional conventions including the UN Convention Against Corruption (UNCAC) and the recommendations of the Financial Action Task Force (FATF) on anti-money laundering. Wherever feasible, these endeavours should be led by the host government.

At the country level, donors should:

Collectively:

- Promote with the government the development of a shared government-donor vision/strategy and collective mechanism(s) for anti-corruption dialogue and action, ideally based on government commitment to implement the UN Convention (or other relevant instrument).
- Share diagnostics, knowledge and analysis through such mechanism(s), identifying gaps and reviewing progress.
- Engage with other key actors through such mechanism(s) (e.g. civil society, media and the private sector).
- Support and strengthen the capacity of civil society for strengthening the demand for reform, and promoting and monitoring transparency and accountability in the fight against corruption. Work, where government commitment is weak, with local and international civil society and private sector actors as the primary alternative, but recognising that strengthening government commitment is the essential objective in the long term.
- Take time to understand local political, economic, social and historical contexts and challenges, and develop responses that are appropriate to them.
- Favour long-term responses over short-term, reaction-driven inputs, but without losing the capacity for responding quickly to support new initiatives and emerging reformers where these opportunities arise

As individual donors:

- Agree to present our anti-corruption assistance explicitly as being contributions to the shared vision/strategy and the collective donor approach (this should not be taken to imply any obligation to move to formal pooling arrangements, financial or otherwise).

Principle no. 2: *Acknowledge and respond to the supply side of corruption*

Donors recognise that corruption is a two-way street. Action is needed in donor countries to bear down on corrupt practices by home-based companies doing business internationally. The OECD Anti-Bribery Convention has helped to underline the responsibilities that OECD member countries themselves have on the supply side of corruption. Donors need to work more effectively within their own domestic environments, with key relevant departments responsible for trade, export credit, international legal cooperation and diplomatic representation, as well as with the private sector.

Development agencies should:

- Foster stronger action by relevant domestic departments in their own countries against the supply-side of corruption in areas such as bribery by donor country companies, money laundering, repatriation of assets or the ratification and implementation of major international conventions such as the OECD Anti-Bribery Convention.
- Inform counterparts in other development agencies of this engagement.
- Engage proactively with the private sector in partner countries.
- Ensure that accountability and transparency measures are included in all areas of donor assistance.
- Contribute to strengthening inter-country cooperation (mutual legal assistance, mechanisms for asset recovery) both by strengthening capacity in developing countries for making requests for international legal cooperation and by collaborating with domestic departments where appropriate.

Principle no. 3: *Marshal knowledge and lessons systematically and measure progress.*

It is essential to make better use of existing knowledge and lessons learned, supporting governments in making them an integral part of the policy making process. It is also important that clear baselines and targets are set, while progress is systematically assessed against results.

At country level, donors should:

- Collectively foster knowledge gathering to inform policy and operational action, drawing, wherever possible, on local capacity.
- Encourage government to develop systems that better connect evidence with policy development.
- Foster the systematisation and publication by government of the measurement and the reporting of progress on anti-corruption efforts.

At the global level, donors should:

- Develop a systematic approach to dividing up efforts for undertaking strategic research/knowledge gathering and synthesis and in sharing results.

A.2 BMZ STRATEGY PAPERS, OFFICIAL DOCUMENTS

Forms of Development Cooperation Involving the Private Sector.

BMZ Strategy Paper, May 2011.

(http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier306_05_2011.pdf)

Promoting Resilient States and Constructive State-Society Relations – Legitimacy, Transparency and Accountability.

BMZ Strategy Paper, October 2009.

(http://www.bmz.de/en/publications/topics/good_governance/spezial168.pdf)

Development-Oriented Transformation in Conditions of Fragile Statehood and Poor Government Performance.

BMZ Strategy 153, May 2007.

(http://www.bmz.de/en/publications/type_of_publication/strategies/konzept153.pdf)

Promotion of Good Governance in German Development Policy.

BMZ Strategy Paper 178, February 2009.

(http://www.bmz.de/en/publications/type_of_publication/strategies/konzept178.pdf)

Federal Government Directive Concerning the Prevention of Corruption in the Federal Administration.

Federal Ministry of the Interior (BMI), November 2006.

(http://www.bmi.bund.de/SharedDocs/Downloads/EN/Broschueren/Texte_zur_Korruptionspraevention_en.pdf;jsessionid=741A8F2EB480F15C7A3A5C3C11407C6A.2_cid239?__blob=publicationFile)

Human Rights in German Development Policy.

BMZ Strategy Paper, August 2011.

(http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier305_04_2011.pdf)

Minds for Change – Chancen schaffen. Enhancing Opportunities – Zukunft entwickeln.

BMZ Special Publication, August 2011.

(http://www.bmz.de/en/publications/type_of_publication/special_publications/Minds_for_Change.pdf)

Steigerung der Wirksamkeit in der bilateralen Entwicklungspolitik (EZ), Positionspapier zur Stärkung und Nutzung von Partnersystemen [Federal Ministry for Economic Cooperation and Development (2001): Increasing bilateral aid effectiveness. A position paper on strengthening and using partner systems – German only].

BMZ, Division 210, July 2011.

Developing Markets, Creating Wealth, Reducing Poverty, Taking Responsibility – The Private Sector as a Partner of Development Policy. Key Issues Paper on cooperation with the private sector.

BMZ Strategy Paper, April 2011.

(http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier304_03_2011.pdf)

Korruptionsbekämpfung in der deutschen Entwicklungszusammenarbeit [Fighting corruption in German development cooperation – German only].

BMZ Positionspapier, 2002. In: BMZ spezial, issue 45, Bonn/Berlin.

Budget Support in the Framework of Programme-Oriented Joint Financing (PJF).

BMZ Strategy Paper 181, December 2008.

(http://www.bmz.de/en/publications/type_of_publication/strategies/konzept181.pdf)

A.3 IMPORTANT ORGANISATIONS AND SOURCES OF INFORMATION

Organisations and sources of information

Asset Recovery Knowledge Centre:

<http://www.assetrecovery.org/kc/>

Organisation for Economic Cooperation and Development (OECD) Anti-Corruption Division:

<http://www.oecd.org/bribery>

Transparency International:

<http://www.transparency.org>

U4 Anti-Corruption Resource Centre (U4):

<http://www.u4.no>

UNDP anti-corruption focus area web portal:

http://www.undp.org/governance/focus_anti-corruption.shtml

United Nations Office on Drugs and Crime (UNODC):

<http://www.unodc.org/unodc/en/corruption/index.html?ref=menuseid/>

Tools for measuring governance and the level of corruption

Bertelsmann Transformation Index:

<http://www.bertelsmann-transformation-index.de/en/bti/>

Global Integrity Index:

<http://report.globalintegrity.org/globalIndex.cfm>

Transparency International Bribe Payers Index:

http://www.transparency.org/policy_research/surveys_indices/bpi

Transparency International Corruption Perception Index:

http://www.transparency.org/policy_research/surveys_indices/cpi

Transparency International Global Corruption Barometer:

http://www.transparency.org/policy_research/surveys_indices/gcb

World Bank Worldwide Governance Indicators:

<http://info.worldbank.org/governance/wgi/index.asp>

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Verband Entwicklungspolitik deutscher Nicht-regierungsorganisationen e.V. (2011): VENRO-Verhaltenskodex Transparenz, Organisationsführung und Kontrolle [The umbrella organisation of German development non-governmental organisations (NGOs) in Germany (2011): VENRO Code of Conduct – Transparency, Organisational Governance and Control – German only], available at: http://www.venro.org/fileadmin/redaktion/dokumente/Dokumente-2011/Januar_2011/Kodex_Transparenz_v06.pdf

World Bank (2007): Stolen Asset Recovery (StAR) Initiative: Challenges, Opportunities, and Action Plan, available at: <http://siteresources.worldbank.org/NEWS/Resources/Star-rep-full.pdf>

World Bank Institute (2004): The Costs of Corruption, available at: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190187~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

A.5 ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
BMZ	German Federal Ministry for Economic Cooperation and Development
DEG	Deutsche Entwicklungs- und Investitionsgesellschaft mbH
EITI	Extractive Industries Transparency Initiative
G8	Group of Eight leading industrialised nations
G20	Group of Twenty leading industrialised nations and emerging economies
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
IATI	International Aid Transparency Initiative
KfW	Kreditanstalt für Wiederaufbau
MDG	Millennium Development Goals
OECD	Organisation for Economic Cooperation and Development
OECD DAC	OECD Development Assistance Committee
UN	United Nations
UNCAC	United Nations Convention Against Corruption
VENRO	The umbrella organisation of development non-governmental organisations (NGOs) in Germany
WHO	World Health Organization
WIN	Water Integrity Network

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