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Kathmandu School of Law (KSL)
Suryabinayak-4, Bhaktapur, Nepal, Ph: 6634455, 6634663,
Email: info@ksl.edu.np, www.ksl.edu.np

“Corruption” in Development Grants and Aids: An Impediment to Sustainable Development Initiatives

Upma Gautam* & Deeksha Bajpai Tewari**

Abstract

“Development” is a human-centric concept and so is “corruption”. A cursory glance at the neo-liberal world order reinforces the simultaneity of these two almost undeniably linked concepts. Focus on corruption as a development issue is not an isolated trend. Rather, it is part of a general shift in development thinking. In any system, corruption is related to political and economic development. Studies have documented the fact that the corruption in any society is the materialization of relationships between the state and the society as in: the role state plays, the manner of working of political systems, the existing development model, its potential future trail and also the type of global policies it adopts for development. The present paper, in one hand, analyzes the importance and relevance of grants and aids provided by the International Finance Institutions (IFIs) in smoothing development initiatives especially in the developing world. On the other hand, it also underlines the trends of corruption in such grants and aids programme and the pernicious impacts such corruption can cause in creating obstacles and interventions for developmental activities in the developing economies.

Introduction

One of the most incapacitating problems that the developing world is facing today is ‘corruption’. The members of a corrupt state always bear the cost of corruption. But, in an interdependent world, this cost is spread to other countries through the most significant role played by the multilateral and bilateral partners, which provide financial assistance to the developing countries. The burden of bribery kickback in developing countries is also borne by the donors. “As the transaction costs increase and project costs balloon in beneficiary states,

* Upma Gautam is Assistant Professor at University School of Law and Legal Studies, GGSIP University, Dwarka, New Delhi-110075.

** Deeksha Bajpai Tewari is working as Assistant Professor, Department of Geography, Dyal Singh College, University of Delhi, Lodhi Road, New Delhi-110003

development assistance provided to vulnerable states is misallocated and incomes go redistributed from target beneficiaries to other recipients, thereby decreasing the efficiency and effectiveness of donors and wasting the taxes of people from donor states.”¹

In order to prevent another Great Depression, at the end of the World War II, certain institutions were created to manage the world economy. These institutions have not only withstood time but also have widened their scope and membership. In order to augment growth in the developing world, the process of development assistance started about sixty years ago. Although aid has undoubtedly played a significant role in controlling social problems like diseases and others then caused in increasing the life expectancy in various countries of the developing world, this is also bitter truth that despite efforts for development activities, more than three billion people still live with less than \$2.50 per day. These institutions have been criticized both by the anti-globalization forces from the left, who sees them as instruments of domination and capitalism, and also from the forces of the right, which see them as usurping the role of the market.

There is a general shift in development thinking having focus on corruption as a development issue. Until the 90s, the development was perceived as a technical process with economic liberalization, privatization, macro-economic stabilization and capitalization as its various means to attain the goal of higher per capita GDP and better allocation of resources. But, later, development started being perceived 'holistically' as 'transformation of society' with structural and social concerns is treated equally and simultaneously with macroeconomic and other financial concerns as well. The core of this new thinking lies in the recognition that markets do not operate in a vacuum; they need an institutional infrastructure to be able to function. In the academic and policy discussion of development, this institutional aspect has been termed as 'governance'.

Though, till present time, there is no time-honored definition of Governance, it refers to the form of political system and the manner in which power is to be exercised in utilizing the country's economic and social resources for development. The outline provision of good governance means addressing the issues of: strengthening the legal framework, active involvement and people's participation through civil society organizations, increase in the degree of accountability and responsibility on the part of the public officials and introducing transparency in the functioning of the government respectively.

Corruption exists in almost every country irrespective of widely varying in creed, fiscal conditions and social development. Although some societies may be more susceptible than others and may suffer from more distressing effects, no country in the world today is impervious from the corruption's acerbic influence. It has

¹ Easterly and Pfitze, "Where Does the Money Go? Best and Worst Practices in Foreign Aid", Vol. 22, No. *The Journal of Economic Perspectives*, (Spring, 2008), pp. 29-52

become quite a heightened problem in many countries of the world and so much so that even the international organizations such as the World Bank, International Monetary Fund, and many United Nations Organizations are voicing their distress time and again and have admitted that corruption and the rate of corruption are obstructing the economic development of the countries therefore the rate of returns on investments in projects is declining.

The United Nations declared seventeen sustainable development goals to be set as benchmark for the countries for the period of 2015-2030. One of the goals set is to strengthen the means of implementation and revitalize the global partnership for sustainable development. This in essence means that the world is interdependent and there is an increasing role for development grants and aid in achieving the stated sustainable development goals at global level.

Corruption and Development: Issues and Challenges

Corruption has been a facet of human deeds since the beginning of time. It has been part of human relationships and very much bound into the way people live with each other sharing status and power. Corruption is a word which is not only vague but also has definitional ambiguity. Even if no universal definition has yet been formulated by the International community to illustrate corruption as such, everyone accepts that certain political, social or commercial practices are corrupt. Most of the definitions of corruption refer to the acts involving specific actors, namely public figures, civic employees, bureaucrats and politicians. The most accepted amongst all the definitions is “the misuse of public office for private ends or private gain”. Normally people do come across multitudes of the corruption as “bureaucratic,” “political,” “petty,” “grand,” “productive,” “malignant,” “systemic,” “individual,” “official,” “fiscal” and so on.

There is no denying fact that corruption has resulted in negative consequences in western societies. When evidence of corruption is found, nobody in western societies considers the potential societal advantages of any corrupt occurrences. However, that is not the case when developing countries are referred. It is often argued and supported by studies, though disputed, that the conducts which westerners refer to as corrupt is essential to keep developing countries functioning. These ever find their place in the organizations that sponsor development aids and the effects of corruption on development is looked upon.

Critics say that analysis of the effects of corruption should not be based on the pretended ideals of a proficient, development –oriented bureaucracy. Rather, it should be aligned with the realities of a body of civil servants watching out for their own interests. If analysts concede that the bureaucracy in question pursues its own interests, interests that often do not overlap with the goals of social and economic development then corruption can have positive effects in regard to the

fulfillment of development goals. The aforesaid assertion is supported by various arguments.

It is suggested that bribery allows for the weakening or removal of development-unfriendly bureaucratic intrusions in the economic process. Many times, bribery diminishes or removes such development unfriendly bureaucratic externalities of the economic system. This observation lies at the core of the debate over the potential advantages of corruption. It is contested quite often and is the subject matter of debate that whether a society with a rigid, over centralized, honest bureaucracy is worse than that of rigid, over centralized, dishonest bureaucracy, as also emphasized by Huntington (1968)², in terms of economic growth.

Generally, it is seen that the decision making takes substantial time due to bureaucratic procedures. It is often contested by the initiators of development projects in developing countries that these bureaucratic processes are generally accelerated through illegal payments. Leff (1964)³ argued that that if corruption is a means of tax evasion then it can reduce the revenue of public taxes. Provided the bribers can invest efficiently, the overall efficiency of investment will be improved. He further asserted that corruption may constitute a protection against other risks originating from the political system, such as expropriation or violence. If corruption helps negating those risks then investment will turn out less risky and may accordingly increase. Such momentum in decision making considerably decreases the cost incurred by the project initiators as well as the beneficiaries. But, this argument doesn't hold the ground for the plain reason that in reality it is the bribed income that transforms the bureaucratic behavior. The delayed decisions and typical manner of working found in developing countries is a strategic outcome. Public officials purposely delay the services in projects where there is prospect of obtaining such bribe which in fact incurs costs and ends in the forced bribing for the services, which otherwise everyone is having a right to get in time. Further it is seen that a high level of bribery is coupled with high bureaucratic hurdles.

But at the end of the day, no single argument (a) successfully hypothesizes the positive effects of corruption in developing countries and (b) is persuasive enough to hold up the implicit tolerance of corruption in development aid. Studies conducted on various countries and documents don't avail the positive consequences of corruption on economic development. In these studies corruption is measured by various perception indexes based on various surveys and found that corruption is inversely associated with development especially in developing countries.

² S.P. Huntington, *Political Order in Changing Societies*, New Haven, Yale University Press, (1968)

³ N.H Leff, *Economic Development through Bureaucratic Corruption*, *American Behavioral Scientist* 8: (1964), 8-14, Reprint in A.J. Heidenheimer, M. Johnston and V.T. LeVine (Eds). *Political Corruption: A handbook*, Oxford, Transaction Books, p 198, pp 389-403.

As aforesaid in this article that a single act of corruption, with all its outcomes and concomitants, might not do any harm or might even have an affirmative ramification on development. But there is no way to limit corruption to those acts which do no harm. On the contrary, the studies give stupendous evidences of the fact that the corruption leads to poorer economic performance in developing countries. Corruption intensifies the destruction of the development friendly domain by breaching the legal safeguards with the help of illegal gratification. In a corrupt system, the selection of projects depends upon the capacity of initiators of such projects to pay bribe rather than the merit. Further, development projects in countries with high level of corruption are vulnerable to inadequate government supervision of the finances of such projects. Then finally projects face overshooting of project cost and delayed completion too. This has a complete debilitating impact on the development scenario.

‘Development Aid’ Institutions: Role and Importance in Development

Development assistance aims at increasing the sharing between the rich and poor countries. It also plays an integral role in supporting development processes in reducing poverty. Thus, it is critical to ensure that development resources are used for the intended purpose and not diverted through corruption.

International financial institutions (IFIs) have strongly influenced development thinking and practice in recent decades. An outstanding role has been played by the World Bank and the International Monetary Fund in determining current views of development and executing them into following. Over past few decades, the IFIs have played a direct and indirect role in influencing policy choices of governments of various developing countries. IFIs have exerted direct influence thorough the volume of their financial transfers, and also indirectly, through their impact on the resource transfers of others, including donors and the private sectors. Even more significantly, development strategy and ideology have been influenced by the current IFI analysis and ideas.

The term ‘international financial institution’ characteristically includes the International Monetary Fund (IMF) and the multilateral development banks (MDBs): the World Bank Group, the Asian Development Bank, and the European Bank for Reconstruction and Development. Some of these focus on a single world region hence they are often called regional development banks. IMF and the World Bank, in distinction, are global in their extent; they are also specialized agencies in the UN system but are governed independently.

Broadly speaking, IMF provides temporary financial assistance to member countries to help ease balance of payments adjustment. MDBs provide financing for development to developing countries through the following:

- Long-term loans (with maturities of up to 20 years) based on market interest rates. To attain the financial resources for these loans, MDBs generate a loan in the international capital markets and lend it to borrowing governments in developing countries.
- Very-long-term loans (often called credits, with maturities spreading to 30 to 40 years) at interest rates markedly less than market rates. These are funded through undeviating assistance by governments in the contributor countries.
- Grant financing is also offered by some MDBs, mostly for technical assistance, advisory services, or project preparation.

The definition of the term development has undergone a see-change over time. Development thinking has evolved from the early works of W. Arthur Lewis and Paul Rosenstein-Rodan has been influenced by different schools of thought. Emphasis has shifted from capital amassing and technical advancement to investment in human capital and social inclusion. Keeping pace with such changing definitions, the roles of the international funding/financing institutions have also undergone significant transformation.

Role of IFIs in Development Projects

The positive role that IFIs played in helping the governments of the developing countries is to realize their domestic development requirements followed with documentation. Major dams, roads, energy projects, and irrigation systems requiring both financing and technical expertise were usually financed by one such IFIs. Often, to seek funding from other sources such as the U.S. Agency for International Development (USAID), other bilateral donors, or the private sector is common culture. So, financed projects required international competitive bidding, which ensured greater transparency and laid the basis for national procurement regulations, project analysis, and domestic institutions that had liaison with the multilateral project teams. These institutions later became the core of national planning and implementation functions in development economies.

Role of IFIs in Financial Advice

Developing economies, large and small, have also benefited from the embedded advice and knowhow in World Bank lending. This is true even when resources transferred are small, or, in some cases, things go even besides the point. Sector development strategies may be more available and better understood than knowhow. Bank-designed projects can be replicated, with country specific adjustment, in many developing economies.

Development debate will not reach any logical conclusion without making a reference to the number of people living below the poverty line according to World Bank data alongside with more recent discussion of how IFI leaders are chosen. The intellectual assistance of chief, Bretton Wood's institutions has always influenced the national finance policies of the countries of the developing world. It has been hard to separate country's development plans from the views, resources, and effects of the IFIs.

Role of IFIs in Empowerment of the Marginalized

International Financial Institutions (IFIs) are progressively more caught up in conflict situations in countries, where violations of international humanitarian law are extensive. Such situations are distressing to the population and the countries' economic scenario. Placing the financial weight of the IFIs behind international humanitarian law can help to dissuade states and other actors from committing atrocities for fear of losing much-needed financial assistance. IFI involvement in international humanitarian law can also support efforts of the United Nations and the international community to avert and limit such violations by enforcing the law against those alleged of committing atrocities. Although the World Bank and the International Monetary Fund (IMF) are specialized agencies of the United Nations and function as independent international organizations not bound by most UN decisions, they are bound by UN Security Council resolutions taken under Chapter VII of the UN Charter.

One concern is that taking international humanitarian law into consideration will politicize IFIs and open them to charges of unfairness and partisanship, undermine their role as neutral expert organizations that give impartial and disinterested advice and resources. In addition, most of the IFIs' mandates prohibit their interference or them being affected by any member state's domestic politics, a prohibition that leads many to argue that international humanitarian law issues fall outside the purview of IFIs' mandates.

The IFIs should consider in their decision-making process to weaken the significant and direct economic effects of the international humanitarian law violations. Atrocities committed against civilian populations during conflict often disrupt the regular functioning of the economy and then complicate and hinder the reconstruction and development of the economy after the conflict. Humanitarian law violations are therefore of legitimate economic concern to IFIs and should not be excluded from consideration as purely political issues.

Corruption in Development Projects

Development projects are being defined over time and space as restricted to recognized measures adopted in presumably developing or less developed or

underdeveloped countries intending formally at improving the standard of living of the resident population. This is rather wide-ranging notion which does not confine development projects to the practice of international development or aid organizations but also includes measures taken by the national governments or even private initiatives. Development projects are the reflections of the developmental efforts that the local government intends to make for the betterment of the resident population through poverty reduction and infrastructure creation measures in the developing countries.

Corruption in development aid has long been a concern that civil society organizations have consistently warned about. It is more rampant in countries with weak governance and large flows of aid. It has been argued that aid can fuel corruption but aid can also help building capacity for anti-corruption efforts. Donors have a special role to play.⁴ Corruption in aid is generally associated with:

- Corruption in major contracting projects or grand corruption which often involves large number of public officials or politicians and private companies.
- Corruption prevalent in the aid receiving country which also expands into foreign assistance, mainly in the form of petty corruption.
- Corruption which may have its origin and links to the internal policies and practices of donors themselves.

All the stages of the development project are prone to corruption and thus corruption in project aid can occur at any stage of the project cycle, right from project selection to its design, procurement to implementation, financial management to evaluation of the project, respectively. This can involve public officials and private sector representatives in the recipient country as well as aid agency staff themselves. These actors sometimes work in collusion with each other to divert aid resources⁵. Corruption is an everyday occurrence in countries where development projects run. Individuals in-charge for realizing aid projects persistently face up to situations that force them to enter into corrupt practices in order to accelerate its completion, chiefly in those which require state approval and such attainment of approval cannot be expedited without paying “convenience money”. According to them, stern legal working methods result in awfully abrogative ramifications for accomplishing the objective of the development project. The sizable a project is or the larger the accrued negotiating influence is for the aid sponsors, who have braced the project, greater is their liability for the conditions surrounding the project. The in-charge of such

⁴ http://archive.transparency.org/global_priorities/poverty/corruption_aid#sthash.I1T5b9Wr.dpuf, accessed on 3rd March, 2017.

⁵ http://archive.transparency.org/global_priorities/poverty/corruption_aid/aid_forms#sthash.NJhUamt1.dpuf, accessed on 3rd March, 2017.

development projects do not pay money for their advantages but to keep their projects free from being jeopardized in any manner whatsoever, and therefore they meditate on to the fact that whether and to what extent they are to enter into corrupt practices in order to move their projects along. Such association of project leaders to corrupt activities is called as external cost of the said project.

Corruption plays a vital role at the very initial stage of the project when the decisions are to be made regarding, firstly, how to distribute aid to recipient nations; secondly, regarding the recipients inside the respective countries, and thirdly, which programs and projects shall be further pursued in such developing or under developed countries. Government officials of both, donor and recipient, countries play a part in negotiations before taking such vital decisions and such decisions are often influenced through illegal payments from parties with a vested interest. It is plausible notion that the institutions interested in large development projects pay bribe money to officials in the recipient country who would be involved in the implementation of the project.

Once the project gets approved, corruption in the subsequent stages crop up in various forms such as misappropriation of the means available for the successful realization of the project. Such misappropriation is often done either by traditional mode of kickback where the higher price is quoted than the market price of the supplies and the difference is given to the officials clearing such bills/contracts, or by the modified form of kickback in which the price quoted corresponds to the market price but the supplier is pressurized into making extra legal payments which results into the delayed completion or decreased quality. Further, when the project implementation deals with the distribution of goods then the corrupt practice includes the reselling of goods and purchase of goods of inferior quality thereby misappropriating the funds takes places. This practice is commonly seen in the disaster aid projects.

The development fund provided by the foreign countries involves the procedure of exchanging the funds into the local currency with an objective of covering the costs incurred in the country which receives such funds. Such foreign exchange provides an added prospect for illegitimate gain. The exchanging of the foreign currency for the local one is done in the black market at the rate which is favorable than the actual quoted to the donor organization. To substantiate the exchange, the forged receipts are submitted with the donor organization thereby resulting into unaccountable project money as dealt in black market while such exchange. Such form of misappropriation is prevalent in the development aid projects run by NGOs because the actual exchange of funds is done primarily by the project in-charge.

The illegality in the form of corrupt practices in such contracts and their consequent covert nature make the aforesaid facts nearly impossible to be supported by any kind of empirical data. The limitation of lack of empirical data long served as a row against the dealing of the issue that in reality how much aid

funding actually forms the basis of additional corrupt side income for civil servants in recipient countries.

For a long time, corruption has been a taboo subject among the institutions of development cooperation, in particular corruption occurring within them. According to the official view point, the development projects remains hassle free, corruption free in most of the countries where such development aid is given. Until the recent past, development aid organizations rarely made an issue of corruption as a hindrance in the completion of the development projects. But, empirical evidences regarding the trend of corruption started becoming obvious after its being dealt with globally. This issue of corruption became the concern worldwide and global governance became vital to tackle this problem. World Bank and other international organizations discarded long-upheld taboos and became researching corruption and its economic and social consequences in developing countries.

Unequal Development Scenario: Critical Issues of IFIs

The IFIs' unique comparative advantage and the contributions they have made toward addressing global issues are well recognized. Yet there is a rising expectation on the part of almost all stakeholders i.e.: developed and developing country shareholders, academicians and think tanks, civil society organizations, and business leaders. Questions have been raised from time to time about their equitable roles in an inherently unequal and dichotomous world of development. These institutions have been questioned on their legitimacy, effectiveness and sustainability.

Legitimacy concerns relate to the extent to which IFIs have perceived as impartial advisers, given that their ownership structure and their policy making powers are skewed in favor of the rich nations. (NGOs) and researchers believe that the developed countries, particularly the United States and the European countries, have an undue influence on IFIs' policies, policy advice, and allocation of funds as well. Their influence is so great, in this view that IFIs' advice cannot be trusted to be impartial but, rather, is infected by political and ideological bias. Such aspersions are cast on the functioning and even in the appointment of their Heads. It is alleged that the selection is based on nationalities and not on merit.

Concerns about effectiveness relate to the adequacy of the results produced by IFIs' development assistance programs, the soundness of their policy advice (for example, on privatization and the liberalization of financial markets), the relevance of such advice for countries' realities, and the need for safeguards for both to prevent the loss of development assistance to fraud and corruption and to protect the environment and the rights of people who may be adversely affected by development projects.

Concerns about the financial capacity of IFIs' are grounded in the fact that the resources needed for the enormous challenges they face- like achieving MDGs, avoiding an unbalanced growth of the world economy, and providing emergency financing if another global financial crisis occurs.

This capacity shortfall is particularly acute for the concessional financing needed to help the poorest countries and to bridge the huge gap in the supply of global public goods. The undersupply of concessional financing is compounded by recent moves to make more of it available as grants, which, unlike loans, do not generate flows of funds back to the lending institutions for recycling. These issues of financial viability and sustainability arise from the fact that IFIs' income base is narrow and diminishing, even as the range of services demanded of them is growing.

Financing for Development: Role of International Summits and UNCAC

As early as 1996, The former World Bank President James Wolfensohn highlighted corruption as a major hindrance to effective aid and economic development when he said: "Let's not mince words: we need to deal with the cancer of corruption". "Globalization offers opportunities and challenges. The developing countries and countries with economies in transition face special difficulties in responding to those challenges and opportunities. In the increasingly globalizing interdependent world economy, a holistic approach to the interconnected national, international and systemic challenges of financing for development - sustainable, gender-sensitive, people- centered development - in all parts of the globe is essential. Such an approach must open up opportunities for all and help to ensure that resources are created and used effectively and that strong, accountable institutions are established at all levels. To that end, collective and coherent action is needed in each interrelated area of our agenda, involving all stakeholders in active partnership."⁶

Fighting corruption figured prominently in the Monterrey Consensus. This conference was the pioneering UN summit-level meeting to address key financial issues pertaining to global development. It was attended by about 50 Heads of State and Government. According to the former UN Secretary-General Kofi Annan, the International Conference on Financing for Development in Monterrey, Mexico, in March 2002 was "a turning point in the quest for economic and social progress. It produced a breakthrough on the question of official development assistance, with substantial new pledges, and a major change in attitude."⁷ The subsequent International Conference on Financing for

⁶ *Report of the International Conference on Financing for Development*, Monterrey, Mexico, March 2002, pp, 18-22 (A/CONF.198/11, chapter 1, resolution 1, annex).

⁷ <http://www.un.org/esa/ffd/documents/Building%20on%20Monterrey.pdf>, accessed on 9th March, 2017.

Development to Review the Implementation of the Monterrey Consensus in Doha, Qatar, in November/December 2008 is the second watershed in international financing for development and aid. The Doha Declaration reaffirmed the goals and commitments of the Monterrey Consensus.⁸ The third International Conference on Financing for Development was held at Addis Ababa in July 2015. Fighting corruption for sustainable development, to combat corruption at all levels and varieties are indelibly marked in such conventions. It is primarily the responsibility of the national governments and local authorities to curb corruption through effective authorities and governance and thereby remove the impediment for the road to economic development. But, the IFIs such as the World Bank and various bilateral donor countries claim to allocate aid to promote good governance in the aid recipient countries including curbing corruption. But the gap between words and actions has made this claim rhetoric.

In order to understand the impact of such vital summits and agreements on the corruption scenario, data published by Transparency International (TI) on Corruption Perception Index (CPI) for these three watershed years are analyzed. In 2002 (at the time of agreeing to the Monterrey Consensus), on a scale of ten to zero, from highly clean to highly corrupt, almost two-thirds of the listed countries (About 70 countries out of total 102 listed countries) were below the index value of five. In 2008, at the review of the Monterrey Consensus in Doha Declaration, the participant countries reiterated their agreement to curb corruption in aid recipient countries. The CPI data published by Transparency International (TI), casted a rather worrying picture. 133 out of the total 180 listed countries (About 74 percent of the Countries) were less than the index value of five. In 2015, at the time of the third International Conference on financing of development, CPI values were abysmally low. 120 out of total 174 countries were below the index value of five. Thus, over a period of 2002 to 2015, the number of countries which are able to push themselves up from corruption web is marginal.

The United Nations Convention against Corruption (UNCAC) is a landmark, international anti-corruption treaty adopted by the UN General Assembly in October 2003. It is important to note that many of UNCAC's provisions are compulsory, while others are either 'strongly encouraged' or optional. UNCAC addresses the cross-border nature of corruption with provisions on international cooperation and return of the proceeds of corruption. State Parties are also obliged to help each other to prevent and combat corruption through technical assistance. Thus, UNCAC provides a framework for development assistance in the field of anti-corruption.⁹ Based on the national development plans and poverty reduction strategies, coordination in between aid- providing and aid recipient countries takes place. Anti-corruption obligations under UNCAC may

⁸ The full declaration is available at: <http://www.un.org/Docs/journal/asp/ws.asp?m=A/CONF.212/L.1/Rev.1>, accessed on 9th March, 2017.

⁹ Op.cit.48

be best addressed by integrating them into such strategic documents rather than relegating them to a separate forum or plan.¹⁰

UNCAC sets international standards for both developing countries and developed countries to recognize the global nature of corruption quite well. In addition, to ensure its holistic approach to corruption prevention, UNCAC provides a unique tool for political dialogue calling for attention to both the supply and demand sides of corruption.

Changing role of IFIs in the Present Globalized Economies

Since, the years when the World Bank and the International Monetary Fund (IMF) were launched at Bretton Woods and the regional development banks in subsequent decades, the economy of the world has changed in several important aspects. There have been two fundamental changes in the role of the international financial institutions (IFIs). These changes are: First, globalization has rapidly progressed over the last quarter of a century. This implies that foreign trade and private capital play a far greater role now in economic development than ever before. Second, the under par performance of the erstwhile models of development—once very popular—led to a reconsideration of the task of the state, which in turn goaded a tough move towards private market-based approaches. As a consequence of these changes, the private sector and private international finance have become major agents of economic development.

The objectives of IFIs have traditionally been alleviation of poverty, economic growth and environment protection. Traditionally, IFIs by working with governments and government agencies have promoted these objectives.

In the new economic environment, the importance of IFIs and bilateral aid as sources of funds has decreased. While finance flows from private units are rising, official flows are controlled by tight budgets.

Once the budgets are constrained, both bilateral and multilateral aids have been an exposed target. Also, the demise of centrally planned economies and the under par performance of economies in Africa, Latin America and the Middle East have led to a reassessment of the role of the state in economic development. As a result, there is a rising perception among various developing countries that to attain market-centered economic growth, they must create conducive conditions whereby a strong private sector can thrive.

Therefore, the importance of IFIs -as a source of funds has diminished while the probable role of the private sector has increased as a central challenge for IFIs- is to find ways of fostering development through expanding opportunities for the private sector. The IFIs should assess the private sector as a most important *vehicle*

¹⁰ Op.cit.50

for the achievement of all sustainable development goals. In doing so, they must seek to ensure that the poor's participation in the growth process is not sidelined and that growth is environmentally sustainable. There are two complementary ways in which the IFIs can pursue these objectives:

- They can help governments generate the conditions for the right kind of market-oriented growth;
- They can become participant investors, working with the private sector to expand and improve private capital flows.

Conclusion

Undisputedly, Corruption is widespread in developing countries in the form of bribery and embezzlement. Due to lack of other resources, large scale investment in developing countries with low per capita income, especially in the poorest of developing countries, is primarily financed by the development aid. Therefore, large scale embezzlement in the public sector cannot be organized without involving foreign aid. Though the corrupt practices were prevalent there in the development aid projects since the very beginning, officially it was considered to be a phenomenon with a rare occurrence and it always added up to the cost of such aid/projects. On the contrary, everybody is exposed to corruption in development projects on a daily basis not only during the implementation but since its inception. Development projects are implemented under circumstances characterized by a lack of transparency and legal security. Besides this, misused development aid adds to the debt burden of the developing countries.
